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PROJECT NO. 54224

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

**OFFICE OF PUBLIC UTILITY COUNSEL’S INITIAL COMMENTS IN RESPONSE TO
QUESTIONS FOR COMMENT – DERS INTERCONNECTION ALLOWANCE**

The Office of Public Utility Counsel (“OPUC”), representing the interests of residential and small commercial consumers in Texas, respectfully submits these initial comments in response to questions posed by Staff (“Staff”) of the Public Utility Commission of Texas (“Commission”) on cost recovery for service to distributed energy resources (“DERs”).¹ Staff requests stakeholder comments by September 30, 2024.² Therefore, these comments are timely filed.

**I. PRELIMINARY COMMENTARY ON PROPOSED ELEMENTS OF DRAFT RULE
PRESENTED IN COMMISSIONER GLOTFELTY’S MEMORANDUM**

- **A 1.5 million dollar interconnection allowance for generation and storage resources connected at distribution voltage. Interconnecting resources would not be responsible for interconnection costs below this allowance.**

As further addressed below, OPUC does not believe that a standard \$1.5 million interconnection allowance for generation and storage resources connected at distribution voltage is cost based, or that Commission rules currently provide for the interconnection allowance to be uplifted to TCOS. Under Public Utility Regulatory Act (“PURA”) § 25.195(f), cost responsibilities to interconnect transmission level generators at transmission voltage provides for a standard

¹ *Cost Recovery for Services to Distributed Energy Resources (DERs)*, Project No. 54224, Staff Memorandum (Sept. 9, 2024).

² *Id.*

allowance with any excess costs uplifted to the transmission cost of service (“TCOS”).³ Furthermore, there is no evidence that a standard allowance applicable to distribution voltage interconnections for all utilities and for all sizes of resources is reasonable, appropriate, or reflects the actual interconnection costs for each utility. It would not be reasonable to require the distribution customers of the utility to which these distribution interconnections occur to bear the full cost of an allowance that is not cost based and in excess of any direct benefits to those distribution customers. Moreover, such a significant standard allowance would reduce or eliminate the economic incentives to site new distributed resources in order to reduce the interconnection costs that would be borne by all of the utilities’ customers. Finally, it would not reflect the proportional benefits to the system that would vary with the size of the facilities interconnected.

- **Interconnection costs above the allowance would be recovered from the resource through a Contribution In Aid of Construction (“CIAC”).**

OPUC agrees that interconnection costs above the allowance should be recovered through a CIAC.

- **Distribution service providers would be required to provide a detailed estimate of the interconnection costs to prevent inflation of interconnection costs creating a barrier to entry. Interconnecting resources would be able to contest these costs.**

OPUC agrees that distribution service providers should be required to provide a detailed estimate of the interconnection costs that do not change. Furthermore, the reasonableness of any increases in interconnection costs that are not covered by an interconnection allowance or through a CIAC will be reviewed in the distribution service providers next base rate case.

³ See Public Utility Regulatory Act (“PURA”) § 25.195(f).

II. RESPONSES TO PRIMARY POLICY PROPOSAL QUESTIONS

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

Yes. PURA §§ 14.001 and 14.002, “the Commission has the power to regulate and supervise the business of each public utility within its jurisdiction and to do anything specifically designated or implied by this title that is necessary and convenient to the exercise of that power and jurisdiction” and “shall adopt and enforce rules reasonably required in the exercise of its powers and jurisdiction.”⁴ However, because the costs between utilities will vary, it is OPUC’s position that a fixed standard distribution resource interconnection allowance would only be reasonable or appropriate if the Commission incorporated adjustments into the allowance for the size of the generator, or the variances between utilities in the actual distribution resource interconnection costs incurred.

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?

A standard distribution resource interconnection allowance that does not vary based upon the size of the resource or the variations in actual costs experienced between utilities would be a simple and uniform treatment to resource owners and developers throughout the Electric Reliability Council of Texas (“ERCOT”). However, there are several important disadvantages of

⁴ See PURA §§ 14.001 and 14.002.

applying such a simplistic, standard distribution resource interconnection allowance if it does not vary by utility, size, or actual cost of interconnections.

First, applying a simplistic, standard allowance would not be based on the *actual* interconnection costs for each utility. Consequently, such an allowance would be too liberal for the interconnections to some utilities and too conservative for the interconnections to other utilities. The costs to interconnect these resources can vary significantly between utilities that serve more urban, developed areas and utilities that serve more rural, undeveloped areas.

