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OPEN MEETING COVER SHEET

MEMORANDUM AND PROPOSAL FOR ADOPTION

MEETING DATE:	February 15, 2024
DATE DELIVERED:	February 12, 2024
AGENDA ITEM NO.:	#25
CAPTION:	Project No. 55566 – <i>Generation Interconnection Allowance</i>
DESCRIPTION:	Memo and Proposal for Adoption

Public Utility Commission of Texas

Memorandum

TO: Chairman Thomas Gleeson
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Kathleen Jackson

FROM: Mackenzie Arthur, Rules and Projects
Tyler Nicholson, Market Analysis

DATE: February 12, 2024

RE: February 15, 2024 Open Meeting – Agenda Item No. 25
Project No. 55566, *Generation Interconnection Allowance*

Please find attached to this memorandum Commission Staff's proposal for adoption in the above-referenced project for consideration at the February 15, 2024, Open Meeting. Commission Staff's proposed final order would amend 16 Texas Administrative Code (TAC) §25.195, relating to Terms and Conditions for Transmission Service.

The purpose of these proposed changes is to implement Public Utility Regulatory Act (PURA) §35.004, enacted as House Bill 1500, Section 9, which requires the commission to develop a reasonable allowance applicable to generation resources interconnecting directly with the ERCOT transmission system at transmission voltage after December 31, 2025. Under the adopted rule, interconnections at or below 138 kilovolts (kV) will initially have an allowance of \$14,000,000 and interconnections above 138 kV will initially have an allowance of \$22,500,000. The allowance amounts will be adjusted annually to reflect year-over-year changes in the national Consumer Price Index.

Commission Staff recommends the Commission adopt the proposed order attached to this memo.

PROJECT NO. 55566

§

GENERATION INTERCONNECTION § PUBLIC UTILITY COMMISSION
ALLOWANCE § OF TEXAS

§

(STAFF RECOMMENDATION)

PROPOSAL FOR ADOPTION OF AMENDMENTS TO 16 TAC §25.195

1 The Public Utility Commission of Texas (commission) adopts amended 16 Texas
2 Administrative Code (TAC) §25.195, relating to Terms and Conditions for Transmission
3 Service. The commission adopts this rule with changes to the proposed text as published in the
4 December 15, 2023 issue of the *Texas Register* (48 TexReg 7264). The adopted rule implements
5 Public Utility Regulatory Act (PURA) §35.004, enacted as House Bill 1500, Section 9, which
6 requires the commission to develop a reasonable allowance applicable to generation resources
7 interconnecting directly with the ERCOT transmission system at transmission voltage after
8 December 31, 2025.

9
10 Under the adopted rule, interconnections at or below 138 kilovolts (kV) will initially have an
11 allowance of \$14,000,000. Interconnections above 138 kV will initially have an allowance of
12 \$22,500,000. The initial allowance amounts were determined based on the historical costs of
13 each interconnection that became energized on or after September 1, 2019, through October 11,
14 2023, as disclosed by the 12 transmission service providers (TSPs) with the highest transmission
15 cost of service for the 2022 calendar year. Each allowance tier amount will be adjusted annually

on a year-over-year basis for inflation based on the national Consumer Price Index published by the United States Bureau of Economic Analysis.

The commission received comments on the proposed rule from: the Advanced Power Alliance and the American Clean Power Association (APA and ACP); AEP Texas Inc. and Electric Transmission Texas, LLC (collectively, AEP); Apex Clean Energy and Cypress Creek Renewables (ACE and CCR); CenterPoint Energy Houston Electric (CenterPoint); the City of Houston; the City of San Antonio City Public Service Board (CPS Energy); Hunt Energy Network, LLC (HEN); the Lower Colorado River Authority Transmission Services Corporation (LCRA); the Office of Public Utility Counsel (OPUC); Oncor Electric Delivery Company, LLC (Oncor); Sharyland Utilities, LLC (Sharyland); the Lone Star Chapter of the Sierra Club (Sierra Club); the Solar Energy Industries Association (SEIA); the Texas Advanced Energy Business Alliance (TAEB); Texas Competitive Power Advocates (TCPA); Texas Electric Cooperatives, Inc. (TEC); Texas Industrial Energy Consumers (TIEC); Texas Public Policy Foundation (TPPF); Texas Public Power Association (TPPA); Texas Solar Power Association (TSPA); Texas-New Mexico Power Company (TNMP); WattBridge Texas, LLC (WattBridge); and Wind Energy Transmission Texas, LLC (WETT).

Generation Interconnection Allowance Methodology

Historical generation interconnection costs

To accomplish the directives of PURA §35.004, the commission studied historical generation interconnection costs including which elements of a generation project most significantly contributed toward interconnection costs. Specifically, commission staff issued a request for

information to the 12 transmission service providers (TSPs) with the highest approved transmission cost of service amounts as of early 2023. The requested data related to generation interconnection projects energized on or after September 1, 2019, through October 11, 2023, the date the request was filed in project number 55566.

In the interest of transparency, the interconnection cost data received from the TSPs was compiled by commission staff and filed in project number 55566 on November 2, 2023. The following information was provided by the TSPs and reviewed by commission staff for each generation interconnection project: generator resource type (i.e., solar, wind, battery, natural gas) and capacity in megawatts (MW), the resource type and capacity in MW of any co-located generation, the interconnection voltage level, the cost uplifted to transmission cost of service (TCOS), transmission line buildout in miles, the cost of transmission line buildout, site type (whether the interconnection site was new (“greenfield”) or pre-existing (“brownfield”)), the county the generator was interconnected in, and energization date.

