

Section 1. Title 66 (Public Utilities) of the Pennsylvania Consolidated Statutes is amended by adding a section to read:

Section 2806.3. Virtual Power Plant Program.

- (a) Program. – The commission shall, by July 1, 2027, require each electric distribution company to develop and submit a proposal to the commission for the implementation of a virtual power plant program consistent with the provisions of this act.
- (b) Commission review and approval. –
 - (1) The commission shall conduct a public hearing on each proposal and allow for the submission of recommendations by the Office of Consumer Advocate and other stakeholders for the programs proposed by each electric distribution company.
 - (2) The commission shall approve or disapprove a proposal filed under subsection (a) within 120 days of submission. The following shall apply to an order rejecting a proposal:
 - (i) The commission shall describe in detail the reasons for the disapproval.
 - (ii) The electric distribution company shall have 60 days to file a revised proposal to address the deficiencies identified by the commission. The revised proposal shall be approved or disapproved by the commission within 60 days.
 - (3) A proposal filed under this subsection shall contain a reasonable enrollment target for an electric distribution company to achieve within one year of receiving approval by the commission. An electric distribution company shall attempt to achieve the enrollment target through a combination of marketing, customer education, and other means to communicate the benefits and risks of participating in the program.
- (c) Requirements. – The virtual power plant program filed pursuant to subsection (a) shall be developed to harness distributed energy resources to provide system peak load demand reduction and other grid services. The program shall be designed to do the following:
 - (1) Allow customers with eligible technologies to enroll in the program through aggregators or an electric distribution company.
 - (2) To the extent practicable, provide a mechanism to incorporate existing demand response programs administered by an electric distribution company into the program.
 - (3) Include compensable grid services for each eligible technology that participants may provide, which shall include, at a minimum, local and system peak demand response and avoidance or deferral of transmission or distribution upgrades or capacity expansion, and may also include:
 - (i) Clean peak service;
 - (ii) Locational value;

- (iii) Voltage support and other ancillary services;
 - (iv) Emergency services; and
 - (v) Any other functions and grid services the commission determines are supportive of efficient planning and operation of the electrical grid.
- (4) Provide operational parameters for grid services by each distributed energy resource type, including at minimum:
 - (i) Minimum and maximum numbers of grid events during which the electric utility may dispatch the enrolled distributed energy resources;
 - (ii) Months of the year that grid events may occur;
 - (iii) Days of the week that grid events may occur;
 - (iv) Times of the day that grid events may occur;
 - (v) Maximum duration of grid events;
 - (vi) Maximum advance notification of grid events to participants, except emergency events, as practicable; and
 - (vii) Any other information the commission determines is necessary to efficiently operate the program.
- (5) Include provisions for aggregators to:
 - (i) Participate in the program;
 - (ii) Enroll and manage their customers' participation;
 - (iii) Receive dispatch signals and other communications from the electric utility; and
 - (iv) Receive performance-based or other appropriate compensation from the electric utility.
- (6) Include provisions to measure and verify battery performance directly at the site of the device without requiring the installation of an additional meter, and other measurement standards for eligible technologies to be approved by the commission.
- (7) Include upfront payment and/or performance-based compensation mechanisms for the full value of grid services at specific locations where eligible technologies are utilized. The commission may approve reasonable mechanisms to disenroll customers for continued non-performance but shall not assess penalties for non-performance.
- (8) Include increased upfront payments for low-income customers and customers located in historically disadvantaged communities in addition to performance-based compensation. The commission may approve increased

upfront payment rates under this paragraph and shall coordinate with state agency officials to make funding available from the Inflation Reduction Act of 2022 (Public Law 117-169, 136 Stat. 1818) and other funding opportunities from the United States Department of Energy which may be utilized to provide increased upfront payments to certain customers.

- (9) Allow participants to maintain the performance-based rate applicable at the time of enrollment for a minimum of five years and enable participants to reenroll after the five-year period at the applicable rate for an additional five-year term.
 - (10) In addition to the compensation for each grid service, the tariff shall provide that energy exported from an enrolled eligible technology shall be credited to the enrolled customer at a value equal to the retail rate charged by the electric distribution company for energy at the time of exportation, regardless of the export compensation rate specified in the customer's current interconnection tariff. Nothing in this paragraph shall affect the rate of compensation for energy exported outside of a grid event under a virtual power plant program approved by the commission.
 - (11) Include provisions prohibiting the exclusion of enrollment in a virtual power plant program due to receiving any other financial incentives from an electric distribution company. Enrolled customers shall remain eligible to receive state and federal incentives in addition to any compensation received for participating in the program.
 - (12) Allow an electric distribution company to incorporate other reasonable requirements for participation consistent with this section. The commission shall not allow an electric distribution company to require collateral from a program participant.
- (d) Commission duties. –
- (1) The commission may approve, reject, or modify a program tariff filed under this section, and may modify an approved tariff after notice and public hearing.
 - (2) The commission shall establish reasonable and appropriate standards to protect the interests of program participants, including, but not limited to, requirements for registration forms, procedures to opt-out, standard contract terms and conditions, payment terms, warranties, and disclosure forms.
 - (3) The commission shall establish standards and procedures governing energy data held by participants and electric utilities that must be shared with aggregators to ensure efficient operation of a virtual power plant program. An aggregator shall not sell or

