

**BEFORE THE PENNSYLVANIA PUBLIC UTILITIES COMMISSION**

**Comments of Comverge, Inc. and Alternative Energy Resources, Inc.**

**Regarding the Demand Side Response Working Group**

**Report on Conservation, Energy Efficiency, Demand Response and**

**Advanced Metering Infrastructure**

**In Docket M-00061984**

Submitted by:

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30 April 2007

## **Introduction**

This is to provide comments on the report of the Demand Side Response Working Group (Report) regarding whether the Report presents points of agreement or disagreement with stakeholders, particularly on consensus resolutions. Comverge, Inc. and its affiliate Alternative Energy Resources, Inc. (Comverge) are very involved in demand response (DR) and to a lesser extent energy efficiency (EE). Comverge currently has over 6,000 MW of DR equipment in place and 360 MW of fully-outsourced, long-term DR contracts in place. Comverge is a public company traded on NASDAQ (COMV).

In general, Comverge agrees with a number of findings summarized in the Report, but disagrees with some of the specific points raised in the Report.

### **Comverge Support for Basic Findings**

This is to express Comverge's full support for the following Report findings:

- Energy Efficiency, Conservation, and Demand Side Response Programs Can Be Cost-Effective Methods of Controlling the Amount of Money that Customers Pay for Electric and Natural Gas Utility Service.
- Ratepayers may directly benefit through participation in DSR or conservation programs, and the utilization of energy efficiency technologies.

### **Comverge Support for Third-Party Outsourcing of DR and EE**

With extensive experience as a third-party provider of DR, Comverge respectfully disagrees that Electric Distribution Utilities (EDCs) are the only effective providers of

DR and EE programs. Comverge provides fully-outsourced DR programs to others, including ISONE, Pacific Gas & Electric, Public Service New Mexico, Rock Mountain Power, and San Diego Gas & Electric.

The benefits of third-party, fully outsourced DR programs are largely the result of shifting risks from ratepayers and the utility/ISO onto Comverge. The risks that are shifted include the following:

- Marketing, customer acquisition, and customer response
- Equipment installation and operation
- Equipment inspection and warranty
- System communications and operations
- Customer churn (to replace customers that move or exit the program)
- Program financing
- Measurement and verification
- Ongoing pay-for-performance

Comverge has world-class experience in management of each of these areas and takes responsibility for performance in these areas under long-term pay-for-performance contracts. Under these circumstances, the risks of inadequate performance are not born by ratepayers or the utility/ISO. This approach unleashes powerful, positive incentives.

### **Comverge Agreement on Voluntary Participation, Program participation & Menus**

We find agreement with following statements in the report:

- Voluntary vs. Mandatory Program Participation; participation in DSR, conservation and energy efficiency programs should be voluntary for retail customers.
- Program Effectiveness and Customer Size; the Commission should recognize that different types of programs work best for different classes, and that the opportunities for savings also vary significantly by class.
- Program Menus May Vary by Territory; EDCs should be given some flexibility in their program offerings.

### **Comverge Disagrees About the Benefits and Cost-Effectiveness of Residential DR**

We respectfully disagree with the statement in the Report that “DSR programs are more appropriate in the context of large commercial and industrial customers, who can have greater financial incentives to reduce usage at a time of peak demand.” Furthermore, Comverge disagrees with the statement that “the greatest opportunities for conservation and demand reduction [reside with] the large commercial and industrial customers, and that “pilot programs” are needed.

As explained above, Comverge has delivered both equipment and third-party, fully-outsourced DR programs to residential customers that are quite cost-effective and have significant environmental benefits. DR implementation can be very cost-effective, particularly through third-party, fully outsourced contracts, because DR can in this way deliver benefits from reduced generation, transmission, distribution, environmental mitigation, market price reductions, and market power mitigation. We believe that residential customers have shown more flexibility and acceptance of DR programs, and

our clients have been successfully operating programs for many years. In addition, the potential savings of DR programs should be shared, as a matter of public policy, with residential and small commercial customers.

### **Response Regarding Retail Benefits from Wholesale Pricing**

Comverge agrees with the following statement in the Report, but thinks there are many direct benefits related to wholesale pricing for ratepayers: “Ratepayers may indirectly benefit from programs due to their effect on wholesale energy prices.”

As the MADRI study by Brattle and other studies show<sup>1</sup>, wholesale prices passed through to retail customers can be very beneficial to customers, including retail customers, to harness both direct and indirect effects. Comverge is very involved in the effort to enable residential customers to use wholesale prices through enrollment in Wattspot, in ComEd’s service territory. The WattSpot services include Retail Time Pricing (RTP), by passing through PJM real-time prices, customer education about RTP, direct load control (Nature First), automated price response (RateGuard), and potentially Environmental Dispatch, as well as on-line shopping for EE measures and installation. The ratepayer benefits of DR, EE, and RTP are increased and enhanced when these services are joined.

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<sup>1</sup> See, e.g., Evaluation of the 2005 Energy-Smart pricing Plan, Final Report, Summit Blue Consulting, for Community Energy Cooperative, Chicago, Illinois, August 2006, and Woychik E. and A. Morriss, Residential Gateway for Electricity Response: Resolve of Customer Access, System Expansion, Market Manipulation, and Environmental Goals, Working Paper, 3 February 2006.

## Comverge Views on System-Wide AMI Deployment

The Report poses the question, whether “The Commission Should Refrain from Ordering EDCs to Deploy AMI System Wide For All Customer Classes.” Comverge has substantial experience on his topic across the U.S. that suggests the following:

- AMI is certainly not required to implement cost-effective DR and EE;
- The use of AMI to fully interface with Smart Thermostats, with appropriate customer education, such as in the WattSpot roll-out, can be very cost effective for specific customers, as it leverages use of RTP, DR, and EE;
- AMI is generally more cost-effective for larger residential customers and customers that will use RTP, DR, and EE in response to wholesale prices that are passed through;
- If reliability is a priority and capital is scarce, Comverge recommends rapid deployment of DR using a long-term, fully-outsourced contract to shift risks and ensure performance;
- Comverge is convinced that residential and small commercial customers can cost-effectively use AMI, if implemented with DR, automated price response, Smart Thermostats, and Environmental Dispatch to enhance customer service, EE goals, achieve reliability, and meet environmental aims;
- Comverge agrees with the benefits of AMI as explained by PennFuture, particularly that utilities and consumers can achieve major dollar savings “associated with the PPL system and Commonwealth Edison pilot in Chicago...” as well as use of a “timetable for EDCs to provide customers with technology capable of allowing all customers to participate in real-time pricing programs.”

### **Comverge Agrees that Customer Education is Critical**

We believe there is clear support for the report's conclusion that "Consumer Education is an Important Component of any Strategy Adopted by the Commission," including the "general consensus that consumer education is a necessary component of any DSR, energy efficiency and conservation strategy."

### **Comverge Support for Revenue Decoupling**

Finally, the issue of revenue decoupling is raised but not fully addressed in the Report. Revenue decoupling has been supported in some jurisdictions to reduce the disincentives that utilities have faced with implementation of energy efficiency. This same mechanism, however, is not as applicable to DR. This is because DR reduces capacity levels and importantly this then reduces utility demand charges. Accordingly, revenue decoupling should be designed to recover not just revenue from lower kWh sales but to recover revenue from reduced kW, which lowers customer and transmission demand charges, a point not yet discussed in most regulatory settings.

Respectfully submitted,

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