

January 31, 2007

Mary L. Cottrell
Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: D.T.E. 06-113

Dear Ms. Cottrell:

The National Association of Energy Service Companies (NAESCO) is pleased to submit these comments in response to the Department's NOTICE OF FILING AND REQUEST FOR COMMENT in this matter, dated December 29, 2006.

NAESCO's current membership of about 100 organizations includes firms involved in the design, manufacture, financing and installation of energy efficiency and renewable energy equipment and the provision of energy efficiency and renewable energy services in the private and public sectors. NAESCO members deliver about \$3 billion of energy efficiency projects each year. NAESCO numbers among its members some of the most prominent companies in the world in the HVAC and energy control equipment business, including Honeywell, Johnson Controls, Siemens, Trane and TAC/Tour Andover. Our members also include many of the nation's largest utilities: Pacific Gas & Electric, Southern California Edison, New York Power Authority, and TU Electric & Gas. In addition, ESCO members include affiliates of ConEdison, Pepco Energy Services, Constellation, DMJM Harris and Direct Energy. Prominent national and regional independent members include Custom Energy, NORESKO, Onsite Energy, EnergySolve, Ameresco, UCONS, Chevron Energy Solutions, Synergy Companies, WESCO and Energy Systems Group. NAESCO member companies have been delivering energy efficiency projects to Massachusetts residential, commercial, institutional and industrial customers for over twenty years, and several leading national and regional ESCOs are headquartered in Massachusetts.

NAESCO strongly supports the petition filed by the Massachusetts Division of Energy Resources (DOER) requesting that the Department conduct an investigation into establishing an energy efficiency performance standard (EPS) for basic default service. We believe that such an investigation is warranted for several reasons.

1. Energy efficiency (EE) resources should be part of each utility's supply portfolio, because it is generally cheaper and more reliable than the alternatives.

NAESCO's understanding of Massachusetts laws and regulations is that each distribution utility is obligated to provide for its customers a default electricity service that is as economical and reliable as possible. This obligation is not currently being met, because the most cost-effective resource type (EE) is not included in the utilities' supply portfolios. EE resources cost a fraction of the current and projected cost of electric generation and do not carry the fuel price volatility and supply disruption risks that characterize electric generation.

NAESCO recognizes that Massachusetts utilities operate large energy efficiency programs, and that these programs have achieved great success during the past twenty years. But these programs are operated under legislative and regulatory mandate, and functionally separated from the main business of the utilities, which is procuring and distributing electricity. The main reason for this separation, we believe, is that the utility managers and staff, with the exception of those directly involved in EE programs, do not consider EE part of their core business and are thus unfamiliar with EE technologies, economics, and quality assurance systems.

An EPS standard, we believe, would force utility managers to begin the process of integrating EE into the core business of the utilities, for the ultimate benefit of the utility, the transmission and distribution infrastructure as well as all ratepayers.

2. The competitive market has to date failed to optimize the portfolio of supply and demand resources offered to customers.

One of the anticipated benefits of electricity deregulation was that unregulated electricity suppliers would be compelled by market competition to offer customers optimized packages of supply and demand resources. Unfortunately, this has not yet happened. Enron, the largest competitive supplier that appeared likely to dominate the market with such optimized packages, collapsed in scandal before it was able to provide this benefit, and severely tarnished the attractiveness of optimized package in the minds of the large customers. Second, and more important in this case, the vast majority of customers have no access to optimized packages of supply and demand resources because they have no access to competitive supply offers. They languish on default service because competitive suppliers are apparently interested only in pursuing large customers.

NAESCO believes that it is incumbent on the Department to recognize the current state of the competitive market, and to take appropriate action to jump-start the offering of optimized packages of supply and demand resources in the area it directly controls – default service. We think that as optimized packages take hold in the default service marketplace, the competitive suppliers will be forced to re-visit the positive economics of integrating energy efficiency into a portfolio of resources and customers will better understand the

more advantageous economics of the optimized package and begin to demand optimized packages be offered to all customer classes.

3. An EPS will result in a significant increase in the use of EE, which in turn will result in significant economic development opportunities for Massachusetts.

Massachusetts today imports virtually all of its primary energy, including the fuel used to generate electricity. This is a huge drain on our state economy, as our energy dollars contribute to the economic development of energy-producing states and countries, rather to our own economic development. To the extent that we substitute EE for fuel imports, we also substitute local skilled labor for purchased fuel. This skilled labor is involved in the design and implementation of more energy efficiency buildings, as well as the energy efficient operation of those buildings. NAESCO expects that an EPS will create many new jobs in Massachusetts, and that a good number of these new jobs will be in our electric utilities. It will be far less expensive to operate an energy efficient electric system than to simply purchase large quantities of electricity on long-term contracts while also providing an economic stimulus for the state and region.

Based on these reasons, we urge the Department to accept the petition of the DOER and to open an investigation into establishing an EPS for default service.

Respectfully submitted,

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President

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