

**Presentation by John Rossi, VP Business Development, Comverge Inc.
before the
FEDERAL ENERGY REGULATORY COMMISSION
Conference on Competition in Wholesale Power Markets
Panel 1: Demand Response in Organized Markets
Docket AD07-7-000**

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Chairman Kelliher, Commissioners, and Staff, thank you for allowing Comverge, Inc. to participate in this panel discussion. Comverge is a leading supplier of demand response systems; we have over 6,000 MWs of demand response (DR) equipment in place and approximately 500 MW of long-term, outsourced DR contracts. I'd like to comment on the Commission's questions from the perspective of a participant in these outsourced, performance-based contracts.

We currently have five pay for performance contracts and all are with utilities or ISOs. We have no contracts where we directly supply capacity to a market without an intervening multi-year contract. This is the case because we do not see any current market that is adequate to allow Comverge to make a direct investment. And I assure you that Comverge is prepared to make an investment, either independently or with a utility partner, directly in a market adequate to justify our investment. But a market for this does not exist today even though capacity is needed to meet reliability needs.

We are not alone in this viewpoint, the Mid Atlantic Distributed Resources Initiative has concluded that the PJM market alone can't justify substantial investment in DR because the market does not capture both customer and distribution system benefits. Therefore, there should be utility participation with long term contracts to fund DR. It is also important to point out that in states that procure full service energy in an auction it would be prudent to procure super peak demand response, under a long-term contract, prior to the auction so that the energy suppliers won't price these super peaks which will benefit the entire market. For demand response, long term contracts translate to lower fixed price, which may not be true for generators due to fuel volatility risk.

As support for this perspective, let me provide some background on the economic drivers in our business. In the residential sector, our largest sector, we install and operate intelligent switches or thermostats that respond to price signals, remote control signals or both. For the direct load control model, the devices are marketed to end customers and they participate on a voluntary basis. In these pay for performance contracts we are paid based on delivered MWs. Therefore, we assume the risks of recruitment and retention of customers, as well as, installation and maintenance of the program and the operation of all technology and communication links associated with the program. In addition, we can provide a state-of -the-art

Monitoring and Verification system that provides a real time estimate of available load and delivered MWs during an event. These programs entail a small payment to customers for their participation or in lieu of payment they can choose a programmable thermostat for their control device. As an added benefit, this thermostat can be programmed remotely through the web.

In the price-responsive model, the customer incentive is saving money by controlling load during high price periods. The equipment and infrastructure costs may be higher for a price-responsive implementation but this higher cost can be offset by the load shifting and conservation that occur with an automated system. We have extensive experience in price-responsive programs through the nationally recognized Gulf Power - Critical Peak Pricing program and the innovative Commonwealth Edison real-time pricing pilot.

From this experience, I'd like to make a few observations about other promising developments for DR.

- 1. The Reliability Pricing Model market in eastern PJM seems to offer prices between \$68/kW-year and \$72/kW-year, but does not provide certainty beyond one year. These prices are potentially sufficient to support our DR contracts if extended for 10 to 15 years, but are not sufficient to support a new Combustion Turbine that needs \$80 to \$85/kW-year.**
- 2. The Forward Capacity Market in New England has some promising characteristics; it's potentially a multi-year arrangement. If the FCM price clears at the Cost of New Entry of \$7.50/kW month we calculate a benefit level of \$60/kW yr with a 1-5 year commitment. At 5 years, this is approaching a level that would support DR investment. However from our perspective, the market suffers from imposing year-round requirements.**
- 3. The real-time market pilot in Illinois offers the promise of cost savings and control to end customers but it does not provide sufficient incentive for investment in DR. In fact, Comverge is using an existing resource, Com Ed's "Nature First" load control program, to cycle air conditioners when triggered by a market price selected by the customer. If this market price principle were applied in a generation or transmission constrained area, where these factors are reflected in the price, investment may be practical.**
- 4. The Ancillary Services concept is another mechanism that could support investment in Demand Response. Our 90 MW program in Utah has been tested and accepted by the WECC as a non-spinning reserve asset. Also, we've been chosen for two 5 MW demand reserves pilot programs utilizing a portion of our 60 MW asset in Connecticut. This pilot will demonstrate DR capability over a range of conditions this summer.**

In conclusion, Comverge believes that Demand Response should be a vital part of the energy market of the future. There are multiple mechanisms for enabling participation and if the true costs and values of Demand Response are recognized in the market, private investment will deliver this resource at no risk to customers.