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**PROJECT NO. 54233
PROJECT NO. 54224**

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

**GRID RESILIENCE IN TEXAS’ COMMENTS IN RESPONSE TO COMMISSION
STAFF’S QUESTIONS
ON COST RECOVERY FOR SERVICE TO DISTRIBUTED ENERGY RESOURCES**

Grid Resilience in Texas (“GRIT”) appreciates the opportunity to provide comments in response to the questions included in the Public Utility Commission (“Commission”) Staff’s September 9, 2024, memorandum regarding cost recovery for service to Distributed Energy Resources (“DERs”). GRIT is comprised of a group of leading flexible generation and microgrid companies, including Base Power Company, Cummins Inc., Enchanted Rock, Generac Power Systems, Mainspring Energy, PowerSecure Inc., and Sunnova Energy. These companies represent projects that encompass a spectrum of sizes, from small-scale behind-the-meter (“BTM”) assets to large generation facilities utilizing various technologies and fuel types. GRIT is improving energy reliability, resiliency, and affordability for Texans by leveraging innovative solutions and stacking value streams for services to the grid and to customers.

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

The Commission has broad authority over the distribution rates of investor-owned utilities (“IOUs”) pursuant to Chapter 36 of PURA. Rate setting dockets can be initiated either by the applicant IOU¹ or by the Commission in a “show cause” proceeding.² In either scenario, the Commission is tasked with establishing just and reasonable rates. Especially after the adoption of a Commission rule that includes interconnection allowances for DERs, rates that allow the IOU to recover its reasonable costs associated with DER interconnection allowances should be consistent

¹ See PURA §36.102 *et seq.*

² See PURA §36.151 *et seq.*

with the Commission's broad authority to establish just and reasonable rates for distribution-related operations of an IOU.

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?

GRIT supports the proposed standard distribution resource interconnection allowance, as it offers several key advantages that make it a viable solution for encouraging the growth of distributed generation in Texas. By reducing financial barriers to interconnection, the allowance would enable more projects to come online, enhancing grid resiliency and reliability. This is especially important in areas where grid constraints exist, as distributed resources can provide localized generation and improve overall system stability. Furthermore, by setting a clear, standardized framework for the disclosure of interconnection costs, the proposal would bring greater transparency and predictability to the process, benefiting both DER providers and utilities. This could also prevent the inflation of interconnection costs, which has been a barrier to entry for smaller projects. The adoption of a distribution voltage interconnection allowance is consistent with the existing policy of providing interconnection allowances at transmission. Logical consistency between distribution-voltage interconnection and transmission-voltage interconnection creates better uniformity. Overall, the allowance has the potential to support the development of a more flexible, resilient, and sustainable energy grid.

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?

GRIT supports Commissioner Glotfelty's proposal of a \$1.5 million distribution interconnection allowance for resources connecting below 138 kV. In practice, most DG projects, especially smaller projects, will not require the full allowance amount, as system upgrades outside of on-site equipment typically do not exceed \$1.5 million. A \$1.5 million distribution interconnection allowance should accommodate almost all DERs.

Enchanted Rock, a DER provider for C&I customers, typically sees two types of interconnections: standard interconnections without Transfer Trip (“TT”), which cost around \$5,000 per site for projects under 2 MW, and non-standard interconnections requiring TT. For the latter, costs can vary widely, with CenterPoint charging around \$150,000 on average, and ONCOR ranging between \$250,000 and \$350,000. In some rare cases, such as a Walmart site with dual substations, costs can escalate to \$500,000 per system, making the single site’s interconnection costs rise to \$1 million. Historically, we’ve seen costs range within this spectrum, and moving forward, rising material, labor, and grid upgrade costs could push interconnection expenses higher, thus justifying the proposed \$1.5 million allowance to ensure DER projects remain feasible despite these increasing costs.

DERs vary considerably in size. Given this variability, the distribution allowance could be designed with multiple tiers based on resource size. In this case, the allowance should be aligned with the protective function categories in 16 Texas Administrative Code (TAC) §25.212 with the allowance amount increasing proportionally to the size of the project. Applying 16 TAC §25.212, the project sizes would be: less than 10 kW, between 10 kW and 500 kW, between 500 kW and 2 MW, and over 2 MW. This structure would ensure that smaller projects still receive adequate support while maintaining a reasonable cap for larger, more complex interconnections.

It is also important that the rule clearly define what facilities should be included in the computation of the interconnection allowance. Conceptually, the included facilities at the distribution level should be analogous to those eligible for an allowance at transmission voltages. Distribution facilities that primarily serve some function other than the interconnection should not be included.

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

GRIT asserts that because all the neighboring distribution utility customers will benefit from the improved reliability and resiliency afforded by the interconnection of DERs, it is appropriate to allocate cost recovery across the loads on the distribution system. One option for cost recovery is through a postage stamp allocation to the utility’s customers, similar to how transmission costs are handled. While we do not advocate for a specific approach, socialization is

merited because DERs provide significant benefits. From a technical perspective, the primary beneficiaries of these interconnections are the utility's customers on the distribution grid, as DERs can improve reliability and resilience locally. However, because an increase in distribution interconnections is likely to unlock more DER activity, this will also generate broader system-wide benefits, which justifies the socialization of these costs, much like the rationale used for transmission cost recovery.

