



State of New Jersey
BOARD OF PUBLIC UTILITIES
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June 26, 2007

TO: PARTIES ON THE BGS ELECTRIC LIST SERVER

Re: I/M/O the Provision of Basic Generation Service –
Implementation of a Demand Response Program
Docket No. EO07050351

At its public Agenda meeting held on June 14, 2007, the Board of Public Utilities directed the Electric Distribution Companies (EDCs), Demand Response Providers, and any other interested parties to form a Demand Response working group to be convened immediately, and to be overseen by Board Staff with the goal of designing a Pilot Demand Response procurement program as soon as possible for review by the Board no later than Oct. 1, 2007.

The Board also authorized Staff to use the Demand Response Program Proposed Guidelines (see attached) to provide guidance to the Demand Response Providers and the working group, while at the same time allowing for a great deal of flexibility in the design of a proposed demand response procurement program.

To initiate this process, Staff is requesting that the EDCs and all interested parties attend a working group meeting. This initial meeting will be held on July 12, 2007 at 1:00 p.m. at the Board's Newark Office, in its 8th Floor Hearing Room.

Parties may submit proposed programs in advance of the meeting, if they deem that appropriate. All proposed programs should be listed on the BGS electric list server.

Sincerely,

A handwritten signature in black ink that reads "Kristi Izzo".

Kristi Izzo
Secretary of the Board

KI/ac
attachment

C Service List

Demand Response Pilot Procurement Process & Program Guidelines

Key dates:

- The DRWG should present a Demand Response procurement process & program to the Board no later than October 1, 2007 for the Board's consideration;
- Any Demand Response procurement process should be completed in December 2007, specifically, before the implementation of the BGS auction or any other BGS procurement process that is approved by the Board.
- Any Demand Response as a result of this solicitation should commence June 1, 2008.

Program Design Characteristics:

- **Procurement Format:** the procurement format shall be of a **competitive nature** designed to ensure that the maximum number of Demand Response providers are able to participate (i.e. through an RFP or descending clock auction as proposed by some of the Demand Response providers who submitted comments);
- **EDC Format:** Demand Response shall be procured by EDC service territory. All four EDCs must use the same procurement process, and the procurement process shall be conducted at the same time for all four EDCs.
- **Size of Procurement Process:** the size in MWs of demand response to be procured for each EDC shall be 5% of that EDCs total load to be bid in the next BGS Auction for the period starting June 1, 2008. Should for any reason the Demand Response Working Group ("DRWG") consider that 5% is too small or too large, or that the 5% for an individual EDC is not appropriate, it will provide clear and compelling reasons why a different size should be chosen.
- For each EDC, the total MWs of demand response procured shall be divided into 25 MW tranches. Demand Response providers shall bid for the right to provide demand response in 25 MW tranches. A Demand Response Provider shall have the ability to bid on more than one tranche. The DRWG shall determine if there should be a limit on the number of tranches a Demand Response Provider can win, and provide justification for setting any limit. Should the DRWG propose that a smaller tranche size be chosen for all or a specific EDC it must provide the appropriate justification.
- **Measurement & Verification:** Any demand response procurement program should have a Measurement & Verification protocol that requires all Demand Response Providers selected via the competitive procurement process to adhere to the protocol. The DRWG should examine already established Demand Response Measurement & Verification protocols such as those currently implemented by the PJM RTO, New England ISO or other nationally accepted protocols. Demand Response program providers must provide compliance with the Measurement & Verification protocol prior to acceptance as a winning bidder.

- **Term:** Demand Response program providers should be for a term of 3 years, consistent with the procurement process used for BGS.
- **Time-frame:** Demand response procured through this procurement process may be year-round resources or peak.
- **Penalties:** the DRWG shall develop penalties should a Demand Response Provider who has won the right to provide demand response when called upon fail to deliver. These penalties should be designed to ensure ratepayers are not burdened with unnecessary costs, and that winning bidders from the BGS procurement process are not burdened with the costs of non-delivery by the Demand Response Provider.
- **Contracts:** The DRWG shall develop the appropriate contract to be used between the EDCs and Demand Response Providers who have won the right to provide demand response through the competitive solicitation process..
- **Renewable Energy** projects are not eligible to bid into this Pilot Demand Response procurement process.