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PROJECT NO. 54224

COST RECOVERY FOR SERVICE	§	BEFORE THE
TO DISTRIBUTED ENERGY	§	PUBLIC UTILITY COMMISSION
RESOURCES	§	OF TEXAS

**ONCOR ELECTRIC DELIVERY COMPANY LLC’S INITIAL RESPONSE TO
THE QUESTIONS FOR COMMENT CONCERNING
DERs INTERCONNECTION ALLOWANCE**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Oncor Electric Delivery Company LLC (“Oncor”) timely files this initial response to the questions for comment concerning an interconnection allowance for distributed energy resources (“DERs”) and related issues posed by Public Utility Commission of Texas (“Commission”) Staff on September 9, 2024, in this Project. Oncor hopes that its comments will provide helpful feedback from the perspective of a transmission and distribution utility (“TDU”) and will help inform the contents of a proposed rule regarding DERs’ interconnection costs, should the Commission determine that such a rule is needed.

I. RESPONSE TO QUESTIONS FOR COMMENT

Before addressing each specific question posed by Commission Staff in its September 9th memorandum, Oncor first notes that, as it has stated in comments previously filed in this project, Oncor’s position continues to be that it is not appropriate to uplift distribution service provider (“DSP”)-incurred costs to ratepayers in order to serve DERs.¹ Rather, the interconnecting DSP’s line extension policy should determine the appropriate allowance for the *load* portion of the costs (necessary for charging), and the excess – all other capital costs necessary to interconnect the DER to the distribution system to provide energy and ancillary services – should be paid entirely by the interconnecting DER, without any interconnection allowance to be used toward such costs. Because this current framework is sensible and appropriately assigns costs on a cost-causative basis, no new rule or amendment to a current rule is needed.

An alternative (and, in Oncor’s opinion, less equitable) option would be to provide only grid resources registered with the Electric Reliability Council of Texas, Inc. (“ERCOT”),

¹ See Joint TDUs’ Responses to Commission Staff’s Questions for Comment at 2 (Nov. 17, 2022).

specifically distribution generation resources (“DGRs”) and distribution energy storage resources (“DESRs”) with an interconnection allowance, as contemplated in the questions posed by Staff. These registered grid resources must not be co-located or associated with providing backup to any single customer. This is because, to be treated as a grid resource, these resources should be required to be registered and dedicated as grid resources, meaning that they are exclusively dedicated to and dispatched by ERCOT and have met performance qualifications for energy and ancillary services. Settlement only distribution generator solar farms not dispatched or performance-qualified by ERCOT, DERs co-located with customer load behind the meter, and DERs associated in any way with providing backup service to a customer should not receive any interconnection allowance.

The costs to provide that allowance to DGRs and DESRs would then be uplifted either (a) through the transmission cost of service (“TCOS”) mechanism (or some new matrix or mechanism created specifically for the distribution system, but similar to the TCOS matrix), based on the assumption that the use of the distribution system by a DGR or DESR provides benefits to all of ERCOT and, therefore, like the high voltage transmission system, all retail customers within ERCOT should pay for those costs, or (b) only to customers served by the DSP that interconnects a particular DESR, which could result in a disproportionate rate impact to a particular DSP’s retail customers if several DESRs prefer to connect in one particular location. The DGR or DESR would then pay interconnection costs in excess of the allowance amount (if any). If the allowance amount entirely covers the interconnection cost for a particular DGR or DESR, then the DGR or DESR will have not made any contribution toward the large amount of investment needed to interconnect its resource to the distribution system.

Regardless of whether costs are uplifted to all retail customers in ERCOT (as with TCOS) or uplifted to only the interconnecting DSP’s retail customers, Oncor finds this interconnection allowance option to be less equitable, especially if the allowance amount is high enough that it allows most DGRs and DESRs to escape responsibility for any portion of the interconnection costs. The DGRs and DESRs themselves should be responsible for the large amount of investment that may be needed to interconnect and serve them (which investment is akin to the “fuel transportation costs” that a generator would pay), unless and until DGRs and DESRs have shown that they provide enough benefits, including actual resiliency, sufficient to justify shifting any such costs to ERCOT ratepayers as a whole.