Bundling this approach with the existing mechanism for transmission interconnections could streamline the process, particularly given that this is a statewide policy. Utilizing the existing transmission cost recovery mechanism could provide a consistent and efficient framework for distribution-level interconnection cost allocation. This would ensure that the benefits of increased DER adoption are spread across the system while maintaining fairness in cost distribution.

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

While GRIT believes that non-opt-in municipally owned utilities (“MOUs”) and electric cooperatives should adopt an interconnection allowance policy like that being contemplated here, PURA gives the municipal governing authority of a MOU and the board of directors of an electric cooperative exclusive jurisdiction over “terms of access, conditions, and rates applicable to services” provided by the entity.³ This exclusive jurisdiction precludes the Commission from an action that is not supported by the non-opt-in entity (“NOIE”) absent a showing of discriminatory treatment of interconnecting resources. A NOIE that follows cost-causation principles in rate setting should credit a DER for the net benefit that it provides the distribution system; this effectively can be in the form of an interconnection allowance. But, today, the Commission lacks the authority to compel a NOIE to include this concept in its tariffs or to require the NOIE to include any particular cost recovery mechanism in its retail tariffs.

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

³ See PURA §§ 40.055; 41.055.

with this allowance? What factors should the Commission consider in developing such a mechanism?

While GRIT strongly encourages NOIEs to provide a standard DER interconnection allowance and to mirror any potential Commission rule related to IOUs, as noted above, Chapters 40 and 41 of PURA vest such decisions in municipal governing bodies and electric cooperative boards of directors. For those NOIEs that elect to use the Commission adopted interconnection allowance, all concerned likely would benefit from the use of a uniform system, perhaps including the use of a combined and shared cost recovery mechanism akin to the Transmission Cost Recovery Factor (“TCRF”). Especially for small (often rural) NOIEs with limited peak load, an aggregated cost recovery mechanism could help avoid shifting costs to relatively few billing determinants in their retail tariffs. GRIT is open to continued discussions regarding the best ways to incorporate NOIEs into the DER interconnection allowance program in light of the constraints created by Chapters 40 and 41 of PURA.

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

Distributed generation and energy storage resources face notable disparities when interconnecting at distribution versus transmission voltages. Interconnecting at the distribution level is generally easier, with a more flexible process due to fewer regulatory hurdles and cost constraints compared to the transmission level. Distribution interconnection typically requires smaller-scale upgrades, which reduces costs in most cases. However, the cost exposure should be viewed on a sliding scale, as larger distributed projects may still require significant upgrades depending on the size and scope. In contrast, transmission interconnection in ERCOT involves a more structured process, governed by defined protocols and more complex technical requirements.

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

To address these disparities, it is essential to synchronize DER technical standards & interconnection processes and, where possible, cost recovery dockets to create streamlined interconnection procedures and timelines. This would provide clarity on technical requirements

and ensure cost recovery is handled efficiently. Moving these dockets in parallel would enhance the interconnection process, offering a more streamlined system for DER providers and utilities alike.

In light of recent events, such as the impact of Hurricane Beryl, we strongly urge the Commission to expedite the finalization of this rulemaking process by the end of the year. Doing so is critical to enhance grid resiliency before the next peak demand season, enabling quicker and economical deployment of DERs to provide essential backup power and mitigate disruptions. Finalizing these rules will provide the regulatory certainty needed for investment in and rapid deployment of vital infrastructure, ensuring both grid reliability and the achievement of Texas's broader energy goals.

CONCLUSION

GRIT appreciates the opportunity to submit these responses to Commission Staff's questions for comment on the proposal of a distribution interconnection allowance. As the Commission continues to move forward with Project Nos. 54224 and 54233 and related efforts, GRIT is committed to supporting the effort to ensure improved grid reliability, resiliency, and stability.

Respectfully submitted,

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EXECUTIVE SUMMARY, GRID RESILIENCE IN TEXAS (GRIT)

- The Commission has broad authority over the distribution rates of investor-owned utilities (“IOUs”) pursuant to Chapter 36 of PURA.
- GRIT supports Commissioner Glotfelty’s proposal of a \$1.5 million distribution interconnection allowance for resources connecting below 138 kV, as it offers several key advantages that make it a viable solution for encouraging the growth of distributed generation in Texas.
- Given the variability of DER size, the distribution allowance could be designed with multiple tiers based on resource size. In this case, the allowance should be aligned with the protective function categories in 16 Texas Administrative Code (TAC) §25.212 with the allowance amount increasing proportionally to the size of the project.
- By setting a clear, standardized framework for the disclosure of interconnection costs, the proposal would bring greater transparency and predictability to the process, benefiting both DER providers and utilities.
- Because all the neighboring distribution utility customers will benefit from the improved reliability and resiliency afforded by the interconnection of DERs, it is appropriate to allocate cost recovery across the loads on the distribution system.
- While GRIT believes that non-opt-in MOUs and electric cooperatives should adopt an interconnection allowance policy like that being contemplated here, GRIT understands that PURA precludes the Commission from an action that is not supported by the NOIE.
- For those NOIEs that elect to use the Commission adopted interconnection allowance, all concerned likely would benefit from the use of a uniform system, perhaps including the use of a combined and shared cost recovery mechanism akin to the TCRF.
- It is essential to synchronize DER technical standards & interconnection processes and, where possible, cost recovery dockets to create streamlined interconnection procedures and timelines.
- GRIT urges the Commission to expedite the finalization of this rulemaking process by the end of the year to provide the regulatory certainty needed for investment in and rapid deployment of vital infrastructure.