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COST RECOVERY FOR SERVICE TO § PUBLIC UTILITY COMMISSION
DISTRIBUTED ENERGY RESOURCES (DERS) §
§ OF TEXAS

COMMENTS OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

CenterPoint Energy Houston Electric, LLC (“CenterPoint Energy”) is a transmission and distribution utility (“TDU”) in ERCOT and submits these comments in response to the Commission Staff’s request for comments to certain questions filed on October 24, 2022, concerning electric utility cost recovery for providing service to distributed energy resources (“DERs”). Neither the Commission’s rules nor PURA defines DER. For purposes of these comments, CenterPoint Energy defines DER as encompassing both distribution generation resources (“DGRs”) and distribution energy storage resources (“DESRs”), as those terms are defined in ERCOT Nodal Protocols Section 2. As defined there, a DGR is a generator that is registered with ERCOT as a resource to sell energy or ancillary services in the wholesale market, is connected to a utility’s distribution system, and has an output capacity greater than one megawatt (“MW”). A DESR is an energy storage system that is registered with ERCOT as a resource to sell energy or ancillary services in the wholesale market, is connected to a utility’s distribution system, and has an output capacity greater than one MW.

A. QUESTIONS IN NO. 1.

Is it appropriate for some amount of capital and/or operations and maintenance costs incurred by distribution service providers (DSPs) to be uplifted to transmission cost of service (TCOS)? Why or why not?

CenterPoint Energy believes that all the capital and operations and maintenance (“O&M”) costs reasonably incurred by a TDU to provide wholesale transmission service at distribution voltages to a DER on the TDU’s distribution system (hereinafter, “Wholesale Distribution Service”) to allow the DER to

“deliver power to another transmission service customer,” including to a retail electric provider (“REP”),¹ should be recovered through the TDU’s rates for retail delivery service on its distribution system. It would not be appropriate to uplift those costs for recovery through the postage stamp rates charged to all DSPs in ERCOT for wholesale transmission service and ultimately passed on to all retail customers in ERCOT. It is the retail consumers on the TDU’s distribution system who are the ultimate recipients of the energy produced and exported by DERs interconnected with that distribution system. For this reason, all such capital and O&M costs should be part of the TDU’s distribution cost of service for providing delivery services to retail customers on its distribution system.

A TDU incurs two categories of capital and O&M costs when it provides Wholesale Distribution Service to DERs: (1) the capital and O&M costs associated with the TDU’s construction and operation of the facilities necessary to interconnect the DER to the distribution system (the “**Interconnection Costs**”) and (2) the capital and O&M costs associated with the TDU’s construction and operation of the distribution system itself (the “**Distribution System Costs**”) that is used by the DER for the delivery of its energy exports to REPs serving the retail customers on the distribution system. The Distribution System Costs are already, and should continue to be, included in the DSP’s distribution cost of service for providing delivery services to retail customers on the DSP’s distribution system.

There are two types of Interconnection Costs: the Interconnection Costs for the TDU’s equipment and facilities necessary for the interconnection (the “**TDU Interconnection Costs**”), and the DER’s equipment and facilities necessary for the interconnection (the “**DER Interconnection Costs**”). The TDU Interconnection Costs can be recovered either directly from the DER² or incorporated into the DSP’s

¹ See Commission Rule 25.5(139) (defining “transmission service” as a service that “allows a transmission service customer to use the transmission and distribution facilities of electric utilities . . . to deliver power to another transmission service customer”). The term “transmission service customer includes power generation companies and retail electric providers. *Id.* 25.5(140).

² See, e.g., Rule 25.211(m)(3) (stating that if an interconnection “will require substantial capital upgrades to the utility system, the company shall provide the customer an estimate of the . . . customer’s cost for the upgrade”).

Distribution System Costs and included in the DSP's distribution cost of service rates charged for providing delivery services to retail customers on the DSP's distribution system. As discussed below in response to the questions concerning DER contributions-in-aid-of-construction, CenterPoint Energy believes it would be more appropriate to allow the TDU to incorporate these Interconnection Costs into the TDU's Distribution System Costs and recovered through the distribution cost of service rates charged for providing delivery services on the TDU's distribution system, rather than charging these costs directly to the DER.

Does a DESR provide the same congestion relief and reliability to the transmission system as a resource connected at transmission voltage? How do congestion relief and reliability benefits differ depending on the type of resource?

