EPRI | ELECTRIC POWER RESEARCH INSTITUTE

THE INTEGRATED GRID

REALIZING THE FULL VALUE OF CENTRAL AND DISTRIBUTED ENERGY RESOURCES

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Executive Summary

The electric power system has evolved through large, central power plants interconnected via grids of transmission lines and distribution networks that feed power to customers. The system is beginning to change—rapidly in some areas—with the rise of distributed energy resources (DER) such as small natural gas–fueled generators, combined heat and power plants, electricity storage, and solar photovoltaics (PV) on rooftops and in larger arrays connected to the distribution system. In many settings DER already have an impact on the operation of the electric power grid. Through a combination of technological improvements, policy incentives, and consumer choices in technology and service, the role of DER is likely to become more important in the future.

The successful integration of DER depends on the existing electric power grid. That grid, especially its distribution systems, was not designed to accommodate a high penetration of DER while sustaining high levels of electric quality and reliability. The technical characteristics of certain types of DER, such as variability and intermittency, are quite different from central power stations. To realize fully the value of distributed resources and to serve all consumers at established standards of quality and reliability, the need has arisen to integrate DER in the planning and operation of the electricity grid and to expand its scope to include DER operation—what EPRI is calling *the Integrated Grid*.

The grid is expected to change in different, perhaps fundamental ways, requiring careful assessment of the costs and opportunities of different technological and policy pathways. It also requires attention to the reality that the value of the grid may accrue to new stakeholders, including DER suppliers and customers.

This paper is the first phase in a larger Electric Power Research Institute (EPRI) project aimed at charting the transformation to the Integrated Grid. Also under consideration will be new business practices based on technologies, systems, and the potential for customers to become more active participants in the power system. Such information can support prudent, cost-effective investment in grid modernization and the integration of DER to enable energy efficiency, more responsive demand, and the management of variable generation such as wind and solar.[1]

Along with reinforcing and modernizing the grid, it will be essential to update interconnection rules and wholesale market and retail rate structures so that they adequately value both capacity and energy. Secure communications systems will be needed to connect DER and system operators. As distributed resources penetrate the power system more fully, a failure to plan for these needs could lead to higher costs and lower reliability.

Analysis of the Integrated Grid, as outlined here, should not favor any particular energy technology, power system configuration, or power market structure. Instead, it should make it possible for stakeholders to identify optimal architectures and the most promising configurations —recognizing that the best solutions vary with local circumstances, goals, and interconnections.

Because local circumstances differ, this paper illustrates how the issues that are central to the Integrated Grid are playing out in different power systems. For example, Germany's experience illustrates consequences for price, power quality, and reliability when the drive to achieve a high penetration of distributed wind and PV results in outcomes that were not fully anticipated. As a result, German policymakers and utilities now are changing interconnection rules, grid expansion plans, DER connectivity requirements, wind and PV incentives, and operations to integrate distributed resources.

In the United States, Hawaii has experienced a rapid deployment of distributed PV technology that is challenging the power system's reliability. In these and other jurisdictions, policymakers are considering how best to recover the costs of an integrated grid from all consumers that benefit from its value.

[1] *This paper is about DER, but the analysis is mindful of the ways that DER and grid integration could affect energy efficiency and demand response as those could have large effects as well on the affordability, reliability, and environmental cleanliness of the grid.*

Action Plan

The current and projected expansion of DER may significantly change the technical, operational, environmental, and financial character of the electricity sector. An integrated grid that optimizes the power system while providing safe, reliable, affordable, and environmentally responsible electricity will require global collaboration in the following four key areas:

1. Interconnection Rules and Communications Technologies and Standards
    - ***Interconnection rules*** that preserve voltage support and grid management
    - ***Situational awareness*** in operations and long-term planning, including rules of the road for installing and operating distributed generation and storage devices
    - Robust ***information and communication technologies***, including high-speed data processing, to allow for seamless interconnection while assuring high levels of cyber security
    - A ***standard language and a common information model*** to enable interoperability among DER of different types, from different manufacturers, and with different energy management systems

2. Assessment and Deployment of Advanced Distribution and Reliability Technologies
    - ***Smart inverters*** that enable DER to provide voltage and frequency support and to communicate with energy management systems [1]
    - ***Distribution management systems and ubiquitous sensors*** through which operators can reliably integrate distributed generation, storage, and end-use devices while also interconnecting those systems with transmission resources in real time [2]
    - ***Distributed energy storage and demand response***, integrated with the energy management system [3]

3. Strategies for Integrating DER with Grid Planning and Operation
    - ***Distribution planning and operational processes*** that incorporate DER
    - ***Frameworks for data exchange and coordination*** among DER owners, distribution system operators (DSOs), and organizations responsible for transmission planning and operations
    - Flexibility to ***redefine roles and responsibilities*** of DSOs and independent system operators (ISOs)

4. Enabling Policy and Regulation
    - ***Capacity-related costs*** must become a distinct element of the cost of grid-supplied electricity to ensure long-term system reliability
    - ***Power market rules*** that ensure long-term adequacy of both energy and capacity
    - ***Policy and regulatory framework*** to ensure that costs incurred to transform to an integrated grid are allocated and recovered responsibly, efficiently, and equitably
    - ***New market frameworks*** using economics and engineering to equip investors and other stakeholders in assessing potential contributions of distributed resources to system capacity and energy costs

Next Steps for EPRI and Industry

EPRI has begun work on a three-phase initiative to provide stakeholders with information and tools that will be integral to the four areas of collaboration outlined above:

- **Phase I** – A concept paper (this document) to align stakeholders on the main issues while outlining real examples to support open fact-based discussion. Input and review were provided by various stakeholders from the energy sector including utilities, regulatory agencies, equipment suppliers, non-governmental organizations (NGOs), and other interested parties.
- **Phase II** – This six-month project will develop a framework for assessing the costs and benefits of the combinations of technology that lead to a more integrated grid. This includes recommended guidelines, analytical tools, and procedures for demonstrating technologies and assessing their unique costs and benefits. Such a framework is required to ensure consistency in the comparison of options and to build a comprehensive set of data and information that will inform the Phase III demonstration program. Phase II output will also support policy and regulatory discussions that may enable integrated grid solutions.
- **Phase III** – Conduct global demonstrations and modeling using the analytics and procedures developed in Phase II to provide comprehensive data and information that stakeholders will need for the system-wide implementation of integrated grid technologies in the most cost-effective manner.

Taken together, Phases II and III will help identify the technology combinations that will lead to cost-effective and prudent investment to modernize the grid while supporting the technical basis for DER interconnection requirements. Additionally, interface requirements that help define the technical basis for the relationship between DER owners, DSOs, and transmission system operators (TSOs) or ISOs will be developed. Finally, the information developed, aggregated, and analyzed in Phases II and III will help identify planning and operational requirements for DER in the power system while supporting the robust evaluation of the capacity and energy contribution from both central and distributed resources.

The development of a consistent framework supported by data from a global technology demonstration and modeling program will support cost-effective, prudent investments to modernize the grid and the effective, large-scale integration of DER into the power system. The development of a large collaborative of stakeholders will help the industry move in a consistent direction to achieve an integrated grid.

Key Points – The Integrated Grid

Several requirements are recognized when defining an integrated grid. It must enhance electrical infrastructure, must be universally applicable, and should remain robust under a range of foreseeable conditions:

- Consumers and investors of all sizes are installing DER with technical and economic attributes that differ radically from the central energy resources that have traditionally dominated the power system.
- So far, rapidly expanding deployments of DER are *connected* to the grid but not *integrated* into grid operations, which is a pattern that is unlikely to be sustainable.
- Electricity consumers and producers, even those that rely heavily on DER, derive significant value from their grid connection. Indeed, in nearly all settings the full value of DER requires grid connection to provide reliability, virtual storage, and access to upstream markets.
- DER and the grid are not competitors but complements, provided that grid technologies and practices develop with the expansion of DER.
- We estimate that the cost of providing grid services for customers with distributed energy systems is about $51/month on average in the typical current configuration of the grid in the United States; in residential PV systems, for example, providing that same service completely independent of the grid would be four to eight times more expensive.
- Increased adoption of distributed resources requires interconnection rules, communications technologies and standards, advanced distribution and reliability technologies, integration with grid planning, and enabling policy and regulation.
- Experience in Germany provides a useful case study regarding the potential consequences of adding extensive amounts of DER without appropriate collaboration, planning, and strategic development.
- While this report focuses on DER, a coherent strategy for building an integrated grid could address other challenges such as managing the intermittent and variable supply of power from utility-scale wind and solar generators.

Today's Power System

Today's power system was designed to connect a relatively small number of large generation plants with a large number of consumers. The U.S. power system, for example, is anchored by ~1,000 gigawatts (GW) of central generation on one end, and on the other end are consumers that generally do not produce or store energy [4] [5]. Interconnecting those is a backbone of high-voltage transmission and a medium- and low-voltage distribution system that reaches each consumer. Electricity flows in one direction, from power plants to substations to consumers, as shown in Figure 1. Even with increasing penetration, U.S. distributed resources account for a small percent of power production and consumption and have not yet fundamentally affected that one-way flow of power.

Energy, measured in kilowatt-hours (kWh), is delivered to consumers to meet the electricity consumption of their lighting, equipment, appliances, and other devices, often called *load*. *Capacity* is the maximum capability to supply and deliver a given level of energy at any point in time. *Supply capacity* comprises networks of generators designed to serve load as it varies from minimum to maximum values over minutes,