Voltage-based allowance

After compiling the data provided by the TSPs, commission staff conducted an omnibus test regression analysis to identify factors with a statistically significant impact on the total cost uplifted to TCOS. This test analyzed the following variables: interconnection voltage level, generator resource type, site type, total capacity, and miles of transmission line buildout. Three significant variables were identified: interconnection voltage level, site type, and miles of transmission line buildout. Specifically, interconnecting at a higher voltage level, constructing

greenfield sites, and building out transmission lines have a statistically significant correlation with cost.

After considering each of the three significant factors in further detail, the commission determines that voltage is the only appropriate variable – other than cost – that should be considered when setting the level of the allowance. Creating an allowance based on transmission line length or site type could lead to perverse incentives to incur more cost on lengthier transmission lines or on greenfield sites, driving up costs for consumers. Conversely, an allowance based on the interconnection's voltage creates appropriate economic incentives, if set at adequate amounts, and would have other benefits, such as promoting line loss reduction and fully utilizing the state's transmission grid.

Two-tiered allowance

To incorporate voltage into the allowance, the commission sets a two-tiered allowance. The first tier is for interconnections at or below 138 kVs. The second tier is for interconnections above 138 kVs. A single allowance, depending on the amount, could artificially distort incentives to interconnect at a higher or lower voltage, or cover too great a proportion of costs for all generation interconnections, and therefore not accomplish the statute's intent. For example, the data from TSPs revealed that, on average, high-voltage interconnections are significantly more costly than low-voltage interconnections. Therefore, using a single allowance amount for all projects risks only high-voltage interconnections incurring out-of-pocket costs, thereby disincentivizing these types of projects and not incentivizing siting discipline for low voltage interconnection.

1 *Allowance Level*

2 As previously noted, prior to the commission's formal publication of its proposed rule, commission
3 staff published questions for stakeholder feedback on what the commission should consider when
4 setting the allowance. Commission staff further posted a discussion draft and hosted a workshop
5 on November 7, 2023, to receive further public input on the design of the allowance, commission
6 staff's discussion draft, and the TSP-provided data.

7
8 Many commenters highlighted the benefits of interconnecting within the ERCOT region compared
9 to other independent system operators. Specifically, the efficiency and speed of ERCOT
10 interconnection queues, incentives to participate in the energy market, and the historical precedent
11 of ratepayers paying for interconnection costs beyond a generator's step-up transformer make a
12 compelling business case for a generator to locate in the ERCOT region. Especially in light of the
13 commission's current focus on resource adequacy, the commission agrees that preserving these
14 benefits, as practicable, is important. Accordingly, the commission sets the initial allowance such
15 that most generator interconnections should be fully covered by the allowance.

16
17 In the proposed rule, the commission set the allowance at roughly the 85th percentile of total cost
18 for each voltage level. This corresponds approximately to a \$12,000,000 allowance for
19 interconnections at or below 138kV and a \$22,500,000 allowance for interconnections above
20 138kV. As discussed in further detail below, some commenters expressed a concern that the large
21 difference between the two tiers of the allowance would create an incentive for all generators to
22 locate on high voltage lines. However, in the data provided by the TSPs, high-voltage
23 interconnections have historically cost an average of approximately \$4,500,000 more than low

1 voltage interconnections. There are also other cost differences associated with connecting at
2 different voltage levels that are borne entirely by the generator (e.g., step-up transformer costs),
3 further increasing the total difference in costs between low and high voltage interconnections.

4
5 However, in consideration of the comments filed in response to the proposed rule, and upon further
6 review of updated data provided by the TSPs, the commission determines that raising the proposed
7 allowance for interconnections at or below 138kV to \$14,000,000 will achieve a more desirable
8 outcome. Maintaining a two-tier allowance structure and raising the low voltage allowance
9 amount will ensure that most projects are fully covered by the allowance and will adequately
10 mitigate adverse incentives to interconnect at a higher voltage. Overall, this approach will achieve
11 cost savings for customers by incentivizing economic site of generation projects, without impeding
12 the state's pressing resource adequacy goals.

13
14 **§25.195(a) – Applicability**

15 Proposed §25.195(a) states that the section applies to transmission service providers (TSPs) in the
16 Electric Reliability Council of Texas (ERCOT) region providing transmission service to
17 transmission service customers.

18
19 AEP, LCRA, and TNMP recommended revising proposed §25.195(a) to be applicable to
20 generation resources and other transmission service customers because the subject matter of the
21 amended rule expands to the rule's application to generation resources and other transmission
22 service customers. Similarly, TPPA recommended that §25.195(a) should reflect that the rule also
23 applies to ERCOT because §25.195(i) imposes obligations on ERCOT. TPPA alternatively

recommended the Commission either direct ERCOT to fulfill the obligations listed under §25.195(i) or open a separate rulemaking. Oncor agreed with other commenters that the applicability section should be more expansive, but alternatively recommended the rule apply to the provision of transmission service as opposed to the entities to which the rule applies.

Commission response

The commission agrees with commenters and adopts Oncor’s recommendation to revise the rule such that it applies to transmission service. For clarity, adoption subsection (a) also explicitly references transmission service providers, transmission service customers, and ERCOT.

HEN recommended proposed §25.195 be amended to apply “to all generation resources seeking to participate in the ERCOT wholesale market through SCED dispatch and provision of ancillary services, not just those interconnecting at transmission voltage,” namely distributed generation resources. HEN commented that “transmission service” as defined by PURA, expressly includes interconnections at distribution voltage and therefore generators interconnected in this manner should be eligible for an allowance.