DESRs and DGRs, which are connected to TDU distribution systems at distribution voltages, do not provide the same congestion relief and reliability benefits to the ERCOT transmission system as energy storage resources and generation resources that are directly connected to the ERCOT transmission system at transmission voltages. Such transmission system resources provide direct congestion relief and reliability benefits to the ERCOT transmission system by their availability to export energy to, and provide ancillary services for, the ERCOT transmission system. DESRs and DGRs, by definition, are not directly connected to the ERCOT transmission system and, therefore, cannot export power to the ERCOT transmission system. Their ability to provide ancillary services to the ERCOT transmission system currently exists only in the limited situation of when they are connected to a distribution substation through a dedicated feeder.

Moreover, although DESRs and DGRs can indirectly provide congestion relief and reliability benefits to the ERCOT transmission system by reducing the demand for energy from the ERCOT transmission system,³ a transmission system resource can provide neither direct nor indirect benefits to

³ Other distribution system services and programs, such as a TDU's demand response and energy efficiency programs, also provide such indirect benefits to the ERCOT transmission system, but the costs for those programs are not uplifted to the TCOS. The ability to indirectly provide reliability or congestion relief benefits to the ERCOT

a distribution system during a load shed event or after a major storm event. A distribution system resource can provide reliability benefits to the distribution system that a transmission system resource cannot. To CenterPoint Energy, these are reasons to keep a TDU's cost to provide Wholesale Delivery Service for the export of DER power to distribution system retail customers in the TDU's distribution cost of service.

How does location of the DESR affect congestion on the transmission system?

Both DESRs and DGRs on the distribution system interconnected through a substation where transmission system congestion exists may be able to help alleviate the congestion by offsetting the substation's power demand from the transmission system. Price signals in the ERCOT wholesale market should generally discourage a DESR from causing congestion on the transmission system.

In the current market, are energy and ancillary service prices adequately compensating DERs for the benefits they provide? Please explain.

CenterPoint Energy has no comments on this question.

B. QUESTIONS IN NO. 2.

Is it appropriate for a DESR to pay some level of distribution charges? Why or why not?

Yes, a DESR should pay a wholesale distribution rate to the TDU for the DESR's use of the TDU's distribution system to charge or store the delivered energy in its energy storage system (the rate would be inapplicable to a DGR), and for both DESRs and DGRs to pay the TDU a retail delivery rate for the delivery of any auxiliary power used to support the resource. When a DESR is taking power from the distribution system to charge or store the delivered energy in its storage system, it is acting as a wholesale storage load customer and is using the distribution system in the same way as a retail distribution load customer uses it. In both cases, the TDU is using the same distribution system to provide a delivery

transmission system should not be the deciding factor for whether to uplift their costs to the ERCOT transmission system to be recovered from customers outside of the TDU's distribution system service area.

service—one is a retail delivery service to retail distribution load customers, and the other is a wholesale delivery service to wholesale distribution load customers. Therefore, the TDU's capital and O&M costs for constructing, operating, and maintaining the distribution system (the distribution cost of service) should be allocated to and paid by both retail distribution load customers and wholesale distribution load customers through a monthly delivery service rate in proportion to their respective uses of the system and other cost-causation factors. The cost of Wholesale Distribution Service should be part of a DESR's cost of doing business when it is using the service to create stored energy. A TDU's energy delivery service to a DESR for storage is analogous to the pipeline transportation service that a natural gas pipeline provides to a generation resource that uses natural gas to generate energy, in that the generation resource must pay the pipeline a cost-based tariffed rate for the transportation service provided by the pipeline to the generator.

Do DESRs affect congestion and capacity availability on the distribution system? Please explain.

Because distribution systems are primarily engineered to deliver energy from the distribution substations that are connected to the ERCOT transmission system to end user premises, there is a risk that the distribution system will become congested by DESRs and DGRs exporting energy onto the distribution system from different locations where they are interconnected to the distribution system. However, the exported energy from the DESRs and DGRs onto the distribution should offset the amount of energy imported from the transmission system at the distribution substations, which would tend to mitigate some of the potential congestion problems caused by their energy exports onto the distribution system. Furthermore, as mentioned above, a DESR's demand on the distribution system for Wholesale Distribution Service when it is acting as wholesale storage load would likely be during non-peak periods and not cause congestion problems on the distribution system. To the extent that system upgrades to the distribution system are reasonably necessary to address reliability concerns raised by increased DESR and DGR interconnections, the costs of such system upgrades should be recoverable as Distribution

System Costs through Commission-approved delivery rates for all load customers on the distribution system.

