

DRAFT

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Enhancing the DR Business Case in the Mid- Atlantic Region

Straw Man Recommendations of
the MADRI Business Case

Sub-Group

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“Actionable Options” for PUC Consideration

- A New DR Policy Statement That Reflects Recent Changes in Today’s Market Environment
- Five Specific Initiatives For Increasing DR in The Mid-Atlantic Region

New DR Policy Statement

Restructured electric distribution companies need to play an active role in helping to mitigate wholesale market prices for at least their small commercial and residential distribution customers. Appropriate actions for distribution companies include sponsoring DR programs (targeted energy efficiency, demand response and distributed generation) as well as investing in metering and communications infrastructure that will allow dynamic retail pricing structures to be implemented to allow customers to see and respond to market prices. In addition, electric distribution companies should implement policies to facilitate DR offerings by non-utility providers. Appropriate DR incentives need to be developed for both utility and non-utility participants to ensure that both utility and non-utility providers are provided an opportunity to recover their costs and earn a reasonable return. Only DR that provides a net long-term benefit to all distribution system ratepayers should be considered.

Initiative #1 – 3% DR Goal

Require Distribution Companies Located in Transmission Constrained Areas to Develop a DR Capability Equal to 3% of 2005 Peak Demand by 2010 – reevaluate after 2 years.

MW To Meet 3% Goal

PJM Control Zone	2005 Peak (MW)	3% Of 2005 Peak (MW)
PSE&G	10,977	329
PECO	8,771	263
Delmarva	4,174	125
BG&E	7,157	215
Pepco	6,766	203

Initiative #2 – New DR Programs

Open a proceeding, possibly as part of an EPACT investigation, to identify at least one DR pilot program or DR initiative to be undertaken by a distribution company in 2006 and to review an overall plan for achieving the 3% DR objective

Potential DR Initiatives
Smart Thermostat Program
<i>Targeted CHP Initiative??</i>
CPP Pricing Pilots
Aggregation Program to Facilitate Participation in PJM DR Programs
<i>Small Commercial DR Initiative -??</i>

Initiative #3 – New Business Case Models

Develop new regulatory models/practices to provide reasonable business case opportunities for distribution companies and third parties to undertake DR activities.

Key Activities:

- **Remove disincentives – e.g. throughput problem**
- **Develop appropriate mechanisms for cost recovery**
- **Move to dynamic pricing**
- **Evaluate need for special incentives**
- **Ensure opportunities for 3rd parties to participate**

Initiative #4 – Establish Cost Effectiveness Criteria

Criteria need to be quantifiable and transparent and ensure that DR investments will provide a net long-term benefit to all distribution system ratepayers

- **Pilots exempted from cost effectiveness test**
- **Need to Establish:**
 - **Generation Value**
 - **T&D Value**
 - **Energy Value**
 - **LMP Benefit**
 - **Externality Value**
- **Need to consider net benefits to participants vs. non-participants** ⁷

Initiative #5 –Advanced Metering

Open an advanced metering proceeding, possibly as part of an EPACT investigation, to evaluate advanced metering options

Near-term AMI Initiatives:

- **Policies to ensure more timely access to meter data**
- **Policies to establish customer rights to meter data**
- **Pricing pilots**

Long-term AMI Initiatives:

- **AMI business cases**

Summary - MADRI Support for Proposed DR Initiatives

Proposed Initiative	Related MADRI Activity
3% DR Goal	LMP Benefits Study
New DR Programs	Total Resource Cost Model
Business Case Models	EEI/NERA Models; Madison Energy Analysis; Sub-Group Issue Abstracts; Model Decoupling Rule
Cost/Effectiveness Criteria	Review of New York, DTE and Massachusetts DR Activities
Advanced Metering	Advanced Meter Survey, AMI Workshop, AMI Toolbox; AMI Roadshows; Dynamic Pricing Action Plan

Policy Statement Discussion

- Distributed resources have the potential to mitigate some of the large increases in wholesale prices retail customers are seeing
- Under current “rules” Mid-Atlantic distribution companies do not have an obligation or business incentives to offer DR – indeed there are disincentives
- Distribution companies are in a unique position to facilitate the business case for DR

Policy Statement - Continued

- **Distribution companies can also help facilitate DR business cases for 3rd parties – e.g. by providing better insight into where DR can provide value to the distribution system**
- **New policies need to be developed to ensure that distribution companies and 3rd parties are provided an opportunity to recover costs and earn a reasonable return on DR investments**
- **Policies also need to be established to ensure that DR provides a net long-term benefit to distribution system ratepayers – pilot programs should not necessarily have to be cost effective**

Discussion – 3% DR Goal

- Provides “Scope” for contemplated DR activities
- Puts “stake-in-the ground”
- Provides focus for PUC activities
- Sends appropriate signals
 - Investment/development community
 - Consumers

3% DR Goal - Continued

- Initiatives to achieve goal should be phased and “incremental” in nature
- “Off-ramps” should be part of process
- PJM LMP benefits study will help quantify magnitude of benefits consumers might realize if goal is achieved

Discussion – New DR Programs

- Programs targeted at providing savings for residential customers
- Programs for large commercial industrial customers appropriate to the extent that they provide net benefits to other ratepayer classes, i.e. LMP benefits

Discussion – Business Case Models

- **Providing incentives (or removing disincentives) for the distribution company is key to getting DR market traction**
- **Care must be taken to not exclude 3rd party participation**
- **Work needs to be done on default service pricing to provide prices that will support DR investment**
- **“Financing considerations” are important, particularly for 3rd parties, and may require special considerations – DR investment should be on parity with rate based T&D investments**

Discussion – Evaluation Criteria

- Criteria need to ensure that DR investments provide net long-term benefits to ratepayers
- Early year DR investments, however, may not be cost effective
- Pilot programs, with a finite life, are a way of ensuring that exposure to non-economic DR is limited

Evaluation Criteria - Challenges

- Realizing locational capacity value
- Monetizing distribution system values
- Monetizing LMP benefits
- Reconciling economic feasibility with “financeability”

Discussion – Advanced Metering

- There are near-term actions that commissions can take with respect to advanced metering that will provide significant support to DR
- Pilot pricing programs are critical to understanding how residential and small commercial customers will respond to the types of dynamic pricing contemplated by AMI
- PUCs should begin planning today for the development of AMI business cases