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PROJECT NO. 54224

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

**AEP TEXAS INC.'S INITIAL RESPONSES TO COMMISSION STAFF'S
QUESTIONS FOR STAKEHOLDER COMMENT RELATED TO COST RECOVERY
FOR SERVICE TO DISTRIBUTION ENERGY RESOURCES**

AEP Texas Inc. (AEP Texas) timely submits these responses to the questions posed by Staff of the Public Utility Commission of Texas (Commission) regarding interconnection allowances for generation and storage resources connected at distribution voltage.¹ AEP Texas is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP) operating in the ERCOT region of Texas. AEP Texas appreciates the opportunity to participate in this discussion and respectfully offers the following responses to Commission Staff's questions.

I. Responses to Commission Staff's Questions

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

Although there is no explicit statutory language authorizing a standard distribution resource interconnection allowance, AEP Texas recognizes that the Commission has broad ratemaking authority, and the absence of such statutory language does not necessarily preclude the Commission from authorizing such an allowance.

¹ Project No. 54224, Cost Recovery for Service to Distribution Energy Resources (DERS) (September 9, 2024).

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?

The advantages of implementing a standard distribution resource interconnection allowance are that any DESR looking to interconnect to the ERCOT grid would know what the allowance would be regardless of where they chose to interconnect and that the standard allowance could incentivize more interconnection of DESRs in the ERCOT market.

The disadvantages of implementing a standard distribution resource interconnection allowance are that standard allowance value (i.e. \$1M across all TDUs) does not incorporate the differences in costs across the TDU systems and the fact that other ratepayers would be subsidizing business costs for the interconnecting DESRs.

If an interconnection allowance is established, AEP Texas believes that a standard methodology (i.e., setting a per KW allowance) could be more appropriate than a standard value. However, each TDU is different and unique, and every interconnection is different and unique, and therefore setting a specific allowance across all TDUs may not be appropriate.

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?

If the Commission determines that a standard distribution resource interconnection allowance is necessary, the amount of the allowance could vary based on the size of the resource and/or the distance the resource is located from the utilities nearest substation.

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

Assuming there is a rate established for these resources, costs covered by such an allowance could be reallocated to the rest of the distribution energy resource customer class based on the class cost of service study. Otherwise, the Commission could consider to what extent it wants other customer classes to subsidize the allowances for DESRs. However, it is noteworthy that these distributed energy resources are able to participate in and receive

compensation from the market, which should reduce the need for subsidization from other ratepayers.

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

AEP Texas has no position on this question at this time.

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?

AEP Texas has no position on this question at this time.

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

Assuming there is a tariff in place, all customers are treated fairly based on their utilization of the transmission and distribution system. However, use of distribution assets is what distinguishes the costs of energy storage resources connecting at distribution versus transmission voltages. Distributed Energy Resources connecting to the distribution system rely on the utility's distribution assets to be able to offer their services in the ERCOT ancillary services market. As such, the Distribution Energy Resources should pay a distribution rate that would not apply to Transmission Energy Resources that do not utilize the distribution assets to access the ERCOT market.

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

The Commission should use standard cost causation rate making practices to set appropriate tariff rates for resources.

II. Conclusion

AEP Texas appreciates the opportunity to provide comments on Commission Staff's questions and the Commission's consideration of these comments. An executive summary of the comments is provided at the end of this filing.

Respectfully submitted,

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ON BEHALF OF AEP TEXAS INC.

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AEP TEXAS INC.'S EXECUTIVE SUMMARY

AEP Texas appreciates the opportunity to participate in this discussion. A summary of the AEP Texas responses to Commission Staff's questions follows. AEP Texas appreciates the Commission's consideration of these comments.

Question 1: Although there is no explicit statutory language authorizing a standard distribution resource interconnection allowance, AEP Texas recognizes that the Commission has broad ratemaking authority, and the absence of such statutory language does not necessarily preclude the Commission from authorizing such an allowance

Question 2: There are both advantages and disadvantages to the implementation of a standard distribution interconnection allowance and if an interconnection allowance were to be established, a standard methodology rather than a standard value could be more appropriate.

Question 3: If the Commission determines that a standard distribution resource interconnection allowance is necessary, the amount of the allowance could vary based on the size of the resource and/or the distance the resource is located from the utilities nearest substation.

Question 4: If the Commission chooses to reallocate interconnection allowance costs to customer classes outside of DESRs, then those customers will be subsidizing DESRs through higher rates.

Questions 5-6: AEP Texas takes no position at this time on these questions.

Question 7: Distributed Energy Resources connecting to the distribution system rely on the utilities distribution assets required to be able to offer their services in the ERCOT ancillary services market. As such, the distribution energy resources should pay a distribution rate that would not apply to Transmission Energy Resources, which do not utilize the distribution assets to access the ERCOT market.

Question 8: The Commission should use standard cost causation rate making practices to set appropriate tariff rates for resources.