Sierra Club, Oncor, TNMP, AEP, TEC and CPS Energy opposed HEN’s recommendation on the basis that it is out of scope and stated that PURA §35.004(d-1)-(d-3) only applies to transmission voltage facilities interconnected to the ERCOT transmission system, which excludes distributed energy resources.

1 *Commission response*

2 The commission agrees with Sierra Club, Oncor, TNMP, AEP, TEC, and CPS Energy that
3 HEN's proposal does not align with statute and declines to implement HEN's
4 recommendation. PURA §35.004(d-1) provides that the allowance is only for "transmission-
5 owning utility costs incurred to interconnect generation resources directly with the ERCOT
6 transmission system at *transmission voltage*" (emphasis added). Distributed energy resources
7 are interconnected at distribution voltage and PURA §35.004(d-1) through (d-3) does not
8 apply to resources connecting at distribution voltage.

9
10 **§25.195(b)(1) – Definition of "generation resource"**

11 Proposed §25.195(b)(1) defines "generation resource" as a transmission service customer that sells
12 generation at wholesale, is interconnected to a TSP's system at a voltage above 60 kV, and is
13 required to execute a standard generation interconnection agreement under this section.

14
15 TPPA, TIEC, CPS Energy, LCRA, T CPA, CenterPoint, and OPUC objected to the proposed
16 definition of "generation resource." TPPA, TIEC, and CPS Energy recommended that the
17 commission use a term other than "generation resource" because the proposed term is ambiguous.
18 Specifically, "generation resource" is identical to a term used in the ERCOT Protocols with a
19 different definition. TPPA recommended that the commission replace "generation resource" with
20 the term "electric generating facility" as defined under §25.5(36), relating to Definitions, or the
21 term "generation service" under §25.5(56). TPPA alternatively recommended amending the term
22 "generation resource" to incorporate or refer to either the defined term "electric generating facility"

1 or “generation service.” LCRA recommended, and CPS Energy supported, not defining the term
2 “generation resource” and deleting §25.195(b)(1) from the rule for the same reasons as TPPA.

3
4 *Commission response*

5 **The commission agrees with TPPA, TIEC, and CPS Energy regarding the potential for**
6 **confusion surrounding usage of “generation resource” and changes the defined term to**
7 **“transmission-level generator” which is not a defined term under §25.5 or the ERCOT**
8 **Protocols. The commission disagrees with TPPA’s recommendations to replace the**
9 **definition with “electric generating facility” or “generation service” because those terms are**
10 **overbroad. Specifically, those definitions involve activities beyond the scope of transmission-**
11 **level generation interconnections such as distributed generation or the retail sale of**
12 **electricity.**

13
14 **However, the commission agrees with TPPA’s alternative recommendation that the defined**
15 **term should refer to “electric generating facility” as defined under §25.5 in conjunction with**
16 **other substantive criteria to ensure the definition is limited to entities to which the generation**
17 **connection allowance applies. The commission defines “transmission-level generator” as a**
18 **transmission service customer that is an electric generating facility under §25.5, is**
19 **interconnected to a TSP’s system at or above 60 kilovolts (kV), and is located behind one or**
20 **more unique points of interconnection.**

21
22 **The commission declines to delete the definition as recommended by LCRA and CPS Energy**
23 **because it is essential to use a defined term to specify applicability.**

CenterPoint and OPUC recommended removing the requirement to execute an SGIA from the definition of “generation resource” because it is redundant to the same requirement under proposed §25.195(c). TCPA advocated for replacing the term “generation” in the proposed definition with “electricity” for consistency with PURA and commission rules. TCPA provided redlines consistent with its recommendation.

Commission response

The commission agrees with CenterPoint and OPUC and removes the condition requiring the execution of a SGIA from the definition because it is redundant with the requirement in §25.195(c). The commission accordingly declines to implement TCPA’s recommendation regarding replacing “generation” with “electricity” as is unnecessary given the adopted definition.

CenterPoint requested confirmation that it is interpreting the definition of “generation resource” correctly. Specifically, CenterPoint asked whether the definition means a generator with a capacity rating of greater than one megawatt (MW) interconnecting at transmission and “intends to sell in the ERCOT wholesale market as a generation resource or settlement only generator.” Oncor also requested clarification as to whether the rule applies to settlement only generators.

Commission response

The adopted definition is specific to generator interconnections to the ERCOT transmission system at transmission voltage. Therefore, the amount of energy exported in MW and the

1 **intention to sell at wholesale is irrelevant. Similarly, whether an entity meets the criteria of**
2 **one of ERCOT's settlement only generator subcategories is not relevant because the**
3 **definition omits the requirement to execute an SGIA.**

4
5 **§25.195(b)(2) – Definition of “transmission system upgrade”**

6 Proposed §25.195(b)(2) defines “transmission system upgrade” as any additional transmission
7 facilities or modifications beyond what is required to interconnect a transmission service customer
8 to the transmission system, and which provide benefits to other customers that are independent of
9 the benefit provided by interconnecting the transmission service customer alone.

