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

SMT Energy LLC Comments

SMT Energy LLC ("SMT") submits the following comments in response to the Public Utility Commission of Texas ("PUCT" or "Commission") Staff's request for comment on the Cost Recovery for Service to Distributed Energy Resources – DERs Interconnection Allowance dated September 9, 2024.

SMT is an ERCOT Distribution Energy Storage Resource ("DESR") owner operator of 110 megawatts ("MW"), with another 90MW of DESRs in different stages of development, construction and commissioning. SMT has paused further development of any DESR's until the Commission establishes a global policy regarding an appropriate charging cost and an objective, formulaic approach to all Distribution Service Provider ("DSP") methods of cost recovery for future DESR's.

Question 1: Can the Commission implement the proposed standard distribution resource interconnection allowance without explicit statutory language authorizing such an allowance?

The Commission has the authority to implement the proposed standard distribution resource interconnection allowance without explicit new statutory language. This conclusion is based on several key factors:

1. Broad statutory powers: The Public Utility Regulatory Act (PURA) §35.001 - 35.006 grants the Commission extensive authority over wholesale transmission access. This authority extends to all types of utilities, including cooperatives and municipally-owned entities.

2. Historical precedent: The Commission has previously exercised this broad authority to establish wholesale transmission access rules, as codified in 16 TAC§§ 25.191-203. These rules implemented policies designed to enhance grid reliability and promote competitive generation resources.

3. Applicability to distribution-level resources: Importantly, PURA §31.002(20) defines "transmission service" in a way that includes "transmission over distribution facilities." This definition extends the Commission's authority to resources connected at the distribution level, such as Distributed Energy Storage Resources (DESRs).

4. Established ratemaking authority: Under PURA § 36.001 et seq., the Commission possesses broad ratemaking powers. It has historically used this authority to establish construction allowances in various utility tariffs, particularly for commercial and industrial customers.

5. Prior interconnection allowances: For over two decades, the Commission effectively provided an unlimited generation interconnection allowance for transmission-connected resources. This practice was only recently modified by legislative amendments to PURA §35.004(d-1).

Given these factors, it can be argued that the Commission has the necessary legal foundation to establish a generation interconnection allowance for power generation companies receiving transmission service at distribution voltage. This action would align with the Commission's historical approach of streamlining the addition of both competitive and regulated infrastructure to the Texas electric system.

Furthermore, implementing such an allowance for distribution-level resources would be consistent with the Commission's past efforts to ensure fair competition in providing services to the ERCOT system. It would extend the principles previously applied to the transmission system to the distribution system, potentially fostering innovation and competition at this level.

Question 2: What are the advantages and disadvantages of the proposed standard distribution resource interconnection allowance? Is a standard distribution resource interconnection allowance a viable option to move forward? If not, why?

Advantages:

1. Equal opportunity: This allowance could level the playing field between resources connected at transmission and distribution levels, potentially fostering more diverse market participation.
2. DESR proliferation: Projects which did not work economically without the allowance will work with the allowance.
3. DESR longevity: Ancillary services, a core component of the revenue stack, is dwindling in value. It is more difficult each day to finance DESR's. This allowance will make projects more economical over the project lifecycle and less reliant on the ancillary services market creating a longer-term market opportunity for developers.
4. Investment certainty: A uniform approach across different utility territories could provide developers with more predictable investment conditions, leading to more projects.

Disadvantages:

1. Implementation challenges: Standardizing the approach across multiple DSP's is necessary.

Question 3: At what amount should a standard distribution resource interconnection allowance be set? Should the applicability or amount of the allowance vary based on the size of the resource?

Based on our recent interconnection experiences, an initial allowance of $1.5 million would cover network upgrade costs for most DESR's.

Question 4: How should the interconnection costs covered by such an allowance be reallocated? What effects would this have on other customers?

Two primary approaches merit consideration:

1. Uplift to Transmission Cost of Service (TCOS) Recovery:

This method would classify the allowance costs as transmission expenses, to be recouped through the TCOS mechanism. This approach has several merits:

- It aligns with the treatment of transmission-connected resources, ensuring consistency across the system.
- It distributes costs across all ERCOT customers, reflecting the system-wide benefits of these resources.

