

**Pennsylvania House of Representatives
Environmental Resources and Energy Committee
Testimony of Frank Lacey, Comverge, Inc. on HB 1699
November 20, 2013**

Good Morning Mr. Chairman and members of the Committee. Thank you for hosting a hearing on this very important issue and inviting me to provide Comverge's views on HB 1699.

Introduction

My name is Frank Lacey. I am the Vice President of Regulatory and Market Strategy for Comverge.

Comverge is one of the leading demand response companies in the country. Demand Response is an electricity market tool that has proven itself again and again to be the least expensive and most environmentally responsible way for electric grid operators to meet system peak demands. Comverge and our Pennsylvania-based customers will be directly and negatively impacted by HB 1699. Comverge, its customers and all of its employees are resoundingly opposed to this legislation.

Comverge's primary Pennsylvania office is located in Kennett Square, Chester County, Pennsylvania. We have approximately 40 employees in Kennett Square and approximately 50 employees state-wide. We run our Open Market Division, which focuses on commercial business customers, out of our Kennett Square office. We located an office in Pennsylvania in large part because of the competitive and innovative energy policies adopted by the Commonwealth.

Demand Response Background

The Demand Response business is somewhat unique in that the service providers (Companies like Comverge) pay their customers for the services they can provide to the energy market. The funds that customers receive are capacity payments -- the same payment that generators in the PJM market receive. The biggest difference between the two is that the money generated by demand response stays in Pennsylvania and goes to the customers who provide demand response services. The payments customers receive are based on the amount of capacity, or energy curtailment value that a customer provides to the market.

According to my analysis of publicly available data from PJM, if this bill were law today, it would have eliminated somewhere between \$40 and \$50 million worth of payments to demand response customers in Pennsylvania this year. That \$40 to \$50 million was paid to schools, hospitals, government agencies and other businesses that have been referenced by others on this panel.

If this law goes into effect, in the future that money will go to the electric generation companies – the big power plants – who are for the most part headquartered out of state. The \$40 to \$50 million in economic value delivered to Pennsylvania electricity customers will be gone. This is not theoretical money, or a one-time payment. This is an annual cash payment that goes to Pennsylvania electricity customers who participate in the demand response market. This legislation will take those payments away, meaning that our customers will lose this money which they otherwise reinvested back into their businesses. With all of the economic demands on customers and the state, this is not the right time to be pushing \$50 million out of the local economy.

Demand Response is a market mechanism that is well established in the PJM market structure. This mechanism provides a valuable tool for the end-use customers to control their own energy costs while simultaneously providing a reliability tool to the PJM electricity market.

Reliability

You might hear from others testifying today that HB 1699 won't harm electric reliability in any way. The facts behind those statements are really just semantics. The legislation itself does not prohibit customers from participating in the market. What is not stated in the legislation is that many, if not all of the customers targeted by this legislation will simply drop out of the demand response program, taking \$40 to \$50 million elsewhere.

Additionally, based on the simple laws of supply and demand, each time a megawatt of capacity leaves the market, capacity prices increase. And the amount of reliability resources decreases. The real effect of this legislation is that reliability will decrease and prices for electricity will be higher than they would otherwise be in the absence of this legislation.

The impacts to Pennsylvania are far bigger than just the \$40 million that will be leaving the Consumers' pockets in the State. The capacity offered into the market has the effect of lowering electric costs for all customers in Pennsylvania. If this law is passed, it will negate the ability of these customers to reduce capacity costs for themselves and for others in the market. The net effect will be higher capacity and electricity prices for every electricity customer in the Commonwealth. Those higher prices are ultimately paid to the generators who are – as mentioned above – largely located out of state.

This legislation also sends a message to customers that government will continue to interfere in areas of their businesses that they shouldn't interfere with. From a customer's perspective, the PJM market offers an efficient tool that enables them to manage their electric bills and provide a reliability service to the market. The demand response rules for companies that have emergency back-up generation have been negotiated with the EPA over the last several years. Now, with some sense of certainty about what a customer can and can not do for demand response, the Pennsylvania legislature wants to make the rules more onerous for customers. For what purpose? Is Pennsylvania trying to out-regulate the EPA? Is there really a problem that has not been addressed already?

Some will say that these emergency generators will run too frequently in the future. In the past 22 years, there have been only 35 summer days in which demand response was called anywhere in PJM. In that 22 years, demand response has been called state-wide for 2.5 hours; that is all. Every other PJM curtailment was either not in Pennsylvania or only affected a utility-based sub-region of Pennsylvania. Demand response is only called when PJM is facing an energy emergency – in other words, there aren't enough power plants to feed the demand on the grid. If PJM is doing its job correctly, this is the last step they take to avoid a blackout, and this should be infrequently.

Additionally, PJM, who manages the electricity market for Pennsylvania is constantly revising its rules. There are several rule changes pending currently for demand response resources. One of these rule changes currently under consideration will significantly reduce the number of times that emergency generation resources are called. That rule would segregate demand response into two groups. The first group would be called when the system is beginning to become constrained. The second group, which would only be those customers with emergency generators, would be called when PJM reached emergency conditions. So, in that case, the generators subject to this legislation will run very infrequently.

HB 1699 is bad public policy. It is bad for electricity customers, it is bad for demand response companies, and based upon the limited time these generators are called into use it will do nothing to improve air quality or the environment. More important, the proposed legislation will take \$40 to \$50 million from end use customers and send it to power plant operators elsewhere. Comverge urges you to oppose this legislation.

Thank you.