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

TEXAS INDUSTRIAL ENERGY CONSUMERS' REPLY COMMENTS

I. INTRODUCTION

Texas Industrial Energy Consumers (TIEC) appreciates the time and energy the Commission and Commission Staff (Staff) are devoting to fully understand the challenges associated with implementing an allowance for distributed energy resources (DERs). As explained in more detail below, there are a number of factors the Commission will need to consider before implementing an interconnection allowance for DERs. Specifically, the Commission should collect information from distribution service providers (DSPs) to understand the costs of DER interconnections and provide this for public analysis and comment, similar to the process used to determine the transmission-level interconnection allowance. The Commission should also evaluate the benefits DERs provide to the integrated transmission system versus the distribution system to inform cost allocation. Taking additional time to collect and analyze that data and fully consider the impacts of a DER interconnection allowance will help the Commission assemble a well-reasoned policy that will benefit both DERs and consumers.

As evident from the initial comments, implementing a DER interconnection allowance is complicated and entails significant policy and legal challenges. However, there are other steps the Commission could take to make it easier for DER developers to scope and pursue projects in Texas. For decades there has been a well-established, uniform and transparent process for interconnecting transmission-voltage resources. A similarly predictable, uniform framework can and should be developed at the distribution level. As illustrated in DER developer comments, it would benefit resource developers, utilities, and customers alike to have a clear, uniform set of interconnection standards for DERs. The Commission should standardize the DER interconnection process by developing a pro-forma wholesale distribution interconnection policy that outlines the required technical requirements, studies, financial/credit requirements, and timelines for DER interconnections. Such standardization would improve predictability for developers and lower barriers for DER integration. This type of process improvement is a "no

regrets" solution that could help spur DER investments in ERCOT without shifting costs onto consumers.

II. COMMENTS

A. Distribution-level resources and transmission-level resources are responsible for similar interconnection costs.

Contrary to statements made by DER developers, the costs transmission-connected and distribution-connected resources face are equitable, and DERs are charged fairly for the costs they cause on the distribution system.[1] In particular, Hunt Energy Network, L.L.C. ("HEN") claims that it is discriminatory to require distribution-connected resources to pay (a) any of their own interconnection expenses, or (b) ongoing monthly tariff charges for using the distribution system.[2] While HEN is correct that transmission-level resources do not pay utilities for interconnection costs (below the allowance) or monthly tariffs, transmission-connected resources own, operate, and maintain the facilities necessary to export their power to the wholesale grid at transmission voltage. In other words, transmission-resources *directly bear* the costs associated with building and maintaining any necessary facilities to (i) transform power to the proper voltage, and (ii) deliver power to the point of interconnection. Just like transmission-level resources, the costs DERs incur associated with high-side facilities are addressed through the standard TCOS billing process.[3] However, to the extent that distribution-voltage resources are capable of putting power to the transmission system, this is achieved through utility assets and not their own investments. As a result, distribution-voltage resources are required to pay a portion of their interconnection costs and to fund ongoing utility distribution operations. As such, the distinction (not disparity) between distribution and transmission resources is that transmission-connected resources pay for their own step-up equipment, while distribution resources pay distribution-voltage CIACs and ongoing distribution rates to use utility assets.[4] This is not only fair but tracks cost-causation.

DESRs in particular create additional costs compared to transmission voltage resources for their use of the distribution system.[5] DESRs use the utility's distribution system once to take

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[1] *See e.g.*, HEN Comments at 1-2.
[2] HEN Comments at 1-2.
[3] LCRA TSC Comments at 2.
[4] Oncor Comments at 9.
[5] TEC Comments at 7.

