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Public Utility Commission of Texas

Memorandum

TO: Chairman Thomas J. Gleeson
Commissioner Kathleen Jackson
Commissioner Courtney K. Hjaltman

FROM: Ramya Ramaswamy, Energy Efficiency
Jenna Keller, Chief of Staff to Deputy Executive Director

DATE: April 3, 2025

RE: **April 3, 2025 Open Meeting**
Project No. 54224 – Agenda Item No. 29, *Cost Recovery for Service to Distributed Energy Resources*
Project No. 54233 – Agenda Item No. 30, *Technical Requirements, and Interconnection Processes for Distributed Energy Resources*

At the March 13, 2025 open meeting, during the discussion of Docket No. 57160, the Commission discussed the possibility of amending 16 TAC §25.212, relating to Technical Requirements for Interconnection and Parallel Operation of On-Site Distributed Generation. This rule, and related topics, have been the subject of multiple projects over the last few years, but rule amendments have not yet been formally proposed. This memo provides an overview of ongoing work, and requests Commission feedback on next steps.

There have been two Commission projects related to distributed energy resources (DERs) since 2022 – Project No. 54233, updates to the Commission's substantive rules concerning technical and operational requirements and interconnection processes for DERs, and Project No. 54224, issues related to cost recovery for DERs.

In January of 2023, Staff filed in Project No. 54233 a discussion draft outlining the updates to the technical requirements and interconnection processes. Subsequently, during the summer of 2023, Staff conducted three workshops to solicit additional stakeholder feedback on the discussion draft. In November of 2022, Staff requested comments in Project No. 54224 on certain cost recovery issues for DERs. After reviewing those responses, Staff recommended that (1) the Commission should take no immediate action regarding cost recovery for DERs and (2) the Commission should revisit the topic of cost recovery after adoption of the reliability standard.[1]

On August 28, 2024, Commissioner Glotfelty filed a memorandum in both projects suggesting that the Commission:

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[1] Staff Memo Responding to Comments Docket No. 54224, (AIS Item 22) (March 17,2023) and Commission Staff's DER Plan for Pending Projects Docket No. 54224, (AIS Item 25) (March 31,2023).

1) Incorporate Project No. 54224 DER cost recovery issues into the Project No. 54233 rules, including:
    a. A $1.5 million interconnection allowance for DERs;
    b. Recovery of interconnection costs above the $1.5 million allowance from the interconnecting DER through a Contribution In Aid of Construction ("CIAC");
    c. A requirement for distribution service providers (DSPs) to provide detailed estimates of the interconnection costs;
    d. Ability for interconnecting DERs to contest DSPs' estimates of interconnection costs;
    e. Distribution-related monthly charges, if any, to be collected from distributed energy storage resources (DESRs);
    f. A wholesale cost recovery mechanism for municipally owned utilities and electric cooperatives, if applicable.
2) Move forward with the rules for DER technical requirements and interconnection processes, incorporating the cost recovery issues outlined above to the discussion draft that Staff developed in Project No. 54233.

The Commission discussed Commissioner Glotfelty's memorandum at the August 29, 2024, open meeting and directed Staff to take public comment on the topics outlined in the memorandum. Comments were received on September 30, 2024, from 23 entities. Reply comments were submitted on October 11, 2024.

Staff has reviewed the comments and reply comments and is now seeking guidance from the Commission on how to move forward with the Project No. 54233 rulemakings and the Project No. 54224 cost recovery issues. Staff outlines questions and options for the Commission to consider when determining the path forward for both projects. Staff's review of the comments and reply comments informed the questions and options. As such, Staff also has included a brief summary of the comments and reply comments along with Staff's recommendations flowing from those comments.

Question 1: Should the Commission explore an interconnection allowance for DERs?

Option 1: YES

If the Commission chooses to explore an interconnection allowance for DERs, the Commission should evaluate benefits provided by DERs to the transmission system and distribution system to determine the interconnection allowance amount and how to allocate the allowance.

Pros	Cons
• Addresses stakeholders' request for the Commission to consider an interconnection allowance for DERs.	• ERCOT technical and operational standards rulemaking will be delayed. • DER interconnection rulemaking will be delayed.

	• Uncertainty surrounding how to study and quantify benefits provided by DERs.

