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Draft Informal Comments on Proof of Regulatory Concept Program Proposal
Maryland Public Service Commission PC 44 Storage Working Group
January 4, 2018

Overview:

As the Commission considers various regulatory constructs that could facilitate greater competition for storage procurement, a Proof of Regulatory Concept program would be an appropriate interim program to test innovative regulatory concepts that can ultimately be the building blocks of a competitive framework for energy storage. In addition to a "no-regrets" test of the type of regulatory concepts described below that would aid the Commission in its development of a competitive framework for energy storage procurement, such a program also creates a "learning-by-doing" process that allows all stakeholders to identify and adjust any regulations and permitting obstacles in order to facilitate the smooth deployment of energy storage in the future.

Program Design:

Under a Proof of Regulatory Concept Program, the Commission could provide a list of regulatory mechanisms and commercial structures for the utilities to select over a period of 2-3 years, with a program size of 5-10 MW (with a minimum of 15 megawatt hours). The utilities could select a minimum of ***two projects*** from the following regulatory applications:

- *Multiple Use Project:* The purpose here is to test multiple applications of energy storage. For this project, the utilities would be able to lease a distribution grid asset to a third-party developer when it is not being used for grid support in order to participate in the wholesale market. Under this scenario, the Commission would direct the utilities as to how the additional revenues should be used to drive down costs for ratepayers.

- *Ownership Model Project:* For this project, the Commission would test out an alternative compensation mechanism that allows utilities to earn a similar return for contracting services from a third-party owned energy storage resource as if they rate-based the asset directly. One proposal discussed in the working group provides for a rate of return on the contract value, but there are alternative mechanisms that can be considered.

Different arrangements regarding operational controls can also be tested for this project.

- *Virtual Power Plant Project:* This program allows utilities to contract with third-party developers who own and operate a portfolio of behind-the-meter resources and synchronize them as a larger, unified, and flexible resource to meet the utility's needs. Different arrangements regarding operational controls can also be tested for this project.

For this Proof of Regulatory Concept Program to be effective in driving a competitive landscape for energy storage in the state, timelines and next steps should be clearly identified for implementation. Since the program is intended to test regulatory and commercial models, if they are proven to be beneficial and cost effective under the program, they should be adopted more broadly through a stakeholder process that identifies where in the existing procurement process these mechanisms would be appropriate.

Proposed Timeline:

The timeline for identifying projects, soliciting offers, and building projects will differ for each of the three regulatory concepts proposed under this program. As such, it will be appropriate to consider modifications to the timeline proposed below for some of the regulatory applications identified for the Proof of Regulatory Concept program. Below is one proposed timeline for the Commission's consideration:

1. Within 60 days of the launch of the program, the compliant entities should institutionalize a working group of key stakeholders who will review project proposals, standard contracts and solicitation materials.
    a. The working group should begin developing a standard contract as well as review request for offers (RFO) materials so that utilities are able to secure resources in a timely manner once Commission has approved proposed projects.
2. Within 180 days of program launch, the utilities must propose projects to the Commission. Project proposals should be filed within the designated docket.
    a. Projects should be presented to the stakeholder group before being submitted to the Commission.

3. The Commission should approve, reject, or request modification of the proposed projects within 90 days of submission.
4. Within 30 days of Commission approval of projects, the utilities must release a RFO or other mechanism deemed appropriate by the Commission for the projects described in the application.
5. Utilities should finalize contracts for the projects within 120 days of launch of RFO or other solicitation mechanism deemed appropriate by the Commission.
6. Pilot program data collection will run twelve months from the date that projects are operational.
    a. Data collection requirements should be identified in the working group.
7. At the end of the twelve month period, the Commission will evaluate the efficacy and appropriateness of the regulatory and commercial structures tested in this program and – if deemed effective – consider broader adoption of these mechanisms.
8. At the end of the twelve month period, cost recovery method should be evaluated for the Commission to determine if the mechanism is appropriate for the duration of the contract life or if another cost recovery option is preferred.

Additional Outstanding Items:

1. Identify which entities are required to comply with the program.
2. Finalize what regulatory applications / mechanisms the program aims to test.
    a. This includes what type of cost recovery mechanisms will be offered in this program and any related steps needed to implement those cost recovery mechanisms.
3. Identify what data will be collected as part of the pilot program and how will it be made public.
4. Determine metrics to evaluate efficacy and appropriateness of these regulatory concepts at the end of the program period.