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 there is no fee associated with using the distribution system to discharge).[6] Importantly, transmission-level batteries own and maintain private distribution and transformation facilities at their own cost.[7] On the other hand, distribution-level batteries do not own their own distribution facilities.[8] Instead of paying for their own distribution systems (like transmission-level resources), DESRs use the DSP's facilities.[9] Accordingly, it is not discriminatory for utilities to charge DESRs for their use of the distribution system, despite DESR developers' claims to the contrary.[10] As Oncor explained in its comments, there is no justification for DESRs to use the distribution system for charging without paying for that use.[11] Exempting DESRs from distribution rates associated with charging would actually create a disparity between energy storage resources connected at transmission voltage and those connected at distribution voltage.[12]

B. The Commission should conduct a thorough analysis of the distribution- and transmission-level benefits associated with DERs before deciding how costs will be recovered.

Stakeholders offer a number of proposals for how the costs associated with a DER interconnection allowance could be allocated. The Commission could (1) treat the entire allowance as a transmission cost and recover it through the existing transmission cost of service (TCOS) mechanism; (2) include the allowance in the utility's cost of service and allocate the expense through the interconnecting utility's tariff;[13] (3) create a new mechanism that spreads costs to all distribution customers system-wide;[14] or (4) split the allocation between some combination of these options. TIEC strongly opposes a categorical determination that all distribution interconnection costs, even subject to an allowance, can be put into wholesale TCOS rates. These costs are fundamentally distribution investments and TCOS should not be used to

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[6] Oncor Comments at 10.
[7] Oncor Comments at 9.
[8] AEP Comments at 3.
[9] AEP Comments at 3.
[10] HEN Comments at 9.
[11] Oncor Comments at 10.
[12] Oncor Comments at 10.
[13] HEN Comments at 5-6.
[14] TIEC Comments at 6.

socialize these costs statewide out of pure convenience without an underlying cost causation argument. At this point, there is not enough information to provide a concrete recommendation on how allocating a DER interconnection allowance could best reflect cost-causation principles. Accordingly, TIEC recommends the Commission conduct an analysis to determine the benefits that DERs with specific interconnection features may provide to (1) the integrated transmission system; (2) all distribution voltage customers; and (3) local distribution customers, and what utility assets are used in this process. This analysis would identify the direct benefit DERs provide to distribution versus transmission systems and what utility assets are involved in providing those benefits, which should help to identify cost-causation and appropriate cost allocation. The Commission should also publish the results of its analysis and allow stakeholders to provide additional feedback.

C. The Commission should not allocate DER interconnection costs entirely to TCOS without an underlying cost allocation argument.

As noted in prior comments on this issue, TIEC is open to including a studied, pre-defined amount of DER interconnection costs in transmission rates based on an evaluation of the direct benefits DERs provide to the transmission system. However, unlike some commenters, TIEC opposes uplifting ***all*** DER interconnection costs to TCOS because doing so would inappropriately shift distribution service charges from interconnecting DERs onto transmission customers without any analytical or legal basis. While DERs can theoretically provide some incidental benefits to the transmission system, they will primarily serve customers on the local distribution system, and only directly provide the transmission system through utility-owned equipment. As explained in TIEC's initial response to Staff's questions, DERs do not benefit the broader ERCOT system in a similar manner to transmission-connected resources. Because the distribution system is not as interconnected as the transmission system, the benefits of interconnecting DERs flow most directly to other nearby customers on the distribution system. Importantly, DERs also have differential local impacts depending on where they are connected. For example, DERs interconnected directly to a utility substation will be more likely to have direct impacts on the transmission system, and could potentially help displace additional transmission or larger-scale generation. Conversely, the benefits of DERs located at a retail customer's premises or near the end of a distribution feeder may primarily flow to local customers, rather than the transmission system. This makes DERs distinct from transmission-connected generators that provide a clearer system-wide benefit. As a

result, DERs' interconnection costs are fundamentally distribution investments, and the benefits that DERs provide do not justify uplifting all of the costs of serving those facilities into TCOS.

