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# SIERRA CLUB

## LONE STAR CHAPTER

### PROJECT NO. 55566. REVIEW OF CHAPTER 25.101 CERTIFICATION CRITERIA

#### RESPONSE OF SIERRA CLUB, LONE STAR CHAPTER TO COMMISSION STAFF QUESTIONS

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The Sierra Club appreciates the opportunity to submit brief comments related to the implementation of an interconnection cost allowance requirement, as directed by the legislature in Section 9, HB 1500, amending § 35.004 of PURA.

Sierra Club as an organization did not support the change in interconnection costs contained in SB 1287 that were included in Section 9 of the PUCT sunset bill, HB 1500. We continue to believe that ERCOT has been well served by the present model where all loads pay for the transmission that allows for interconnection of all resources, be they variable, dispatchable or more recently, energy storage resources. However, we do believe that the statutory language approved and signed by the Governor is clear that the intent is to produce a simple interconnection allowance that is standardized, meaning it should be relatively easy for Transmission and Distribution Utilities, developers of transmission-level generation and storage facilities, ERCOT and the PUCT to know going into the interconnection process whether or not the developer of the project might be subject to paying some portion of the interconnection-transmission project. Thus, as our answers to staff's questions make clear, we favor a simple allocation formula, and not one based on multiple parameters like distance, type of resource, type of transmission process. Simple clear rules and procedures will benefit the grid.

The current ERCOT market has been characterized by the relative speed with which resources can be interconnected to the ERCOT grid, while many other markets where "participant funding" is in practice, suffer significant delays and disputes affecting ultimately economic development, reliability and consumer costs. Thus, while we do not believe the provision requiring an allowance for interconnection is in any way a participant funding model, avoiding complex complications or disputes over cost is in ERCOT's interest.

Over the last two years, ERCOT has set multiple all-time peak demand records both in the summer and winter. Indeed, the September peak demand record in 2023 was more than 10,000

MW's above the September peak demand record of only a year before. While our organization continues to advocate for change in our market to encourage the use of demand response, and the spending of both federal and ratepayer monies to increase energy efficiency programs to reduce this demand, there is no doubt that we will continue to need more generation, more interconnections and more transmission. In addition, we also expect some older facilities to retire in the coming years, particularly those operating on coal, meaning that we will need to continue to attract new generation facilities to Texas. We must assure a simple process so that all power generation companies - including wind and solar power, and battery storage facilities - which have increasingly become an important part of our energy mix - but also more traditional resources are able to interconnect in a swift and simple process, even with the implementation of an interconnection cost allowance model. With new businesses and people arriving to Texas daily, creating a complex interconnection cost model is not in Texas's interests.

*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?*

We favor a single allowance amount or formula. Indeed, we would argue that the plain language of the statute contemplates a single interconnection cost allowance for generator interconnection agreements executed after 12/31/2025. That suggests that there was no request or contemplation by the authors of the bill that the allowance vary by each Transmission Service Provider (TSP). To do so would create confusion and could lead to some TSPs gaining a relative advantage over others by having more favorable allowances. Therefore, Sierra Club favors one single, simple allowance, building on ERCOT's existing framework.

*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.*

Again, we favor the development of one single generator interconnection cost allowance to accommodate those different characteristics. In the statute, it states that "the commission by rule shall establish a reasonable allowance for transmission-owning utility costs incurred to interconnect generation resources directly with the ERCOT transmission system at transmission voltage"(emphasis added). Again, in our view that indicates that the The Commission should produce a single interconnection cost allowance.

*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?*

Not applicable. See our comments above.

4. What is a fair proportion of costs for consumers to bear related to transmission-level generation interconnections, considering the requirement in § 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?

Before 2026, consumers will continue to pay for the full cost of transmission-level generation interconnections, as has been the practice in ERCOT. Again we believe the statute is clear that the legislature intended to set a reasonable allowance for this cost, but require generation resources to pay the cost that would have been borne by consumers if the cost is above that allowance. Thus, the law did not anticipate that consumers would pay for x% of the cost, but simply that consumers would pay for the whole cost unless it was over a reasonable allowance, in which cases generators would pay for the additional costs. So as purely and example, if the allowance is determined to be \$1 million, and a transmission interconnection project costs less than \$1 million, then consumers would pay the entire cost, but if it were \$1 million and \$1 dollar, consumers would pay \$1 dollar. Thus, we do not view the statutory language as determining a proportional share, but merely a reasonable upper limit on interconnection costs.

*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?*

The main focus should be on historical generation interconnection costs, although because the legislation contemplates resetting the allowance every five years, we believe some attention to current and future likely costs could be considered. In other words, the Commission might be able to also look at projects that are in queue but are not yet synchronized or operational in determining costs. We would suggest not going back too far in determining the historical costs, since the types of generation and location of new generation has changed significantly in recent years. Moreover, supply costs and constraints change year to year, so perhaps a five-year averaging of costs makes sense. We would note that some of the higher costs we saw in the 2005 to 2013 period were related to a significant expansion of transmission and interconnections to West Texas, required by legislation and the development of the CREZ. Thus, we believe that the Commission might consider assessing historical costs over the last few years, such as between January 1, 2020 to January 1, 2024, and then perhaps adjust it slightly when more data comes in for 2024 and 2025. Thus, the analysis could incorporate project security deposits for projects in the ERCOT GIS that have not yet achieved commercial operation. Including these soon to be operationalized projects will make the data more accurate.

We would also suggest that the Commission could include a slight increase (or decrease) in the allowance based on factors such as inflation or changes in interest rates.

*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?*

Yes, we think it makes sense for some cost sharing mechanism to be developed, such that if one generator pays an amount above the allowance, then if another generator interconnects later to the system, they could contribute to the amount above the allowance. We do not think it is possible without further statutory change, however, to charge future load for the transmission upgrade that was paid for partially by a generator. That was not contemplated in the legislation and probably would not be in keeping with the intent of the legislation.