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Public Utility Commission of Texas
PO Box 13226
Austin, TX 78711-3326

Regarding: Project No. 54224 - Fair Interconnection Cost Recovery of Distributed Energy Storage Systems - Comments by SMT Energy, LLC

Dear Commissioners,

Herewith please accept comments from SMT Energy, LLC; a Texas developer of both distribution and transmission level battery energy storage projects. Our responses to staff questions can be found in BLUE.

Our conclusion is;

1. DESR's should pay for their portion of direct interconnection costs through CIAC as currently designed.
2. Operations and maintenance costs associated with DESR's should be uplifted to TCOS.
3. DESR's should not experience additional tariff charges for importing energy.

Our thesis is;

1. **Fair practice** - ESR's at distribution and transmission voltage should be treated equally since the benefits of DESR's are also system wide. Distribution tariffs are discriminatory compared with other generation resources participating in the ERCOT market connecting at the transmission level as many of these costs are socialized across all power consumers through the transmission cost of service (TCOS).
2. **DESR's provide localised relief** - DESR's provide more efficient congestion relief and reliability on the distribution system because
 - a. DESR's are typically located in proximity to the load.
 - b. DESR's are programmed to charge at low price times (low congestion) and discharge during high price times (high congestion) relieving congestion, increasing competition and lowering electricity prices.
3. **DESR's provide system wide benefits** - DESR's provide ancillary benefits to the system as a whole relative to their system size.
4. **DESR's lowers energy costs to consumers** - Uplifting DESR costs to TCOS is counterbalanced by the decrease in energy costs to rate base as a result of DESR operation.

Additionally, please find SMT Energy's responses to staff questions below, for your review and consideration. Thank you for the opportunity to participate in the rulemaking process.

Question 1. *Is it appropriate for some amount of capital and/or operations and maintenance costs incurred by the distribution service providers (DSPs) to be uplifted to transmission cost of service (TCOS)? Why or why not? Does a distributed energy storage resource (DESR) provide the same congestion relief and reliability to the transmission system as a resource connected at transmission voltage? Please explain.*

Response:

- Yes, DESR costs should be uplifted to TCOS because;
 - The value of storage originated primarily from deferring investments in additional generation and transmission infrastructure; hence the continual buildout of DESR's would counterbalance the increase in TCOS.
 - ESR's at transmission voltage benefit from uplifting direct interconnection costs to TCOS, DESR's provide system wide benefits and should be treated the same as all ESR's.
 - DESR's will reduce energy costs to rate base as more projects come online and compete for the same resources, counterbalancing the increase to TCOS.
 - No, DESR's provide a more efficient form of congestion relief because;
 - DESR's provide localised support as they are located in proximity to load
 - DESR's do not experience as many losses as ESR's at transmission voltage.
- a. *How do congestion relief and reliability benefits differ depending on the type of resource?*
b. *How does location of the DESR affect congestion on the transmission system?*
c. *In the current market, are energy and ancillary service prices adequately compensating distributed energy resources (DERs) for the benefits they provide? Please explain.*

Response:

- A - DESR's provide a more efficient form of congestion relief because;
 - DESR's provide localised support as they are located in proximity to load.
 - DESR's can be closer to load because they require less land.
 - DESR's do not experience as many losses as ESR's at transmission voltage.
- B - DESR's are strategically located at nodes with the highest congestion and are programmed to discharge when prices are the highest (when congestion is the highest), thus reducing localised congestion.
- C - DESR's are adequately but not equally compensated for the benefits they provide as 100% of ESR's direct interconnection costs are uplifted to TCOS.

2. *Is it appropriate for a DESR to pay some level of distribution charges? Why or why not? Do DESRs affect congestion and capacity availability on the distribution system? Please explain.*

Response:

- No, DESR's should not pay distribution charges; instead, all costs other than CIAC should be uplifted to TCOS because;
 - DESR's benefits are system wide

- DESR's will reduce energy costs to rate base as more projects come online and compete for the same resources, counterbalancing the increase to TCOS.
- Yes, DESR's positively affect congestion and capacity availability on the distribution system by;
 - Charging when market prices are depressed (low congestion) and;
 - Discharging when prices are high (high congestion) thus reducing congestion and lowering prices for consumers.

a. 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 Public Utility Regulatory Act (PURA) § 35.004(d)

- Yes, it would be appropriate to exempt DESR's from any portion of the wholesale transmission service at distribution voltage rates or tariffs because;
 - ESR's do not pay distribution voltage rates and tariffs, DESR's provide system wide benefit and should be treated equally.

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

- No, a DSP should not be required to implement a DESR specific tariff for transmission service at distribution voltage because;
 - Developers are already paying for direct interconnection costs through CIAC.
 - ESR's are not subject to distribution specific tariffs and DESR's / ESR's should be treated equally.

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

ii. 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?

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

- Distribution customers should not bear costs caused from interconnecting DESR's because;
 - Developers are already paying for direct interconnection costs through CIAC.
 - Any additional costs should be uplifted to TCOS
 - Uplifting DESR costs to TCOS is counterbalanced by the decrease in energy costs to rate base as a result of DESR operation.



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

- **No, DESR's should pay their share of the direct interconnection costs, as currently designed. Other costs should be uplifted to TCOS. Uplifting DESR costs to TCOS is counterbalanced by the decrease in energy costs to rate base as a result of DESR operation.**

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

c. 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?

d. 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?

Additional Staff question: 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 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?

- **If the Commissions motivation is to increase deployment of ESR's and benefit from the associated attributes then the Commission should not revisit this.**

Kind regards,

DAVID SPOTTS



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