

RED

HERRING

VOL.5 NO.01

REDHERRING.COM

SPECIAL PACKAGE

BIG DEALS

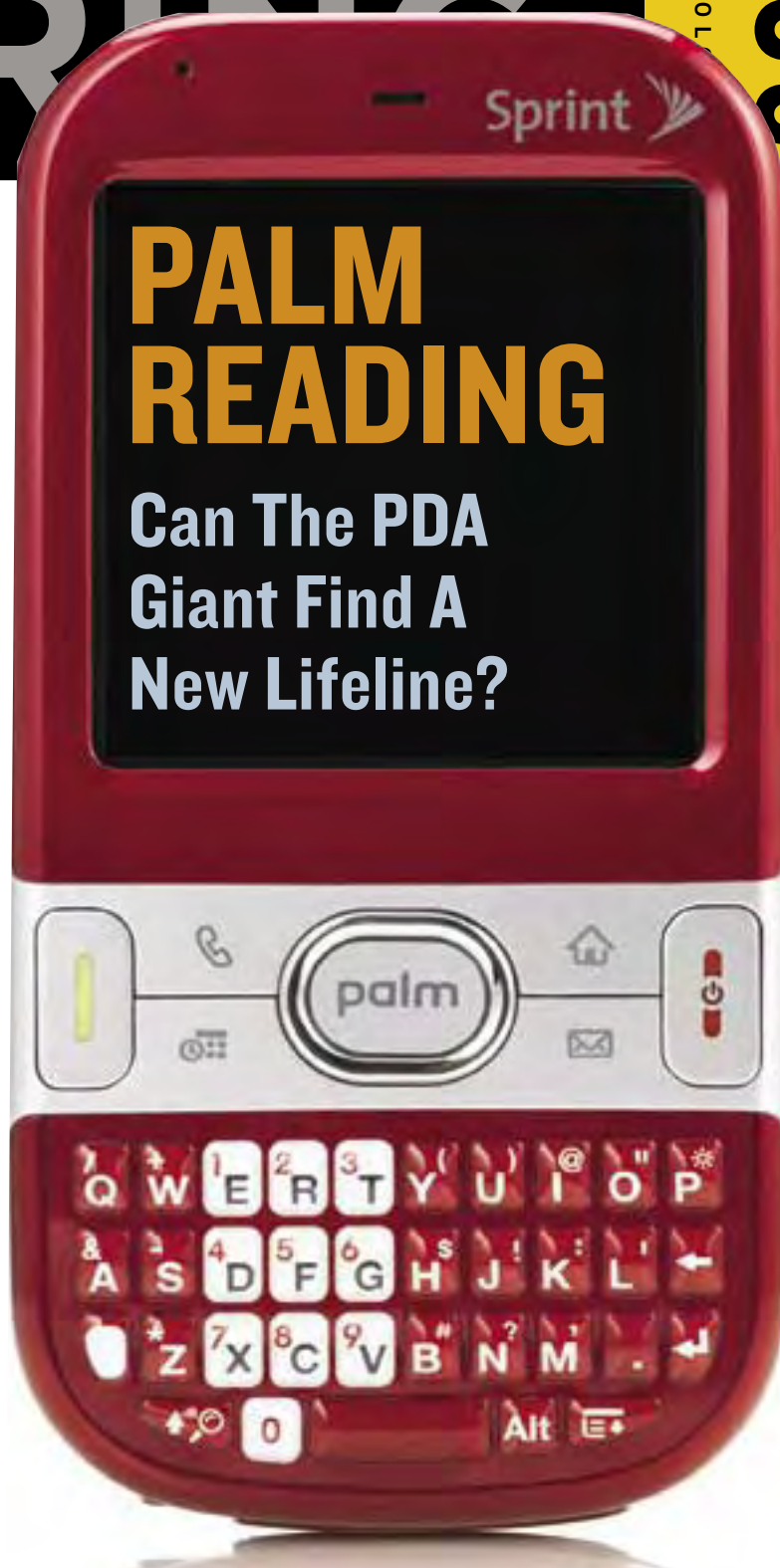
Lessons Learned
From Last Year

VIRTUALLY PERFECT
Caveats On Our
Virtual Worlds

EARTHBOUND
Yahoo Defying
Gravity, For Now

WATERWORKS
Investing In
Liquid Gold?

The Top **Hot**
100 INSIDE!



Power Play

ConsumerPowerline CEO Gary Fromer talks up an energy-saving concept called demand response.

By Justin Moresco



Demand response isn't as sexy as an electric sports car. But it can sure help reduce electricity demand and the costs that rise with it.

Two U.S. companies that provide such services—East Hanover, New Jersey-based Converge and Boston, Massachusetts-based EnerNOC—went public in 2007. And a host of startups such as New York-based ConsumerPowerline; Washington, D.C.-based GridPoint; and Marietta, Georgia-based Prenova have jumped into the mix.

With demand response, utilities actually pay big consumers such as factories or commercial buildings to use less power at peak times and help prevent blackouts and brownouts in the bargain.

Peak demand occurs about 5 to 7 percent of the time in the U.S., says Signal Hill Capital Managing Director Michael Carbo, whose firm is an investor in the demand-response market. Demand response helps energy companies avoid building extra capacity just to satisfy these infrequent events—and it also helps them avoid costly trips to the spot market.

Managing all these shifting power plays takes technology, and that's provided by demand-response companies, which function as middlemen between the utilities or independent service operators (ISOs) and the consumers. They provide energy consumers the necessary hardware and software to meter, monitor, and respond to peak demands in exchange for a cut of the savings.

About 3 percent of power generation in the U.S. is now under demand-response management, according to the Federal Energy Regulatory Commission. Signal Hill believes there is a market for 5 to 7 percent coverage, which could translate into an additional \$2 billion to \$3 billion a year in

revenue for demand-response companies.

The 2007 U.S. Energy Act should also be a boon for demand response. It requires public utility commissions to consider demand response before adding new generation plants and provides incentives for utilities to contract demand-response services.

ConsumerPowerline recently completed a \$17 million first round of funding led by New York-based Expansion Capital Partners. CEO Gary Fromer, a panelist at December's ThinkGreen conference in San Francisco, spoke to *Red Herring* about how it all works.

Q. Do companies control how they respond to peaks?

A. Some of the response may be automated and triggered centrally by ConsumerPowerline. Some may be triggered by the facility itself. We work with a facility on a curtailment plan that includes dealing with AC, lighting, and equipment to manage down their usage for a window of time without impacting productivity or use of the facility.

Q. Why should a utility have to buy back the electricity saved?

There could be a world where demand response [is] everywhere.

GARY FROMER, CEO,
CONSUMERPOWERLINE

A. Not all utilities are in the business of generating power. Their responsibility is primarily to ensure the effectiveness of the grid. The utility pays for it because it is a lower cost than going out to the market and procuring more electricity at peak demand.

Q. Do you see a future where demand response is in every building and home?

A. There could be a world where demand response ... [is] everywhere. The question is, how many of us are ready to turn over control of appliances that do things like regulate the temperature in our house. The more something is automated, the easier it is to verify. It is harder to verify voluntary behavior in small footprints from a cost perspective.

Q. So demand response is not cost effective at the residential level?

A. We question whether there is value in metering and verification at the single-family home level. Outside of that—from multi-family on up—we think there is the return on the cost of doing metering and verification.

Q. Could public policies—like tax incentives or subsidies for installation costs—slow the spread of demand response?

A. I think public policies that don't encourage competitive markets for demand response could have an effect that slows growth. But I think the conditions are such that demand response will grow either way. **RH**