Is it appropriate to exempt DESRs from any portion of the wholesale transmission service at distribution voltage rates or tariff provisions? Why or why not? Please also address whether such an exemption would be consistent with PURA § 35.004(d)

DESRs should not be exempt from the TDU's rates for providing Wholesale Distribution Service to wholesale storage loads. DESRs, when taking energy from the grid for storage, are wholesale storage load customers, and they use and benefit from the distribution system the same as retail load customers do and should similarly share in the costs for constructing and operating the distribution system. The Commission's order adopting rule 25.501(m)(2) in Project No. 39917 regarding DESRs/wholesale storage stated that wholesale storage load customers should not be subject to a TDU's rates and charges developed for the provision of retail delivery services, but that it should be subject to a TDU's rates and charges developed for the provision of wholesale delivery services. Since the rule explicitly exempts such customers from the ERCOT-based postage stamp rates and charges assessed on DSPs for wholesale delivery services, a TDU must file specific wholesale delivery service rates for such customers based on the TDU's cost of providing that service.

PURA § 35.004(d) requires the commission to "price wholesale transmission services within ERCOT based on the postage stamp method of pricing . . . based on the ERCOT utilities' combined annual costs of transmission divided by the total demand placed on the combined transmission systems of all [ERCOT] transmission-owning utilities." Only wholesale transmission service actually provided over the ERCOT transmission system has ever been subject to the postage stamp pricing method prescribed in PURA § 35.004(d). Wholesale transmission services provided, for example, to a DSP over distribution facilities have never been subject to that pricing. PURA § 35.004(d)'s "postage stamp" mandate is intended to apply only to wholesale transmission services provided over the ERCOT transmission system.

It was never intended to apply to wholesale transmission services provided at distribution voltages over a TDU's distribution system.

Should a DSP be required to implement a DESR--specific tariff for transmission service at distribution voltage? Why or why not?

Commission rule 25.191(d) requires a DSP to “file a tariff with the commission for wholesale transmission service at distribution level voltage if . . . [the] DSP receives a valid request to provide wholesale transmission service at distribution level voltage.” Moreover, it requires the DSP to “file the tariff within 30 days of receiving the request.” A DSP must also file a DESR-specific tariff for Wholesale Distribution Service to wholesale storage loads, because an electric utility can only offer and provide a service that is in a commission-approved tariff.⁴ If a DSP has no commission-approved tariff for Wholesale Distribution Service, it is prohibited from offering or providing such a service. And, for the reasons previously discussed, DESRs should be required to pay a tariff rate for Wholesale Distribution Service when they are taking energy from the distribution system for storage purposes.⁵

If so, what is the appropriate rate structure for a DESR to pay for transmission service at distribution voltage?

The Wholesale Distribution Service rate for when a DESR is taking delivery service from the distribution system for energy storage purposes should be based on a cost of service study. As previously stated in these comments, when a DESR is acting a wholesale storage load customer, it is using the distribution system the same way as a retail distribution load customer uses it. In both cases, the TDU is using the same distribution system to provide a delivery service—one is a retail delivery service to retail distribution load customers, and the other is a wholesale delivery service to wholesale distribution load

⁴ See PURA § 36.004(a) (prohibiting an electric utility from charging for a service other than as “prescribed by the applicable tariff.” See also Commission rule 25.272(e)(1)(A) (stating that “any sale of a product or service by a utility shall be governed by a tariff approved by the commission”).

⁵ While CenterPoint Energy does not provide wholesale distribution service to other DSPs (such as municipal utilities or electric cooperatives), the company understands that other TDUs do provide such service. To the extent this question asks whether there should be a DESR-specific tariff that is different from a tariff used to provide service to other DSPs, CenterPoint Energy does not have a position on that issue at this time.

customers. Therefore, the rate structures for a TDU's delivery services to wholesale storage load customers and retail load customers should be the same.

If the rate paid by a DESR does not fully recover costs related to that service, how should the DSP allocate the remaining costs? Should the costs be reallocated to other customers or uplifted to TCOS?

The Wholesale Distribution Service rate charged to a DESR for transmission at distribution voltage service should fully recover the Distribution System Costs related to that service that are allocated to the wholesale storage load customer rate class. None of the costs should be uplifted to TCOS.

C. QUESTIONS IN NO. 3.

Should other distribution customers bear costs caused from interconnecting DESRs in their DSP's territory? Why or why not?

