

Strawman Concept
Potential Model for Monetizing DR Distribution System Value
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Premise

- The value that DR provides to the distribution system is site specific, time specific and project specific.
- No market structure exists to monetize the distribution system value of DR, hence it currently has no market value in the MADRI region.
- DR investment is suffering as a consequence.
- Utility distribution companies hold the key to monetizing the distribution system value of DR.
- A lack of appropriate incentives and “cultural inertia” prevents most electric distribution companies from considering DR as a potential distribution system resource.

Goal

- Develop a new model for monetizing DR distribution system values.
- Provide the appropriate incentive structure for distribution company operators and third parties to invest in DR for distribution system benefits.

Key Principles

- At a minimum, DR distribution system operators need to be “made whole” for any DR development that occurs, i.e. lost throughput, recovery of any avoided cost payments to third parties.
- Calculated DR values need to reflect the fact that, in most instances, DR will defer distribution investment, not replace it.
- There must be transparency with regard to potential DR project opportunities and 3rd parties and distribution companies should be afforded the same opportunity to compete for projects.

Model Concept

- Distribution company operators would be required to develop, on an annual basis, an average avoided cost for distribution system investments based on specific projects they believe would lend themselves to DR
 - Since this is an average, some projects might provide more benefit than the calculated avoided cost and some less
 - Load profile analogy, some customers use more some use less than the profile would predict
- This avoided cost would be paid for either utility or 3rd party developed DR projects for a specified term as long as certain performance requirements were satisfied.

- The avoided cost calculation would be updated annually along with a list of potential distribution projects that could be satisfied with DR.
- At the end of the year, the distribution company operator would calculate the actual benefits realized vs the avoided cost payment for both utility and non-utility projects.
- If benefits exceed avoided costs, 50% of the difference between the calculated benefit and the avoided costs would be paid as a bonus to the 3rd party or retained by the distribution company shareholders
 - Note: The fact that 3rd parties would be eligible for this bonus would provide an incentive for the utility to not develop a “low ball” avoided cost calculation.
 - Also, the commission would be expected to review and approve the avoided cost calculation
- If the benefits were less, recovery of the avoided cost payment would still be allowed, however, the distribution company would be expected to reflect this fact in subsequent year avoided cost calculations if a large number of projects were found to provide less benefit than the calculated avoided cost.
- If more than one 3rd party seeks to develop a DR project at the same site, or the distribution company also wants to develop the site with a DR project, the project will be awarded to the entity that bids the largest discount to the avoided cost. For “competitive” projects, any bonus calculation will be determined based on the calculated avoided cost, not the discounted avoided cost.