

**Remarks by Terry Boston, President and CEO,
on the State of PJM
Members Committee Meeting
May 6, 2010**

Introduction

It's good to see so many of you here for the Annual Meeting. Last year we were by the Chesapeake Bay... this year in the Allegheny Mountains... next year in Maryland again... then in 2012 in Ohio. You have to admit that we get you around the thirteen states we serve. There are only a handful of places in our service area that are large enough for our Annual Meeting.

Today is about the "State of the PJM Community," and I think we all can be pleased with our collective performance and accomplishments.

We recently reached a very exciting milestone: PJM's membership roll topped the 600-member mark. That tells us PJM provides value and benefits that are attractive to potential members. That value is driven by a focus on three things: reliability, efficient markets and infrastructure planning. Add a strong commitment to member service – meeting your needs for your business activities in PJM – and I hope you'll agree that it's a winning combination.

Major Accomplishments in 2009

There were major accomplishments in 2009, but I don't have to tell you 2009 was one of the toughest years for the nation on the economic front. In response, PJM worked hard to increase value for our members. If you look at 2009, I think we can say we were able to accomplish much while controlling our costs to be under budget. Let me say here that we consider these to be joint accomplishments of PJM and our members.

The use of the Perfect Dispatch metric has resulted in savings in your production costs of about \$144 million since 2008, when we implemented this performance measure. The successful implementation of weekly settlements, along with other credit policy changes, resulted in a one-time \$1 billion reduction in your collateral requirements, along with an annual reduction in credit risk of \$2.9 billion. About \$800 million in DOE smart grid stimulus grants were awarded to member systems and PJM, including a grant for PMUs. American Transmission Systems Inc., made up of FirstEnergy's Ohio and Penn Power utilities, chose to integrate into PJM.

I believe the whole "PJM package" is a key reason why our membership continues to grow.

Capacity Market

One element of that package is our well-developed capacity market. It has demonstrated its effectiveness in attracting new capacity for the region, including demand resources and energy efficiency. The six RPM base auctions through 2009 drew 27,640 MW of new resources

compared to what would have been available without a capacity market. More than 7,600 MW of demand response and energy efficiency were cleared in the May 2009 auction, and we're all eager to see the results next week from this year's auction for the 2013/2014 time period.

Storage

With 3,000 MW of wind power already in service and 33,000 MW under study, we need storage. I want to mention last month's Energy Storage Summit that we sponsored with the Electric Power Research Institute. Building on two previous summits in 2009 on plug-in hybrid electric vehicles, the participants in the storage summit did a great job explaining the storage options.

Our list of notable speakers included: FERC Chairman Jon Wellinghoff, DOE Under Secretary Kristina Johnson, Senate Energy Committee staffer Dr. Alicia Jackson, and a host of other industry experts. Thirty-three short years ago I did my graduate thesis on the optimization of pumped storage.

I personally believe **storage changes everything**. We are looking at compressed air, batteries, flywheel technology, plug-in electric vehicles and water heater storage – with a smart grid and smart prices. All these technologies permit the addition of large amounts of intermittent resources to the system and help strengthen operations. They will be a dream-come-true for PJM dispatchers.

Collaboration

We continue to focus on collaboration. Bringing together federal policymakers, state regulators, academic experts, PJM members and others interested in important issues like storage and PHEVs is part of PJM's collaborative approach to work on solutions to better serve you – our members – and the industry as a whole.

Of course, all this comes in service of PJM's three mission-critical priorities – priorities I've been reciting to each and every employee on our Valley Forge campus:

- Reliability – keeping the lights on is the most important thing we do.
- Markets – we must operate fair and efficient markets that produce competitive results.
- Planning – we must plan effectively for the infrastructure needs of the 51 million people in our region... to get generation, transmission and demand resources in place where and when they need them.

AC²

In terms of the future of PJM's operations, we're working hard on the completion of the Advanced Control Center program, which is about reliability and integration. We are building our two state-of-the-art control centers to strengthen PJM's back-up operations. I took Jon Wellinghoff out to the second control center at Milford, and he was really impressed with the

facility. We are refurbishing the Valley Forge control room, which is to be completed this month. The work is aligning the Valley Forge control center's human factor engineering and capabilities with the AC² project and the second control center. Both control centers will be able to manage the PJM grid and markets in the event of an emergency affecting either site.