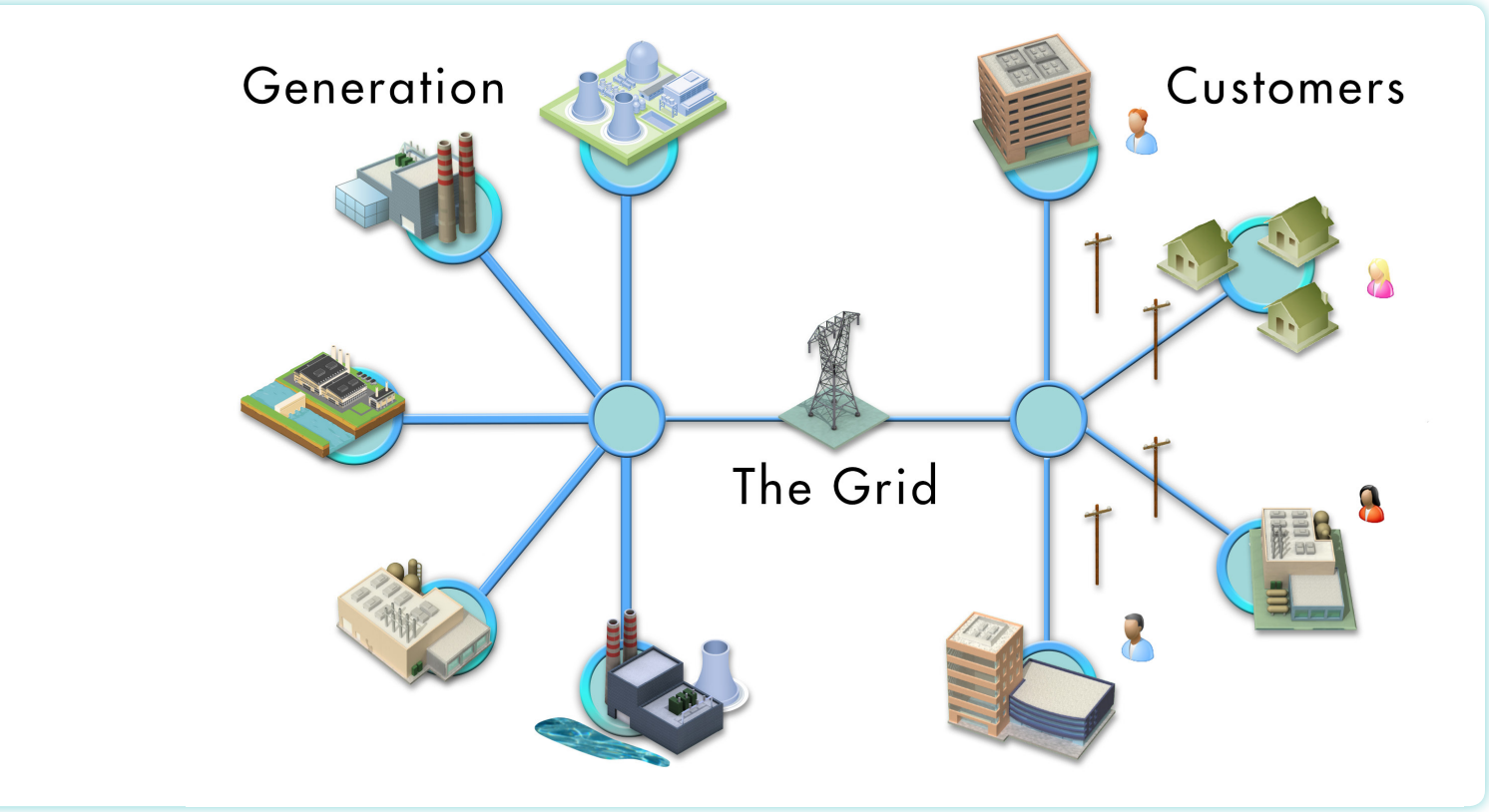

Figure 1: Today's Power System Characterized by Central Generation of Electricity, Transmission, and Distribution to End-Use Consumers.

hours, days, seasons, etc. *Delivery capacity* is determined by the design and operation of the power transmission and distribution systems that deliver the electricity to consumers. The system's supply and delivery capacity plan is designed to serve the expected instantaneous maximum demand over a long-term planning horizon.

Because the whole grid operates as a single system in real time and the lead times for building new resources are long, planning is essential to ensuring the grid's adequacy. Resource adequacy planning determines the installed capacity required to meet expected load with a prescribed reserve margin that considers potential planned and unplanned unavailability of given generators. In addition to providing sufficient megawatts to meet peak demand, the available generation (along with other system resources) must provide specific operating capabilities to ensure that the system operates securely at all times. These ancillary services include frequency regulation, voltage support, and load following/ramping. As a practical matter, the reliability of grid systems is highly sensitive to conditions of peak demand when all of these systems must operate in tandem and when reserve margins are smallest.

Today's power system has served society well, with average annual system reliability of 99.97% in the United States, in terms of electricity availability [6]. The National Academy of Engineering designated electrification enabled by the grid as the top engineering achievement of the twentieth century. Reliable electrification has been the backbone of innovation and growth of modern economies. It has a central role in many technologies considered pivotal for the future, such as the internet and advanced communications.

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The Growth in Deployment of Distributed Energy Resources

The classic vision of electric power grids with one-way flow may now be changing. Consumers, energy suppliers, and developers increasingly are adopting DER to supplement or supplant grid-provided electricity. This is particularly notable with respect to distributed PV power generation—for example, solar panels on homes and stores—which has increased from approximately 4 GW of global installed capacity in 2003 to nearly 128 GW in 2013 [7]. In Germany, the present capacity of solar generation is approximately 36 GW, while the daily system peak demand ranges from about 40 to 80 GW. By the end of 2012, Germany's PV capacity was spread across approximately 1.3 million residences, businesses, and industries and exceeded the capacity of any other single power generation technology in the country [8]. This rapid spread of DER reflects a variety of public and political pressures along with important changes in technology. This paper focuses on system operation impacts as DER reaches large scales.

By the end of 2013, U.S. PV installations had grown to nearly 10 GW. Although parts of the U.S. have higher regional penetration of PV, this 10 GW represents less than 2% of total installed U.S. generation capacity [9], which matches German PV penetration in 2003 (Figure 2). With PV growth projected to increase in scale and pace over the next decade, now is the time to consider lessons from Germany and other areas with high penetration of distributed resources.

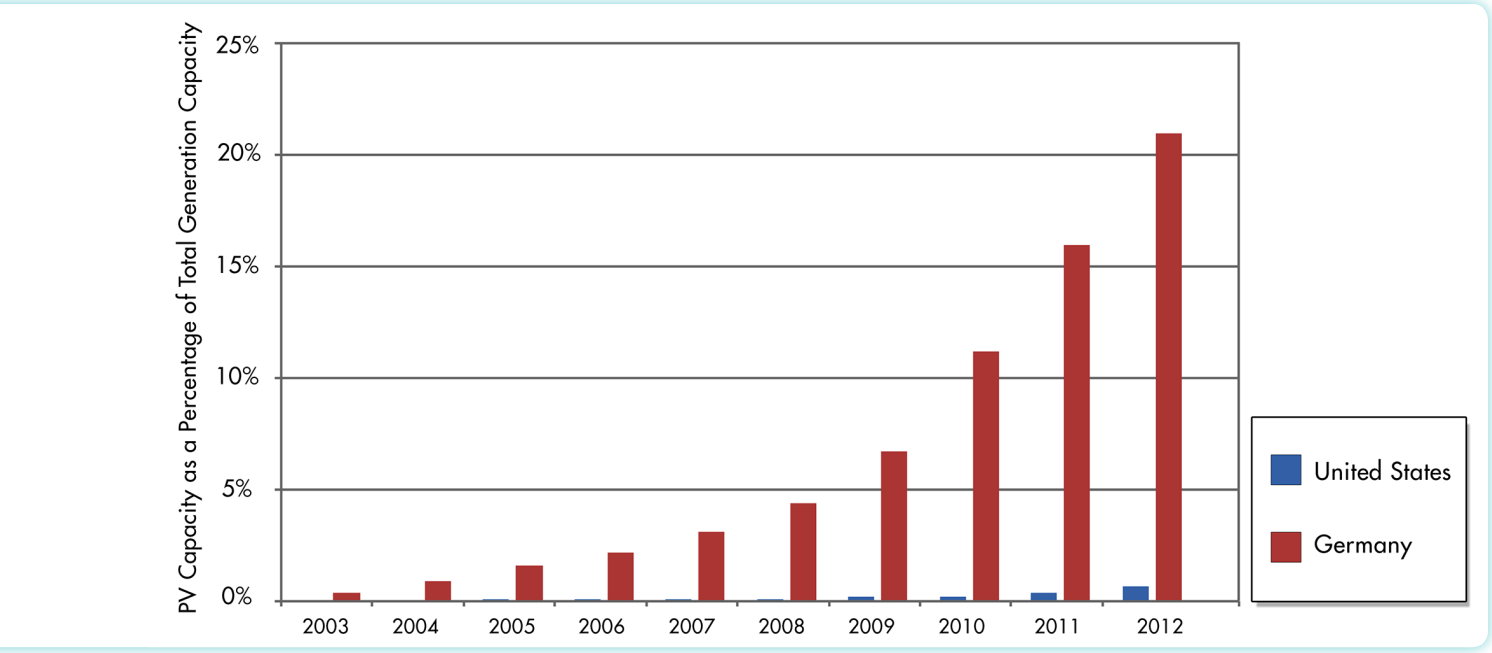
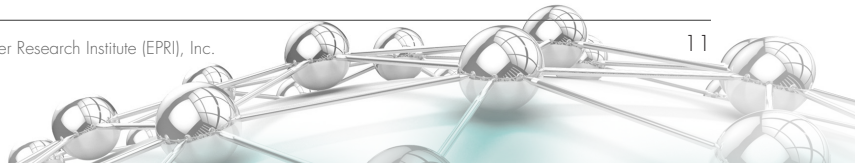


Figure 2: U.S. PV Capacity as a Percentage of Total Capacity Compared with Germany at the Beginning of Its "Energy Transformation."

In addition to Germany, high penetration of distributed PV is evident in California, Arizona, and Hawaii and in countries such as Italy, Spain, Japan, and Australia [7]. Beyond PV, other distributed resources are expanding and include such diverse technologies as batteries for energy storage, gas-fired micro-generators, and combined heat and power (CHP) installations—often referred to as *cogeneration*. In the United States natural gas prices and the cost and efficiency of gas-fired technologies have made these options effectively competitive with retail electricity service in some regions, for some consumers [10]. In jurisdictions where power prices are high, even more costly DER such as solar PV can be competitive with grid-supplied power.

In most cases, grid-connected DER benefit from the electrical support, flexibility, and reliability that the grid provides, but they are not integrated with the grid's operation. Consequently, the full value of DER is not realized with respect to providing support for grid reliability, voltage, frequency, and reactive power.

Distributed PV power generation has increased from approximately 4 GW of global installed capacity in 2003 to nearly 128 GW in 2013.



Germany's Experience: More Distributed but Not Integrated

The circumstances surrounding Germany's extensive deployment of distributed solar PV and wind offers important lessons about the value of planning for integration of DER, both economic and technical. Germany's experience is unique for these reasons:

- Germany represents a large interconnected grid with extensive ties with other grids, which is similar to the U.S. and other countries.
- The penetration of DER over the past decade is substantial (~68 GW of installed capacity of distributed PV and wind generation over 80 GW of peak load). The observed results, in terms of reliability, quality, and affordability of electricity, are not based on a hypothetical case or on modeling and simulations.
- This growth in penetration of DER occurred without considering the integration of these resources with the existing power system.
- Germany has learned from this experience, and the plan for continuing to increase the deployment of solar PV and wind generation hinges on many of the same integrated grid ideas as outlined in this paper.

German deployment was driven by policies for renewable generation that have commanded widespread political support. PV and wind generation are backed by the German Renewable Energy Sources Act (EEG), which stipulates feed-in tariffs[2] (FIT) for solar power installations. This incentive, which began in 2000 at €0.50/kWh ($0.70/kWh) for a period of 20 years, has stimulated major deployment of distributed renewable generation.

In the meantime, electricity rates have increased in Germany, for various reasons, to an average residential rate in 2012 of €0.30/kWh ($0.40/kWh), more than doubling residential rates since 2000 [8]. These higher electricity rates and lower costs for DER, due to technology advancements and production volume, have turned the tables in Germany. Today, the large FIT incentives are no longer needed, or offered, to promote new renewable installations.[3]

Notably, the desire to simultaneously contain rising electricity rates while promoting deployment of renewable energy resources has led to an evolution in German incentive policy for distributed renewable generation. For residential PV the FIT has dropped from ~ €0.50/kWh in 2000 to ~ €0.18/kWh today. An electricity price greater than the FIT has resulted in a trend of self-consumption of local generation. To ensure that all customers are paying for the subsidy for PV, the German cabinet in January 2014 approved a new charge on self-consumed solar power. Those using their own solar-generated electricity will be required to pay a €0.044kWh ($0.060/kWh) charge. Spain is considering similar rate structures to ensure that all customers equitably share the cost. Still to be resolved is how grid operating and infrastructure costs will be recovered from all customers who utilize the grid with increasing customer self-generation.