Option 2: NO (Staff's recommended option)

If the Commission chooses to not explore an interconnection allowance for DERs, it should proceed with the Project No. 54233 rulemakings with an option to take up the allowance at a later date.

Pros	Cons
• Immediate movement toward statewide standardization of interconnection timelines and technical standards, resolving issues cited by stakeholders and ERCOT. • Additional time to study and quantify benefits provided by DERs.	• Does not immediately address some stakeholders' request for the Commission to consider DER interconnection allowance.

Question 2: If the Commission explores an interconnection allowance for DERs, should further work on the Project No. 54233 rulemakings concerning interconnection processes for DERs be postponed until the interconnection allowance work is complete?

Option 1: YES

If the Commission chooses to postpone work on the Project No. 54233 rulemakings concerning DER interconnection processes, the Commission should still proceed with the Project No. 54233 rulemaking for DER technical and operational requirements for the parallel operations of interconnected DERs.

Option 2: NO

<u>**Summary of Comments and Staff Recommendations**</u>

Topic 1: Interconnection allowance for DERs

In his memorandum, Commissioner Glotfelty recommended adoption of a $1.5 million interconnection allowance for DERs and suggested that Staff could endeavor to model such an amount as was done for the recently adopted transmission generation interconnection allowance.[2] Currently, DERs are responsible for interconnection costs above a DSP's fixed standard allowance, which varies and depends on the DSP's tariff. An interconnecting DER is required to

[2] *Generation Interconnection Allowance*, Project No. 55566 (Feb. 15, 2024).

provide a CIAC to cover all costs incurred by the DSP in excess of the standard allowance when making upgrades to the DSP's system that are necessary to facilitate the DER's interconnection.

Public comments:

Commenters disagreed regarding whether current statute allows for establishment of an interconnection allowance for DERs. Most of the commenters expressed one of the following opinions concerning this issue:

- Current statute clearly allows for establishment of an interconnection allowance for DERs.
- Current statute neither explicitly allows nor explicitly prohibits establishment of an interconnection allowance for DERs.
- New legislation is a mandatory prerequisite for establishment of an interconnection allowance for DERs.

Commenters also provided varying feedback concerning whether an interconnection allowance for DERs *should* be established:

- Commenters in support of an interconnection allowance reasoned that DERs provide many, if not all, of the same benefits to the grid as resources interconnected at transmission voltage.
- Commenters against an interconnection allowance cited the many differences between DERs and resources interconnected at transmission voltage as the reason for maintaining the current paradigm.
- Many commenters recommended that more information is needed concerning the potential benefits provided by DERs before deciding whether to establish an interconnection allowance.

Comments concerning the appropriate dollar amount for an interconnection allowance for DERs also varied considerably, including on whether Commissioner Glotfelty's suggested $1.5 million allowance is the appropriate amount:

- Commenters in support of a $1.5 million standard allowance reasoned that $1.5 million is both low enough to incentivize disciplined siting of DERs and high enough to provide competitive market signals for DER interconnection.
- Commenters opposed to a $1.5 million standard allowance reasoned that such an allowance would not incentivize disciplined siting or would have the potential to make an otherwise uneconomic business profitable.
- Many commenters recommended that more information is needed before establishing specific dollar amounts for an interconnection allowance, suggesting a similar approach to the one used for the recently adopted transmission-level interconnection allowance.

Commenters also provided suggestions concerning appropriate treatment of any dollar amount eventually chosen for an interconnection allowance, including establishing a cost cap, varying the allowance amount based on size or distance from the nearest substation, or using a standard methodology as opposed to a standard monetary value.

Staff Recommendation:[3]

While DERs are theoretically capable of providing benefits to the local distribution system, no commenter provided details on how to quantify those benefits. DSPs treat DERs as they treat any other load seeking to interconnect, upgrading their systems to fully accommodate the DER load without considering any potential benefits (e.g., voltage protection, congestion mitigation, resilience) that the DER could provide. Quantifying these benefits would allow the Commission to consider the appropriateness of offsetting capital investments for interconnection-related distribution system upgrades with the benefit amount. Further, there is disagreement regarding the potential benefits, if any, that DERs provide to the transmission system, including how such benefits would compare with those provided by DERs distribution systems. As such, Staff recommends that the Commission do the following before deciding whether to establish an interconnection allowance for DERs:

1. Assess and quantify distribution system benefits provided by DERs and evaluate how these benefits may reduce distribution system upgrade costs associated with interconnecting DERs.
2. Assess and quantify transmission system benefits provided by DERs.