10
11 LCRA, OPUC, APA and ACP, ACE and CCR, and CenterPoint objected to the proposed
12 definition, of “transmission system upgrade.” LCRA and OPUC recommended deleting the
13 definition of “transmission system upgrade.” LCRA commented that defining “transmission
14 system upgrades” as proposed “opens the door to cost disputes about the nature or classification
15 of benefits that a given transmission system improvement provides” and is neither necessary nor
16 useful for applying the allowance. OPUC stated that the language regarding “provide benefits to
17 other customers that are independent of the benefit provided by the interconnecting transmission
18 customer alone” is ambiguous. Specifically, OPUC explained that it is unclear whether such
19 benefits are related to the interconnecting transmission service customer, or if those benefits are
20 distinguishable from the upgrades a generation resource is responsible for under proposed
21 §25.195(f)(3)(E).

LCRA alternatively recommended, which APA and ACP and CenterPoint supported, abbreviating the definition in a manner that does not “quantify or segregate the benefits to specific types of customers.” LCRA emphasized that the definition should focus on the objective qualities relevant to the defined term to avoid contentions over the meaning of “benefit.” TIEC specifically opposed LCRA’s alternative recommendation because it is appropriate and necessary for implementing the allowance that any definition of “transmission system upgrade” distinguish between benefits to a transmission customer and benefits that accrue to the entire transmission system.

Commission response

The commission declines to delete the definition of “transmission system upgrade” from the proposed rule because it is essential to the application of the allowance. The adopted definition differentiates between baseline facilities or modifications that are strictly necessary for transmission-level generation *interconnections* within ERCOT and any other facilities or modifications that are not essential for interconnection. For example, changes to power flows on existing transmission lines or those associated with broader transmission grid topology issues may be indirectly caused by the operations of the interconnecting generator but are not strictly necessary for interconnecting the generator. Direct costs will be the responsibility of the interconnecting generator if they exceed the allowance, but indirectly associated costs, such as congestion-related or reliability-related upgrades, are not the responsibility of the interconnecting generator.

However, in recognition of the inherent ambiguity and difficulties involved with determining “benefit,” the commission revises the definition consistent with LCRA’s recommendation.

1 **The commission defines “transmission system upgrade” as any additional transmission**
2 **facilities or modifications beyond what is required to interconnect a transmission service**
3 **customer to the transmission system. The construction of a new substation or modifications**
4 **to an existing substation is not a transmission-system upgrade under the adopted rule if**
5 **necessary to interconnect a transmission-level generator.**

6
7 ACE and CCR recommended, and CenterPoint supported, replacing the phrase “that are
8 independent of” with “in addition to” because any modifications that are not strictly necessary for
9 interconnection can be expected to benefit all transmission service customers, including the
10 interconnecting generation resource. Therefore, such benefits cannot be “independent of” such
11 modifications. ACE and CCR also recommended expanding the definition of “transmission
12 system upgrade” to include modifications to the generation resource’s interconnection facilities,
13 provided that such modifications meet the criteria of the rest of the definition.

14
15 *Commission response*

16 **The commission declines to implement ACE and CCR’s recommendation regarding**
17 **“benefits” because that portion of the definition has been removed. The commission**
18 **disagrees with ACE and CCR that “transmission system upgrade” should be expanded to**
19 **include the generator’s interconnection facilities because this recommendation is**
20 **inconsistent with the intent of a definition meant to address *transmission system* upgrades,**
21 **which are distinct from interconnection facilities. This revision would contradict the**
22 **statute’s intent to limit ratepayer responsibility for excessive interconnection costs.**

1 WETT and TIEC disagreed with other commenters and opposed changing the proposed definition
2 of transmission system upgrade. WETT stated that, under its reading of the proposed definition,
3 “interconnection costs will exclude any station costs that are not required to interconnect the
4 developer, and which provide benefits to other customers independent of the benefit provided by
5 the interconnecting developer” and therefore addresses the sharing of station costs between the
6 initial interconnecting generator and any subsequently interconnecting generators. WETT
7 commented that the allowance should exclude substation costs, or alternatively, account for the
8 cost of one station bay to adequately incentivize new generation and reduce interconnection delays.
9 CenterPoint agreed with WETT that a new substation, except for the part of the substation
10 dedicated solely to the interconnection generation resource (such as a station bay), necessary for
11 interconnection of a generation resource should be a “transmission system upgrade” for purposes
12 of the rule.

13
14 TIEC specifically opposed WETT’s interpretation of the definition as excluding station costs from
15 the allowance. TIEC emphasized that any definition of “transmission system upgrade” should be
16 narrowly and specifically defined to avoid socializing costs that benefit a single transmission
17 service customer, otherwise the rule would neither incentivize more economic siting by generators
18 nor reduce costs to ERCOT ratepayers.

19
20 TIEC opposed WETT’s proposal and stated that substation upgrades and associated costs represent
21 the majority of the costs associated with interconnecting new generation facilities. TIEC noted that
22 the exclusion of these costs from the allowance would fundamentally undermine the effectiveness
23 of the allowance and decrease customer cost savings. TIEC recommended the commission clarify

1 that all interconnection costs that are directly attributable to the new generation interconnection
2 are subject to the allowance.

3
4 *Commission response*

5 The commission agrees with TIEC that the definition “transmission system upgrade” should
6 be narrowly tailored. The adopted definition appropriately differentiates between new
7 facilities - or modifications to existing facilities - that are not strictly necessary for
8 interconnections within ERCOT and therefore “benefit” the broader transmission system,
9 and those that are more appropriately considered interconnection costs. In this manner the
10 costs of any facilities that qualify as “transmission system upgrades” will not be the
11 responsibility of the interconnecting generator. In response to WETT and CenterPoint,
12 interconnection-related costs exceeding the allowance and associated with a new substation,
13 or modifications to an existing substation, will be the generator’s responsibility. For any
14 given transmission-level generation interconnection within ERCOT, the construction of a
15 new substation or modifications to an existing substation are universally necessary to
16 interconnect to the transmission system. Moreover, based on the historical cost data
17 provided by the twelve TSPs with the highest transmission cost of service for the 2022
18 calendar year, substation costs represent the largest proportion of interconnection costs.
19 Exclusion of such costs from the allowance would require socialization of those costs to all
20 ERCOT ratepayers and undermine the goal of reducing interconnection costs.