Technical repercussions have resulted from DER's much larger share of the power system. Loss of flexibility in the

[2] *Feed-in tariffs are a long-term guaranteed incentive to resource owners based on energy production (in kWh), which is separately metered from the customer's load.*

[3] *PV installations commissioned in July 2013 receive €0.104 to €0.151/kWh ($0.144 to $0.208/kWh) for a period of 20 years.*

generation fleet prompted the operation of coal plants on a "reliability-must-run" basis. Distributed PV was deployed with little time to plan for effective integration. Until the last few years and the advent of grid codes, PV generators were not required to respond to grid operating requirements or to be equipped to provide grid support functions, such as reactive power management or frequency control. Resources were located without attention to the grid's design and power flow limitations. The lack of coordination in planning and deploying DER increases the cost of infrastructure upgrades for all customers and does not provide the full value of DER to power system operation. Rapid deployments have led to several technical challenges:

1. Local over-voltage or loading issues on distribution feeders. Most PV installations in Germany (~80%) are connected to low-voltage circuits, where it is not uncommon for the PV capacity to exceed the peak load by three to four times on feeders not designed to accommodate PV. This can create voltage control problems and potential overloading of circuit components [11].
2. Risk of mass disconnection of anticipated PV generation in the event of a frequency variation stemming from improper interconnection rules.[4] This could result in system instability and load-shedding events [12]. The same risk also exists from both a physical or cyber security attack.
3. Resource variability and uncertainty have disrupted normal system planning, causing a notable increase in generation re-dispatch[5,6] events in 2011 and 2012 [13].
4. Lack of the stabilizing inertia from large rotating machines that are typical of central power stations[7] has raised general concern for maintaining the regulated frequency and voltage expected from consumers, as inverter-based generation does not provide the same inertial qualities [14].

[4] Distributed PV in Germany initially was installed with inverters that are designed to disconnect the generation from the circuit in the event of frequency variations that exceed 50.2 Hz in their 50 Hz system. Retrofits necessary to mitigate this issue are ongoing and are estimated to cost approximately $300 million [12].

[5] German transmission system operator Tennett experienced a significant increase in generation re-dispatch events in 2011 and 2012 relative to previous years. Generation scheduling changes are required to alleviate power flow conditions on the grid or resource issues that arise on short notice rather than in the schedule for the day.

[6] While the primary driver to re-dispatch issues has been a reduced utilization of large nuclear generators, the increase in wind generation and PV in Germany is expected to continue changing power flow patterns.

[7] Many DER connect to the grid using inverters, rather than the traditional synchronous generators. Increasing the relative amount of distributed and bulk system inverter-based generation that displaces conventional generation will negatively impact system frequency performance, voltage control and dynamic behavior if the new resources do not provide compensation of the system voltage and frequency support.

Smart inverters capable of responding to local conditions or requests from the system operator can help avoid distribution voltage issues and mass disconnection risk of DER. This type of inverter was not required by previous standards in Germany, although interconnection rules are changing to require deployment of smart inverters. (See the highlight box below for further information.)

The rate impacts and technical repercussions observed in Germany provide a useful case study of the high risks and unintended consequences resulting from driving too quickly to greater DER expansion without the required collaboration, planning, and strategies set forth in the Action Plan. The actions in Phases II and III should be undertaken as soon as it is feasible to ensure that systems in the United States and internationally are not subjected to similar unintended consequences that may negatively impact affordability, environmental sustainability, power quality, reliability, and resiliency in the electric power sector.

Smart Inverters and Controls

With the current design emphasis on distribution feeders supporting one-way power flow, the introduction of two-way power flow from distributed resources could adversely impact the distribution system. One concern is over-voltage, due to electrical characteristics of the grid near a distributed generator. This could limit generation on a distribution circuit, often referred to as *hosting capacity*. Advanced inverters, capable of responding to voltage issues as they arise, can increase hosting capacity with significantly reduced infrastructure costs [15], [16].

German Grid Codes

In Germany, grid support requirements are being updated so that distributed resources can be more effectively integrated with grid operation [17], [18]. These requirements, called *grid codes*, are developed in tandem with European interconnection requirements recommended by the European Network of Transmission System Operators (ENTSO-E) [19], [20]:

1. Frequency control is required of all generators, regardless of size. Instead of disconnecting when the frequency reaches 50.2 Hz, generator controls will be required to gradually reduce the generators' active power output in proportion to the frequency increase (Figure 3). Other important functions, such as low-voltage ride-through, are also required at medium voltage.

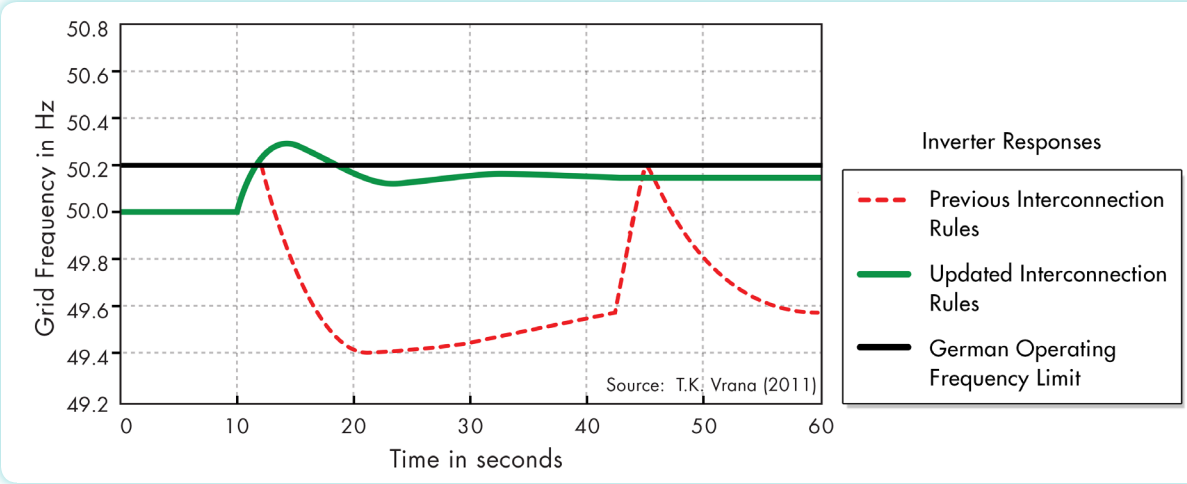


Figure 3: Example of Improved Performance with Inverter Controls That Implement a Droop Function for Over-Frequency Conditions Rather Than Tripping.

2. Voltage control functions are required from inverters, depending on the requirements of the DSO. Control methods include fixed power-factor operation, variable power factor as a function of active power, or reactive power management to provide voltage control.
3. Communication and energy management functions are now required of distributed resources, receiving commands from the system operator for active and reactive power management. As of 2012, this capability is required for all installations greater than 30 kVA. Systems less than 30 kVA without this capability are limited to 70% of rated output.

Germany is requiring that all existing inverters with a capacity greater than 3.68 kVA be retrofitted to include the droop function rather than instantly tripping with over-frequency. The cost of the retrofit associated with this function is estimated to be $300 million.

While necessary, these steps are probably still not enough to allow full integration of DER into the grid. Significant investment in the grid itself will be needed, including development of demand response resources (for example, electric transportation charging stations with time of use tariffs), and various energy storage systems. Also needed are markets and tariffs that value capacity and replacement of fossil-fueled heating plants with electric heating to take advantage of excess PV and wind capacity. German energy agency DENA determined that German distribution grids will require investment of €27.5 billion to €42.5 billion ($38.0 billion to $58.7 billion) by 2030. This includes expanding distribution circuits between 135,000 km and 193,000 km [21]. Extensive research is under way to develop and evaluate technologies to improve grid flexibility and efficiency with even more renewable capacity.

Assessing the Cost and Value of Grid Services

An electric grid connection, in ways different from a telephone line, provides unique and valuable services. Thirty percent of landline telephone consumers have canceled this service, relying solely on cellular service [22]. In contrast, virtually all consumers that install distributed generation remain connected to the grid. The difference is that the cellular telephone network provides functionality approximately equal to landline service, while a consumer with distributed generation will still need the grid to retain the same level of service. Unlike a cell phone user, operating without interconnection to this grid will require significant investment for on-site control, storage, and redundant generation capabilities.

This section characterizes the value of grid service to consumers with DER, along with calculations illustrating costs and benefits of grid connection. Subsequent sections focus on the value that DER can provide to the grid. In the context of value, it is important to distinguish the difference between value and cost. Value reflects the investments that provide services to consumers. It guides planning and investment decisions so that benefits equal or exceed costs. The costs that result are recovered through rates that, in a regulated environment, are set to recover costs, not to capture the full value delivered.

Value of Grid Service: Five Primary Benefits

Often, the full value of a grid connection is not fully understood. Grid-provided energy (kWh) offers clearly recognized value, but grid connectivity serves roles that are important beyond providing energy. Absent redundancy provided by the grid connection, the reliability and capability of the consumer's power system is diminished. Grid capacity provides needed power for overload capacity, may absorb energy during over-generation, and supports stable voltage and frequency. The primary benefits of grid connectivity to consumers with distributed generation are shown in Figure 4 and are described below.

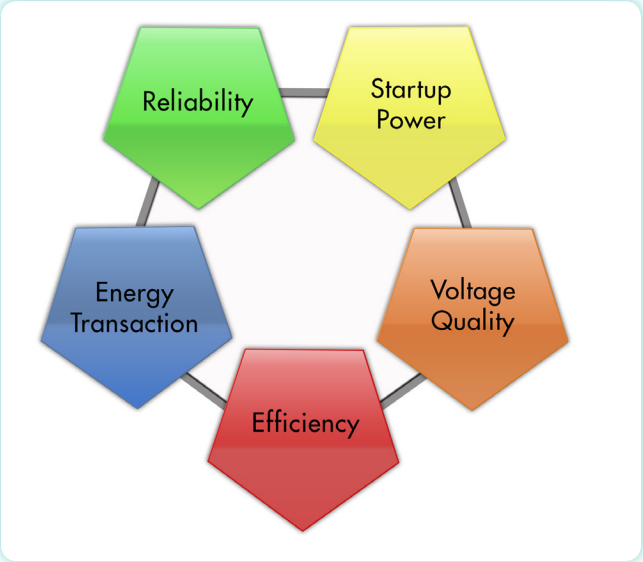


Figure 4: Primary Benefits of Grid Connectivity to Consumers with Distributed Generation.