Below, Oncor responds to each of the specific questions posed by Commission Staff:

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

Oncor's Response: PURA provides explicit authority (and, in fact, a requirement) for the Commission to establish an interconnection allowance for generation resources interconnecting to the transmission system.² While PURA does not provide this same explicit authorization to establish an interconnection allowance for resources seeking to interconnect to the distribution system, the provisions in PURA Chapter 36 do not prohibit the Commission from establishing such an interconnection allowance. Legislation expressly authorizing and/or instructing the Commission to do so for resources connecting to the distribution grid would provide clearer authority, but such statutory authority does not appear to be a prerequisite for a Commission rulemaking to establish an allowance.

If the Commission ultimately decides to establish an interconnection allowance in a rulemaking, then the allowance amount could be standardized within the rule, which could be made uniformly applicable to all qualifying resources and all DSPs. Alternatively, should the Commission not want to apply the same allowance to all DSPs uniformly, it could instead adopt a rule requiring that DSPs provide an interconnection allowance to interconnecting DGRs and DESRs, with the specific interconnection allowance amount to be established in each DSP's next base-rate case. In at least some regards, this latter alternative seems more practical because it would allow the newly revised tariff approved in the rate case to be charged going forward, and the revenue necessary to cover the allowance (which, in its basic sense, is a subsidy that is socialized to and paid by other customers) can be collected by the DSP commensurate with the implementation of the allowance. If, instead, the allowance is implemented in between base-rate cases, then the DSP will not have the ability to begin timely charging its customers for the amounts needed to cover the allowance. This concept was illustrated in the Commission's adoption of 16

² See Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016 ("PURA") at § 35.004(d-1), which says that the "commission by rule shall establish a reasonable allowance for transmission-owning utility costs incurred to interconnect generation resources..." and PURA 35.004(d-3), which instructs the Commission, no later than September 1 of every fifth year, to review and adjust as needed the allowance to account for inflation or supply chain issues.

TAC § 25.244 – Billing Demand for Certain Utility Customers.³ There, in order to implement legislation that exempted certain customers from a demand ratchet, the Commission adopted the new rule but included a provision stating that it would take effect in a proceeding in which base rates are set.⁴

Or, if the Commission decides to implement a standard allowance amount in a rulemaking and to require DSPs to begin providing that allowance right away, then in the interim before a DSP's next base-rate case, the Commission should allow the utility to record the actual interconnection costs (up to the allowance limit) as a regulatory asset and then recover that exact amount in rates in the DSP's next base-rate case.

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?

Oncor's Response: The potential advantage of implementing a standard distribution resource interconnection allowance is that it would likely incent more of these resources to interconnect to the system because it would reduce costs borne by a DGR or DESR owner to interconnect, thereby increasing the profit margin for that owner. The disadvantage of implementing such an allowance is that any allowance amount offered to DGRs and DESRs must necessarily be subsidized by other ratepayers. Depending on the number of interconnecting DGRs and DESRs, the amount of the allowance given to each, and the size of the customer base that will be required to absorb and pay for these costs, the resulting subsidization could have a significant, negative impact on ratepayers in this state (or at least some ratepayers in the state, depending on who will ultimately be allocated the costs).

The interconnection allowance's impact on ratepayers will be dictated in part by how the Commission decides to socialize the associated costs – will they be borne by the local, interconnecting DSP's retail customer base only, or will they be uplifted to and shared by all

³ *Rulemaking to Establish Billing Demand for Certain Utility Customers Pursuant to PURA § 36.009*, Project No. 39829, Order Adopting § 25.244 as Approved at the May 18, 2022 Open Meeting (May 24, 2012).

⁴ *See* 16 TAC § 25.244(c) ("In a proceeding in which base rates are set for nonresidential secondary voltage service customers, the base rates set for nonresidential secondary voltage service customers shall provide that these customers shall be billed on a kilowatt-hour (kWh), kilowatt (kW), or kilovolt-amperes (kVA) basis, and that if a demand ratchet is utilized, the demand ratchet shall not apply to a nonresidential secondary voltage service customer that has an annual load factor less than or equal to 25 percent....").

