
ENERNOC
CHAIRMAN'S LETTER 2007

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TIM HEALY
CHAIRMAN AND CEO
ENERNOC
PHOTO: RICHARD SCHULTZ

During the 1980s and 1990s, a new position began to emerge in America's boardrooms: Chief Information Officer, or CIO. Few Fortune 500 companies had a CIO prior to 1980. By 1999, almost all companies had one. Wal-Mart's first CIO was appointed in 1984. AT&T's first CIO arrived in 1993; General Motors named their first CIO in 1996. Today it is hard to find or imagine a major American corporation without a chief information officer.

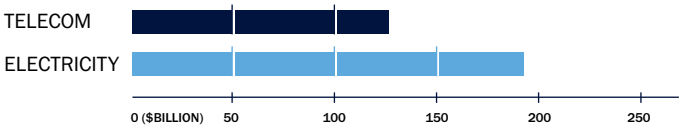
I believe two things led to the arrival of chief information officers. Technology played a major role of course: 1980 – 1999 was the period when computers became personal, and then were connected together in networks. During this period, corporate spending on information technology rose from around a fifth of capital expenditure to around three fifths. The second driver was more subtle: a changing business environment. Corporations grew, globalized and automated during these decades, and the pace of business increased. As a consequence, there was vastly more information to manage, and information management became a source of advantage and a topic for investor scrutiny. Companies that could not manage information could not compete.

Now that EnerNOC is issuing its first annual report as a public company, I find myself wondering if we're on the verge of another executive revolution, one that is likely to be as important as the arrival of the CIO: the emergence of the chief sustainability officer, or CSO, as the world's great corporations start to develop their first board level sustainability strategies.

At the core of any sustainability initiative is energy consumption, the single biggest source of various greenhouse gases that cause climate change.

I believe that energy is one of every company's five basic inputs, along with land, labor, raw materials and tools. (Information Technology, the realm of the CIO, is a subset of tools.) But in most cases, energy is the only one that is not actively managed. Corporations invest time and talent in assessing and developing land; in managing and motivating labor; in forecasting and negotiating the price and supply of raw materials; and in sourcing and procuring equipment and tools. Energy hasn't normally received a similar level of senior executive attention. For example, US corporations spent an estimated $129 billion per year on telecommunications in 2007, and all of them also invest in advanced products and services to actively manage these systems. But less than one per cent of companies make a significant investment in advanced technology to manage electricity, even though electricity spending was greater at approximately $194 billion per year.

US CORPORATE TELECOMS V ENERGY SPENDING 2007: SOURCE: INSIGHT RESEARCH 2008 / EIA 2008



I don't mean to suggest that CEOs have been making a mistake. Until recently, with the possible exception of oil, energy was an abundant, low-priced commodity delivered by highly regulated local monopolies. All energy was the same, and thinking about it made about as much sense as thinking about what kind of air employees were breathing. As long as it was safe and present, there was nothing to manage. And there was almost nothing to manage it with. Only certain buildings had room sensors and thermostats. Electrical closets had meters, circuit breakers and perhaps control panels. From the CEO's perspective, energy could only be taken for granted.

But as I write this in early 2008 I believe that the same forces that once drove information to the forefront of the CEO's mind are acting on energy. Advanced technology for managing energy is becoming available. The business environment for energy management is changing. A new corporate age is emerging. Business leaders can no longer take energy for granted – a compelling, comprehensive energy strategy is becoming essential for effective competition and, in some cases, business survival. Some of the world's leading CEOs are already beginning to see this. Lee Scott, CEO of Wal-Mart, has committed his company to the 'ambitious and

aspirational goal of using only renewable energy, because: "...being a good steward of the environment and in our communities, and being an efficient and profitable business, are not mutually exclusive. In fact they are one and the same..."

