



Filing Receipt

Filing Date - 2024-05-03 04:25:37 PM

Control Number - 54224

Item Number - 28



May 3, 2024

Public Utility Commission of Texas
Chairman Thomas J. Gleeson
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Kathleen Jackson
1701 Congress Avenue
P.O. Box 13326
Austin, TX 78711-3326

Re: Project No. 54224, *Cost Recovery for Services to Distribution Energy Resources (DERs)*; and
Project No. 54233, *Technical Requirements and Interconnection Processes for Distributed Energy Resources*

Dear Chairman and Commissioners:

New Leaf Energy, Inc. (New Leaf) develops utility-scale and distributed energy and energy storage projects across the country, with a development pipeline more than 8.5 GW of solar and 7 GW/28 GWh of energy storage projects. Within ERCOT, New Leaf has a robust pipeline of stand-alone distributed energy storage resource (DESR) assets in various stages of development and utility territories.

New Leaf has been following the two important Public Utility Commission of Texas (PUCT or Commission) projects identified above, because we are committed to the DESR market in Texas. We believe distribution assets located close to loads are a critical means for ERCOT to meet Texas's growing energy needs at least cost. A Brattle Group report, filed by Commissioner Glotfelty in Project No. 54224 last year, observed "deploying electricity storage on distribution systems across Texas could provide substantial net benefits to the state," resulting in lower residential electricity bills and "additional reliability benefits in the form of reduced power outages for customers located in areas where storage is installed."¹ As electric demand and intermittent energy generation continue to surge across Texas, the state needs more firm dispatchable resources to provide capacity and mitigate high energy prices that threaten reliability and increase costs to ratepayers. This is especially true at ERCOT nodes with high and sustained energy price volatility, where resources that can respond quickly to intraday price swings are inherently economically incentivized to locate. Having such projects at these geographically diverse nodes across the state provides reliability benefits and lowers overall system costs.

¹ Chang, Judy, Pfeifenberger Johannes, et al. *The Value of Distributed Electricity Storage in Texas: Proposed Policy for Enabling Grid-Integrated Storage Investments*, at 2. Unpublished, 2014. See also Project No. 54224, *Cost Recovery for Service to Distributed Energy Resources (DESR)*, Commissioner Glotfelty Memorandum and Report (Apr. 6, 2023) (enclosing report).



Currently, regulatory uncertainty and excessive cost burdens threaten the economic viability of future DESR development. Project No. 54224 and Project No. 54233 present opportunities to refine policies that will likely be determinative in guiding the future investment decisions of New Leaf and other private sector DESR developers in ERCOT.

I. Request for Commission Action

Understanding that the PUCT has a very high rulemaking load and many urgent and competing priorities, New Leaf respectfully requests that Project Nos. 54224 and 54233 might proceed quickly and simultaneously, or in close succession.² New Leaf and others in the DESR industry are awaiting both outcomes to inform future investment decisions.

In addition, two individual Texas electric utilities recently filed rate cases seeking to impose wholesale distribution service tariff charges on DESRs.³ Resolving policy questions piecemeal on a utility-by-utility basis is costly and inefficient, and over time can lead to inconsistent balkanized outcomes across service territories. New Leaf hopes the fundamental DESR policy issues that have been pending here for more than 18 months will be set here, so that a uniform state policy that will apply across all utilities/territories can be efficiently developed.

II. New Leaf's Comments Regarding DESR Cost Recovery

In an era of high interest rates and increasing construction costs, distribution charges often make the difference regarding whether DESR projects can be developed profitably. Put simply, the status quo threatens the economic viability of DESRs and thus whether DESRs will meaningfully contribute to Texas's reliability and resiliency goals.

A. DESR Cost Recovery Rules Need to be Revisited

At base, New Leaf supports uplifting DESR costs to the transmission cost of service (TCOS), just like transmission-connected storage, because:

- DESRs are fully qualified by ERCOT to provide both energy and ancillary services, and meet the same qualifications and provide the same ancillary service and systemwide energy benefits as all other resources qualified to provide energy and ancillary services, including storage resources interconnected at transmission voltage.

² Commission Staff plans to first complete Project No. 54233 then revisit Project No. 54224. See Project No. 54224, Commission Staff's DER Plan for Pending Projects (Mar. 31, 2023). While we understand this order of operations, New Leaf and others are closely watching *both* proceedings.

³ Project No. 54224, Letter from Hunt Energy Network at 1-2 (Apr. 10, 2024) (discussing the two pending rate proceedings, in which New Leaf is not a party).



- As a decentralized resource located close to load, DESRs can come online quickly and provide a much-needed source of capacity and congestion relief across a wider geographic footprint than an equivalent amount of capacity from centralized utility-scale resources.
- Unlike traditional sources of load, DESRs discharge to the grid as much energy as they store. This is a net benefit to ratepayers because DESRs are incented by market signals to charge and discharge the battery in a manner that supports congestion relief (i.e., charge when prices are low and congestion is not occurring, discharge at high prices when congestion is occurring).

The reasons New Leaf opposes the current distribution cost of service rate structures that are in place, or that were proposed by some distribution service providers (DSPs), are that DESRs are charged the same flat \$/kw-mo rate for their highest monthly non-coincident peak demand—regardless of when that demand occurs. This structure (1) overstates system costs by failing to account for the times of day when DESR charging demand occurs, (2) neglects the considerable system benefits that accrue to the utility and ratepayers from DESR dispatching during peak hours, and (3) uniquely disadvantages DESRs compared to other resource types in ERCOT, including transmission-connected energy storage.