ERCOT ratepayers? The answer to that question may largely depend on whether the Commission views the benefits of distributed generation or batteries as an overall ERCOT system benefit, only as a local distribution system benefit, or only as a benefit to any associated customer. If the Commission does not uplift the costs to all ERCOT ratepayers, then it could be difficult for utilities with smaller customer bases to absorb the subsidy amounts without noticeable increases to their rates. This is especially the case if, for one or more reasons, a large percentage of the DGRs and DESRs all decide to interconnect in one specific area served by one DSP. That situation would result in that DSP's customers bearing the cost for all of those interconnecting DGRs' and DESRs' allowances. In that situation, the subsidy amounts could be large enough to skew the rates in that territory in relation to the other parts of the state. That could potentially be characterized as requiring one DSP's customers to pay for an overall ERCOT system benefit.

As discussed above, while the implementation of a standard interconnection allowance is certainly a potential option for the Commission to consider, it continues to be Oncor's position that it is not appropriate to uplift to ratepayers the costs to serve DERs.

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?

Oncor's Response: As stated above, any interconnection allowance is a subsidy that must be paid for by other ratepayers. Thus, the answer to this question will need to be determined by deciding how much the Commission deems appropriate for other ratepayers to subsidize, versus the amount by which the entity that will financially profit from the facility should have to contribute towards the interconnection of its own resource. While the Commission may find it appropriate to have ratepayers subsidize some portion of the cost in order to encourage more DGRs and DESRs to interconnect, the level of the subsidy should not be so large that it makes what would otherwise be an uneconomic business now profitable.

As Oncor discussed in its comments filed in connection with transmission-level generation interconnections, total interconnection cost should be the driving factor for any allowance, as this would help reduce high-cost outliers that provide marginal system benefit.⁵ A right-sized approach

⁵ See *Generation Interconnection Allowance*, Project No. 55566, Oncor Electric Delivery Company LLC's Reply on Commission Staff's Questions for Comment at 3 (Oct. 25, 2023).

will generally encourage interconnection yet still require disciplined generation siting on the whole. Regardless of whether the Commission adopts a single interconnection allowance across all of ERCOT or multiple allowance tiers based on one or more characteristics, its goal should be to establish simple, clear allowance criteria based on objective, readily identifiable characteristics. Transparency and simplicity will help foster DGR and DESR owners' confidence in the ERCOT market as well as facilitate straightforward implementation by DSPs.

At this time, Oncor does not have a recommendation on a specific amount that should be used for an interconnection allowance. It should be noted, however, that if the proposed \$1.5 million allowance amount was currently in place, all 11 of the DESRs that have connected to Oncor's distribution system would not have paid any amount. Additionally, only one of nine DESRs currently under construction exceed this allowance; their \$1.5 million allowances would have entirely covered 96% of their combined \$10 million of interconnection costs. In Oncor's experience to date, typical interconnection costs for DESRs range from approximately \$250,000 to \$500,000, with only two having exceeded \$1,000,000. The chart below summarizes interconnection cost information for DESRs seeking to interconnect to Oncor's system that are either currently under study, in the construction/commissioning phase, or already placed in service over the past approximately five years:

Project Phase	Total Cost⁶
In Service	\$276,163.76
In Service	\$254,623.35
In Service	\$163,710.32
In Service	\$207,053.24
In Service	\$263,005.50
In Service	\$387,304.36
In Service	\$477,488.89
In Service	\$399,032.36
In Service	\$481,782.60
In Service	\$593,677.95
In Service	\$472,796.99
Construction/ Commissioning	\$418,501.58
Construction/ Commissioning	\$298,706.67
Construction/ Commissioning	\$1,122,284.62
Construction/ Commissioning	\$208,640.39
Construction/ Commissioning	\$1,879,062.56
Construction/ Commissioning	\$606,963.69
Construction/ Commissioning	\$367,849.85
Construction/ Commissioning	\$493,332.06
Construction/ Commissioning	\$338,519.38
Application/ Under Study	\$326,912.75

While Oncor assumes DGR and DESR developers will be in favor of an interconnection allowance that covers the entire interconnection cost for most projects, it seems more appropriate for DGR and DESR owners to bear some of that cost responsibility in order to incent economical siting and configuration of projects, at least until it has been demonstrated that DGRs and DESRs actually provide a system-wide benefit like transmission-connected generators do. To that end, rigorous performance standards with a size-based allowance may be appropriate, such as an amount per kW of injection capacity, so that even as the units increase in size and interconnection cost, the interconnection costs are still partially covered by the allowance, while at the same time, the DGR and DESR owners continue to shoulder at least some of the cost.