§25.195(c) – Interconnection agreement

Proposed §25.195(c) requires a transmission service customer that owns electrical facilities in the ERCOT region to execute a commission-approved SGIA with the TSP to which it is physically interconnected.

AEP, Oncor, TNMP, TEC, Sierra Club, CPS Energy, CenterPoint, TIEC and LCRA recommended revising §25.195(c) to apply only to generation resources because neither the SGIA nor the allowance applies to non-generation transmission service customers such as interconnected load. TEC, Sierra Club, and CPS Energy also opposed the use of the term “transmission service customer” on the basis that it would impermissibly expands the requirement to use the SGIA to include a municipally owned utility (MOU) or electric cooperative which own both generation and transmission. TEC, Sierra Club, TIEC, and CPS Energy noted that this would lead to “absurd results” such as an MOU or electric cooperative executing an SGIA with itself. AEP and Oncor recommended replacing the term “transmission service customer” as used in the sentence requiring the usage of the SGIA in §25.195(c) with “generation resource or TSP” or “power generation companies, exempt wholesale generators, and TSPs.” AEP and Oncor noted that, the defined term “transmission service customer” under §25.5(140) includes entities other than generation resources such as distribution service providers, river authorities, municipalities, and electric cooperatives. TNMP made the same recommendation as AEP and Oncor but recommended replacing “transmission service customer” with “generation resource.” Similarly, TEC recommended appending “that is a generation resource” after “transmission service customer.”

Commission response

1 **The commission revises §25.195(c) as recommended by AEP and TEC. However, given the**
2 **change in terminology from “generation resource” to “transmission-level generator” as**
3 **described previously, the latter term is used instead.**

4
5 City of Houston requested clarification regarding whether the SGIA can be modified to account
6 for increased interconnection costs associated with “resilience criteria” and land costs that the
7 allowance amounts in the proposal would not cover. City of Houston cited the language in
8 proposed §25.195(c) that authorizes modifications to the SGIA upon mutual agreement of the
9 parties to address specific facts presented by a particular interconnection request. TIEC
10 commented that allowing modifications to the SGIA in the manner City of Houston recommends
11 is tantamount to a good cause exception that would be unnecessarily complex to administer and is
12 otherwise accounted for by market forces.

13
14 *Commission response*

15 **The commission agrees with TIEC that allowing modifications to the SGIA to account for**
16 **increased interconnection costs associated with certain interconnections would be**
17 **tantamount to a good cause exception – without commission approval. Accordingly, the**
18 **commission revises the rule to clarify that such modifications to the SGIA are prohibited.**

19
20 **§25.195(e) – Construction of new facilities**

21 Proposed §25.195(e) requires a TSP, in response to a request for transmission service, to construct
22 or acquire transmission facilities necessary to provide such service, if new transmission facilities
23 or interconnections between TSPs are needed to provide transmission service unless ERCOT

1 identifies an alternative means of providing the transmission service that is less costly, is
2 operationally sound, and is as effective as the new transmission facilities would be at providing
3 the requested transmission service.

4
5 Oncor recommended that proposed §25.195(e) should retain the two references to transmission
6 constraints in the existing version of §25.195(c) to ensure the commission's authority to identify
7 system constraints and order new facilities under §§ 39.157(f), 39.166(b)(1) & 39.203(e) are
8 preserved and clearly stated.

9
10 *Commission Response*

11 **The commission acknowledges its statutory authority to identify transmission constraints**
12 **and require the construction of new facilities under the PURA provisions cited by Oncor,**
13 **but declines to implement the recommended changes as they are unnecessary. Transmission**
14 **constraints are not resolved through the generator interconnection process, but through the**
15 **ERCOT Regional Planning Group as a Tier 1, Tier 2, or Tier 3 project. Section 25.195**
16 **concerns the interconnection of transmission service customers, which does not involve**
17 **upgrades to the entire ERCOT transmission system, including upgrades to address**
18 **constraints. Section 25.101, relating to Certification Criteria, more comprehensively**
19 **enumerates the commission's authority concerning transmission constraints, particularly**
20 **§25.101(b)(3)(A)(ii) regarding reliability projects.**

§25.195(e)(1)(A) and (B) – Deposit or security

Proposed §25.195(e)(1)(A) and (B) specify the procedure for a TSP to return or retain a deposit or security provided by a transmission service customer to cover the costs of planning, licensing, and constructing any new transmission facilities that will be required to provide the requested service. Proposed §25.195(e)(1)(B) requires any repayment of a cash deposit to include interest at a commercially reasonable rate based on that portion of the deposit being returned.

Oncor and LCRA recommended retaining the language from existing §25.195(c)(1)(B) concerning return of the deposit or security because the amended requirement is ambiguous on that point. Specifically, Oncor and LCRA requested the return of the deposit or security in proposed §25.195(e)(1)(A) be contingent upon the taking of transmission service rather than the completion of the project. Oncor noted that such a requirement has been historical practice and a functional standard for decades without issue. LCRA also recommended striking “new” from “new transmission service customer’s” to account for modifications by an existing transmission service customer. If the commission does not re-insert the language, LCRA requested clarification on what “completed” means in the preamble of the rule. LCRA provided redlines for §25.195(e)(1)(A) consistent with its recommendation.