- Batteries that charge off-peak do not contribute to congestion or the peak demand events that drive the need for distribution system upgrades. The distribution costs incurred by the DSP during off-peak hours due to incremental load are minimal, especially when compared to cost impacts of incremental load during peak hours—the very load that DESRs help offset.
- When DESRs discharge their energy back to the grid during high-priced peak periods, they create value for the DSP and all ratepayers in a way that other load sources do not. The above-cited Brattle study identifies systemwide benefits such as: (1) avoided distribution outages; (2) deferred transmission and distribution investments; (3) production cost savings; and (4) avoided generation investments. Brattle finds that the combined value of these benefits exceeds the costs of storage by a substantial margin across a range of deployment levels.
- In other words, from the standpoint of distribution system operations, DESRs more than offset their costs by improving distribution system resiliency, increasing local supply during high-cost peak hours, and reducing the need for costly long-term infrastructure upgrades.

B. Potential Alternative / Compromise Cost Recovery Options

If the Commission finds that DESRs need to pay something beyond what is charged to transmission energy storage resources, New Leaf supports the compromise proposal made by the Joint Storage Commenters that would require some interconnection costs to be paid by DESRs.⁴ The Joint Storage Commenters have proposed that interconnection costs be recovered in part through TCOS and in part through a contribution in aid of construction (CIAC). Under their proposal, interconnection costs for DESRs would be treated like transmission energy storage resources (i.e., recovered through TCOS) when the required interconnection facilities are located within the utility

⁴ Project No. 54224, Joint Responses to Commission Staff Questions of Hunt Energy Network, Jupiter Power and Broad Reach Power (Joint Storage Commenters) at 7-9, 13 (Nov. 17, 2022).



substation, and any costs for utility interconnection equipment located outside the substation fence to the Point of Interconnection would be paid by the DESR through CIAC.

Another option should the Commission find that DESRs need to pay some monthly charges for wholesale transmission service at distribution voltage, would be to structure the charges to exclude off-peak charging from the calculation of monthly demand subject to the distribution charge. As explained above, batteries that charge off-peak do not contribute to congestion or the peak demand events that drive the need for distribution system upgrades. DESRs are already economically incentivized through wholesale prices to charge off-peak when energy prices are lowest. Calculating a DESR's monthly distribution charges with any on-peak charging, only, would reinforce the market signals and add further certainty that DESR owners would operate their systems in a way that minimizes distribution system costs. Furthermore, battery charging that occurs during the ERCOT testing and commissioning process should not be used to set the demand ratchet since it is required by ERCOT, it is not in the DESR's control, and it does not reflect normal charging behavior once the battery is operational.

III. New Leaf's Comments Regarding Interconnection Standards

New Leaf appreciates the time and effort expended by stakeholders thus far in setting technical interconnection standards in Project No. 54233. Developers like New Leaf seek clarity and consistency in the interconnection process and in technical standards to support their investments and guide the siting and operational configuration of their projects. The need for consistency is particularly important for DESRs, which are inherently distributed across multiple points of interconnection and throughout various DSP service territories. The geographic diversity of DESRs provides the scale of reliability and cost-reduction services that Texas needs, but can also create development challenges when different DSPs have different technical standards and interconnection processes. The outcome of this project, combined with the cost certainty sought in Project No. 54244, can provide the regulatory certainty DESR providers need to grow and contribute meaningfully to ERCOT's energy needs.

New Leaf was particularly encouraged to see ERCOT state that the Commission has the authority to apply these new standards and processes to all DERs that are interconnected to a DSP in Texas, including those located in municipally owned utility (MOU) or electric cooperative areas. ERCOT states that "[w]hile the Commission's authority may be limited in the context of establishing requirements for MOUs or electric co-operatives relating to registration processes or costs associated with the interconnection of distribution resources, the Commission does have authority to establish operational criteria for distribution resources that apply to MOUs and electric cooperatives. ... ERCOT believes that the requirements in section 25.212, which consist of operational criteria for distribution resources, must apply to all DSPs, including MOUs and electric cooperatives."⁵ We agree and

⁵ Project No. 54233, *Technical Requirements and Interconnection Processes for Distributed Energy Resources*, Comments of Electric Reliability Council of Texas, Inc. on July 7, 2023 Discussion Draft at 2 (Jul. 28, 2023).



encourage the Commission to use this authority. From a DESR developer's perspective, technical standards should apply uniformly across as much of ERCOT as possible.

New Leaf looks forward to the opportunity to comment on any specific draft technical standards put forth in a Proposal for Publication, and we hope to have the opportunity to do so in the near future.

IV. Conclusion

New Leaf sincerely appreciate the Commission's time and attention considering these issues that are so important to the future of DESRs in Texas. We truly appreciate the Commission's leadership to support an affordable, resilient, and reliable electricity system. We look forward to continuing to participate in these important projects to ensure that innovative technologies like DESRs can grow, while balancing the need to develop workable, uniform, fair interconnection standards and cost allocation methodologies.

Respectfully,

A handwritten signature in black ink, appearing to read "James McGarry", written in a cursive style.

James McGarry
Western Director of Policy & Business Development
New Leaf Energy, Inc.