

**Demand Response Working Group
Joint NARUC/FERC Working Group
November 11, 2006**

Good Morning. Paul Hudson, Chairman – Public Utility Commission of Texas
Perhaps my state, more than most – can benefit from your respective experiences.

We are a rapidly growing state, hot economically, and as you might expect – households in my state are very heavy users – average kwh far exceeds the national average. We have a large industrial base as well – especially petrochemical along the coast.

These characteristics are complicated by the multi-faceted regulatory scheme – municipals, cooperatives and investor owned utilities – both in and outside of ERCOT.

Within ERCOT -

Unbundled generation/T&D/retail electric provider

Peak Load – 62, 396

85% of state load

4 areas of the state (Far West, Panhandle, Southeast, Southwest) remain vertically integrated with fully regulated rates

Load growth in ERCOT is projected at 2.3%/year over next 5 years.

Capacity additions also expected in Northeast and Far West Texas.

Within ERCOT – to meet load growth, we expect to be approximately a 100 gigawatt system by 2025. And, because of rapid growth, we are supply tight for summer 07 and 08.

This is daunting, especially in light of retirement of old plants. The good news is that there is extraordinary interest in adding additional generation in the state. The 19 planned coal facilities with TXU's ambitious 10 coal build is one example, but we also have nuclear, natural gas, and wind in the pipeline – to the tune of 45 gigawatts somewhere in the planning stages for interconnection (this includes 17.2 gw wind, and 16.4 gw coal).

Now there is some talk that certain states will attempt to meet 100% of their load growth with demand side work. I do not believe this is a possibility in ERCOT – but we have been and we will be ambitious in attempting to forestall some of the projected need.

Load Response at Wholesale Level –

- Load Participation directly in the ancillary service market
- LAAR – 1150 active daily/1850 registered
- EILP – 1000 mw on an emergency basis
- BUL
- Pilot project for dispatchable load response

- Price responsive demand destruction

Load Response at the Retail Level --

- Energy Efficiency (T&D)
- Decrease 10% growth in demand by energy efficiency measures yearly
- \$80 million last year – 187 MW reduction (Measured and Verified)
- Standard offer programs based on avoided cost of new generation
- Market transformation programs
- Kwh/peak shaving goals
- Advanced metering initiative – expect to deploy over 2million w/in five years

Reviewing other types of demand response – some interested in a capacity payment mechanism for demand response, we've been reluctant frankly to do so.