



The Regulatory Assistance Project

Memorandum to the MADRI Steering Committee from Richard Sedano, MADRI Facilitator

Subject: MADRI Policy Statement on Distributed Energy Resources

Date: May 30, 2006

The MADRI Business Models subgroup set out to distill a short policy statement on distributed energy resources which could be delivered to the Steering Committee for use by its members. While there was significant consensus, there were also some issues that prevented complete agreement. Among the several iterations of this document, there was not one that was embraced by all. After several attempts at consensus in April and May of 2006, the Business Models subgroup concluded that it had achieved as much agreement as it could and had extracted further interests and concerns from the participants that would be useful to the Steering Committee.

This memo covers a document, Steering Committee Draft, that I think is generally acceptable to participants in the discussion. The memo addresses substantive additions, disagreements, clarifications and comments suggested by one or several participants. The reference document is known as the April 25, 2006 draft. This draft attracted moderate support from everyone, though suggestions to improve it by some were resisted by others. Changes to the April 25, 2006 draft that I make here are ones which I view as acceptable to all based on the subsequent dialogue. Changes that I made that I view as stylistic are not addressed in this discussion.

Discussion of suggestions and changes to the April 25, 2006 draft

Paragraph 1

- In the third sentence, the idea of “long-term” benefits was added. This was not controversial. Disposition: Suggestion kept.
- There was an aside late in the discussion of these changes that DER also includes distribution system investments on the utility side of the meter. This may not be controversial, but it did not get much attention. Disposition: Not included.
- In the third sentence, the list of benefits was expanded to include deferral of distribution and transmission upgrades. This was controversial. Some felt that this benefit is too speculative to be included in this level of a policy statement. Other felt that this benefit will turn out to be important, and has been undervalued in the past. Disposition: Included “avoided wires investments” in list of benefits.
- New fourth and fifth sentences were suggested: “DER options also could benefit customers by providing new tools to better manage electricity usage and costs.” And, “DER projects may also stimulate local economic development.” These sentences did not appear controversial. Disposition: Suggestion kept (slightly modified).

Paragraph 2

- There was some discussion about whether this policy should be directed at utility policymakers and regulators, or whether the target audience should be a broader government audience, such as environmental regulators, economic development officials, local and federal officials. Disposition: No change. The document is for the steering committee. The steering committee may wish to redirect it later.

Paragraph 3

- The first sentence is passive. A suggestion assigns utility policymakers and regulators to be actors. Disposition: Suggestion kept.
- The first sentence was also rewritten a bit, including breaking it into two, and also removing a “should.” Disposition: Suggestion kept.
- The (new) third and fourth sentence were controversial. One issue is how to decide which investments “will provide net long term benefits to distribution system ratepayers.” Disposition: Not included. N.B. this issue of “benefit-cost” is in the workshop.
- The fourth sentence sounded to some like allocating value to DER participants, while to others, it had the whiff of a subsidy. For holders of the first view, the end of the sentence could be said more simply, “...could be used to encourage the installation of cost-effective DER.” Disposition: No change.
- There was a suggestion that an energy efficiency portfolio standard to stimulate a market response be included in paragraph 3. Disposition: Not included, though readers should consider the bullet in paragraph 2, “establish DER program goals.”
- There was an observation that the statement may not reflect the time it may take for DER benefits to develop and is too optimistic about the pace of change. A cautionary statement could be added in paragraph 3, or in paragraph 1. Disposition: No change.

For the purpose of this memo and clarity, I am separating the portion of paragraph 3 pertaining to cost recovery and creating a new paragraph. There were several distinct suggestions for this passage. **(New) paragraph 4**

- There was a suggestion to soften the prescriptive nature of the original language. Disposition: A replacement sentence is offered. The process of “authorizing” which costs will receive cost recovery would be resolved in each state.
- There was a suggestion to add the following sentence to specify a particular type of cost that would be allowed, “These investments may include long-term contracts on the order of ten years with fixed capacity charges.” Others felt this was too specific and suggested a mandatory purchase, which, they felt, would be ill-advised. Disposition: Not included.
- There was a suggestion to include the idea that DER benefits apply to local, utility, or regional systems, and that costs and benefits should reflect some allocation of these. This implies that some costs and benefits may be assigned system-wide, while others could be assigned locally. This was not fully discussed in subgroup. Disposition: Not included.
- There was a suggestion to specify that if all the benefits of a DER project accrue to the direct sponsors of the project, that all costs can be assigned to the project, but recovered over the life of the project (presumably, this would include carrying costs). This was not fully discussed in subgroup. Disposition: Not included.