The dual control centers provide the region with an extra and important measure of reliability. They also help manage risk by ensuring continued market operations. The two control centers are to operate in conjunction with each other, or they can be operated as independent systems. Along with new energy management and market management systems, the advanced technology solutions in the AC² operating environment will help system operators manage transmission operations and direct the generation fleet more effectively.

Advanced Technology

We're always focused on advanced technology, as in the cooperative partnership among transmission owners and PJM that's going to mean a major expansion of synchrophasor technology across the system. This is one of the smart grid projects receiving a DOE grant, which we just signed off on two weeks ago. PJM and 12 of our transmission owners, using \$14 million in matching funds, will install synchrophasors to improve the ability of operators to monitor the grid in substations in nine different states, along with 17 phasor data concentrators and two PJM super data concentrators to collect the PMU data. As chairman of the North American SynchroPhasor Initiative, I am very pleased with winning this grant.

In another smart grid project, PJM, several other grid operators and utilities are participating in a Boeing Co. demonstration of advanced software technology with military-grade cyber security for improving regional transmission system planning and operations. Boeing has spent \$1 billion of Department of Defense funding for a program with an airborne warning and control system plane in the sky to coordinate with the Navy, Army and Marines on the ground in a cyber secure system.

The nearly \$800 million of the \$3.4 billion in DOE economic stimulus dollars that have been allocated to smart grid projects in member systems, combined with members' investments and federal dollars, will total nearly \$1.7 billion. The funds will help modernize and strengthen the electricity grid for the 21st century and eventually enable prices to devices in the home.

I should also mention that we received word last month of another DOE grant. This one is for smart grid training for employees. DOE is awarding \$2.5 million to six industry organizations, including PJM, to develop an online curriculum for our employees on clean energy and smart grid deployment.

FirstEnergy Integration

When the FirstEnergy integration occurs in June, 2011, 7,300 circuit-miles of transmission will be added to PJM's footprint and control, and generating capacity will pass the 180,000-megawatt mark. In March, we successfully conducted FirstEnergy's integration capacity auctions for the 2011-2012 and 2012-2013 delivery years, and FirstEnergy now is participating

in the RPM base residual auction under way this week for the 2013-2014 delivery year. We're pleased that FirstEnergy has chosen to place the whole of its transmission system in PJM.

Other Achievements

Let me quickly mention some other notable matters that affect you:

- Last year, we integrated 1,995 megawatts of new generation, including 1,300 MW of new wind resources.
- We established an Intermittent Resources Working Group to deal with the operating and market issues raised by renewable and other intermittent resources.
- The Governance Assessment Special Team is in the second phase of its work as part of our stakeholder process.
- The new Issue-Tracking page on the PJM Web site is up and running. It lists all the issues stakeholders are working on and provides background information and links to current materials.

Future Challenges

PJM's recent annual report emphasizes PJM's role as a point of connection for the industry in addressing the future issues and challenges we face. We'll continue to work collaboratively to help you and the industry solve problems and achieve your objectives. We believe strongly in that role and are committed to it.

All of us continue to be challenged by the economy. Although there is positive news, the recession has been slow in giving up its grip. The strength and timing of the economic recovery still are not clear, high unemployment is hanging on. But as Joe Bowring pointed out on Tuesday, load is still connected, and I'm bullish that electricity is the fuel of our digital economy. This economic uncertainty has a parallel in the policy uncertainty in Washington on climate-change legislation. It was anticipated that legislation would have been well on its way by now. This makes all of our jobs more difficult as we try to prepare for the transition to low-carbon policies.

There are other uncertainties we face that create their own set of challenges, including:

- integrating large amounts of intermittent wind into the system;
- introducing and deploying the smart grid, and working with the states on the smart pricing to go with it;
- expanding the role of demand response, conservation and energy efficiency;
- deciding how to deal with aging generating facilities; and

- strengthening the nation's transmission infrastructure to meet supply and reliability needs.

Wrap Up

That's where we are today.

As I told you at last year's annual meeting, we continue to strive for excellence. Excellence is a little like *perfect* in "perfect dispatch" – easy to say but hard to achieve. Our role as an industry leader depends on our ability to perform. We have to be the best to contribute to our members' success. On behalf of the PJM organization, I thank you for the opportunity to serve you and to demonstrate excellence every day on your behalf.

###