1. **Reliability** – The grid serves as a reliable source of high-quality power in the event of disruptions to DER. This includes compensating for the variable output of PV and wind generation. In the case of PV, the variability is not only diurnal, but as shown in Figure 5, overcast conditions or fast-moving clouds can cause fluctuation of PV-produced electricity. The grid serves as a crucial balancing resource available for whatever period—from seconds to hours to days and seasons—to offset variable and uncertain output from distributed resources. Through instantaneously balancing supply and demand, the grid provides electricity at a consistent frequency. This balancing extends beyond real power, as the grid also ensures that the amount of reactive power in the system balances load requirements and ensures proper system operation.[8]

   The need for reliability is fundamental to all DER, not just variable and intermittent renewable sources. For example, a customer depending solely on a gas-fired generator, which has an estimated reliability of 97%, is projected to experience 260 hours of power outage [23] compared with the 140 minutes of power outage that U.S. grid consumers experience on average (excluding major events such as hurricanes) [6]. Improvements in reliability are generally achieved through redundancy. With the grid, redundant capacity can be pooled among multiple consumers, rather than each customer having to provide its own backup resources. This reduces the overall cost of reliability for each customer [23].

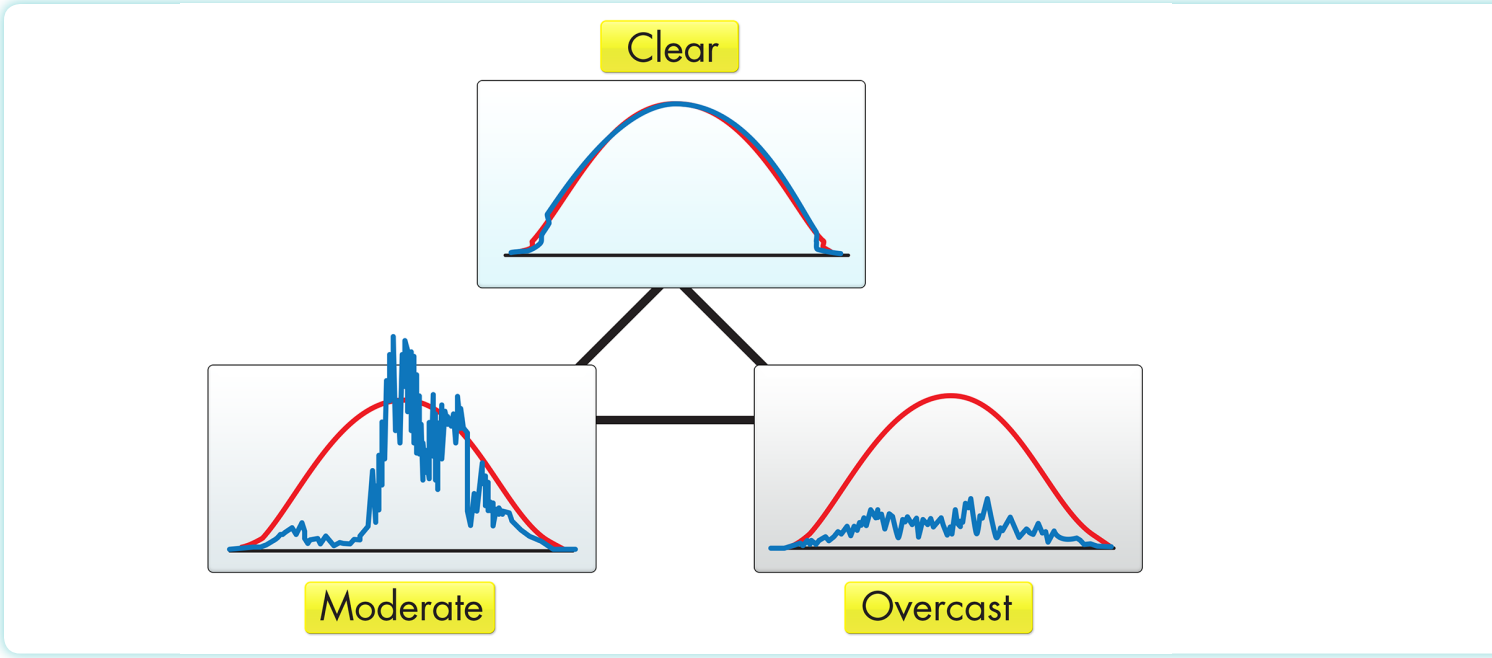


Figure 5: The Output of PV Is Highly Variable and Dependent on Local Weather.

[8] *Consumer loads typically require two different kinds of power, both real and reactive. Real power is a function of the load's energy consumption and is used to accomplish various tasks. Reactive power is transferred to the load during part of the cycle and returned during the other part, doing no work. Balancing both real and reactive power flow is a necessary function of a reliable electric grid.*

2. **Startup Power** – The grid provides instantaneous power for appliances and devices such as compressors, air conditioners, transformers, and welders that require a strong flow of current ("in-rush" current) when starting up. This enables them to start reliably without severe voltage fluctuation. Without grid connectivity or other supporting technologies,[9] a conventional central air conditioning compressor relying only on a PV system may not start at all unless the PV system is oversized to handle the in-rush current. A system's ability to provide this current is directly proportional to the fault contribution level.[10] Even if a reciprocating engine distributed generator is used as support, its fault level is generally five times less than the grid's [23]. The sustained fault current from inverter-based distributed resources is limited to the inverter's maximum current and is an order of magnitude lower than the fault level of the grid.

Figure 6 illustrates the instantaneous power required to start a residential air conditioner. The peak current measured during this interval is six to eight times the standard operating current [24]. While the customer's PV array could satisfy the real power requirements of the heating, ventilating, and air conditioning (HVAC) unit during normal operation, the customer's grid connection supplies the majority of the required starting power.

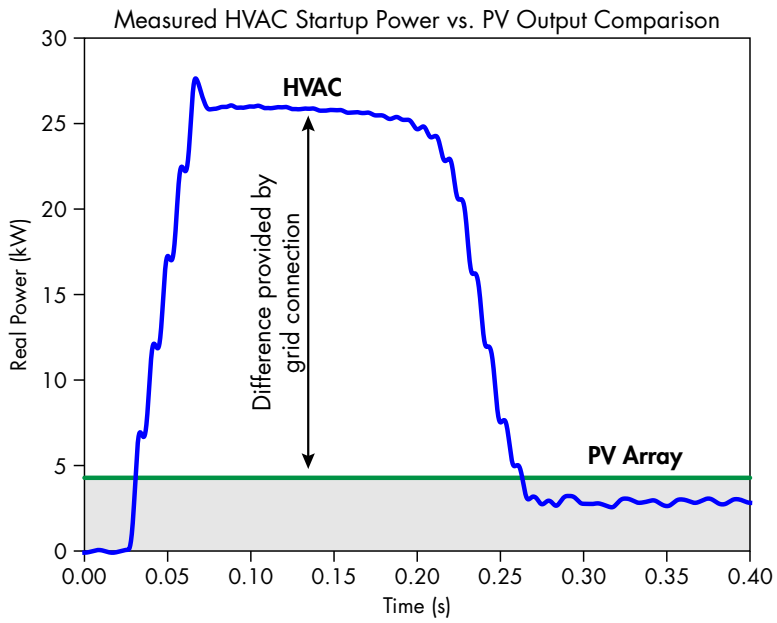


Figure 6: The Grid Provides In-Rush Current Support for Starting Large Motors, Which May Be Difficult to Replicate with a Distributed Generator.

[9] *Supporting technologies include variable-frequency drive (VFD) systems, which are able to start motors without the in-rush current common in "across-the-line" starting [24].*

[10] Fault level *is a measure of the current that would flow at a location in the event of short circuit. Typically used as a measure of electrical strength, locations with a high fault level are typically characterized by improved voltage regulation, in-rush current support, and reduced harmonic impact. Locations with a low fault level are more susceptible to voltage distortion and transients induced by harmonic-producing loads.*

3. **Voltage Quality** – The grid's high fault current level also results in higher quality voltage by limiting harmonic distortion[11] and regulating frequency in a very tight band, which is required for the operation of sensitive equipment. Similarly, the inherent inertia of a large connected system minimizes the impact of disturbances, such as the loss of a large generator or transmission line, on the system frequency. As shown in Figure 7, grid-connected consumers on average will experience voltage that closely approximates a sinusoidal waveform with very little harmonic distortion.

   In contrast, voltage from a distributed system that is not connected to the grid will generally have a higher voltage harmonic distortion, which can result in malfunction of sensitive consumer end-use devices. Harmonics cause heating in many components, affecting dielectric strength and reducing the life of equipment, such as appliances,[12] motors, or air conditioners [25]. Harmonics also contribute to losses that reduce system efficiency. In addition, a disturbance occurring inside the unconnected system will create larger deviations in frequency than if the system maintained its connection to the larger grid.

4. **Efficiency** – Grid connectivity enables rotating-engine-based generators to operate at optimum efficiency. Rotating-engine-based distributed resources, such as micro-turbines or CHP systems are most efficient when operating steadily near full output [26]. This type of efficiency curve is common for any rotating machine, just as automobiles achieve the best gasoline mileage when running at a steady optimal speed. With grid

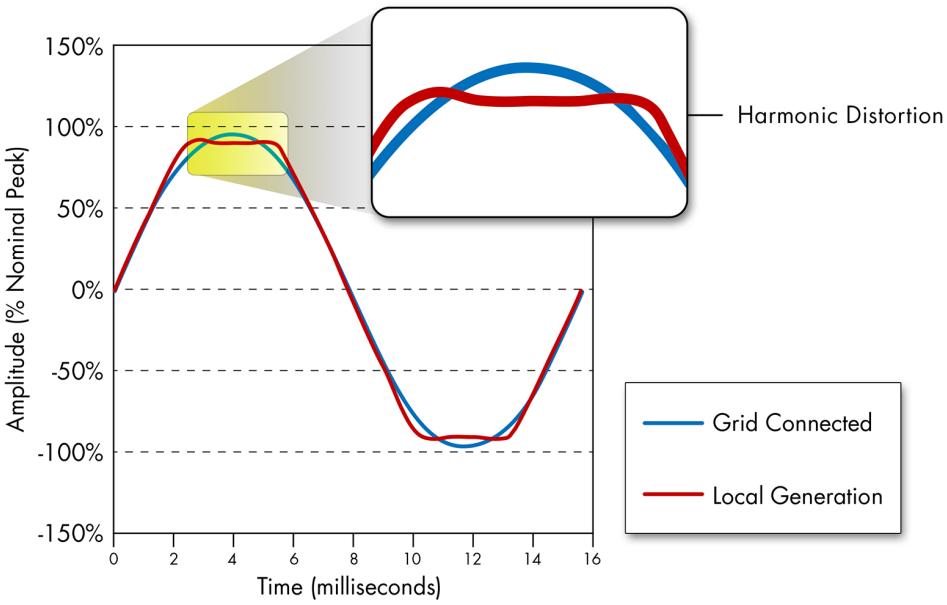


Figure 7: The Grid Delivers High-Quality Power with Minimal Harmonic Distortion.

[11] Harmonics *are voltages or currents that are on the grid, but do not oscillate with the main system frequency (60Hz in the United States). The magnitude of the harmonics, when compared to the magnitude of the 60Hz component, is referred to as the* harmonic distortion.