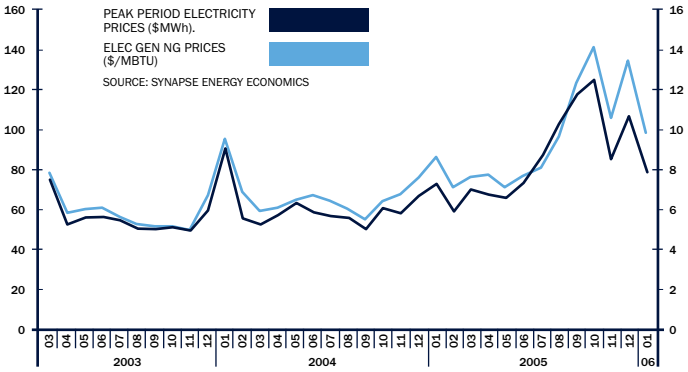
Sir Terry Leahy, Lee Scott's competitor at Tesco, has shown similar leadership, saying: "I am determined that Tesco should be a leader in helping to create a low-carbon economy ... to take an economy where human comfort, activity and growth are inextricably linked with emitting carbon. And to transform it into one which can only thrive without depending on carbon. This is a monumental challenge."

Scott and Leahy are not alone. In many parts of the world, in many industries, I am seeing leading CEOs rise to this challenge. There are many reasons why CEOs need to pay new and urgent attention to energy.

The first reason is cost. The price of energy has been rising, and will likely continue to rise. One driver is increasing demand. The industrial revolution is not yet complete. China and India, the two most populous countries in the world, are still industrializing, and as their economies grow, so do their energy needs. Taken together, these great nations account for more than a third of the world's population, and their consumption of energy has only just begun. Meanwhile, in the industrialized world, nations such as the United States are also consuming ever more energy - a result of increases in both population and quality of life.

All these trends have a huge impact on energy needs. As a result, the International Energy Agency recently estimated that world energy demand will be 'well over 50% higher in 2030 than today'. Another factor likely to drive prices up will be dwindling supply. Oil, is becoming harder to reach and refining it is becoming more complex and expensive. Natural gas prices are also rising and impact electricity prices in some markets.

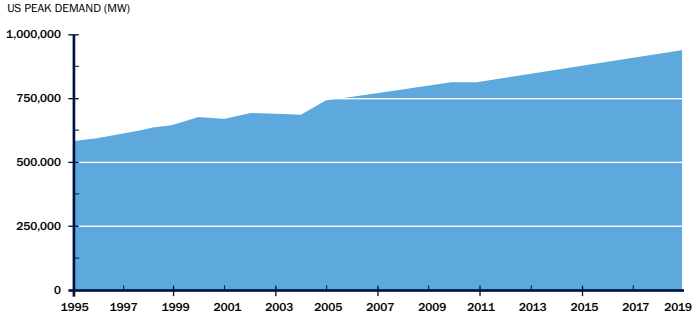
NATURAL GAS PRICES V ELECTRICITY PRICES (NEW ENGLAND DATA)



At EnerNOC, we estimate peak US demand for electricity could reach a Terawatt sometime in the 2020s, even as prices continue to rise.

US PEAK DEMAND GROWTH:

SOURCE: EIA / ENERNOC



While even the most powerful CEO cannot control or influence these vast global forces, there are strategic steps that can insulate a well managed corporation from their impacts.

A second reason is reliability. Energy, as it typically produced today, is generated mainly from finite, physical resources. There is only so much coal, oil and natural gas in the world. It has to be discovered, recovered, refined and transported, and then used to make energy, which then has to be transmitted to where it is needed. As energy demand increases, pressure on these resources and the energy supply chain increases too, leading to greater risks of temporary shortages and system failures. At the same time, the more dependent we are on, say, electricity, the greater the consequences of reliability issues such as black outs.

Energy reliability is essential for business continuity. There are solutions to these challenges. A thoughtful corporate energy strategy must include measures that account for the impact of system reliability on the business, and also the impact the business, as a major energy consumer, can have on system reliability.

