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PROJECT NO. 55566

GENERATION INTERCONNECTION ALLOWANCE § PUBLIC UTILITY COMMISSION OF TEXAS

**SHARYLAND UTILITIES, L.L.C.'S
COMMENTS IN RESPONSE TO
COMMISSION STAFF'S QUESTIONS**

Sharyland Utilities, L.L.C. (“Sharyland”) hereby submits these comments in response to the questions issued by the Staff of the Public Utility Commission of Texas (“Commission Staff”) on September 25, 2023, in Project No. 55566. The request for comments provided that interested persons may submit written responses to the questions by October 13, 2023; therefore, these comments are timely filed.

1. Should there be a single allowance amount, formula, or set of formulae, applicable to all transmission service providers (TSPs) in ERCOT, or should the details of each allowance be specific to each TSP?

The Commission should apply a single allowance, formula, or set of formulae for all TSPs in the ERCOT region for purposes of implementing House Bill 1500, Section 9. Application of different allowance amounts or formulae specific to the individual TSPs throughout ERCOT could raise several concerns. These concerns include regulatory uncertainty and administrative inefficiencies for both the Commission and stakeholders and geographic inconsistencies across the wholesale transmission grid. Sharyland believes that avoiding unnecessary complexity on this issue from both the utility and market perspectives is important and beneficial.

In this rulemaking, the Commission could establish the allowance (i.e., a cost cap as discussed below) that applies equally across all the TSPs’ tariffs. This rulemaking will allow for interested stakeholders to comment on the appropriate level of that allowance amount. After the end of the rulemaking process, TSPs could file their compliance tariffs for administrative approval at the Commission in a timely manner. This rulemaking and compliance tariff approach would be

analogous to the approach recently taken in the transmission export charge rulemaking addressed in Project Nos. 53169¹ and 54527.²

Conversely, if the new rule provides for different allowances among the TSPs, the process could involve all the TSPs making tariff filings proposing their own specific allowance methodologies and initiating numerous contested cases at the Commission after the conclusion of the rulemaking. Although these tariff filings may be subject to informal disposition under 16 Tex. Admin. Code § 22.35, given the interest in this issue among various stakeholder groups, those proceedings could be protracted. Thus, this process may result in administrative inefficiencies and longer regulatory uncertainty. This approach, particularly if future contested cases are involved, would also likely result in inconsistencies across the wholesale transmission grid based on geography—essentially creating a “patchwork quilt” of cost-contribution requirements for generators throughout ERCOT. Though Sharyland understands that an intent of House Bill 1500, Section 9 is to encourage prudent generation siting decisions, it is also important not to discourage future generation based on the geographic region or which TSP is providing transmission service in a given area.

2. *Should a single allowance amount or formula apply to transmission-level generation interconnections, or should there be different allowances based on various characteristics of the interconnection? Some examples of possible characteristics include the distance between the interconnecting generator and the existing transmission facilities, voltage level of the transmission system the generator is interconnecting to, the fuel type of the generator being interconnected, and the size of the generator being interconnected.*

Sharyland recommends that the Commission consider a cost cap that reflects the amount of the allowance provided to interconnecting generators. Consistent with Sharyland’s response to question no. 1, the cap level should be established in this rulemaking and applied consistently across all the TSPs—this approach would be efficient, avoid unnecessary complexity, and provide more regulatory certainty in a timely manner. Simply put, amounts below the cap would be incurred completely by the TSP and included in its transmission cost of service (“TCOS”); amounts above the cap would be paid by the generator to the TSP as contribution in aid of construction (“CIAC”), either in whole or part. The Commission could consider in this proceeding

¹ *Review of Transmission Rates for Exports from ERCOT*, Project No. 53169, Order (Nov. 30, 2022).

² *Tariff Filings in Compliance with Project No. 53169*, Tariff Control No. 54527, Order (Jun. 5, 2023).

typical historical generation interconnection costs over recent years to determine the appropriate level. In other words, amounts exceeding what is generally considered “standard” would presumably be borne by the interconnecting generator and not recovered from ratepayers through the utility’s TCOS.

Sharyland believes that differentiating the allowance methodologies based on characteristics of the specific generator requesting interconnection should be limited, given the requirement in PURA § 35.004(b) to “ensure that an electric utility or transmission and distribution utility provides nondiscriminatory access to wholesale transmission service for” generators and other wholesale transmission customers. However, given the new requirements in PURA § 35.004(d) and recognizing potentially significant differences in generation entities, Sharyland believes it may be reasonable to implement different cost caps depending on the size of the generator’s megawatt (“MW”) capacity. For example, the cost cap could increase based on a higher number (or range) of MWs. This approach may be helpful as larger generation units could need multiple interconnection points to deliver their capacity. Further, this approach could help the State of Texas’ overall policy initiative of encouraging more installed generation capacity on the ERCOT system.

- 3. If there should be different allowance amounts or formulae based on various characteristics of the interconnection, then what characteristics or parameters should be used, and why?***

Please refer to Sharyland’s response to question no. 2.

- 4. What is a fair proportion of costs for consumers to bear related to transmission-level generation interconnections, considering the requirement in PURA § 35.004 (d-1)(1) that the interconnection allowance must take into account “the potential to reduce the costs to” consumers of generation interconnection, and why?***

Not addressed.

- 5. What factors, if any, other than “historical generation interconnection costs” should the Commission consider in developing and determining an allowance for transmission-level generation interconnections?***

Sharyland believes that inflation is an essential consideration in both establishing the allowance amount and on an ongoing basis. Recent years have demonstrated the substantial effects of inflation even within a relatively short timeframe. Sharyland, like all the TSPs, has experienced

firsthand the recent impacts of inflation (and supply chain issues) on the purchase of transmission components for new construction. New PURA § 35.004(d-3) does require the Commission to review and potentially adjust the allowance based on inflation and supply chain issues at least every five years. However, the Commission may consider a mechanism in this rule that could allow for an adjustment more often within that timeframe, if needed.

- 6. Should generation or load entities that subsequently interconnect to an existing transmission facility be required to contribute to the cost of that transmission facility that has already been recovered? If so, should some portion of the initial costs paid be refunded to the initial interconnecting generation or load entity, and how should such payments and refunds be determined and processed?***

Sharyland responds to this issue only to note that it has concerns with the significant administrative obstacles that may arise if the TSP remains obligated to track and manage any such refunds—a process and obligation that could last for many years. Sharyland reserves the right to further comment on this issue depending on the comments filed in this proceeding.

Sharyland appreciates the opportunity to submit these comments and looks forward to working with the Commission, Commission Staff, and other stakeholders on these issues. Sharyland respectfully requests that these comments be considered as the Commission implements House Bill 1500, Section 9.

Respectfully Submitted,

/s/ John Zerwas

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SHARYLAND UTILITIES, L.L.C.'S EXECUTIVE SUMMARY

- There should be a single allowance, formula, or set of formulae for all TSPs for purposes of implementing House Bill 1500, Section 9.
- The Commission should consider a cost cap that reflects the amount of the allowance provided to interconnecting generators.
 - The cap should be established in this rulemaking and applied consistently across all the TSPs.
 - Amounts below the cap would be incurred completely by the TSP and included in its TCOS; amounts above the cap would be paid by the generator as a CIAC.
 - The cap should be set to an amount such that only costs that exceed typical or standard interconnection costs are paid by the interconnecting generator as CIAC.
- The Commission could consider a mechanism to adjust the allowance for inflation and supply chain issues more often than every five years.