

**DRAFT
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A WORK PLAN FOR DEVELOPING A “DER CAPACITY OPTION”

**FOR CONSIDERATION BY MADRI
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INTRODUCTION

MADRI stakeholders have indicated a desire to increase the amount of distributed energy resources (DER) available within the PJM market in the states of New Jersey, Pennsylvania, Maryland, Delaware and Washington D.C. The benefits of increasing the amount of available DER include improving the operations of electricity markets in the region. Initial business case modeling has indicated that the values that can be monetized today are inadequate to sustain a viable distributed resource business. Approaches to monetize additional values led to a presentation at the MADRI Business Case Group on October 20, 2005 of two alternatives. The following approach was chosen at that meeting as the initial model to pursue. Included also is a work plan for developing a model rule to implement the approach within the MADRI states.

ADDING A “DER CAPACITY OPTION” REQUIREMENT AT THE STATE LEVEL WITHIN THE MADRI REGION

ESTABLISHING THE REQUIREMENT

- Each individual state within MADRI will choose whether to adopt a DER capacity option requirement for utilities in their state. State A represents one state that chooses to do so.
- State A requires that .25% of its peak electrical demand for electricity in 2007 come from demand response or other distributed energy resources (DER) that reduce demand on the distribution grid within targeted areas. The percentage requirement is then translated into a state wide annual requirement for Year One (2007).
- State A also establishes an increasing requirement for Years 2008-2013, (e.g. .5%/.75%/1%/1.5%/2%/2.5%). Off ramps would be established where the PUC could reduce requirements for 2008-2013 if necessary.

- The annual “capacity option” requirement is divided among all the state’s local distribution companies (LDC) in proportion to their share of overall system peak load.
- Each local distribution company (LDC) is responsible for procuring or supplying their required megawatts of DER via seven year contracts. Each LDC will issue an RFP that offers a seven (7) year contract for an entity that can provide DER within the target area. The bidders respond with a \$/kw/yr. price for the DER. Utilities will choose the lowest bids that meet program specifications.
- Contracts would be valid for their term even if future “capacity option” requirements were scaled back.

DEFINING THE RESOURCE

- Each LDC would file an annual report with the PUC that identifies the “capacity option target areas” within their distribution system. The target areas would be identified by substation, county or other appropriate geographic delineation. It is anticipated that the target areas would cover between 10-50% of the utility’s service territory.
- Eligible DER would include customer or utility owned equipment that can be operated within local permitting rules.
- DER would be eligible if it leads to measurable, verifiable load reductions during “Capacity Option” events (resulting in changes to a customer’s usage from pre to post event) The DER must be capable of being remotely dispatched from a central location (e.g. the distribution dispatch center, PJM, etc.). Rules for calculating the end-use customer's baseline usage and the Weather Sensitive Adjustment Factor would be congruent with those of PJM.
- The DER must be metered or be a resource participating in PJM’s Unmetered Demand Response Pilot Program.
- State A (in consultation with PJM and the distribution utilities) would identify the seasonal requirements of the dispatchable DER. Within the MADRI area, presumably this would result in an identification of the summer months as a target season. Only resources that could be used and useful within this identified season would be eligible to meet the DER requirement.
- The LDC’s and the State PUC will establish a working group to design standard terms and conditions for the ‘DER Capacity Option” RFP and the contract (e.g. required hours of availability, types of eligible resources, acceptable metering etc.).

PROGRAM OPERATIONS

- Each LDC selects one or more of the bidders to help meet their required MW total, signs a capacity option contract and monitors the deployment activity.
- In order to qualify to receive a capacity option payment, DER providers must respond to all PJM emergency load response program calls. In addition, each utility will be responsible for dispatching the participating DER on at least one peak load day during each summer. Each utility shall also have the right, but not

- the obligation, to dispatch the system up to five times during the summer peak period. Utilities will make annual payments per the capacity option contract, at the end of the summer performance period.
- DER owners shall have the right to dispatch their DER over and above the five times reserved for the local utility.

REGULATORY MECHANISM

- State A would establish a kilowatt hour surcharge that all customers would pay. All reasonable costs incurred by utilities that are associated with procuring and operating the “capacity option” resources would be recovered through this surcharge, thereby allowing timely recovery of expenses.
- Utilities choosing to meet all or part of their “capacity option” requirement by directly installing utility owned equipment will add this equipment to their rate based investments subject to PUC oversight and approval.
- On an annual basis, each distribution utility in the State reports to the PUC on the target areas within their distribution system where DER may have distribution value for increasing reliability or avoiding utility construction. The report would also include an analysis of the value (if any) that the DER installed to date has added to utility operations.
- As an incentive, the LDCs could receive a performance award of \$___/kw for all DER actually deployed in target areas as a result of the “capacity option” program.
- As a penalty, the LDCs would pay \$___/kw for any shortfall in meeting their requirement.

WORK PLAN

- 1. November 2005- January 2006. Develop details of the Capacity Option approach.**
- 2. February 2006- Present detailed proposal to MADRI. Revise proposal as necessary.**
- 3. March 2006- Develop model rule for consideration by MADRI. Present rule at workshop for regional Commissioners and Staff.**
- 4. April 2006- Meet with individual State Commissions and Staffs to discuss how to customize the model rule for each State within MADRI.**