

Mid-Atlantic Distributed Resources Initiative

NEWS RELEASE

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STUDY FINDS UP TO \$182 MILLION ANNUAL SAVINGS FROM ELECTRICITY DEMAND RESPONSE IN MID-ATLANTIC REGION

A study has found that a modest reduction in electricity use during peak hours would reduce energy prices by at least \$57 million to \$182 million annually in the Mid-Atlantic region.

The study, prepared by The Brattle Group, examined the effects of reducing electricity use by three percent during the highest use hours for five utility areas. It notes that, "More widespread participation and deeper curtailments would result in even greater price impacts."

The five mid-Atlantic public utility commissions and PJM Interconnection worked together on the study. The objective was to demonstrate actual savings possible from greater use of demand response.

Demand response refers to a customer's intentional reduction in the use of electricity during periods when electric supplies are tight or electricity costs are high because the most expensive generation units must be run. Reducing electricity demand at these times can decrease use of the most expensive sources of power. It also can avoid power shortages, and enhance grid reliability.

A three percent reduction during the peak use hours for each utility studied would have reduced energy market prices by \$8 to \$25 per megawatt-hour, according to the study. Actual demand response typically has been less than one percent of use during peak hours, according to PJM.

In addition to reductions in electricity prices, demand response participants were estimated to save \$9 million to \$26 million for energy annually and another \$73 million for capacity charges.

The study quantified the economic benefits of demand response by comparing prices without and with demand response reductions during the top 20 five-hour periods in 2005 for each utility. The five utility areas were Baltimore Gas and Electric, Delmarva Power, PECO, Pepco and Public Service Electric and Gas Company.

The public utility commissions and PJM sponsored the study as part of the Mid-Atlantic Distributed Resources Initiative (MADRI). The commissions in Delaware, the District of Columbia, Maryland, New Jersey and Pennsylvania along with PJM and federal agencies comprise MADRI. It was formed in 2004 to identify and remedy retail barriers to the deployment of distributed generation and demand response in the Mid-Atlantic region.

Utility commissioner representatives to MADRI unanimously noted the study's importance in supporting regional advances in demand response.

"This study documents the substantial public benefits of even a small customer demand response when prices are high," said District of Columbia Commissioner Rick Morgan, who chairs MADRI. "It points out the value of regional coordination among the Mid-Atlantic states."

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"Peak demand drives up the price of electricity for everyone," said New Jersey Board of Public Utilities President Jeanne M. Fox. "This study clearly demonstrates how a very minor decrease in electric use during peak demand by a few users can provide unequivocal economic benefits for all. It will be important in developing policies with our regional partners to address this critical issue."

"This study and the MADRI's efforts will be invaluable for states such as Pennsylvania as we continue to successfully implement alternative energy laws and to empower our energy consumers with innovative energy efficiency, demand-side response and advanced metering programs," said Pennsylvania Public Utility Commissioner Kim Pizzingrilli. "Regional solutions developed by the MADRI process will continue to enhance the work of the states."

"Fully valuing demand response and other demand reductions enables wholesale markets to empower customers and to deliver them more benefits," said Allen M. Freifeld Maryland Public Service Commissioner.

"The report shows that demand response is very important for a state like Delaware that experiences significant transmission congestion," said Arnetta McRae, chair, Delaware Public Service Commission.

"Now that this report has demonstrated the economic benefit of demand response, we will work with the states in implementing initiatives that provide consumers financial signals and incentives to alter their use of electricity in response to grid conditions," said Audrey A. Zibelman, PJM executive vice president and chief operating officer.

PJM ensures the reliability of the regional electric power supply system serving 51 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. It administers the regional wholesale market for electricity and plans transmission expansion improvements to maintain grid reliability and relieve congestion.

The Brattle Group prepared the study, "The Impact of Demand Curtailment on Power Prices in PJM." The Brattle Group provides consulting services and expert testimony on economic, financial, regulatory, and strategic issues to corporations, law firms, and public agencies worldwide.

The study is available at <http://www.energetics.com/madri/pdfs/BrattleGroupReport.pdf>.

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