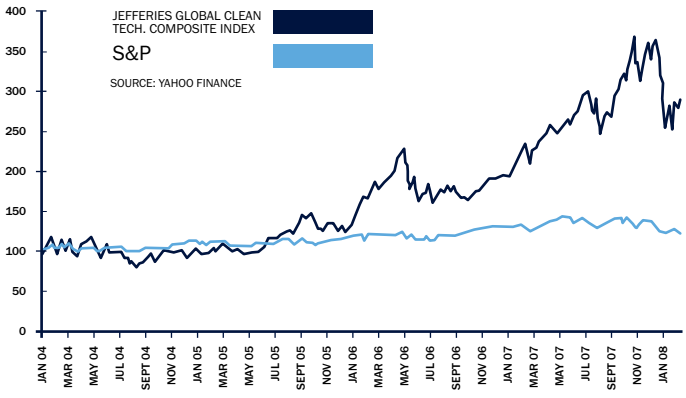
As the recent performance of clean technology companies shows, investment dollars are flowing into companies that are focused on finding ways to change the supply and consumption of energy.

2007 CLEANTECH INDEX PERFORMANCE:

SOURCE: CLIENT TECH INDEX

ANNUALIZED RETURNS (AS OF 12/31/07)	Q1-Q2 2007	Q3 2007	Q4 2007	2007 TOTAL
The Cleantech Index (CTIUS)	19.8%	5.5%	14.2%	42.9%
S&P 500 Index	7.5%	2.0%	7.7%	5.5%
Russell 3000 Index	8.7%	1.5%	8.8%	5.1%
Russell 2000 Index	7.5%	-3.4%	2.3%	-1.6%
NASDAQ Composite Index	7.1%	4.4%	11.8%	10.6%
Mean Diversified US Stock Mutual Funds	7.8%	1.0%	8.9%	N/A

CLEAN TECHNOLOGY COMPANIES OUTPERFORM THE S&P 500:



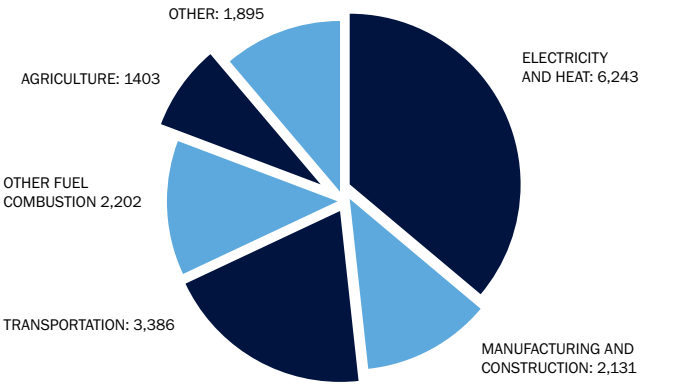
On the supply side this is bringing us new approaches to sourcing, creating and delivering fuel, and ever improving ways to generate power from renewable sources. On the demand side, we are seeing everything from improved hybrid and electric engines for private and commercial vehicles, to advanced metering, and network and sensor technologies for continuously controlling, monitoring and reducing energy consumption. Correct selection and deployment of these new energy technologies can give a corporation significant competitive advantage. Making the wrong choices, or making no choices at all, may lead to setbacks on price, growth and competitiveness.

The final reason is the most important, bringing us right back to sustainability. Our current approach to producing and consuming energy threatens the planet. Let there be no doubt about this. Climate change is

real and urgent. The biggest single contributor to climate change is from greenhouses gases caused by energy consumption.

GREENHOUSE GAS SOURCES
(MILLIONS OF METRIC TONS):

SOURCE: WORLD RESOURCES INSTITUTE



The CEO of a major corporation is in a rare position. Unlike most people, he or she can play a significant role in stopping climate change. A corporation can be more than a machine for making money. At some point, it must graduate to become a social and human entity with a responsibility that reaches beyond profit and loss to improving the well being of the community of which it is a part. In the age of globalization, that community is the world itself. In short, the true mission of any corporation, and therefore any CEO, is to make the world a better place. This is not to minimize the importance of revenue, profit or return on investment. Capitalism's role is the means to this end. Helping to stop climate change is not in conflict with the other responsibilities of the CEO – instead it is perfectly aligned with them. Corporations can help stop climate change by reducing waste, increasing efficiency and being a model corporate citizen. This will decrease costs, increase productivity, and makes the company more attractive to customers and employees. None of these things are bad, or contrary to financial objectives. Quite the opposite. Stopping climate change is good business.