That being said, TIEC recognizes that there can be benefits to the transmission system and has indicated a willingness to allow some DER costs to be socialized. The Commission could consider allowing DERs to recover their interconnection costs through transmission rates if the DERs pay to transform their energy up to transmission voltage. TIEC is primarily concerned with the Commission uplifting distribution-related expenses to TCOS because of the practical and legal issues associated with such an allocation. The distribution system is built for and provides service to local end-use customers, and distribution delivery rates are unique to each DSP to account for the specific qualities of their system. As such, there has been a clear divide between transmission and distribution investments that make a distribution-voltage interconnection allowance challenging. Uplifting distribution investment through TCOS would breach what has otherwise been a clear demarcation between transmission and distribution investment. This may exacerbate the challenges associated with policing inappropriate uplift TCOS rates, which has already been an issue in other contexts, and there is no statutory basis for redefining distribution assets as transmission assets.

TIEC has previously suggested creating a charge that allows a DER to directly cover the cost of any equipment needed to transform DER exports up to transmission voltage, as well as a transformation service fee. If this approach were pursued, then it would be easier to make an argument that the DERs are providing power to the wholesale transmission system and to have some allowance covered through TCOS. This approach would squarely comply with cost-causation principles because DERs would essentially pay their way up to transmission voltage, making DERs similarly situated to transmission-level resources. Further, it would avoid the practical and legal challenges associated with uplifting distribution-related costs. However, just apportioning some amount of interconnection costs for DERs to TCOS, when the investments are actually distribution-voltage and the DER is not funding any costs needed to get the power to the transmission system, does not track cost-causation.

D. The Commission needs more data on DER interconnection costs before setting an allowance.

TIEC reiterates its position that the Commission should collect information from DSPs to understand the average costs of DER interconnections and provide this for public analysis and comment, similar to what was done for the transmission-level interconnection allowance.[15] Additionally, the Commission should evaluate other factors, including what benefits DERs provide to the transmission versus the distribution system. Depending on the data collected, it may make sense to vary the allowance based on the DER's proximity to transmission infrastructure, as TEC and AEP suggest,[16] or it may be appropriate to require DERs to pay for their transformation costs in order to receive any interconnection allowance through transmission rates.

Notably, based on the information certain utilities have voluntarily provided, an allowance of $1.5 million appears far too high. TNMP notes that the cost considerations for smaller DER interconnections, in particular, do not justify such a large allowance.[17] Similarly, in Oncor's service area, all of the DESRs, except one, have interconnection costs less than $1.5 million.[18] In Oncor's experience, typical interconnection costs over the past five years range from approximately $250,000 to $500,000, with only two interconnections exceeding $1 million.[19] CenterPoint similarly explains that its historical DER interconnection costs range from $1.2 to $1.5 million.[20] Although DER developers support an allowance that covers the entire interconnection cost for most projects,[21] such an excessive allowance will not incentivize economical siting and configurations of projects. Further, such a large allowance could be extremely costly for ratepayers if there are a high number of DER connections. This is particularly true if existing DERs receive some type of credit for their past interconnection costs, as HEN suggests.[22]

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[15] TIEC Comments at 5-6.
[16] TEC Comments at 4; AEP Comments at 2.
[17] TNMP Comments at 1-2.
[18] Oncor Comments at 6.
[19] Oncor Comments at 6-7.
[20] CenterPoint Comments at 3.
[21] HEN Comments at 4-5; SMT Energy Comments at PDF page 4; HGP Storage Comments at PDF page 3; New Leaf Comments at 3; East Point Energy L.L.C. Comments at 3; Grid Resilience Comments at 2.
[22] HEN Comments at 11.

E. The Commission should consider implementing less controversial changes to create regulatory certainty for DER interconnections.