[12] *Technological improvements are available, such as uninterruptible power supplies (UPS), that reduce the sensitivity of loads to poor power quality, but at an additional cost.*

connectivity, a distributed energy resource can always run at its optimum level without having to adjust its output based on local load variation. Without grid connectivity, the output of a distributed energy resource will have to be designed to match the inherent variation of load demand. This fluctuating output could reduce system efficiency as much as 10%–20% [26].

5. **Energy Transaction** – Perhaps the most important value that grid connectivity provides consumers, especially those with distributed generation, is the ability to install any size DER that can be connected to the grid. A utility connection enables consumers to transact energy with the utility grid, getting energy when the customer needs it and sending energy back to the grid when the customer is producing more than is needed. This benefit, in effect, shifts risks with respect to the size of the energy resource from the individual user to the party responsible for the resources and operation of the grid. Simulated system results for such transactions are provided in Figure 8.

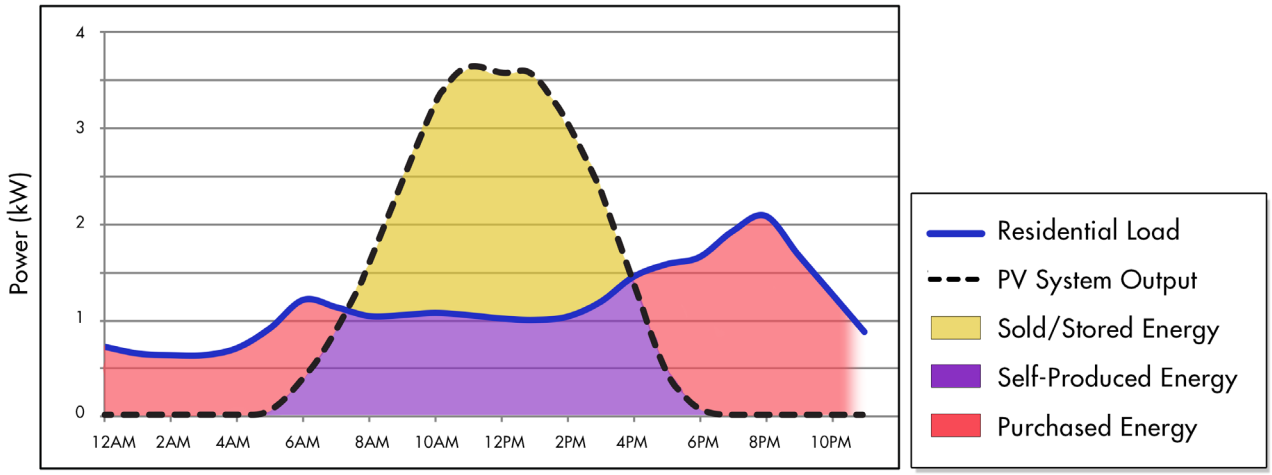


Figure 8: Because Residential Load and PV System Output Do Not Match, Owners of Distributed Generation Need the Grid for Purchasing or Selling Energy Most of the Time.

Cost of Grid Service: Energy and Capacity Costs

For residential customers, the cost for generation, transmission, and distribution components can be broken down as costs related to serve the customer with *energy* (kWh) and costs related to serve the customer with *capacity* that delivers the energy and grid-related services. The five main benefits of grid connectivity discussed in the previous section span both capacity and energy services. Figure 9 shows that, based on the U.S. Department of Energy's *Annual Energy Outlook 2012*, an average customer consumes 982 kWh per month, paying an average bill of $110 per month, with the average cost of $70 for generation of electricity. That leaves $30 for the distribution system and $10 for the transmission system [27]—known together as "T&D". These are average values, and costs vary among and within utilities and across different types of customers. (See *Appendix A* for explanation of calculations in this section.)

The next step in the analysis is to allocate these costs (generation and T&D) into fractions that are relevant for analyzing how the grid works with DER. In this analysis we focus on capacity and grid-related services because they are what enable robust service even for customers with DER. Indeed, consumers with distributed generation may not consume any net energy (kWh) from the grid, yet they benefit from the same grid services as consumers without distributed generation.

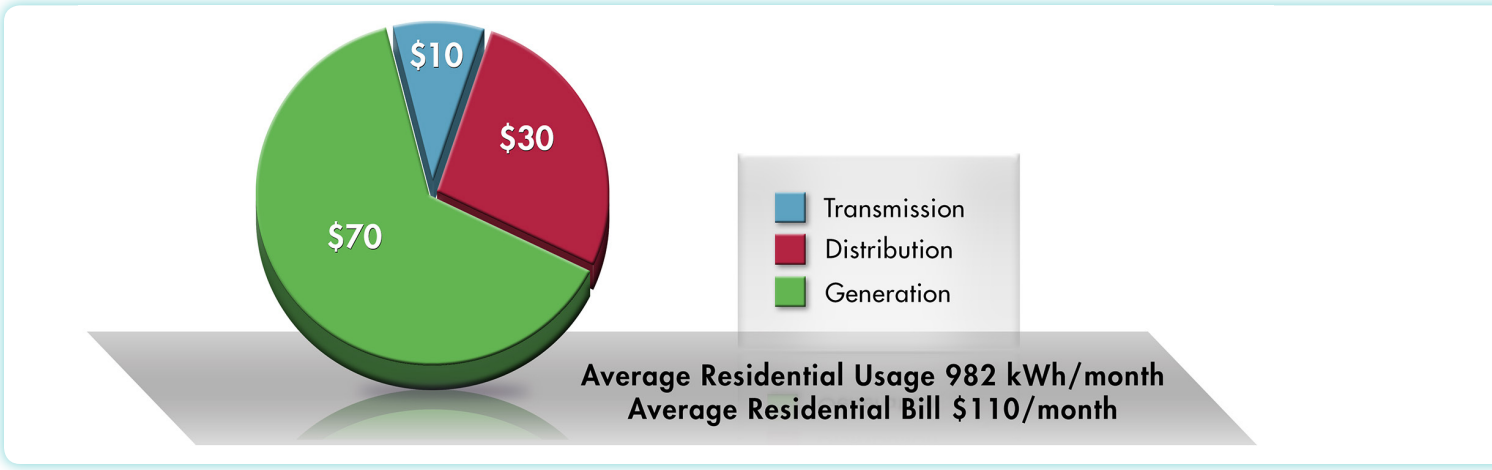


Figure 9: Cost of Service Breakdown for Today's Grid-Connected Residential Customer [27].

Calculating the total cost of capacity follows the analysis summarized in Figure 10. These values are based on the assumption that most costs associated with T&D are related to capacity (except for a small fraction representing system losses—estimated to be $3 per month per customer from recent studies in California) [28]. Working with recent data from PJM [29] regarding the cost of energy, capacity, and ancillary services it is possible to estimate that 80% of the cost of generation is energy related, leaving the rest for capacity and grid services. This 80-20 split will depend on the market and in the case of a vertically integrated utility will depend on the characteristics of the generation assets and load profile, but it is a useful average figure with which some illustrative calculations follow.

As illustrated, the combination of transmission, distribution, and the portion of generation that provides grid support averages $51/month, while energy costs average $59/month. These costs vary widely across the United States and among consumers and also will vary with changes in generation profile and the deployment of new technologies such as energy storage, demand response-supplied capacity, and central generation. The values are shown to illustrate that capacity and energy are both important elements of cost and should be recovered from all customers who use capacity and energy resources. Customers with distributed generation may offset the energy cost by producing their own energy, but as illustrated in previous sections, they still utilize the non-energy services that grid connectivity provides.

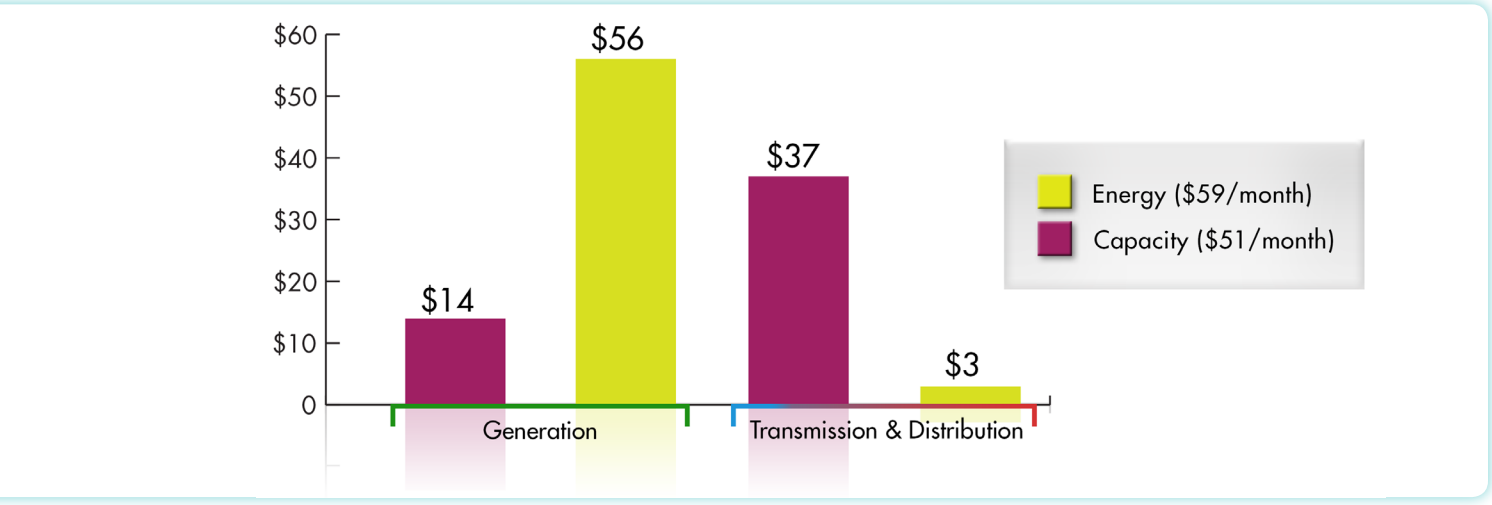


Figure 10: In Considering the Value of the Integrated Grid, Costs of Generation, Transmission, and Distribution Can Be Further Determined for Energy and Capacity.

Cost of Service Without Grid Connectivity

Technologies are available that enable consumers to self-generate and disconnect from the grid. To estimate the capacity-related cost for such investments, a simplified analysis examined a residential PV system. The analysis was based on estimating the additional costs of providing the five services that grids offer—as outlined earlier in this section. For illustration, consider a residential PV system that is completely disconnected from the grid, amortized over 20 years, and presented as a monthly cost. Reinforcing the system for an off-grid application required the following upgrades:

- Additional PV modules beyond the requirements for offsetting annual energy consumption in order to survive periods of poor weather
- Multi-day battery storage with a dedicated inverter capable of operating in an off-grid capacity
- Backup generator on the premises designed to operate for 100 hours per year
- Additional operating costs, including inverter replacement and generator maintenance

In simulation, the cost to re-create grid-level service without a grid connection ranges from $275–$430 per month *above* that of the original array. Expected decreases in the cost of battery and PV module technology could reduce this to $165–$262 within a decade. Further information on this analysis is provided in Appendix A. Costs for systems based on other technologies, or larger deployments such as campus-scale microgrids, could be relatively lower, based on economies of scale. However, even if amortized capital costs are comparable to grid services, such isolated grids will result in deteriorating standards of reliability and quality of electricity service and could require extensive use of backup generators whose emissions negatively impact local air quality.