If a single, standard and specific amount is not adopted for the DGR and DESR interconnection allowance, then any variation should apply equally across all DSPs. For example, if the Commission decides that the interconnection allowance should vary based on the size of the

⁶ Total Costs shown as invoiced for the DESR project after applying the Oncor standard allowance to load-serving costs and applying appropriate franchise fees and taxes.

resource, then the same specified allowance amounts for each size range should be uniformly applicable to interconnections with all DSPs to prevent DGRs and DESRs from engaging in “DSP shopping,” through which all DGRs and DESRs might choose to interconnect in a particular area of the state served by a certain DSP that provides a higher allowance amount.

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

Oncor’s Response: As discussed above, any allowance given to DGRs or DESRs will result in costs that must be subsidized by other ratepayers. The allowance will reduce costs borne by a DGR or DESR owner (who will profit from the storage resource once interconnected), thus increasing potential profit margins for that owner; on the other hand, it will increase the costs spread to other end-use customers.

The decision of how to reallocate the costs to cover those interconnection allowances should be determined by the Commission’s policy goals. If the Commission finds that DGRs and DESRs provide a system-wide benefit, then it seems appropriate to uplift these costs so that they can be paid by all customers, similar to how costs are uplifted through the TCOS mechanism on the transmission side. It would not, however, seem appropriate to saddle the end-use customers in one area of the state served by a particular DSP with the costs of a battery interconnected to that DSP’s distribution facilities if that battery is characterized as a system-wide benefit. And if the Commission determines that it is appropriate to uplift the costs to all end-use customers, then it will have to determine the appropriate mechanism to do so. The Commission could create a distribution version of the Net Wholesale Payment Matrix (which uplifts TCOS at the ERCOT level and then distributes the costs to DSPs on a load-ratio-share basis), or it could somehow use the existing TCOS mechanism and simply functionalize DESR-related costs on the distribution system to the Transmission function. This would not be entirely out of the ordinary, as there are already Distribution FERC accounts that have some functionalization to Transmission. This could be authorized in the current rulemaking process.

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

Oncor’s Response: At this time, Oncor does not have comments in response to this question.

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?

Oncor's Response: At this time, Oncor does not have comments in response to this question.

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

Oncor's Response: Oncor assumes that this question is intended to solicit feedback on any disparities between energy storage resources connected at transmission voltage and energy storage resources connected at distribution voltage. The answer to that question is that there are currently no disparities for similar usage of Oncor's facilities. Batteries connecting at transmission voltage and distribution voltage are treated the same way for the use of the facilities that they respectively use. The distinction (but not a disparity) is that unlike DESRs, batteries on the transmission system do not use the DSP's distribution system, and instead they own their own distribution facilities at their own cost. Because transmission energy storage resources ("TESRs") do not use Oncor's distribution system, they are not charged by Oncor for the use of the distribution system. On the other hand, batteries on the distribution system *do* use the DSP's distribution system and *do not* own their own distribution facilities. Attachment 1 hereto depicts the ownership of the facilities used to provide service to a TESR and a DESR.⁷ The red boxes in the diagram indicate transmission facilities, e.g., high voltage conductors and breakers, that are included in TCOS. The gray-boxed areas include facilities that are owned, operated, and maintained by either the TESR or the DESR. A TESR owns the substation that interconnects to the transmission grid and any other distribution facilities necessary to connect to the inverters of the energy storage system. A DESR owns only the distribution facilities beyond the point of interconnection (at the meter) with the DSP.

The trade-off for this distinction is that instead of paying to own their own distribution system (like a TESR who bears the cost of the distribution substation that connects to their distribution voltage batteries), DESRs are rightfully required to pay to use the DSP's distribution

⁷ Note that "XFMR" and "DLS" as used in Attachment 1 are shorthand for Oncor wholesale rates Rate XFMR – Wholesale Substation Service and Rate DLS – Wholesale Distribution Line Service.

system. If DESRs were not charged for this use, then they would be getting preferential treatment over batteries connected to the transmission system who have the cost of building and maintaining their own distribution system. This would mean that all batteries would switch to the distribution system, which would likely present a host of planning and engineering problems.