Commission response

The commission agrees with Oncor and LCRA and modifies the proposed rule to include existing §25.195(c)(1)(B) concerning return of the deposit or security.

Oncor and LCRA commented that the separation of proposed §25.1905(e)(1)(A) and (e)(1)(B) makes the requirement for the TSP to pay interest on deposits ambiguous because the requirement for the TSP to refund a deposit or security with interest from the existing rule is only included in (e)(1)(B) and not (e)(1)(A). Oncor recommended several alternative revisions such as merging the provisions, duplicating the requirement in proposed §25.195(e)(1)(A), or clarifying in proposed §25.195(e)(1)(B) that the requirement applies to both subparagraphs.

Commission response

The commission agrees with Oncor and modifies the rule so that the requirement for the TSP to pay interest on deposits applies to both subparagraphs §25.195(e)(1)(A) and (B).

§25.195(e)(3) – TSP cost responsibility for non-generation transmission service customers

Proposed §25.195(e)(3) provides that a TSP is responsible for the cost of installing any new transmission facilities for a transmission service customer that is not a generation resource, other than the costs specified by proposed §25.195(e)(2).

LCRA, Oncor, and AEP recommended modifying §25.195(e)(3) to reflect that TSPs bear cost responsibility for the facilities of a non-generation transmission service customer unless tariff or contractual provisions provide otherwise. LCRA and AEP noted that the TSP is not responsible for such costs due to provisions in a TSPs tariff and transmission service agreements requiring the payment of a CIAC. LCRA remarked that the addition of §25.195(e)(3) would effectively require a TSP to bear the cost of all new transmission facilities for non-generation transmission service

customers, which is a significant change in policy and not required by PURA §35.004. LCRA provided redlines for §25.195(e)(3) consistent with its recommendation.

Commission response

The commission agrees with commenters that a TSP bears cost responsibility for certain facilities required to interconnect a non-generation transmission service customer to the extent those costs exceed the allowance provided for in the TSP's transmission service tariffs, and implements LCRA's recommended language with minor modifications.

§25.195(f)(2) and (3) – TSP cost responsibility prior to and after December 31, 2025

Proposed §25.195(f)(2) provides that a TSP is responsible for the cost of installing any new transmission facilities if the SGIA between the generation resource and the TSP is executed on or before December 31, 2025. Proposed §25.195(f)(3) identifies the cost responsibility of interconnection facilities between the generation resource and TSP after December 31, 2025.

CenterPoint requested confirmation regarding whether, under proposed §25.195(f)(2) and (3), a TSP is responsible for all costs for “transmission system upgrades” as defined under §25.195(b). CenterPoint also requested confirmation that, beginning with SGIAs executed after December 31, 2025, the TSP would be responsible for all transmission facility interconnection costs up to the interconnection allowance amount. Further, CenterPoint requested confirmation that the interconnecting generation resource would be responsible for all transmission facility interconnection costs above the interconnection allowance amount.

1 *Commission response*

2 **Consistent with the previous discussion regarding the adopted definition of “transmission**
3 **system upgrade,” CenterPoint’s understanding of §25.195(f)(2) and (3) is correct.**

4
5 TSPA recommended that the rule be clarified to indicate that each point of interconnection a
6 generator connects to is eligible for a separate allowance to “ensure that facilities that have two or
7 more interconnection points will receive a separate allowance for each.” TIEC opposed TSPA’s
8 recommendation, arguing that each electric generating facility should receive only one allowance,
9 regardless of the number of interconnection points. TIEC continued that if developers could
10 receive allowances for each point of interconnection, it would encourage generators to seek
11 multiple interconnections only for the purposes of the interconnection allowance.

12
13 *Commission response*

14 **The commission declines to provide a separate allowance for each point of interconnection.**
15 **PURA §35.004 directs the commission to develop an allowance for “costs incurred to**
16 **interconnect *generation resources* directly with the ERCOT transmission system.” The**
17 **commission agrees with TIEC, that the allowance should apply to costs associated with the**
18 **interconnection of each generation resource, rather than each interconnection point.**

19
20 Oncor and LCRA commented that ERCOT’s review of transmission projects does not align with
21 the requirement in §25.195(f)(3) for ERCOT to “deem [transmission system upgrades as]
22 necessary.” Accordingly, Oncor and LCRA recommended, and ACE and CCR supported, revising
23 the provision to omit reference to ERCOT deeming transmission system upgrades that occur

1 concurrently with the interconnection as necessary. Oncor and LCRA further recommended
2 incorporating ERCOT's existing review process to prevent ambiguity and unnecessary work by
3 ERCOT. Oncor and LCRA noted that in most cases ERCOT neither reviews nor approves
4 generation interconnections because such projects are the responsibility of the interconnecting
5 TSP. Oncor accordingly noted that the provision as proposed may "impose additional burdens on
6 ERCOT beyond what is necessary to distinguish and review transmission system upgrades
7 separately from generation interconnection facilities." Oncor provided redlines for §25.195(f)(3)
8 consistent with its recommendation.