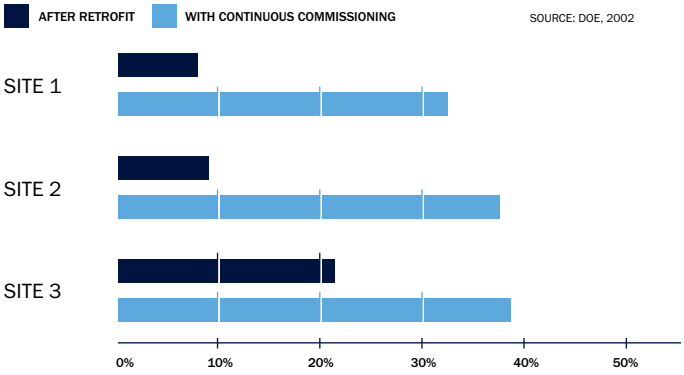
As more CEOs realize this urgent need for a high-level strategy to manage rising energy costs, protect business continuity and help stop climate change, there is a growing need for an expert partner that provides actionable solutions. Whether they appoint a CSO or not, major corporations need help navigating the subtleties and complexities of everything from energy efficiency to energy procurement to real-time peak energy usage to back-up generation to renewable energy credits and carbon neutrality. These are not independent, separate activities – they are interdependent, and should be treated as a strategic whole.

My vision is for EnerNOC to become this solutions provider – to be the trusted, expert leader and partner that the CEOs and CSOs of the world's great corporations and institutions turn to as they create the vitally important, sustainable energy strategies that will ensure their company's competitiveness and growth throughout the Twenty First Century and beyond.

As this, our first annual report shows, EnerNOC is already beginning to fulfill this role, but there is much more to do. Today, we provide 793 customers with an advanced, Internet-enabled demand response service that helps manage peak electricity demand and improve system reliability. We have 1,112 megawatts of commercial, industrial and institutional demand response resources under management, the equivalent of around eleven typical peaking power plants. This was our first business line, and it is still our largest. It enables us to build trusted relationships with energy suppliers and energy users alike, to make a significant contribution to increased reliability of the electricity system, and to alleviate some of the need for new peaking power plants. The early success of demand response means more utilities and grid operators are looking to add it to their energy demand management portfolio, increasing the addressable market The expanded use of demand response resources in more and varied components of the energy market means that demand response resources are increasing in value, even as competition increases and efficiencies emerge.

We are also building out our offering beyond demand response into other areas of energy strategy. Our energy procurement services offering helps business users in competitive electricity markets source energy cost-effectively and, depending on their needs, from the appropriate mix of renewable and non-renewable sources. Our energy efficiency business combines sophisticated software with expert consultants to provide continuous monitoring of a business's or institution's energy consumption and identifies ways that energy users can constantly reduce their energy consumption. This approach to energy management, often called 'monitoring based continuous commissioning,' has the potential to reduce a building's energy consumption by as much as 20 – 40%, even after an energy efficiency retrofit.

PERCENT ENERGY REDUCTION FROM CONTINUOUS COMMISSIONING:



Energy savings from continuous commissioning reduced electricity consumption by an additional 30 to 40 percent at three University of Texas sites.

Taken together, I believe that these business lines provide many of the services CEOs and CSOs will need – peak demand management, energy procurement and energy efficiency, and this is still only the beginning for EnerNOC. My aim is not simply to build the leading Demand Response provider in the US, or even the world. It is to become something even more important. As the Chief Executives of the world's businesses and institutions continue to realize that energy is a new and important strategic problem, EnerNOC will be working to ensure that we are ready to help them with important strategic solutions. Together, EnerNOC and the great corporations and institutions that are our customers can lead the world to a more efficient, less expensive and, above all, cleaner energy future.

Tim Healy
Chairman & CEO

ENERNOC