Simply put, any entity that uses Oncor's distribution system should pay the Commission-approved charges for that service. Oncor must have the same distribution facilities in place to deliver energy to a DESR's battery as it does to deliver energy to a wholesale customer who will ultimately deliver that power through their distribution system to an end-use customer. And DESRs, in fact, are using Oncor's distribution system twice – once to take power from the system when the battery is charging (during which it is using a portion of the distribution system that could otherwise be used to serve other customers), and once when the battery is discharging energy into the distribution system (although they are not charged for this use of the utility's system when they discharge). There is no justification for DESRs to use the distribution system for charging without paying for that use; to do so would actually *create* a disparity between energy storage resources connected at transmission voltage and those connected at distribution voltage.

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

Oncor's Response: As noted above in response to Question 7, there are not any current disparities between the treatment of energy storage resources connected at transmission voltage and those connected at distribution voltage. Because there are no disparities in treatment between the two, no Commission action to rectify any disparity is necessary.

As explained above in response to Question 7, the treatment is exactly the same for the same usage. While TESRs are not charged for use of the distribution system, that is simply because they do not use Oncor's distribution substation and distribution system before they discharge their flow to the high voltage transmission system, whereas DESRs *do*. Both are being charged for the Oncor facilities that they respectively use.

II. CONCLUSION

Oncor appreciates the opportunity to submit responses to the questions posed by Commission Staff in this Project. Oncor respectfully requests the Staff's and the Commission's full consideration of the comments set forth above. Oncor respectfully reserves its opportunity to further comment on these question through reply comments due on or before October 11, 2024,

and to submit comments on a proposal for publication of any proposed new rule or rule amendment should the Commission determine that one is necessary.