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Enabling Policy and Regulation

A policy and regulatory framework will be needed to encourage the effective, efficient, and equitable allocation and recovery of costs incurred to transform to an integrated grid. New market frameworks will have to evolve in assessing potential contributions of distributed and central resources to system capacity and energy costs. Such innovations will need to be anchored in principles of equitable cost allocation, cost-effective and socially beneficial investment, and service that provides universal access and avoidance of bypass.

As discussed, the cost of supply and delivery capacity can account for almost 50% of the overall cost of electricity for an average residential customer. Traditionally, residential rate structures are based on metered energy usage. With no separate charge for capacity costs, the energy charge has traditionally been set to recover both costs. This mixing of fixed and variable cost recovery is feasible when electricity is generated from central stations, delivered through a conventional T&D system, and used with an electromechanical meter that measures energy use only by a single entity [30] [31].

Most residential (and some commercial) rate designs follow this philosophy, but the philosophy has not been crisply articulated nor reliably implemented for DER. Consequently, consumers that use distributed resources to reduce their grid-provided energy consumption significantly but remain connected to the grid, may pay significantly less than the costs incurred by the utility to provide capacity and grid connectivity. In effect, the burden of paying for that capacity can potentially shift to consumers without DER [32].

A logical extension of the analysis provided here, as well as many other studies that look at DER under different circumstances, is that as DER deploy more widely, policy makers will need to look closely at clearly separating how customers pay for actual energy and how they pay for capacity and related grid services.

A policy and regulatory framework will be needed to encourage the effective, efficient, and equitable allocation and recovery of costs incurred to transform to an integrated grid.

Realizing the Value of DER Through Integration

The analysis of capacity-related costs (including the cost of ancillary services) in the previous sections is based on today's snapshot of the components that make up the grid and is also based on a minimum contribution from DER to reduce the capacity cost. With increasing penetration of variable generation (distributed and central), it is expected that capacity- and ancillary service-related costs will become an increasing portion of the overall cost of electricity [33].

However, with an integrated grid there is an opportunity for DER to contribute to capacity and ancillary services that will be needed to operate the grid. The following considerations will affect whether and how DER contribute to system capacity needs:

- Delivery Capacity – The extent to which DER reduce system delivery capacity depends on the expected output during peak loading of the local distribution feeder, which typically varies from the aggregate system peak. If feeder peak demand occurs after sunset, as is the case with many residential feeders, local PV output can do nothing to reduce feeder capacity requirements. However, when coupled with energy storage resources dedicated to smoothing the intermittent nature of the resources, such resources could significantly reduce capacity need. Similarly, a smart inverter, integrated with a distribution management system, may be able to provide distributed reactive power services to maintain voltage quality.
- Supply Capacity – The extent to which DER reduce system supply capacity depends on the output expected during high-risk periods when the margin between available supply from other resources and system demand is relatively small. If local PV production reduces high system loads during summer months but drops significantly in late evening prior to the system peak, it may do little to reduce system capacity requirements. Conversely, even if PV production drops prior to evening system peaks, it may still reduce supply capacity requirements if it contributes significantly during other high-risk periods such as shoulder months when large blocks of conventional generation are unavailable due to maintenance. Determining the contribution of DER to system supply capacity requires detailed analysis of local energy resources relative to system load and conventional generation availability across all periods of the year and all years of the planning horizon.

With an integrated grid there is an opportunity for DER to contribute to capacity and ancillary services.

- **System Flexibility** – As distributed variable generation is connected to the grid, it may also impact the nature of the system supply capacity required. Capacity requirements are defined by the character of the demand they serve. Distributed resources such as PV alter electricity demand, changing the distributed load profile. PV is subject to a predictable diurnal pattern that reduces the net load to be served by the remaining system. At high levels, PV can alter the net load shape, creating additional periods when central generation must "ramp" up and down to serve load. Examples are early in the day when the sun rises and PV production increases and later, as the sun sets, when PV output drops, increasing net load. The net load shape also becomes characterized by abrupt changes during the day, as when cloud conditions change significantly.
- **Integration of DER Deployment in Grid Planning** – Adequacy of delivery and supply capacity are ensured through detailed system planning studies to understand system needs for meeting projected loads. In order for DER to contribute to meeting those capacity needs in the future, DER deployment must be included in the associated planning models. Also, because DER are located in the distribution system, certain aspects of distribution, transmission, and system reliability planning have to be more integrated. (Read more in the section, *Importance of Integrated Transmission and Distribution Planning and Operation for DER.*)
- **DER Availability and Sustainability over the Planning Horizon** – For either delivery or supply capacity, the extent to which DER can be relied upon to provide capacity service and reduce the need for new T&D and central generation infrastructure depends on planners' confidence that the resource will be available when needed across the planning horizon. To the extent that DER may be compensated for providing capacity and be unable or unwilling to perform when called upon, penalties may apply for non-performance.

In addition to altering the system daily load curve, wind and solar generation's unscheduled, variable output will require more flexible generation dispatch. For example, lower cost and generally large and less operationally flexible plants today typically carry load during the day. These resources may have to be augmented by smaller and more flexible assets to manage variability; however, this flexibility to handle fast ramping conditions comes with a cost. [34] [35] The potential for utilizing demand response or storage should not be overlooked, as rapid activation (on the order of seconds or minutes) could provide additional tools for system operators. Improving generator scheduling and consolidating balancing areas could improve access and utilization of ramping resources, preventing the unnecessary addition of less-efficient peaking units [36].

In addition to altering the system daily load curve, wind and solar generation's unscheduled, variable output will require more flexibile generation dispatch.

Figure 11 illustrates the importance of understanding the system to determine the value of DER. The graph shows the German power system's load profile and the substantial impact of PV power generation at higher penetration [37]. In this case, the PV resource's peak production does not coincide with the system peak, and, therefore, does not contribute to an overall reduction in system peak. From the single average plots in Figure 11, it is unclear to what extent PV might contribute to system capacity needs during critical supply hours outside of absolute system peak. During system peak, which for Germany is winter nights, the ~36 GW of installed PV does not contribute to reducing that peak. This is based on the requirements of "reliably available capacity" [38], which is defined as the percentage of installed capacity that is 99% likely to be available.

The ~33 GW of wind is also credited to a minor extent towards meeting the winter peak demand. Hydro power provides the bulk of the 12 GW of renewable resource that is considered as reliable available capacity to meet the 80 GW of winter peak load. However in the United States, where the PV peak coincides more with the system peak (depending on the facility's orientation, shading, and other factors), the results could be different. In general, however, PV without storage to achieve coincidence with system peak will be relatively ineffective in reducing capacity costs due to its variable, intermittent nature.

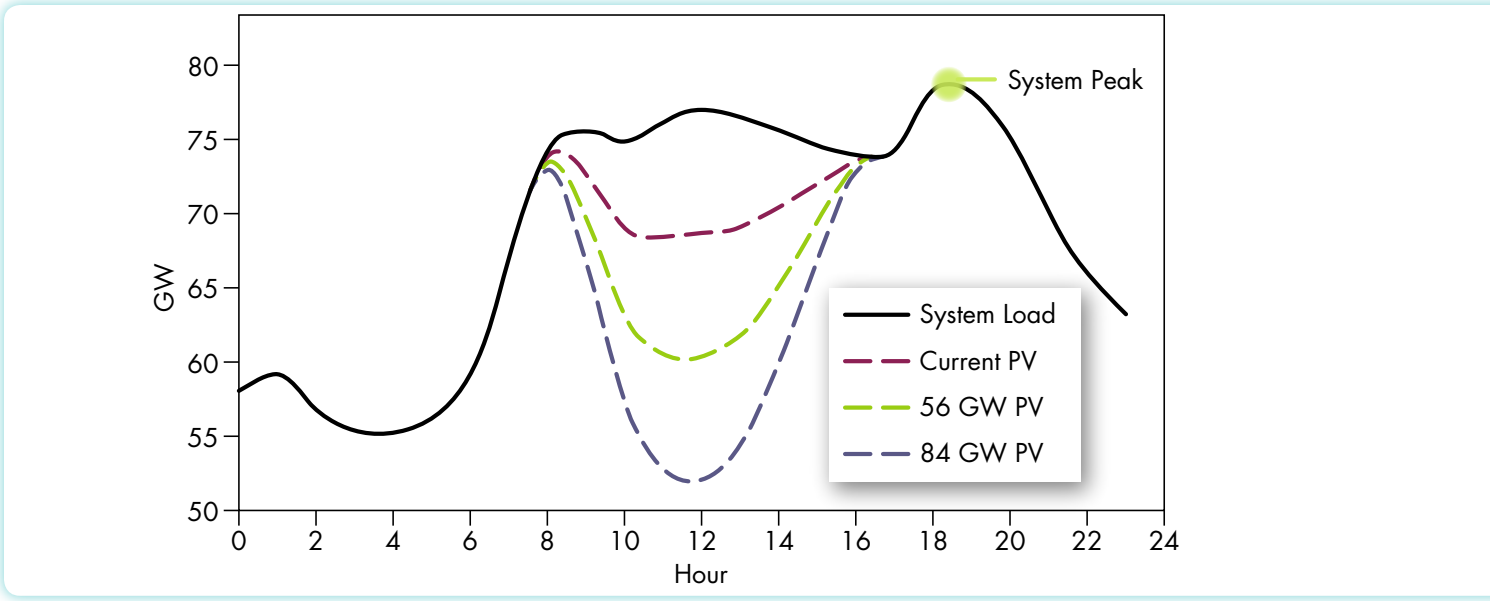


Figure 11: Peak Load Reduction and Ramp Rate Impacts Resulting from High Penetration of PV [39].

Importance of Integrated Transmission and Distribution Planning and Operation for DER

To realize their full value while ensuring power quality and reliability for all customers, DER must be included in distribution planning and operation, just as central generation resources are included in transmission planning and operation. As DER penetration increases and becomes concentrated in specific areas, their impact can extend beyond the distribution feeders to which they are interconnected, potentially affecting the sub-transmission and transmission systems. The aggregated impact of DER must be visible and controllable by transmission operators and must be included in transmission planning to ensure that the transmission system can be operated reliability and efficiently. Additionally, the T&D system operators must coordinate to expose DER owners to reliability needs and associated price signals. This will require significantly expanded coordination among T&D system planners and operators, as well as the development and implementation of new analysis tools, visualization capabilities, and communications and control methods.

Integrated T&D planning methods that include DER are not yet formalized, even in regions with high DER penetration levels such as Germany, Arizona, California, and Hawaii. Without a framework for integration into both T&D system operations, the cost of integration will increase significantly and the potential value of DER will not be fully realized. For example, DER installations in sub-optimal locations, such as the end of long feeders, may require significant feeder upgrades to avoid impacts to voltage quality. When strategically located, however, DER may require little or no upgrade of the feeder while delivering multiple benefits.