As explained above, determining the appropriate size and allocation of a DER interconnection allowance is challenging and will likely require more time and analysis. In the meantime, the Commission should consider "no regrets" changes that would improve predictability for developers. Specifically, the Commission could establish a standardized interconnection procedure and timeline for DERs. As Bates Power explained, the lack of consistency in interconnection agreements and technical requirements for DERs can exacerbate the challenges associated with DER development.[23] Notably, the transmission interconnection study process and timeline are standardized while the process on the distribution system is highly dependent on the particular distribution service provider in each area and subject to change any time.[24]

TIEC recommends the Commission develop a pro-forma wholesale distribution interconnection policy, including the equivalent of a Standard Distributed Generation Interconnection Agreement. The policy should address: (a) the lack of standardization in interconnection agreements and technical requirements for DERs in order to complete the studies and associated timelines; (b) the security/credit or financial contributions that will be required of the DER, when these amounts will be due, and how they will be calculated; (c) any specific applications or forms the DER will be required to complete; and (d) any specific technical requirements for interconnecting and operating DERs in general, which may include tailored requirements for subcategories of DERs if needed for reliability. Importantly, many developers agree that uniform interconnection requirements and procedures would improve predictability for developers and lower barriers for DER integration.[25] Although the policy would only directly apply to IOUs because of statutory limitations on the Commission's authority,[26] NOIEs frequently adopt tariffs modeled after those approved for IOUs. Accordingly, such a solution could ensure a more streamlined and equitable approach to resource integration across voltage levels without shifting costs onto customers.

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[23] Bates Power Comments at 5.

[24] Shell Energy Comments at Bates 4.

[25] Shell Energy Comments at Bates 4; HGP Comments at 5-6; Grid Resilience Comments at 5; Base Power Comments at 5.

[26] CPS Energy's Comments at 4.

III. CONCLUSION

TIEC appreciates the opportunity to reply to stakeholder comments and looks forward to continuing to work with Staff and stakeholders as this project moves forward.

Respectfully submitted,

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ATTORNEYS FOR TEXAS INDUSTRIAL ENERGY CONSUMERS

PROJECT NO. 54224

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TEXAS INDUSTRIAL ENERGY CONSUMERS' EXECUTIVE SUMMARY

- The costs that transmission-connected and distribution-connected resources face are equitable, and DERs are charged fairly for the costs they cause on the distribution system. The distinction (not disparity) between distribution and transmission resources is that transmission-connected resources pay for their own step-up equipment, while distribution resources pay distribution-voltage CIACs and ongoing distribution rates to use utility assets. This tracks cost-causation.
- Unlike transmission-level batteries that own and maintain private distribution and transformation facilities at their own cost, distribution-level batteries use the DSP's facilities to take power from the system when charging and discharging. Accordingly, exempting DESRs from distribution rates associated with charging would actually create a disparity for energy storage resources connected at transmission voltage.
- Stakeholders offer a number of proposals for how the costs associated with a DER interconnection allowance could be allocated, but there is not enough information to determine what allocation could best reflect cost-causation principles. Accordingly, TIEC recommends the Commission conduct an analysis to determine the benefits that DERs with specific interconnection features may provide to the integrated transmission system versus the distribution system to inform cost allocation.
- TIEC strongly opposes a categorical determination that all distribution interconnection costs, even subject to an allowance, can be put into wholesale TCOS rates. These costs are fundamentally distribution investments and TCOS should not be used to socialize these costs statewide out of pure convenience without an underlying cost causation argument.
- The Commission should collect information from DSPs to understand the average costs of DER interconnections and provide this for public analysis and comment. Based on the information certain utilities have voluntarily provided, an allowance of $1.5 million appears far too high because it would cover the entirety of most DER interconnections. Such an excessive allowance will not incentivize economical siting and configurations of projects. Further, such a large allowance could be extremely costly for ratepayers if there are a high number of DER connections
- There are other steps the Commission could take to make it easier for DER developers to scope and pursue projects in Texas. As illustrated in the initial comments, it would benefit resource developers, utilities, and customers alike to have a clear, uniform set of interconnection standards for DERs. Specifically, the Commission should standardize the DER interconnection process by developing a pro-forma wholesale distribution interconnection policy that outlines the required technical requirements, studies, financial/credit requirements, and timelines for DER interconnections. This type of process improvement is a "no regrets" solution that could help spur DER investments in ERCOT without shifting costs onto consumers.