The retail distribution customer cost of service should be used to recover all Distribution System Costs, which should include the Interconnection Costs, except for that portion of the Distribution System Costs allocated to DESRs when acting as wholesale storage load customers. The DSP's retail distribution customers are the ultimate customers and recipients of the DESR energy stored and exported onto the distribution system for delivery by the DSP to its retail distribution customers. Also, the retail distribution customers in ERCOT ultimately bear the transmission system costs, which includes the costs incurred by transmission service providers ("TSPs") for interconnecting resources to the transmission system.

Should other distribution customers bear the costs caused from interconnecting DERs in their DSP's territory? Why or why not?

Yes, for the same reasons as discussed immediately above.

Is it appropriate for a DER to pay less than the entire contribution in aid of construction (CIAC) fee? Why or why not?

CenterPoint Energy currently requires DERs to pay a CIAC for the TDU Interconnection Costs but does not require transmission resources to pay a CIAC for the costs of interconnection transmission

resources to its transmission system. That is because the Commission's rules⁶ authorize TSPs to recover their entire TCOS from DSPs, including transmission resource interconnection costs, through PURA § 35.004(d)'s postage stamp rate. TSPs, therefore, do not require a CIAC from a transmission resource for the TSP's interconnection costs, since those costs become part of the TCOS when the resource achieves commercial operation.⁷ The Commission's rules do not, however, authorize DSPs to recover TDU Interconnection Costs in their distribution cost of service. Because of the disallowance risk if CenterPoint Energy waived its current CIAC requirement for DER interconnections and tried to recover TDU Interconnection Costs as part of its Distribution System Costs, it continues to require a CIAC payment from DERs to cover the TDU Interconnection Costs.

CenterPoint Energy believes that generally there should be no CIAC payment requirement for a DER to interconnect to a TDU's distribution system.⁸ All such TDU Interconnection Costs should be included in the TDU's Distribution System Costs and allocated to all retail and wholesale distribution load customers based on their respective class cost of service responsibility. After all, it is the load customers on the TDU's distribution system who are the recipients of the TDU's delivery services, whether such delivery services are used to deliver power from the transmission grid or from DERS on the TDU's own distribution grid. Furthermore, a no-CIAC approach is correspondingly analogous to how resource interconnection costs are recovered on the transmission system. This approach would therefore place generation and energy storage resources connected to the distribution system on a level playing field with

⁶ See Commission rules 25.192 and 25.195.

⁷ The Commission's transmission service rules require a resource interconnecting with the transmission system to be responsible for installing a breaker and step-up transformer. See 25.195(c)(1). If a DER intends to provide energy or ancillary services to the ERCOT transmission system, then the step-up transformer required to make this possible should be part of the DER Interconnection Costs.

⁸ The only time a CIAC is required for resource interconnections with the transmission system is when the interconnection requires, or the resource owner requests, the use of non-standard transmission facilities for the interconnection. The same would apply for DER interconnections, in that the only time a CIAC would be required for such interconnections would be to cover the additional costs of such non-standard interconnections.

generation and energy storage resources connected to the transmission system and would not inhibit the future growth of DERs.

If it is appropriate for a DER to pay less than the entire CIAC fee, then how should the amount payable by the DER be determined?

DERs should be required to pay a CIAC for TDU Interconnection Costs only to the extent that the TDU must use non-standard facilities for the interconnection, similar to how CenterPoint Energy requires a CIAC from a retail load customer only to the extent that non-standard facilities for the extension to serve the retail customer are required or requested. For example, CenterPoint Energy charges a CIAC to a retail customer who requests underground facilities for the extension to serve it. CenterPoint Energy also charges a CIAC to a retail customer who requests a dedicated rollover feeder to serve the load. Likewise, CenterPoint Energy would charge a DER a CIAC if the DER owner requested underground interconnection facilities or if CenterPoint Energy is required to install a dedicated feeder to the DER.⁹

If it is appropriate for a DER to pay less than the entire CIAC fee, how should any remaining costs be recovered by the DSP?

As previously stated, CenterPoint Energy believes that to the extent any Interconnection Costs are not included in a CIAC fee, then they should be incorporated with Distribution System Costs and allocated to all load customers on the TDU's distribution system.