9
10 *Commission response*

11 **The commission agrees with commenters and implements Oncor's proposed deletions with**
12 **minor modifications. The commission declines to refer to ERCOT's specific interconnection**
13 **process as such processes may change over time and omitting ERCOT from the provision**
14 **makes such revisions unnecessary.**

15
16 Sierra Club recommended including language in proposed §25.195(f)(3) that would impose cost
17 obligations on non-generation transmission customers, such as self-generators or loads with
18 emergency backup power. Sierra Club commented that such entities should be responsible for the
19 cost of system-wide transmission upgrades like step-up transformers and protective devices.
20 Specifically, Sierra Club explained that such customers who have "behind-the-meter generation"
21 and provide emergency power to the ERCOT grid should be responsible for the transmission
22 upgrades necessary to interconnect them.

Commission response

As described above, the adopted rule contains a new defined term, “transmission-level generator.” This new definition limits the application of the allowance to each “electric generation facility,” as defined under §25.5, related to definitions. This approach properly identifies the entities relevant to capture “costs incurred to interconnect generation resources directly with the ERCOT transmission system,” as directed by PURA §35.004. To the extent the entities referred to by Sierra Club qualify as electric generation facilities under commission rules, the allowance applies to interconnecting those entities. Entities that are not electric generation facilities are beyond the statutory mandate of PURA §35.004.

OPUC recommended, and ACE and CCR supported, revising the term “transmission system upgrade” used in proposed §25.195(f)(3) to “clarify the responsibility of the TSP for costs of transmission system upgrades that occur contemporaneously with, but are not necessary for, the installation of interconnecting facilities.”

Commission response

Per the adopted definition, any facilities or modifications to the transmission system beyond what is required to interconnect a transmission service customer is a “transmission system upgrade.” Accordingly, for purposes of §25.195(f)(3), the TSP is responsible for all necessary transmission upgrades, regardless of contemporaneity with the construction or modification of the interconnection.

SGIA amendments

TSPA, ACE and CCR, TCPA, SEIA, and CenterPoint recommended extending the TSP's cost responsibility for installing or modifying transmission facilities subject to an SGIA to amendments of SGIA's that were executed on or before December 31, 2025, regardless of whether the SGIA is subsequently amended after December 31, 2025. Specifically, commenters recommended that if an SGIA was executed on or before December 31, 2025, all cost responsibility for the interconnection should remain with ratepayers, regardless of whether the SGIA is subsequently amended. CenterPoint and Oncor requested clarification regarding whether the period applies to interconnections governed by SGIA's executed on or before December 31, 2025, or after December 31, 2025. TSPA explained that because planning and financing arrangements are secured far in advance of the completion date of projects, developers should have flexibility to address necessary project changes attributable to current or future conditions. Similarly, TCPA noted that proposed §25.195(f)(3) is unclear whether "executed" includes amendments to existing SGIA's. TCPA recommended the provision be clarified to explicitly exclude amendments from being covered by an allowance and only apply an allowance to new SGIA's executed after December 31, 2025. TSPA, ACE and CCR, and TCPA provided redlines for §25.195(f)(2) and (3) consistent with their recommendations.

Commission response

The commission agrees with commenters and amends the provision consistent with ACE and CCR's specific recommendation, with minor modifications. Imposing potential interconnection cost responsibility on transmission-level generators for interconnections occurring after December 31, 2025, is consistent with statute. Specifically, HB 1500, §49

1 requires PURA §35.004, as amended by HB 1500 §9, “apply only to an electric generation
2 facility that executes [an SGIA] with a transmission-owning utility after December 31, 2025.”

3
4 While amendments to an SGIA are also “executed,” the objective of PURA §35.004 in
5 imposing an allowance is primarily to reduce costs to consumers by imposing generator siting
6 discipline on *interconnection* costs (including considering whether any upgrades in the next
7 ten years might create additional interconnection costs). A generation facility that has
8 executed an SGIA prior to 2026 would, at the time of any amendment, already be
9 interconnected. Therefore, for SGIAs executed prior to 2026, the commission does not
10 impose an allowance on amendments executed after December 31, 2026.

11
12 *ERCOT Full Interconnection Study (FIS) Process*

13 ACE and CCR recommended basing the costs of interconnection facilities for purposes of the
14 allowance on the ERCOT Full Interconnection Study (FIS) process upon completion. ACE and
15 CCR expressed concern that costs of interconnection risk being based on regional studies or
16 analytics that concern more than just the interconnection covered by an executed SGIA. ACE and
17 CCR provided redlines for §25.195(f)(3) consistent with its recommendation.

18
19 *Commission response*

20 The commission declines to implement ACE and CCR’s request. The facilities necessary to
21 interconnect a generator are generally determined by the TSP through the Facilities Study,
22 which is a part of the ERCOT FIS. However, some costs in the Facilities Study may only be
23 estimated or only identified after subsequent studies which may drive additional upgrades.

1 It would therefore be imprudent to limit the scope of costs that may be associated with any
2 given interconnection in this manner. Moreover, some subsequent studies such as the
3 Quarterly Stability Analysis are a necessary part of the FIS process, but concern
4 interconnections beyond the one identified by an executed SGIA. Accordingly, it is not
5 appropriate to restrict such costs purely on the ERCOT FIS. In any case, restricting costs
6 to those identified in the ERCOT FIS is an unnecessary and artificial constraint that risks
7 excluding costs that otherwise should be included.

8
9 **§25.195(f)(3)(A)(i) – Generation interconnection allowance**

10 Proposed §25.195(f)(3)(A)(i) establishes two allowance tiers based on voltage. For
11 interconnections of 138kV or less, the proposed allowance was \$12,000,000 and for
12 interconnections greater than 138kV, the proposed allowance amount was \$22,500,000.

