



Ms. Laura Berryman
RFP Administrator
Energy Services, Inc., T-PKWD-3A
10055 Grogans Mill Road
The Woodlands, TX 77380

September 29, 2006

Dear Laura,

In regards to Energy's Draft Fall 2006 Request for Proposals ("RFP") for Limited-Term Supply Side Resources, EnerNOC encourages Energy Services, Inc. ("ESI") to consider implementing a demand response program as a reliable and economically efficient alternative to purchasing peaking power or building peaking generation. If ESI does indeed decide to consider such a demand response program alongside traditional supply-side options, EnerNOC plans to offer at least a 50 MW demand response program to ESI. This demand response program can target the needs of the "WOTAB" and "Amite South" regions, as specified as a preference in ESI's RFP.

This letter is organized in two sections. First, I describe some of the benefits of demand response. Second, I will briefly describe EnerNOC's demand response experience across the United States.

THE BUSINESS CASE FOR DEMAND RESPONSE

- Demand response potential. It is reported that demand response programs across the United States have elicited between 5% and 60% of peak demand reduction, depending on program hours and characteristics.¹ From EnerNOC's market experience, we estimate that between 5% and 10% of total commercial, institutional, and light industrial load can be reduced for a small percentage of hours per year, so long as the proper incentives are in place.
- Flexible product and similar to Hour-Ahead Peaking Multiple-Year Unit Capacity Call Option ("Hour-Ahead MUCCO"). A demand response program is similar to Hour-Ahead MUCCO. A demand response program will provide ESI with a call option right to capacity and energy. EnerNOC can deliver demand response capacity to ESI within thirty minutes after ESI schedules a demand response event. In fact, EnerNOC participates in various demand response programs across the United States in which capacity is delivered within 10 minutes, 30 minutes, 2 hours and 24 hours prior to the demand response event. In these different programs, demand response events have lasted between 10 minutes and 11 hours. EnerNOC's technology is flexible and can accommodate the needs of ESI.
- Least cost planning. EnerNOC has responded to several RFP's which have evaluated supply- and demand-side resources concurrently and concluded that demand-side resources

¹ United States Government Accountability Office, "Electricity Markets: Consumers Could Benefit from Demand Programs, but Challenges Remain," GAO-04-844, August 2004, p. 23, available at <http://www.gao.gov/new.items/d04844.pdf#search=%22gao%2004%20844%22> (downloaded 25 August 2006).

are more economically efficient. As one example, the Connecticut Department of Public Utilities Control issued an RFP² requesting supply- and demand-side resources to meet the reliability needs of the state of Connecticut. Because demand-side options were less expensive and quicker-to-market than traditional supply, EnerNOC won a contract to enable more than 100 MW of demand response in Connecticut.

- Risk mitigation. EnerNOC's *Capacity on Demand*SM provides a further hedge against unexpected fluctuations in wholesale energy markets, allowing ESI to deploy demand response resources as an alternative to purchasing power when to do so would be in the best interest of ratepayers and in accordance with ESI's least cost planning. In addition, Joseph Kelliher, Chairman of the Federal Energy Regulatory Commission, said "Effective demand response has great potential to lower consumer costs and dampen market volatility."³
- Reserve margin planning. ESI forecasts needing an additional 3,602 MW of reserve resources by 2008. EnerNOC's *Capacity on Demand*SM can serve as a reliable way to reduce this required reserve margin.
- Alternative to peaking generation. ESI's peak demand in 2005 was 21,391 MW in 2005. ESI currently has 4,028 MW of peaking resources, and forecasts needing 5,614 MW (an additional 1586 MW) of peaking resources by 2008. EnerNOC's utility customers have deployed demand response programs as an alternative to building additional peaking generation. Demand response can be used to defer the need to invest in peaking generation or acquire additional supply side resources.
- Demand response is only the beginning. *Capacity on Demand*SM helps end users initiate additional energy savings beyond those traditionally delivered by demand response programs. EnerNOC installs its PowerTrak[®] system at each of its customer sites. PowerTrak[®] is a powerful energy analytics software which helps end users reduce their peak demand as well as their overall level of energy consumption. In short, EnerNOC's customers affect permanent energy efficiency changes that go beyond the benefits gained from pure demand response. This principle is core to our business model and a unique component of our demand response program. As one of many examples, an Energy Manager of an EnerNOC-equipped grocery store said, "EnerNOC has made our energy operations state of the art, delivering significant bottom line benefits with almost no up-front investment."

GENERAL OVERVIEW OF ENERNOC'S *CAPACITY ON DEMAND*SM PROGRAM.

- About EnerNOC. EnerNOC is the leading full-service demand response solutions provider, and has over 300 MW of demand response capacity currently under management in both regulated and deregulated markets. EnerNOC, which stands for Energy Network Operations Center, is an independent, privately held company founded in 2001 to become the world's leader in commercial and industrial demand response solutions for utilities, regional transmission organizations, and independent system operators. Our market

² See, docket 05-07-14PH01 of the Connecticut Department of Utility Control.

³ See Burke, Monte, "Power Brokers," *Forbes.com*, 08 May 2006, available at http://www.forbes.com/home/free_forbes/2006/0508/075.html (downloaded 25 September 2006).



position has been achieved through hard work, thought leadership, process design, and substantial investment in device, network, application, data, and operations capabilities. Our experience and expertise in designing demand response and peak load management programs and remotely managing distributed generation and load curtailment systems provide the assurance that EnerNOC will deliver firm, reliable capacity to ESI.

- State of the art technology. EnerNOC's *Capacity on DemandSM* offering is a turnkey solution. ESI can employ EnerNOC's technology to directly control energy consuming assets at end-user facilities, thus reducing peak demand. Additionally, EnerNOC's communication network and 24/7/365 operations center continuously monitors energy demand at all end-user facilities in real-time, ensuring compliance, quality assurance and verification.
- Quick response time. In some demand response programs across the United States, EnerNOC provides demand response capacity to its utility partners within 10 minutes. Other programs give 30-minute, 2-hour or day-ahead notification. EnerNOC's technology is flexible and can accommodate the needs of ESI.
- Diverse curtailment strategies. Many traditional demand response programs target large industrial customers. EnerNOC targets the commercial, institutional and light industrial customer classes which have not traditionally participated in demand response programs. EnerNOC employs multiple curtailment strategies, including lighting control, HVAC management, building management system control, and business process responsiveness. This approach maximizes the amount of load that an individual end-user can curtail. Indeed, EnerNOC's strategy is successful because different types of end-users are able to curtail different types and amounts of load, thus allowing us to implement an appropriate curtailment strategy on an end-user by end-user basis.

EnerNOC would welcome the opportunity to work with ESI. We sincerely hope that you modify the RFP to consider demand-side resources. Please do not hesitate to contact me if you have any further questions about EnerNOC or demand response.

Best regards,

TJ Glauthier – Advisor to the Management and the Board of Directors
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