D. QUESTIONS IN NO. 4.

16 Texas Administrative Code § 25.501(m) provides, "Wholesale storage is not subject to retail tariffs, rates, and charges or fees assessed in conjunction with the retail purchase of electricity. Wholesale storage shall not be subject to ERCOT charges and credits associated with ancillary service obligations, or other load ratio share or per megawatt-hour based charges and allocations." Given changes in

⁹ ERCOT Protocol § 3.8.6 currently requires DERs to "provide documentation from the DSP to ERCOT stating that the interconnecting distribution circuit will not be disconnected as part of an Energy Emergency Alert (EEA) Level 3 . . . event." This Protocol requirement means that a DSP must use a dedicated feeder for the interconnection facilities to a DER, and this requirement would entail a CIAC payment from the DER to cover those costs. CenterPoint Energy understands that ERCOT and other stakeholders are currently reviewing this Protocol.

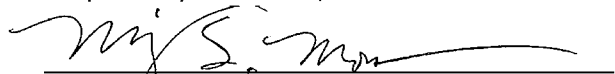
technology and the proliferation of Energy Storage Resources (ESRs) on the ERCOT grid, should the Commission revisit this policy on wholesale storage load applicability for ESRs interconnecting in the future? If so, how?

CenterPoint Energy does not believe it is necessary to revisit the Commission's rule 25.501(m). The policy stated in the rule that wholesale storage load should not be charged retail rates or the postage stamp wholesale transmission service rate prescribed in PURA § 35.004(d) is still a sound policy. Only a cost-based Wholesale Distribution Service rate should apply to wholesale storage load customers for the reasons given above in these comments.

CONCLUSION

CenterPoint Energy's comments can be summarized as follows. First, the Distribution System Costs incurred by a TDU to provide Wholesale Distribution Service to deliver energy *from* a DGR or DESR to load customers on the distribution system should be recovered through the TDU's rates for providing delivery service to all customers on its distribution system, rather than requiring the DER to pay a CIAC for those costs or uplifting those costs to ERCOT. Second, the Distribution System Costs incurred by a TDU to provide Wholesale Distribution Service to deliver energy *to* a DESR for storage should be charged to and recovered from the DESR through a Commission-approved Wholesale Distribution Service rate.

Respectfully submitted,



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Project No. 54224 Executive Summary of CenterPoint Energy Comments

- DER Interconnection Costs should be included with a TDU's Distribution System Costs.
- The Distribution System Costs incurred by a TDU to provide Wholesale Distribution Service to deliver energy *from* a DGR or DESR to load customers on the distribution system should be recovered through the TDU's rates for providing delivery service to all customers on its distribution system, rather than requiring the DER to pay a CIAC for those costs or uplifting those costs to ERCOT.
 - It is the distribution load customers on the TDU's distribution system who are the ultimate recipients and customers of energy produced by the DGRs and DESRs on the TDU's distribution system.
 - This is correspondingly analogous to how the capital and O&M costs incurred by a TDU to provide wholesale transmission service to generation and energy storage resources on the TDU's transmission system are recovered.
 - It places generation resources and energy storage resources connected to the distribution system on a level playing field with generation resources and energy storage resources connected to the transmission system.
 - It will not inhibit the future growth of DERs.
- The Distribution System Costs incurred by a TDU to provide Wholesale Distribution Service to deliver energy *to* a DESR for storage should be charged to and recovered from the DESR through a Commission-approved Wholesale Distribution Service rate.
 - A DESR is a wholesale load customer when the TDU delivers energy to the DESR for storage.
 - The cost of wholesale delivery service provided to a DESR should be part of the DESR's cost of doing business.
 - A TDU's energy delivery service provided to a DESR for storage is analogous to the natural gas transportation service that a natural gas pipeline provides to a natural gas-fired generation resource, in that the generation resource must pay the pipeline for the transportation service provided to the generator.
 - When a DESR is taking power from the distribution system to charge or store the delivered energy in its storage system, it is acting a wholesale storage load customer, and it is using the distribution system the same way as a retail distribution load customer uses it.
 - In both cases, the TDU is using the same distribution system to provide a delivery service—one is a retail delivery service to retail distribution load customers, and the other is a wholesale delivery service to wholesale distribution load customers.
 - Therefore, the TDU's capital and O&M costs for constructing, operating, and maintaining the distribution system (the distribution cost of service) should be allocated to and paid by both retail distribution load customers and wholesale distribution load customers through a monthly delivery service rate in proportion to their respective uses of the system and other cost-causation factors.
 - The cost of Wholesale Distribution Service should be part of a DESR's cost of doing business when it is using the service to create stored energy.
 - A TDU's energy delivery service to a DESR for storage is analogous to the pipeline transportation service that a natural gas pipeline provides to a generation resource that uses natural gas to generate energy, in that the generation resource must pay the pipeline a cost-based tariffed rate for the transportation service provided by the pipeline to the generator.