Examples of Integration of DER in Distribution Planning and Operations

The Hawaiian Electric Company (HECO) system on the island of Oahu had more than 150 MW of installed distributed PV in mid-2013. At this level of penetration, HECO has found it necessary to develop PV fleet forecasting methods, which it uses to provide operators with geographic information on expected PV output and potential impact on local feeder operations, as well as aggregate impact on system balancing and frequency performance. Additionally, HECO has developed detailed distribution feeder models that incorporate existing and expected future PV deployments for considering PV in planning. Although still in development, HECO is taking these steps to ensure reliability by integrating distributed PV into their operational and planning processes.

To realize their full value while ensuring power quality and reliability for all customers, DER must be included in distribution planning and operation, just as central generation resources are included in transmission planning and operation.

Realizing the importance of planning in DER procurement and operation, regulatory commissions in some cases have decided that distributed resource needs are best served by utility ownership or at least utility procurement of required distributed resources [40], [41]. Competitive procurement often reduces the asset cost while proper planning reduces integration costs and often maximizes the opportunity for capitalizing on multiple potential DER value streams. A recent ruling from the California Public Utilities Commission (CPUC) highlighted this consideration by requiring utilities to procure energy storage, ensuring that these resources are sufficiently planned in the context of the distribution grid [42].

Presently, most DER installations are "invisible" to T&D operators. The lack of coordination among DER owners, distribution operators, and transmission operators makes system operations more difficult, even as system operators remain responsible for the reliability and quality of electric service for all consumers. Likewise, utilities miss an opportunity to use DER, with the proper attributes, to support the grid. The expected services rendered from distributed storage in California are provided in Table 1. However, an integrated grid is required to enable many of these services, making integration beneficial to the entire system, not only to customers who own DER.

Category	Storage "End-Use"
Describes the point of use in the value chain	Describes the use or application of storage
Transmission/Distribution	Peak shaving
	Transmission peak capacity support (upgrade deferral)
	Transmission operation (short-duration performance, inertia, system reliability)
	Transmission congestion relief
	Distribution peak capacity support (upgrade deferral)
	Distribution operation (voltage/VAR support)
Customer	Outage mitigation: micro-grid
	Time-of-use (TOU) energy cost management
	Power quality
	Back-up power

Table 1: Expected T&D and Customer Services from Distributed Storage in California [43].

Realize the Benefits of Distributed Energy Resources

An integrated grid that enables a higher penetration of DER offers benefits to operators, customers, and society. These examples illustrate the diverse nature of these benefits:

- **Provide distribution voltage support and ride-through** – DER can provide distribution grid voltage and system disturbance performance by riding through system voltage and frequency disturbances to ensure reliability of the overall system, provided there are effective interconnection rules, smart inverters, or smart interface systems.
- **Optimize distribution operations** – This can be achieved through the coordinated control of distributed resources and the use of advanced inverters to enhance voltage control and to balance the ratio of real and reactive power needed to reduce losses and improve system stability.
- **Participate in demand response programs** – Combining communication and control expands customer opportunities to alter energy use based on prevailing system conditions and supply costs. Specifically with respect to ancillary services, connectivity and distribution management systems facilitate consumer participation in demand response programs such as dynamic pricing, interruptible tariffs, and direct load control.
- **Improve voltage quality and reduced system losses** – Included in this are improved voltage regulation overall and a flatter voltage profile, while reducing losses.
- **Reduce environmental impact** – Renewable distributed generation can reduce power system emissions, and an integrated approach can avoid additional emissions by reducing the need for emissions-producing backup generation. Also contributing will be the aggregation of low-emissions distributed resources such as energy storage, combined heat and power, and demand response.
- **Defer capacity upgrades** – With proper planning and targeted deployment, the installation of DER may defer the need for capacity upgrades for generation, transmission, and/or distribution systems.
- **Improve power system resiliency** – Within an integrated grid, distributed generation can improve the power system's resiliency, supporting portions of the distribution system during outages or enabling consumers to sustain building services, at least in part. Key to doing this safely and effectively is the seamless integration of the existing grid and DER.

Figure 12 illustrates a concept of an integrated grid with DER in residences, campuses, and commercial buildings networked as a distributed energy network and described in a recent EPRI report [44].

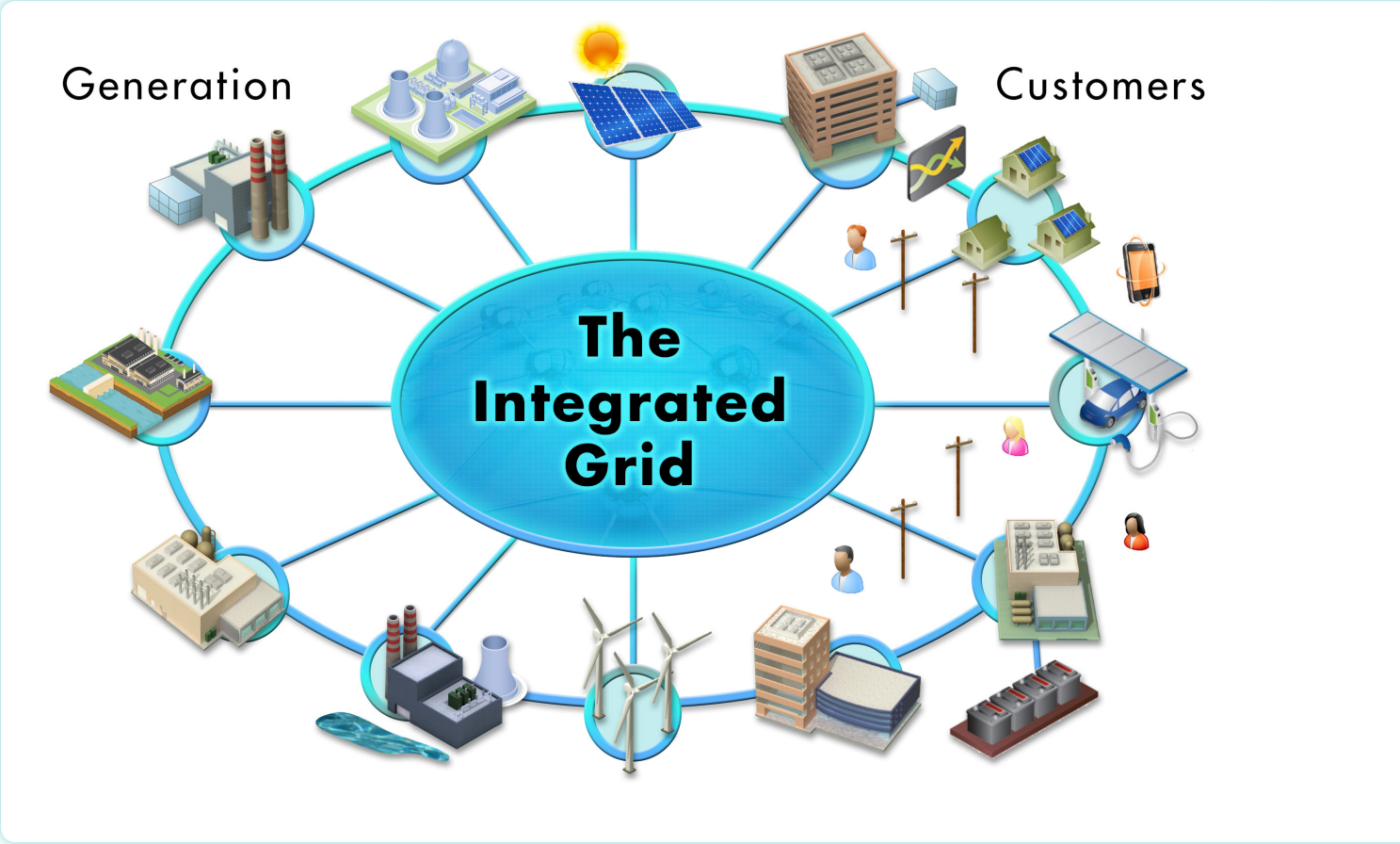


Figure 12: Creating an Architecture with Multi-Level Controller [44].

Grid Modernization: Imperative for the Integrated Grid

Grid modernization of the distribution system will include re-conductoring, and augmenting its infrastructure along with deploying smart technologies such as distribution management systems (DMS), communication, sensors, and energy storage is a key component of moving to the Integrated Grid. It is anticipated that this combination of infrastructure reinforcement and smart technology deployment can yield the lowest-cost solution for a given penetration level of DER in a feeder.

Table 2 shows a menu of technology options for the DSO side, the consumer side, and the integration of the two that will enable a distribution feeder to reliably integrate greater DER penetration [45], [46]. The solutions, which have been outlined and evaluated by others in the industry, are organized as follows:

- System operator solutions are those actions that the DSO could take to bolster the performance and reliability of the system where DER deployment is growing.
- Interactive solutions are those that require close coordination between the system operator and DER owner and generally provide the operator the ability to interact with the DER owner's system to help maintain reliable system operation.
- DER owner solutions are those that could be employed at the customer end of the system through installation of technology or operational response measures.

A comprehensive understanding of each approach is beyond the scope of this paper but is an important element of EPRI's proposed work. Assuming that any grid investment will be paid for by customers, it is important to determine if, and under what situations, such investments may prove cost-effective and in the public interest.

The coordinated demonstration of each option outlined in Table 2 across different types of distribution system feeders can help provide a knowledge repository that stakeholders can use to determine the prudence of the various investments needed to achieve an integrated grid. Such demonstrations also can provide information essential for all stakeholders regarding rules of engagement among DER owners, DSOs, TSOs, and ISOs.

No one entity has the resources to conduct the demonstrations and the associated engineering analysis to document costs, benefits, and performance of all technology options across all types of distribution feeders. EPRI proposes using its collaborative approach globally to develop a comprehensive repository of data and information that can be used to move toward the Integrated Grid.

System Operator Solutions	Interactive Solutions	DER Owner Solutions
Network reinforcement	Price-based demand response	Local storage
Centralized voltage control	Direct load control	Self-consumption
Static VAR compensators	On-demand reactive power	Power factor control
Central storage	On-demand curtailment	Direct voltage control
Network reconfiguration	Wide-area voltage control	Frequency-based curtailment

Table 2: Technology Options [45], [46].

Action Plan

The current and projected expansion of DER may significantly change the technical, operational, environmental, and financial characteristics of the electricity sector. An integrated grid that optimizes the power system while providing safe, reliable, affordable, and environmentally responsible electricity will require global collaboration in the following four key areas:

1. Interconnection Rules and Communications Technologies and Standards
    - ***Interconnection rules*** that preserve voltage support and grid management
    - ***Situational awareness*** in operations and long-term planning, including rules of the road for installing and operating distributed generation and storage devices
    - Robust ***information and communication technologies***, including high-speed data processing, to allow for seamless interconnection while assuring high levels of cyber security
    - A ***standard language and a common information model*** to enable interoperability among DER of different types, from different manufacturers, and with different energy management systems

2. Assessment and Deployment of Advanced Distribution and Reliability Technologies
    - ***Smart inverters*** that enable DER to provide voltage and frequency support and to communicate with energy management systems [1]
    - ***Distribution management systems and ubiquitous sensors*** through which operators can reliably integrate distributed generation, storage, and end-use devices while also interconnecting those systems with transmission resources in real time [2]
    - ***Distributed energy storage and demand response***, integrated with the energy management system [3]

3. Strategies for Integrating DER with Grid Planning and Operation
    - ***Distribution planning and operational processes*** that incorporate DER
    - ***Frameworks for data exchange and coordination*** among DER owners, DSOs, and organizations responsible for transmission planning and operations
    - Flexibility to ***redefine roles and responsibilities*** of DSOs and ISOs

4. Enabling Policy and Regulation
    - ***Capacity-related costs*** must become a distinct element of the cost of grid-supplied electricity to ensure long-term system reliability
    - ***Power market rules*** that ensure long term adequacy of both energy and capacity
    - ***Policy and regulatory framework*** to ensure that costs incurred to transform to an integrated grid are allocated and recovered responsibly, efficiently, and equitably
    - ***New market frameworks*** using economics and engineering to equip investors and other stakeholders in assessing potential contributions of distributed resources to system capacity and energy costs

Next Steps for EPRI

In order to provide the knowledge, information, and tools that will inform key stakeholders as they take part in shaping the four key areas supporting transformation of the power system, EPRI has begun work on a three-phase initiative.

