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

EAST POINT ENERGY L.L.C. COMMENTS

East Point Energy, L.L.C. (“EPE”) 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.

Introduction

East Point Energy is a development firm focused on the origination, construction, and operation of energy storage projects throughout the country, helping to transform the grid into a renewable, resilient, and affordable system for generations to come. EPE is currently constructing a 9.9 MW battery energy storage resource (“ESR”) located in the ERCOT region and interconnecting at distribution voltage. This facility will be a registered Distribution Energy Storage Resource (“DESR”) that will provide the same Energy and Ancillary Service products to the ERCOT system as transmission-connected ESRs that EPE is also developing. EPE has halted further development of distribution-connected battery energy storage systems in ERCOT due in part to the financial burden of interconnection costs and tariff charges that Distribution Service Providers (“DSPs”) can impose on DESRs.

Responses to Questions

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?

An advantage of the distribution resource interconnection allowance is that it sends a consistent signal for siting and developing DESRs near distribution substations. Developers will be directed to bring needed dispatchable power to the parts of the grid best able to support and expeditiously connect them, and closer to where power demand is located. The proposed allowance would also allow developers to more effectively model DESR projects' revenues against transmission-connected projects, rather than the inherent uncertainty for distribution connection costs under the current rules that favors transmission-connected ESR projects.

A standard distribution resource interconnection allowance is a viable option, as it sends a market-wide signal rather than limiting the increased certainty of DESR connection costs to specific utilities. The variation in connection costs, as well as wholesale transmission service tariffs at distribution voltage levied on DESRs by utilities (discussed below), is a contributing factor to developers' reluctance to develop DESR projects. Allowing that variation to continue when implementing an allowance would incompletely and ineffectively address the issue.

Additionally, EPE supports incorporating transparency requirements for utilities when determining a Contribution in Aid of Construction ("CIAC"), such that the utility shares a reasonably detailed account of the costs exceeding the allowance to be borne by the developer.

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?

EPE agrees that the proposed \$1.5M allowance is a reasonable level to set, lining up roughly with costs seen for connecting DESRs between different utilities over the past few years. Despite inflationary pressures on many interconnection components and equipment in the recent past, it is likely that many of the most feasible potential DESR projects would be covered by such an allowance.

EPE does not agree that the applicability or amount of the allowance should vary based on the size of the resource. Instead, the fact of connecting a DESR that will participate in the ERCOT wholesale market should be sufficient to qualify for the allowance, supporting Commission's intention to increase grid reliability and availability of dispatchable resources on the ERCOT system. Conversely, an interconnecting resource that is not intended to provide energy and ancillary services to the ERCOT market would not qualify for the allowance.

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 covered by such an allowance could be reallocated if the Commission determines that the allowance is a transmission service cost and can be recovered through the Transmission Cost of Service ("TCOS"). As dispatchable resources on the ERCOT grid providing ancillary services in the same manner as transmission-connected resources, DESRs' interconnection allowance costs could also be recovered from ERCOT customers generally in the same fashion. The covered costs are likely to be offset by the benefits of the connecting resources, in terms of overall grid stability, reduced prices during peak demand periods, and avoided losses from providing dispatchable distribution-connected power (being more closely 'deliverable' to customers) when an outage or failure to provide service would otherwise occur.

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

EPE agrees that the standard distribution resource interconnection allowance should apply in areas served by municipally owned utilities and electric cooperatives. EPE supports application of the allowance by the Commission in all service areas within ERCOT.

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.

EPE does not see a need for the Commission to develop a wholesale cost recovery mechanism to address the allowance costs. As stated in response to Question 4, TCOS as an existing mechanism is sufficient to recover the costs of connecting DESRs operating on wholesale transmission service. EPE agrees with other commenters that the Commission could amend 16 TAC § 25.192 to state that costs incurred by a utility to interconnect and serve DESRs should be functionalized to transmission, and capital costs and related rate of return, expenses, depreciation, and property, state and federal taxes, etc. be included in TCOS.