In addition, if the standard distribution resource interconnection allowance is substantial, it would reduce or eliminate the economic incentive for distributed resources to be located at sites with lower costs and less facilities required to interconnect. Consequently, this will unnecessarily increase the costs to customers for those facilities.

Finally, if it is not based on the actual cost to interconnect facilities by utility and does not vary with size of the distributed resources, a substantial allowance would simply shift costs from the distributed resource developers and owners to customers. The owners and developers of the distribution resources are the parties earning a return on these investments. Furthermore, customers may ultimately receive very little, if any, benefits from these distributed resources, particularly if they are not economic power sources or there is no verifiable improvement to the service customers receive.

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?

OPUC contends there should not be a standard dollar amount of allowance. However, OPUC would not oppose a reasonable standard amount per expected accredited capacity on a

dollar per kilowatt (“\$ per kW”) basis. The standard allowance per kW should be based on each utility’s average actual cost of interconnection per kW for distribution resources. Also, with an allowance amount on a \$ per kW basis that is driven by accredited capacity, the amount of the allowance should vary based on the size of the resource.

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

The interconnection costs associated with any allowance should be allocated based upon the approved transmission capacity cost allocation for each utility. ERCOT seeks to balance resources and loads on a total system basis, not by transmission and distribution, separately. Although the electrons from resources connected at distribution voltages will serve the loads on a specific portion of the distribution system, these resources will be dispatched to serve system loads and will reduce both the amount of generation required from transmission interconnected resources and loadings on the transmission system. Consequently, these resources will benefit all transmission and distribution customers. Therefore, the allowance for the resource interconnection costs should be allocated to customers served at all voltage levels.

In the alternative, the distribution voltage service classes should be provided a credit for the capacity and energy interconnected at distribution voltages. Otherwise, distribution voltage customers will be required to bear a full share of transmission interconnection costs, plus the entirety of distribution interconnection costs. As a result, distribution customers would be forced to pay an inordinate share of the transmission interconnection costs.

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

Yes, if a standard allowance is established for investor-owned utilities, that allowance also should be applicable to all ERCOT electric utilities. This will promote a uniform mechanism and consistent treatment for distribution resources throughout ERCOT.

If a standard allowance is established for investor-owned utilities, but not municipally owned utilities (“MOUs”) and electric cooperatives (“Cooperatives”), it would economically disincentivize distribution resources to construct and locate their facilities on MOU and Cooperative systems. Furthermore, customers of investor-owned utilities will be forced to bear an inordinate portion of the interconnection costs for distribution resources.

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?

Yes. If a standard distribution resource interconnection allowance per kW of maximum accredited installed capacity is applied to MOUs and Cooperatives, those utilities should be provided a mechanism to recover the costs associated with this allowance. OPUC has not identified the factors the Commission should consider in developing such a mechanism.

III. ADDITIONAL QUESTIONS SUPPLEMENTING PRIMARY POLICY PROPOSAL

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

OPUC has not identified any disparities between distributed generation and energy storage resources interconnecting at transmission and distribution voltages.

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

Please see the response to Question 7.

IV. CONCLUSION

OPUC appreciates the opportunity to provide initial comments in response to Staff's questions for comments and looks forward to working with Commission Staff and other stakeholders on this project.

Date: September 30, 2024

Respectfully submitted,

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EXECUTIVE SUMMARY

OPUC's offers the following in response to questions for comment:

- While OPUC believes the Commission has the authority to implement a standard allowance, OPUC does not believe that a fixed standard distribution resource interconnection allowance that does not incorporate adjustments for the size of the generator or the variances between utilities in the actual distribution resource interconnection costs incurred is reasonable or appropriate.
- There are several disadvantages to applying a simplistic, standard distribution resource interconnection allowance that does not vary by utility, size, or actual cost of interconnection:
 - Applying a simplistic, standard allowance not based on the actual interconnection costs for each of the utilities would be too liberal for some utilities and too conservative for other utilities.
 - A substantial allowance would reduce or eliminate the economic incentive for distributed resources to be located at sites with lower costs and discourage a design that maximizes interconnection through fewer facilities. Consequently, this will unnecessarily increase the costs to customers for those facilities.
 - A substantial allowance that is not cost based would simply shift cost from the distributed resource developers and owners to customers.
- Since distributed resources benefit all customers, the interconnection costs associated with any allowance should be allocated among all customer classes based upon the approved transmission capacity cost allocation for each utility.