##### February 15, 2024

**TO:** All Interested Parties

**FROM:** Caroline Trum, Director, Wholesale Electric Quadrant

**RE: NAESB Standardized Distribution Services Contract for DER Aggregations**

On February 7, 2024, NAESB held a kick-off meeting to begin addressing a request for standards development, [R24001](https://naesb.org/pdf4/r24001.docx), jointly submitted by the U.S. Department of Energy (DoE). The request proposes NAESB develop a standardized contract for acquiring distribution services from distributed energy resource (DER) aggregations and is supportive of the U.S. DoE’s effort to work with the electric industry to proactively address grid transformation issues as part of the Distribution Grid Transformation Program. As noted in the request, the U.S. DoE has recognized the wide variations in contracting practices between states and utilities as well as by DER type as a market barrier for DER aggregators. The [U.S. DoE Standard Distribution Services Contract White Paper](https://naesb.org/pdf4/R24001_attachment.docx) (U.S. DoE White Paper), which accompanied the request, identified a standard distribution services contract for DER aggregations as the “logical next step” and noted NAESB’s past success in developing model contracts that improved transactional efficiencies for the wholesale markets and competitive retail energy services. A NAESB standard contract will support consistency in contracting terms and definitions, minimize uncertainties in the contracting process, reduce costs associated with counterparty negotiations, and, as envisioned by the request, encourage market and operational coordination across distribution and wholesale interactions.

The request is jointly assigned to the WEQ and RMQ Business Practices Subcommittees (BPS), and during the kick-off meeting, the requesters provided background on the U.S. DoE Distribution Grid Transformation Program activities that led to the request and described how a model contract can provide clarity to the contracting process and enhance the scalability of DER projects. Specifically, it was noted that the U.S. DoE identified three objectives that can be met through the development effort. First, a standard contract can create greater consistency and more transparency in the contracting process. Next, a standard contract can help provide clarity as to the roles and responsibilities involved in the contracting process. Finally, a standard contract may help to facilitate operational coordination, enhancing the ability of DER aggregations to more seamlessly participate in both distribution markets and FERC Order No. 2222 participation models in the wholesale electric market.

As explained during the meeting, the U.S. DoE White Paper was developed by leveraging existing interconnection processes and FERC Order No. 2222 implementation plans as well as feedback from industry participants, including DER aggregators, distribution utilities, and regulators. The white paper contains contracting framework principles, such as include data and visibility requirements, compensation and performance evaluation, aggregation plans, and operational coordination, and can serve as an initial guide for the WEQ and RMQ BPS in the development of a standard contract. Participants in the kick-off meeting also noted the need to consider the inclusion of cybersecurity requirements and evaluate if the standard contract can serve as a mechanism for data collection to increase distribution system visibility for wholesale electric operators responsible for maintaining grid reliability. The next meeting is scheduled for March 12, 2024. For the meeting, the WEQ and RMQ BPS co-chairs have asked participants to provide contract examples so participants can evaluate terms and conditions being used by the industry and discuss how these may fit into a standardized contract, information on DER aggregations currently participating at both the wholesale and retail level, and the categories of data that could improve distribution system visibility.

Standards Request R24001 notes that a standard distribution services contract for DER aggregations aligns with goals outlined by the U.S. DoE in the [report](https://liftoff.energy.gov/wp-content/uploads/2023/10/LIFTOFF_DOE_VVP_10062023_v4.pdf) Pathways to Commercial Liftoff: Virtual Power Plants (VPPs). In the report, the U.S. DoE emphasized the growing importance of VPPs, comprised of DER aggregations, and their crucial role in the future energy landscape. A key imperative identified in the report is the need for improved standardization in VPP operations within distribution systems. As part of the report, the U.S. DoE issued an urgent call to action to accelerate commercial viability, noting that the expansion of VPPs is reliant on increased penetration of DER aggregations.