2. Cost of Service Recovery (analogous to load interconnection allowances):

This approach would handle the generation interconnection allowance similarly to existing allowances for large load interconnections. Its advantages include:

- Utilization of a familiar, established cost allocation framework.
- A balanced approach that combines direct cost assignment (through Contribution In Aid of Construction payments) with broader cost distribution through utility rates.

Under this method, costs would be more localized to the utility's service area where the resource is interconnecting.

In conclusion, while both approaches have their merits, the TCOS recovery method may align more closely with existing policies for transmission-connected resources and could provide a more equitable distribution of costs across the ERCOT system.

Question 5: Should a standard distribution resource interconnection allowance also apply in areas served by municipally owned utilities and electric cooperatives?

Existing regulations, including PURA and Commission rules, provide a basis for including MOUs and co-ops in this allowance. The definition of "transmission service" in PURA encompasses transmission over distribution facilities, and the Commission has previously asserted jurisdiction over wholesale transmission matters for these entities.

Benefits of Uniform Application:

1. Consistency across ERCOT
2. Promotion of distributed resources
3. Enhanced grid resilience and flexibility
4. Potential for system-wide load management improvements

Recommendation: Given the potential system-wide benefits and existing legal framework, there's a strong case for applying the allowance uniformly across ERCOT, including MOU and co-op service areas. This approach could maximize the benefits of distributed resources while maintaining regulatory consistency.

Question 6: If a standard distribution resource interconnection allowance should apply in areas served by municipally owned utilities and electric cooperatives, does the Commission need to develop a wholesale cost recovery mechanism to address the costs associated with this allowance? What factors should the Commission consider in developing such a mechanism? Separate from his primary policy proposal, Commissioner Glotfelty' s memo also noted that a resource receives different treatment based on whether it interconnects at transmission or distribution voltage.

SMT believes the current Transmission Cost of Service (TCOS) recovery mechanism could potentially be adapted to address these costs. This approach would align with the principle that customers pay once for delivery service, and utilities charge once for delivery service.

Key Considerations:

1. Fair treatment of distribution-connected resources compared to transmission-connected ones
2. Current classification of costs for serving distributed resources
3. Consistency with established Commission policies
4. Recognition of system-wide benefits from these resources

Potential Solution: Consider modifying existing regulations to clarify that costs for interconnecting and serving distributed generation and energy storage resources should be classified as transmission-related. This would allow inclusion of associated costs in TCOS.

Benefits of this approach:

1. Uses existing mechanisms rather than creating new ones
2. Promotes equitable treatment of distribution-connected resources
3. Maintains regulatory consistency

Question 7: What disparities exist between distributed generation and energy storage resources interconnecting at transmission and distribution voltages?

Two main cost disparities exist between resources interconnecting at transmission and distribution voltages:

1. Interconnection Allowance:

- Transmission-connected resources typically receive a substantial allowance.
- Distribution-connected resources often face upfront costs without allowances.

2. Wholesale Delivery Charges (for energy storage):

- Some utilities impose or propose monthly charges on distribution-connected energy storage when charging.
- These charges can destroy project economics.
- **These charges can cause the developer to re-charge more slowly, making it more difficult to maintain a high state of charge.**

- **These charges are way too expensive compared to the cost of the equipment the charges are intended to recover. There are unfair, discriminatory, high margin gains being realized by the DSP's which no one is discussing.**
- Similar charges are not applied to transmission-connected storage or other generation.

Question 8: What, if any, action should the Commission take to address these disparities in a uniform fashion?

To address disparities between transmission and distribution-connected resources uniformly, the Commission could consider:

1. Interconnection Allowance:

- Implement a standard allowance for distribution-connected resources that provide wholesale market services.
- Require transparent, detailed cost estimates for interconnection, especially when costs exceed the allowance.

2. Wholesale Distribution Service Tariffs:

- Reconsider the necessity of these tariffs for distribution-connected energy storage.
- If deemed necessary, develop a standardized approach to cost allocation and rate design across utilities.

By tackling these issues comprehensively, the Commission can work towards creating a more equitable environment for all resources, regardless of their interconnection point, while supporting continued investment in distributed energy resources.