Phase I – Develop a Concept Paper

This concept paper was developed to align stakeholders on the main issues while outlining real examples to support open fact-based discussion. Input and review was provided by various stakeholders from the energy sector including utilities, regulatory agencies, equipment suppliers, non-governmental organizations (NGOs), and other interested parties. The publication of this paper will be followed by a series of public presentations and additional topical papers of a more technical nature that will more completely analyze various aspects of the Integrated Grid and lessons learned from regions where DER penetration has increased.

Phase II – Develop an Assessment Framework

In this six-month project, EPRI will develop a framework for assessing the costs and benefits of combinations of technology that lead to an integrated grid. Such a framework is required to ensure consistency in the comparison of options and to build a resource library that will inform the Phase III demonstration program.

In order to organize a comprehensive framework, EPRI will analyze system operator, DER owner, and interactive options listed in Table 2. Since each country, state, region, utility, and feeder may have differing characteristics that lead to different optimized solutions, efforts will be made to ensure that the framework is flexible enough to accommodate these differences.

Additionally, a testing protocol will be developed in support of the Phase III global demonstration program to ensure that a representative sample of systems and solutions will be tested.

Phase III – Conduct a Global Demonstration and Modeling Program

Phase III will focus on conducting global demonstrations and modeling using the analytics and procedures developed in Phase II to provide data and information that stakeholders will need for the system-wide implementation of integrated grid technologies in the most cost-effective manner.

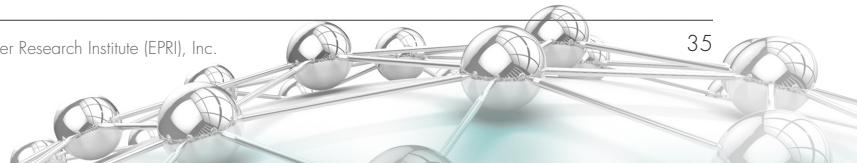
Using the Phase II framework and resource library, participants in Phase III can combine and integrate their various experiments and demonstrations under a consistent protocol. However, it is neither economic nor practical for an individual DSO to apply all the technological approaches across different types of distribution circuits. Therefore, Phase III, planned as a two-year effort, will present the opportunity for utilities globally to collaborate to assess the cost, benefit, performance, and operational requirements of different technological approaches to an integrated grid.

Demonstrations and modeling projects in areas where DER deployment is not expected near term will use the analytics and procedures developed in Phase II to ensure that results can provide data and information that utilities will need for planning investments in the system-wide implementation of integrated grid technologies.

With research organizations and technology providers working with distribution companies on individual demonstration projects, EPRI can work to ensure that findings and lessons learned are shared, and to consolidate the evaluations of the different approaches. The lessons learned from the real life demonstrations will be assembled in a technology evaluation guidebook, information resources, and analysis tools.

New technologies for grid modernization will continue to evolve as the transformation to an integrated grid continues in this decade and beyond. The effort outlined in Phase II and Phase III will not be a one-time event but will set the stage for ongoing technology development and optimization of the integrated grid concept. As new technology evolves, a comprehensive framework for assessment of the technology as outlined in Phases II and III can support prudent investment for grid modernization using solid scientific assessment before system-wide deployment.

An integrated grid that optimizes the power system while providing safe, reliable, affordable, and environmentally responsible electricity will require global collaboration.



Outputs from the Three-Phase EPRI Initiative

Taken together, Phases II and III will help identify the technology combinations that will lead cost-effective and prudent investment to modernize the grid while supporting the technical basis for DER interconnection requirements. Also to be developed are interface requirements that help define the technical basis for the relationship between DER owners, DSOs, and TSOs or ISOs. The information developed, aggregated, and analyzed in Phases II and III will help identify planning and operational requirements for DER in the power system and inform policymakers and regulators as they implement enabling policy and regulation. The development of a consistent framework backed up with data from a global technology demonstration and modeling program will support cost-effective and prudent investments to modernize the grid in order to effectively integrate large amounts of DER into the existing power system.

A key deliverable from the Phase II and III efforts will be a comprehensive guidebook, analytical tools, and a resource library for evaluating combinations of technologies in distribution system circuits. In order to maximize the value of these deliverables, EPRI will seek to partner with organizations that are leading integrated grid-style analyses and demonstration projects to ensure that all have access to the full database of inputs and outputs from these important projects even if they were not directly involved in the technical work. Key components of the guidebook, analytical tools, and resource library will include:

- Comprehensive descriptions of technological approaches and how they can be applied in a distribution system
- Modeling tools and approaches required to assess the performance of the technical solutions
- Operational interface that will be required between DER owners and DSOs
- Analytics to assess the hosting capacity of distribution circuits
- Analytics to evaluate technology options and costs to support greater penetration of DER
- Analytics to characterize the value of integrated grid approaches beyond increasing feeder hosting capacity

A collaborative approach will be essential to develop the comprehensive knowledge repository of costs, benefits, performance, and operational requirements of the multitude of technical approaches that can be implemented in a given distribution feeder for a specific level of DER integration. The guidebook, analytical tools, and resource library will build on prior work of EPRI and other research organizations to develop a portfolio of solution options outlined in Table 2. They will also use the DOE/EPRI cost/benefit framework for evaluating smart grid investments as part of smart grid demonstrations around the world [47].

Conclusion

Changes to the electric power system with the rise of DER have had a substantial impact on the operation of the electric power grid in places such as Germany and Hawaii. As consumers continue to exercise their choice in technology and service, as technologies improve in performance and cost, and as federal and regional policy incentives are passed, DER could become even more pervasive.

DER deployment may provide several benefits, including reduced environmental impact, deferred capacity upgrades, optimized distribution operations, demand response capabilities, and improved power system resiliency. The successful integration of DER depends pivotally on the existing electric power grid, especially its distribution systems, which were not designed to accommodate a high penetration of DER while sustaining high levels of electric quality and reliability. Certain types of DER operate with more variability and intermittency than the central power stations on which the existing power system is based. The grid provides support that balances out the variability and intermittency while also providing other services that may be difficult to replicate locally.

An integrated grid that optimizes the power system while providing safe, reliable, affordable, and environmentally responsible electricity will require global collaboration in the following four key areas:

1. Interconnection Rules and Communications Technologies and Standards
2. Assessment and Deployment of Advanced Distribution and Reliability Technologies
3. Strategies for Integrating DER with Grid Planning and Operation
4. Enabling Policy and Regulation

In order to provide the knowledge, information, and tools that will inform key stakeholders as they take part in shaping the four key areas supporting transformation of the power system, EPRI has begun work on a three-phase initiative:

- Phase I – Align stakeholders with a concept paper (this document).
- Phase II – Develop a framework for assessing the costs and benefits of combinations of technology that lead to an integrated grid.
- Phase III – Initiate a worldwide demonstration program to provide data to those seeking to implement integrated grid solutions.

The initiative will help identify the technology combinations that will lead to cost-effective and prudent investment to modernize the grid while supporting the technical basis for DER interconnection requirements. It will develop interface requirements to help define the technical basis for the relationship between DER owners, DSOs, and TSOs or ISOs. Finally, the information developed, aggregated, and analyzed in Phases II and III will help identify planning and operational requirements for DER in the power system while supporting the robust evaluation of the capacity and energy contribution from both central and distributed resources.

The development of a consistent framework supported by data from a global technology demonstration and modeling program will support cost-effective and prudent investments to modernize the grid and the effective, large-scale integration of DER into the power system. The development of a large collaborative of stakeholders will help the industry move in a consistent direction to achieve an integrated grid.

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Appendix A – Cost Calculations

Generation, Transmission, and Distribution vs. Cost of Energy and Capacity

Generation, transmission, and distribution breakdowns are provided from EIA estimates in ($/kWh), assuming an average customer usage of 982 kWh/month.

Generation is broken into two components (energy and capacity) based on PJM market estimates of the price breakdown: "2010 PJM Market Highlights: A Summary of Trends and Insights." 2011. http://www.pjm.com/~/media/documents/reports/20110513-2010-pjm-market-highlights.ashx

Of which, 80% was estimated as energy related, while the other 20% was attributed to capacity.

Distribution and transmission are estimated based on the following breakdown from SCE (E3 NEM Effectiveness Report): http://www.ethree.com/documents/CSI/CPUC_NEM_Draft_Report_9-26-13.pdf

Among the appendices, Southern California Edison's (SCE's) implied transmission and distribution (T&D) costs were provided. When those costs were scaled back to national average values, the percentages are provided below:

SCE Implied Cost breakdowns (when scaled to $40/month)

Cost Breakdown	$/Month	Fixed %	Variable %	Fixed ($)	Variable ($)
Customer	$14.29	100%	0%	$14.29	$–
Distribution	$15.71	90%	10%	$14.14	$1.57
Sub-transmission	$4.29	60%	40%	$2.57	$1.71
Transmission	$5.71	100%	0%	$5.71	$–
TOTAL	$40.00			$36.71	$3.29

Thus the variable (energy-based) T&D costs were taken at $3/month.

Cost of Off-Grid Residential Solutions

Cost figures reflect the additional cost to take a residence that produces 100% of its energy locally (from PV) and turn it into a self-sufficient entity that can operate without a grid connection.

These costs include the following, which are then amortized across the lifetime of the project (20 years):

- Extra PV panels (beyond the annual kWh requirement)
- Battery storage
- Charge controller
- Backup generator

Software Package: HOMER Energy (Hourly energy profile simulator)
Locations: St. Louis, MO and San Francisco, CA
Analysis includes appropriate incentives Federal ITC and net-energy-metering

Location	St. Louis, MO	San Francisco, CA
Load Profile (OpenEI)	12MWh/yr	7.67MWh/yr
Real Interest Rate	3.5% (5.5% APR – 2% inflation)	
Project Lifetime	20 years (no salvage)	
PV System (Array + Inverter) Installed Cost	$3-$4/W installed (after incentive) [2013] $1.50-$2/W installed [2020]	
Battery Cost	$450-$550/installed kWh [2013] $200-$300/installed kWh [2020]	
Generator	$400/kW	
System Controller	$600/kW	
System O&M	$32/kW/yr PV system O&M + $0.50/hr generator O&M + $3/battery/yr	

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