

Demand Response Programs

A Retail Marketer's Perspective

Constellation NewEnergy

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Overview

- Overview of Constellation (CEG) and NewEnergy (CNE)
- CNE Demand Response Programs
- Are Customers Ready for Demand Response Programs?
- Barriers to Demand Response Program Subscription
- Demand Response Enhancement Strategies
(retail marketer and customer perspectives)

Constellation NewEnergy

- Leading North American energy cost manager and competitive supplier to commercial & industrial market
- Offers competitive products to its energy customers
- Over 6,000 electric customers served
 - more than half of the Fortune 100
- Nearly 10,000 megawatts of peak load served (2004)
- Manages 10 regional offices across North America
- Active in 16 states and two Canadian provinces
- More than 400 employees
- Division of Constellation Energy Group

Our Parent: Constellation Energy Group

- Integrated energy company (NYSE: CEG)
- Fortune 500 company (No. 203)
 - Revenues (2003) – \$9.7 billion
 - Assets (2003) – \$15.8 billion
 - Employees – more than 9,000
- Investment grade credit ratings from all three agencies
 - Debt to capital ratio of 49%
 - Net liquidity over \$2 billion; cash and bank lines available

CNE Demand Response Programs (DR)

- Provide incentive to customers to reduce or increase consumption based on market prices
- Incentive credits are determined based on customers' performance and may be linked to either spot market prices or pre-negotiated rates
- Participation is strictly voluntary
- Custom and standard products
- Customer education and interest are key factors to DR participation

Are Customers Ready for DR?

- Some large customers have operations that seem as if they were designed for DR
 - A retail supplier should incorporate DR into its product offerings
 - Offerings translate to value added services and customer retention
- Most customers are not yet ready for DR
 - Traditional utility rate designs largely ignore DR
 - DR requires education, planning, coordination and commitment
 - Concern that DR is not worth the risk of upsetting core operations or that savings are insignificant compared to the value of their ongoing operations
 - The retail supplier and customer should maintain “customer intimate” relationships to overcome some of these barriers

Barriers to DR Program Subscription - Regulations

- Regulatory Risk
 - Frequent market rule changes inhibit vibrant DR
 - Stakeholders and investors need reassurance that market structure rules remain predictable/stable enough to forecast expected value of DR
 - Stakeholders are distracted with much regulatory change and uncertainty

Barriers to DR Program Subscription - Markets

- Lack of Efficient Markets
 - Many wholesale and retail markets are not yet fully efficient
 - The value of DR is not being fully incorporated in some markets

Barriers to DR Program Subscription – Perceived Value

- Many customers do not recognize value of DR
 - Most customers lack the technical knowledge of their consumption and the economic opportunity; therefore, they do not appreciate the value of their participation
 - Third party suppliers need to provide the necessary tools and market access to customers. This will increase confidence in their decision to alter consumption while creating a defensible position for that decision to internal critics and managers

Barriers to DR Program Subscription – Technology and Processes

- Affordable Technology and Cost Effective Processes
 - Advanced metering and enabling technology (customers' perspective)
 - Notification, metering, measurement, performance verification process (retail suppliers' perspective)

DR Enhancement Strategies – Retail Marketer

- Retail Marketer
 - Offer an array of innovative products, including DR features
 - Educate and assist customers so that they do not compromise their operations by participating
 - Offer customers useful information such as access to consumption and price data

DR Enhancement Strategies – Customer

- Customer
 - Learn more about their own operations
 - Invest in enabling technology such as interval meters, demand limiting controls, etc.
 - Develop DR strategies and processes
 - Optimize use of on-site generation and fuel assets
 - Obtain buy-in from impacted employees
 - Maintain a company-wide policy of awareness
 - Launch a conservation strategy during critical days or called events