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April 2, 2025

Public Utility Commission of Texas
1701 N. Congress Ave.
Suite 7-110
Austin, Texas 78701

Re: Project 54224 *Cost Recovery for Service to Distributed Energy Resources* – Need for timely clarification on Wholesale Distribution Service tariffs and charges

To the Honorable Public Utility Commission,

SMT Energy LLC (“SMT”) is an ERCOT Distribution Energy Storage Resource (“DESR”) and the owner and operator of 110 megawatts (“MW”) of operating facilities, with another 60MW of DESRs in different stages of development, construction and commissioning. SMT has paused development of any additional DESRs until the Commission establishes a reasonable policy regarding appropriate charging costs for DESRs by Distribution Service Providers (“DSPs”) and an objective, formulaic approach cost recovery for DESRs. SMT provides this letter to the Commission in response to the memorandum filed by Commission Staff on March 27, 2025, and in regards to the consideration of this Project at the April 3, 2025, Commission open meeting.

SMT applauds the Commission for coming back to this important policy proceeding to address impediments in the ERCOT market that continue to interfere with fair competition principles and discourage investment in DESR facilities. DESRs are ERCOT-registered Resources dispatched by ERCOT, required to follow the same operational requirements as transmission-connected Resources. A key underlying principle in the ERCOT market is that the rules of participation must be non-discriminatory and support robust and fair competition.¹ And at a time when ERCOT is desperate to meet growing customer load throughout the region, impediments to adding Resources should be promptly eliminated. In addition, DESRs provide ancillary services that are particularly needed in maintaining frequency and voltage on both the transmission and distribution systems. DESR deployments that physically serve customer load within the distribution system has the effect of enhancing local reliability and also reduces the demand in the utility’s distribution system, typically discharging when demand is high and thus deferring the need for the DSP to expand its system, benefiting all distribution customers by deferring costs.

The most important issue for SMT in this Project is the urgent need to eliminate the drastically discriminatory monthly wholesale delivery service charges which are imposed only on DESRs (“WDS Tariffs”). This issue has yet to be directly addressed by the Commission, having been routed to this proceeding (from various electric utility rate cases) for over two years.² Any

¹ See Public Utility Regulatory Act, Tex. Util. Code (“PURA”), §39.001; 16 Tex. Admin. Code 25.501(a).

² See Open Meeting Discussion on Application of Oncor Electric Delivery Company L.L.C. for Authority to Change Rates (Docket No. 53601) at 3:16-3:29 (March 9, 2023).



further delay is not an acceptable solution as ongoing market bias is contrary to applicable law and ERCOT urgently needs to encourage new generation capacity.

These discriminatory tariffs only apply to one Resource type, DESRs, that are charged for wholesale delivery of power from the ERCOT system that competitors in the ERCOT market do not incur. This also amounts to a violation of PURA by the utilities: in providing a service to persons in a classification (in this case wholesale power market participants, ERCOT Resources), an electric utility may not grant an unreasonable preference or advantage to a person in the classification; or subject a person in the classification to an unreasonable prejudice or disadvantage.³ The impact of these tariffs clearly have this discriminatory effect as it has likely made development of new DESRs uneconomic.

Respectfully, Commission Staff's assertion that DESRs should be charged under WDS Tariffs does not take into consideration some key considerations. First, as discussed above, WDS Tariffs are not consistent with PURA. Second, DESRs typically pay significant amounts to interconnect to the system (including contributions in aid of construction or "CIAC"), essentially paying up front for the impacts they have on the distribution systems to which they interconnect.⁴ Third, as many commenters have explained in this Project, DESRs by design have much less impact on – and indeed bring significant benefits to – the distribution system as DESRs (a) are typically located near substations limiting the need for distribution conductor; (b) tend to operate in a manner that assists local reliability (charging when demand is low and discharging when demand is high); (c) operate under the direction of ERCOT who is highly engaged in using all Resources in a manner that enhances system reliability; and (d) aid in delaying distribution asset addition costs, benefiting all customers on that system.

Finally, the WDS Tariffs effectively result in customers paying twice for the delivery of wholesale power – once for the charging of the DESRs, such cost adding to the cost of power production, and again when the retail customers pay for the delivery of power (inclusive of wholesale costs) through the ERCOT system. Recall that energy used to charge a battery is merely held for a period of time until it is needed to enhance reliability by discharging into the same distribution system. Such double charging of customers for this beneficial function (that also benefits all distribution customers in its system) and the resulting harm of market principles and new development is antithetical to fundamental principles and needs of the ERCOT market.⁵

SMT appreciates this opportunity to express support for the Commission taking up these important market issues in a timely manner. We commit to working with the Commission and stakeholders to move quickly to remove barriers to competition and increased Resource capacity

³ PURA §38.021.

⁴ This cost should of course also be addressed in part by the interconnection allowance, not only for market design consistency but also in recognition of local benefits. DESRs pay for their own distribution facilities to step up to the service voltage in exactly the same manner as transmission interconnected Resources. And energy actually consumed for auxiliary power by the facilities is, and should be, charged in the same manner as transmission-connected Resources.

⁵ See 16 Tex. Admin. Code §§ 25.191 – 25.203).



in the ERCOT Region - and urge prioritizing an end to WDS Tariffs as soon as possible. ERCOT's immediate need for Resources and for reliably support would benefit from quick action on these important policy issues.

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