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

There are two main disparities between DESRs and transmission-connected ESRs:

1) An equivalent to the generation interconnection allowance for transmission-connected ESRs does not exist for DESRs (outside of the proposed allowance discussed above), which is a significant disparity when accounting for interconnection costs ranging from several hundred thousand to over two million dollars. These costs are typically

expected to be paid in whole as part of an interconnection agreement with a utility, limiting developers' ability to advance several DESR projects at a time (if at all).

2) Wholesale transmission service at distribution voltage ("WTS-DV") tariffs significantly impact DESRs, while they do not impact transmission-connected ESRs at all. The tariff rates vary widely between utilities and vary within utilities depending on idiosyncratic requirements such as distance of the proposed resource from the substation or point of interconnection ("POI"). These wholesale rates are levied monthly when charging the DESR, regardless of whether the energy is being used for commissioning, required annual (or otherwise regular) testing of the facilities, or for providing the energy for the wholesale market as intended in regular operation. The costs associated with these tariffs commonly offset projected revenue for DESR projects, to the point that the projects are economically unviable and therefore halted or withdrawn before completing development (or even being studied for interconnection at all). It is also EPE's experience that these tariffs consistently increase over time, with no indication of reducing, and in fact seem to have accelerated as more DESRs seek to interconnect with different utilities. This is a powerful disincentive to the addition of DESRs to the ERCOT system.

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

To address these disparities, the Commission should adopt the proposed standard interconnection allowance for DESRs connecting for wholesale transmission service at distribution voltage. This allowance should also be adopted alongside requirements for transparent cost estimates when utilities determine interconnection costs, including specific details when interconnection costs exceed the allowance.

The Commission should also address the WTS-DV tariff disparity by ruling that DESRs interconnecting for the purposes of trading energy on the wholesale transmission market be treated in the same way as transmission-connected ESRs; therefore, such DESRs would not be subject to wholesale tariffs. In the case the Commission does not agree with and enact such a ruling, EPE strongly recommends that the Commission standardize the WTS-DV rates

across utilities, municipally owned utilities, and electric cooperatives. The rate design, tariff cost allocation, and related factors should also be consistent across the ERCOT market. Such a standardized rate structure would reduce the variation of DESR deployment due to varying and increasing rates between service areas, which causes distortion in where DESRs are sited versus grid load and needs. The Commission should also consider requiring exceptions to any standardized tariff for ERCOT or other required testing, such as during commissioning of DESR assets.

CONCLUSION

EPE appreciates the opportunity to offer these comments and is available to answer questions the Commission may have.

Respectfully,

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EAST POINT ENERGY EXECUTIVE SUMMARY OF COMMENTS

East Point Energy (“EPE”), a standalone battery energy storage resource (“ESR”) developer, supports the Commission taking action to address two key areas of distributed energy storage resource (“DESR”) interconnection. These areas harm competitiveness in ERCOT’s Energy and Ancillary Service markets for these highly dispatchable, quickly deployable distributed generation resources (“DGRs”) that are already serving ERCOT customers every day and support a reliable Texas electrical grid.

- EPE recommends adopting the proposed standard distribution resource interconnection allowance at \$1.5 million dollars, along with proposed requirements to provide a detailed estimate of the interconnection costs and the ability for interconnecting resources to contest these costs.
 - Such an allowance sends a market-wide signal of certainty for DESR connection costs and alleviates developers’ reluctance to seek interconnection of DESR projects.
- EPE also recommends addressing the wholesale transmission service at distribution voltage (“WTS-DV”) tariffs imposed on DESRs.
 - Preferably, the Commission would formally designate DESRs providing wholesale transmission service at distribution voltage as a transmission function, such that they are treated the same as transmission-connected ESRs and therefore not subject to WTS-DV style tariffs.
 - In the event of no such designation as described above, EPE recommends the Commission standardize the WTS-DV tariff rate and structure across the ERCOT market and ensure that it does not asymmetrically impact DESRs through charges such as for ERCOT-required commissioning testing.