- use, for any other purpose, data from participants or electric utilities gathered for program use.
- (4) The commission shall develop a process to amend performance-based rates when making amendments to such rates is deemed necessary.
 - (5) For good cause shown, the commission may delay, for a reasonable period of time, the deadline for an electric distribution company to comply with the provisions of this act.
- (e) Electric utility eligibility. – An electric distribution company may offer program enrollment directly to customers in addition to aggregator program offerings. Any resources owned by the electric distribution company shall not be eligible to participate in the program.
- (f) Contracts. – An electric distribution company may contract with a third party distributed energy resource management system provider to assist with program implementation, provided that program implementation is not delayed due to lack of public utility owned or third-party management system capabilities.
- (g) Cost recovery. – Notwithstanding any other provision of this section, an electric distribution company may recover on a full and current basis from customers, through a reconcilable adjustment clause under section 1307, all reasonable and prudent costs incurred to administer and implement a program approved by the commission under this section, including information technology costs or investments such as distributed energy resource management systems. The commission may allow a reasonable rate of return on the cost of payments made for grid services and shall take this allowance into consideration when developing performance incentives pursuant to subsection (h). The following shall apply:
- (1) The commission may permit a public utility to prudently recover costs associated with distributed energy resource rebates for new eligible technologies enrolled in the program; and
 - (2) The commission may introduce performance incentive mechanisms to encourage program spending efficiency.
- (h) Targets and incentives. –
- (1) The commission shall initiate a proceeding to develop capacity procurement targets applicable to the electric distribution company for the program's utilization and corresponding performance incentives for achieving established peak reduction targets in accordance with the provisions under paragraph 2. The performance targets and incentives established under this subsection shall take effect no later than one year following the commission's approval of the program pursuant to subsection (b).
 - (2) Within 270 days of the effective date of this act, the commission shall, at minimum, establish the following by regulation or order:

- (i) Annual capacity procurement and performance targets for the system peak reduction service which shall be designed to increase each year in the amount of capacity procured for system peak reduction over a five-year period;
- (ii) Corresponding performance incentives for meeting the target established for each year of the performance period;
- (iii) Financial awards equal to or greater than the rate of return generated from traditional public utility capital investment required to meet the targets of the performance incentives established under this subsection;
- (iv) Financial penalties for failure to meet targets established under this subsection;
- (v) New targets for subsequent five-year periods;
- (vi) Additional targets and performance incentives for each additional grid service adopted and approved for implementation pursuant to subsection (c).
- (i) Report. – By July 1, 2028, and annually thereafter, each electric distribution company shall submit an annual report to the commission relating to the overall performance of the program and its impact on participants and customers. The report shall include, at a minimum:
 - (1) The total capacity enrolled under the tariff approved by the commission under this section and customer class, all reported separately by eligible technology type.
 - (2) The system peak reduction attributable to the program.
 - (3) Contributions to other grid services made by the program.
 - (4) Recommendations to increase participation in the program.
 - (5) Any other information requested by the commission.
- (j) Definitions. -- As used in this section, the following words and phrases shall have the meanings given to them in this subsection:

“Aggregator.” An individual or entity, other than an electric distribution company, that participates or enrolls customers in the virtual power plant program and coordinates the operation of enrolled devices.

“Battery.” An energy storage device and associated equipment that operates together to fulfill program requirements.

“Device.” A piece of equipment that is an eligible technology owned by a participant.

“Distributed energy resource.” An eligible technology device that is located on the customer’s premises or interconnected with the distribution system that provides energy and/or energy management capabilities for the customer or the grid. This term includes, but is not limited to, battery storage, smart thermostats, smart water heaters, electric vehicle charging equipment and electric vehicle batteries, and controllable loads, including controllable loads and devices located at residential, commercial and industrial sites, as well as in front of the meter resources on the distribution system.

“Eligible technology.” Technology owned by a customer or third-party that is capable of being activated or dispatched under a virtual power plant program to address a grid event. The term includes, but is not limited to, energy storage systems, solar photovoltaic devices, smart thermostats, heat pumps, electric vehicles and chargers, and demand response resources.

“Energy storage system.” A resource capable of receiving electric energy from the grid and storing it for later injection of electric energy back to the grid.

“Enrolled customer.” A customer that participates in the program through an aggregator.

“Enrolled resource.” An eligible technology enrolled in the program.

“Emergency event.” A grid event identified by an electric distribution company where notice is given in less than 24 hours.

“Grid event.” A grid condition or shortage of electricity supply for which the electric utility schedules or remotely dispatches enrolled resources.

“Grid service.” A capacity, energy, or ancillary service that supports grid operations.

“Historically disadvantaged community.” An area, municipality or part of a municipality where at least 20% of the population has been under the Federal Poverty Income Level as defined by the United States Department of Health and Human Services for at least 30 years.

“Participant.” An owner of an eligible technology enrolled in a program.

“Performance-based compensation.” A system of payments made to participants based on the value of the electricity dispatched or saved through activating enrolled resources during a grid event.

“Performance-based rate.” The performance-based compensation rate paid to participants based on the performance of enrolled resources providing one or more grid services during a grid event.

“Program.” A virtual power plant program established under this act.

“Upfront payment.” A one-time payment issued at the time of enrollment.

“Virtual power plant” An aggregation of distributed energy resources, enrolled through an aggregator or electric distribution company, that are operated in coordination to provide one or more grid services.

Section 2. This act shall take effect immediately.