If the above information leads the Commission to establish an interconnection allowance for DERs, Staff also recommends that the Commission direct Staff to collect information from DSPs regarding average costs of DER interconnection, similar to the information gathering done for the transmission-level interconnection allowance.

Topic 2: Cost recovery methodology

If the Commission determines that an interconnection allowance for DERs should be established, the Commission should also determine how the allowance will be recovered. Currently, since there is no interconnection allowance for DERs, there is no associated cost recovery methodology. In contrast, there is an interconnection allowance for resources interconnected at transmission voltage. The cost to provide this allowance is recovered through Transmission Cost of Service (TCOS) charges, which are assessed to all end-use customers within the ERCOT system.

Public comments:

Commenters provided suggestions regarding how the costs to provide an interconnection allowance for DERs should be recovered, including:

- cost recovery through TCOS;
- cost recovery through each individual DSP's routine rate proceedings;
- cost recovery through a new distribution equivalent of TCOS; and

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[3] In this memorandum, Staff does not take a position on the statutory authority for establishing an interconnection allowance for DERs.

- cost recovery through a mixed cost approach (i.e., through both transmission and distribution rates).

Staff Recommendation:

Cost recovery methodologies are different between the transmission system and distribution systems to account for the different purposes the systems serve. The purpose of distribution systems is to provide service to end-use customers. Distribution systems benefit end-use customers in the locations served by the systems and are paid for by those specific customers. The purpose of the transmission system is to transfer electricity from generators to distribution systems for end-use consumption. The transmission system benefits all end-use customers in ERCOT and is paid for by all end-use customers, regardless of location. As stated above, while DERs are capable of providing benefits to both the transmission system and distribution systems, those benefits have not been quantified and compared.

If the Commission decides to establish an interconnection allowance for DERs, the method of cost recovery should depend on the breakdown of benefits provided by DERs. Specifically, the Commission should assess whether DERs provide:

- an overall ERCOT system benefit;
- only a local distribution system benefit;
- only a benefit to any associated customer; or
- mixed benefits.

Therefore, Commission Staff reiterates its recommendation from above that the Commission should evaluate and quantify what specific benefits flow from DERs to distribution systems and the transmission system. This evaluation should be conducted before any decision is made concerning an appropriate cost recovery methodology.

Topic 3: Transmission Service at Distribution Voltage Delivery Charges

Under 16 Tex. Admin. Code § 25.191, a DESR must pay wholesale transmission service at distribution voltage delivery charges when drawing power from the grid in the manner prescribed by the applicable DSP's tariff. This concept is commonly referred to as a "wheeling tariff." All wholesale transmission service at distribution voltage customers are subject to these tariffs and are charged based on load.

Public Comments:

Many commenters supported retaining the current policy under which DESRs must pay wholesale transmission service at distribution voltage delivery charges. These commenters reasoned that DESRs rely on distribution assets to be able to offer their services in the ERCOT market, while resources connected at transmission voltage do not. Instead, resources connected at transmission voltage own, operate, and maintain the facilities necessary to export their power to the wholesale grid. Accordingly, it is appropriate that DESRs pay a distribution rate that does not apply to transmission-connected resources.

Other commenters suggested that the current policy is inequitable since transmission-connected resources are not charged for wholesale delivery service. These commenters recommended that the Commission establish a policy to reject such charges or, in the alternative, standardize the tariff rate and structure across the ERCOT market.

Staff Recommendation:

Commission Staff recommends that the current policy under which DESRs must pay wholesale transmission service at distribution voltage delivery charges is reasonable and appropriate. A DESR that is utilizing the distribution system should be assessed a charge for wholesale transmission service at distribution voltage for its charging load on the same basis as other wholesale distribution customers who also import energy from the grid. Failure to charge DESRs for their use of the distribution grid would lead to inequitable shifting of distribution costs incurred on behalf of DESRs onto other ratepayers.