NEW ERA ENERGY
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8 August 2007
Mr. David Eichenlaub
State Corporation Commission
P.O. Box 1197
Richmond, Virginia 23218

Subject: Case PUE-2007-00049

Dear Mr. Eichenlaub:

In response to comments filed by others in writing or made verbally at the August 13th meeting, ConsumerPowerline (CPLN) and New Era Energy, Inc. (NEE) are providing additional joint comments.

We agree with the comments in the EnerNOC and Comverge recommendation to leverage demand response through third party aggregation. We do not agree with the position of Dominion and AEP that demand side management programs should be controlled by the utility in a regulated environment. Third party aggregation can be effectively deployed through aggregators, as is growing within other areas PJM. We believe utilities tend to deploy one-size-fits-all approaches to large classes, even when the customers within the class are not homogenous. The most popular services provided by third party aggregators involves a degree of customer service, including consulting on energy usage and technology options, that far exceeds anything the utilities have provided in the past. Having multiple aggregators operating allows a wider variety of enabling technologies to reach the ultimate customer. We believe utility demand response programs can co-exist with those of PJM and that aggregators and customers can individually decide which best suits their needs.

While the Workgroup should look at the long term objectives in this Case, which we believe should lead to wide-scale deployment of smart meters and AMI, these technologies are not required to deploy a significant degree of demand side management and demand response programs. Without losing sight of the desirability to transition to a more sophisticated approach, we agree with the Comverge position that programs can be implemented that can provide immediate demand control benefits with nothing more than interval meters.

In the Cannon Technologies article on Pricing for Demand Response (DR) from Residential and Small Business Customers, in the section on CPP Subscriber Fee, it discusses whether it is possible to persuade customers to pay for in-home automated customer-controlled energy and load management systems. It asks, "How much are people willing to pay for "savings opportunities" and "a greater sense of control and choice"? Nobody knows. The work has not been done and the "market" has not has not

yet revealed it." We would point out that many thousands of residential customers in Arizona, North Carolina and Virginia have invested significant sums in such energy management systems. Customers will invest in these measures under certain circumstances. The savings must yield a sufficient return on investment. The program must be perceived as available in the future so as to allow confidence in the future return. Adoption of the program, with automated response, must create reasonably small levels of discomfort, inconvenience or life style change. Most importantly, the customers must know that they have this choice. Within Virginia, for example, a tiny percentage of customers know that rate options exist to them, even fewer are aware that there are enabling technologies available to purchase. In the vast majority of cases of residential customers using the Schedule 1S demand based time-of-use rate, they are only using that rate because of their use of the energy management systems that they purchased to automate their response. The majority of these customers are not interested in programs within which the utility has exclusive control and they understand that the rate structure results in their being rewarded only for what they actually do. They expect appropriate metering, such as interval meters, which allow validation of their response. They only learned that the rate existed from the vendor marketing the demand controller. Most small businesses on Schedule GS-2 (over 30 kW but less than 500 kW), do not understand the concept of demand changes or how they influence their electricity cost. They also are not aware that there are enabling technologies available to them. The primary obstacle to demand control programs is the lack of awareness within the customer population.

In other markets, Curtailment Service Providers (CSP) are installing various enabling technologies, sometimes at the customer's expense, sometimes at the CSP's expense and sometimes subsidized by the local utility. When provided by the CSP, the cost is essentially covered by the CSPs share of the savings and, therefore, is effectively being paid for by the customer by giving up part of the savings.

The electricity rate structure, demand response capacity payment or other method to pay for the kW reduction should represents its value to the utility or ISO/RTO. Based upon that rate of payment to the customer, the customer is capable of determining if any given enabling technology is cost effective to him. The technology of this type of equipment is changing so fast that it is best to let the market present options for the customer to select from rather than have a utility prescribe a specific solution. If the prices are attractive, the CSPs will help market the demand response options to customer and provide enabling solutions.

We do not believe it is essential that rate structures designed to encourage demand side management be mandatory. There will be many customers that either cannot or do not want to take part in such programs. The larger customers in any class are generally more likely to participate, especially when there are enabling technologies to make the process easier. The Cannon Technologies article suggests that one option is to make the cost for non-participants higher as an incentive to encourage them to participate. We do not believe it is appropriate to penalize a customer that does not choose this option. The

reward structure should simply make it worthwhile for those that do. Treating all residential customers as a single homogenous class is part of the problem here. A small 800 square foot apartment with a window A/C is not remotely similar to a 5000 square foot home with four air-to-air heat pump zones, an electric hot water heater, a heated swimming pool and a hot tub. One has an average summer electric bill well under $100 and the other closer to $1000. One has a half-hour demand peak of 2 to 3 kW and the other 20 to 30 kW. Options designed for residential should provide different options. It may not be cost effective to provide more than minimal demand control programs to the smaller end of the spectrum. Other energy conservation and weatherization programs might be a more effective focus.

We recommend that each Team identify recommended actions that can be implemented without the need for legislation or formal SCC proceeding.

We recommend that each Team make recommendations for specific legislation to be submitted to the General Assembly for the next session. We recommend the following items be considered:

1. Establish different goals for demand response and consumption reduction.
2. Continue the Workgroup to deal with the more complicated issues.
3. Authorize cost recovery effective 1 January 2008 for utilities for their demand response programs, including PJM charges for demand response programs.
4. Provide equivalent profit incentives for utilities to meet demand by either new generation or demand response.
5. Authorize the State Corporation Commission to establish a Technical Assistance Program and Technical Incentive Program, conceptually similar to those in California and funded by a Public Benefits Fund, the cost of which should be a reimbursable cost to the utility.
6. Authorize a specific dollar amount for use in 2008 and 2009 for a Customer Education Program, funded by a Public Benefit Program. The program should include education on all TOU and demand based rates that already exist and options on how to save while using them.
7. Exempt customers using their Distributed Generation assets for critical peak demand reduction from requiring a permit, so long as usage for that purpose does not exceed 200 hours per hour.

We recommend that the Demand Side Management Team review existing programs and rate structures that are already in place within Virginia, consider whether they should be continued and whether there are actions that should be taken to encourage expanded use of them. Even if long-term programs may move us toward AMI, this will be many years in implementation. In the meantime, much can and should be done with existing rates and metering options.

We recommend that the Demand Side Management Team look at programs being deployed in other regions, by either utilities or Curtailment Service Providers, to provide detailed hourly electricity usage information to users to aid them in changing behaviors and replacing less efficient equipment.

We recommend that the Demand Side Management Team investigate the feasibility of using net metering for all Distributed Generation assets in conjunction with real-time Critical Peak Pricing for limited periods of emergency grid conditions.

We recommend that the Energy Efficiency Team inquire into the adequacy of compliance programs on building codes and equipment standards that are already in place.

A number of people are on more than one subgroup. We recommend that meetings of the subgroups be scheduled to allow attendance at multiple meetings, as much as is practical.

Sincerely,

Jack Greenhalgh
President
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