Respectfully submitted,

Oncor Electric Delivery Company LLC

By: /s/ Lauren Freeland

Tab R. Urbantke

State Bar No. 24034717

Lauren Freeland

State Bar No. 24083023

Hunton Andrews Kurth LLP

1445 Ross Avenue, Suite 3700

Dallas, Texas 75202

214-979-3095

turbantke@HuntonAK.com

lfreeland@HuntonAK.com

**ATTORNEYS FOR ONCOR ELECTRIC
DELIVERY COMPANY LLC**

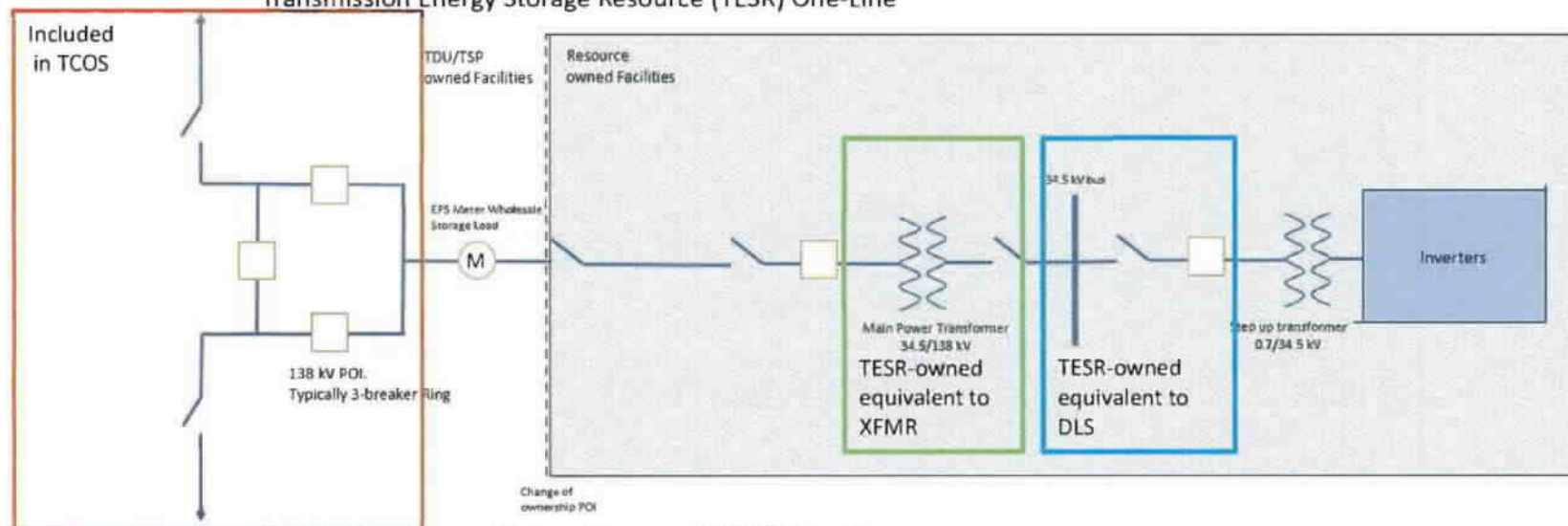
ONCOR ELECTRIC DELIVERY COMPANY LLC'S EXECUTIVE SUMMARY

- It is not appropriate to uplift DSP-incurred costs to ratepayers in order to serve DERs. Because this current framework is sensible and appropriately assigns costs on a cost-causative basis, no new rule or amendment to a current rule is needed.
- Alternatively, if the Commission adopts an interconnection allowance, it should only be provided to ERCOT-registered grid resources, specifically DGRs and DESRs. And this interconnection allowance option would be less equitable, especially if the allowance amount is high enough that it allows most DGRs and DESRs to escape responsibility for any portion of the interconnection costs. The DGRs and DESRs should be responsible for the large amount of investment that may be needed to interconnect and serve them, until they have shown that they provide enough benefits to justify shifting such costs to ERCOT ratepayers.
- PURA Chapter 36 does not prohibit the Commission from establishing a distribution resource interconnection allowance, and such statutory authority does not appear to be a prerequisite for a Commission rulemaking to establish an allowance.
- If the Commission decides to adopt an interconnection allowance, it could either standardize the allowance amount within the rule, or the specific interconnection allowance amount could be established in each DSP's next base-rate case. The latter alternative seems more practical at least in part because it would allow the newly revised tariff approved in the rate case to be charged going forward, and the revenue necessary to cover the allowance can be collected by the DSP commensurate with the implementation of the allowance.
- The potential advantage of a standard distribution resource interconnection allowance is that it would likely incent more of these resources to interconnect to the system by reducing costs borne by a DGR or DESR owner to interconnect. The disadvantage is that any allowance amount offered to DGRs and DESRs must necessarily be subsidized by other ratepayers, which could potentially have a significant, negative impact on ratepayers. The impact on ratepayers will be dictated in part by how the Commission decides to socialize the associated costs.
- The level of an interconnection allowance should not be so large that it makes what would otherwise be an uneconomic business now profitable. It should encourage interconnection yet still require disciplined generation siting on the whole. With a \$1.5 million allowance, all 11 of the DESRs that have connected to Oncor's distribution system would not have paid any amount, and only one of nine DESRs currently under construction exceed this allowance.
- Rigorous performance standards with a size-based allowance may be appropriate, such as an amount per-kW of injection capacity.
- If a single, standard and specific amount is not adopted for the DGR and DESR interconnection allowance, then any variation should apply equally across all DSPs to prevent DGRs and DESRs from engaging in "DSP shopping."
- If the Commission finds that DGRs and DESRs provide a system-wide benefit, then it seems appropriate to uplift these costs so that they can be paid by all customers, as opposed to saddling the end-use customers in one area of the state served by a particular DSP with the costs. To uplift the costs to all end-use customers, the Commission could create a distribution version of the Net Wholesale Payment Matrix, or it could somehow use the existing TCOS

mechanism and simply functionalize DESR-related costs on the distribution system to the Transmission function.

- There are currently no disparities for similar usage of Oncor's facilities between energy storage resources connected at transmission voltage and those connected at distribution voltage. Batteries connecting at transmission voltage and distribution voltage are treated the same way for the use of the facilities that they respectively use. Unlike DESRs, batteries on the transmission system do not use the DSP's distribution system, and instead they own their own distribution facilities at their own cost. Because TESRs do not use Oncor's distribution system, they are not charged by Oncor for the use of the distribution system. Batteries on the distribution system *do* use the DSP's distribution system, *do not* own their own distribution facilities, and thus are rightfully required to pay to use the DSP's distribution system.
- Because there are no disparities in treatment between the two, no Commission action to rectify any disparity is necessary.

Transmission Energy Storage Resource (TESR) One-Line



Distribution Energy Storage Resource (DESR) One-Line