13
14 *Single allowance tier and amounts*

15 WattBridge, SEIA, TPPF, TCPA, TSPA, CenterPoint, TIEC, ACE and CCR, Sharyland, and APA
16 and ACP recommended changing the allowance from the proposed two-tiered allowance to a
17 single allowance amount that does not consider voltage or any other characteristic of the
18 interconnection. APA and ACP recommended setting the allowance to “at least” \$22.5 million;
19 WattBridge, CenterPoint, ACE and CCR, and Sharyland recommended setting the allowance at
20 \$22.5 million; Sierra Club recommended setting the allowance at \$20 million; TCPA
21 recommended setting the allowance at \$18 million; TIEC recommended setting the allowance at
22 \$17.5 million; and TPPF recommended setting the allowance at \$16 million. SEIA recommended

the allowance be set at \$25 million based on Lone Star's comments in response to commission staff's issued questions.

Sharyland, TSPA, and ACE and CCR also expressed that a two-tier allowance based on voltage would be a reasonable alternative. TPPA, Sierra Club, Oncor, LCRA, and AEP expressed no preference regarding whether the allowance should be a single amount regardless of voltage, or two tiers based on voltage. WETT, OPUC, and CPS Energy opposed reducing the allowance to a single amount. TPPA recommended that, if the rule utilizes two allowance tiers based on voltage, the allowance amount for interconnections of 138kV or less should be increased to offset the perverse incentive of a generator interconnecting at a higher voltage for a larger allowance. Commenters expressed varying concerns with two allowances based on voltage and generally agreed that a single allowance would be easier to apply and factor into business planning than a two-tiered allowance based on voltage. WattBridge, WETT, CenterPoint, and APA and ACP cited individual projects that would only partially be covered under the proposed allowance amounts.

Commission response

Based on the data provided by TSPs, voltage is a highly statistically significant indicator of cost that is universal to all interconnections. A single allowance amount that disregards voltage would be inadequate to effectuate the legislative intent of HB 1500, §9 for the allowance to account for “the potential to reduce the costs to consumers of generation interconnection [and] *historical generation interconnection costs [emphasis added].*” A single allowance at *any* of the recommended amounts would virtually ensure all generation interconnection costs at 138kV would be covered by the allowance, removing any incentive

1 to economize on the costs of such interconnections. Moreover, a single allowance amount that
2 is too low would excessively disincentivize new generation interconnections at a voltage
3 greater than 138kV. High voltage lines are located throughout the state, including near load
4 pockets such as Houston, and may potentially be utilized even more in the future as the
5 electricity needs of this state grow. Conversely, a single allowance that is too high would
6 cover most, if not all, of a generator's interconnection costs and therefore inadequately serve
7 the goal of delivering cost savings to consumers as the statute requires, and not impose any
8 siting discipline on interconnections to low voltage lines. Accordingly, the commission
9 declines to adopt a single-tiered allowance.

10
11 *Two-tiered voltage-based allowance amounts*

12 In addition to its \$25 million recommendation for a single allowance, SEIA also recommended
13 increasing the allowance from the 85th percentile to the 95th percentile, regardless of whether the
14 allowance is a single amount or two tiered. SEIA explained that the allowance should be increased
15 because consumers would benefit from the addition of new generation resources. SEIA further
16 remarked that the allowance should only cover extreme outliers to reduce costs to consumers, and
17 inflation and supply chain issues may materially undermine the value of the allowance to
18 generators. ACE and CCR recommended the amount of the allowance for interconnections at 138
19 kV or below be increased to the 90th, 95th, or 99th percentile.

20
21 SEIA, Sierra Club, TSPA, and ACE and CCR recommended that, if the commission retains a two-
22 tier allowance structure based on voltage, the allowance amount for interconnections of 138kV or
23 less should be increased to \$14 million from the proposed \$12 million to ensure such

interconnections are adequately incentivized. TPPF similarly noted that the proposed allowance amount for interconnections of 138kV or less would disadvantage natural gas generator interconnections. WattBridge, TPPF, TCPA, TSPA, and TIEC generally expressed concern that two allowance tiers could artificially biasing siting decisions towards higher voltage interconnections and discussed the need for the allowance to impose siting discipline on generators while maintaining incentives for new generation. TIEC remarked that interconnections of 138kV or less have minimal impact relative to higher voltage interconnections as the primary drivers of interconnection costs per the historical TSP data, and concluded a single allowance would therefore be sufficient.

Commission response

The commission disagrees with SEIA, and ACE and CCR recommendation to increase the proposed allowance tier percentages to the 95th percentile or higher. Raising the allowance tier amounts to those thresholds would cover virtually all interconnections at those voltage tiers and therefore inadequately effectuate the purpose of PURA §35.004. The commission agrees with WattBridge, TPPF, TCPA, TSPA, and TIEC that the proposed allowance risks prejudicing lower voltage interconnections. Accordingly, the commission implements SEIA, Sierra Club, TSPA, and ACE and CCR's recommendation to increase the interconnection allowance amount for interconnections at a voltage of 138kV or less from \$12,000,000 to \$14,000,000. Based on data provided by TSPs, this allowance represents approximately the 89th percentile of all interconnections at that voltage level. As adopted, the dollar difference between the allowances better matches the actual average cost difference between the interconnections at the different voltages based upon the historical cost data received from

1 the TSPs. More closely matching the average interconnection cost difference between the
2 voltage levels by increasing the allowance amount for low voltage interconnections mitigates
3 the potential for the allowance to introduce uneconomic incentives regarding choice of
4 interconnection voltage. This will also preserve the consumer cost savings goal of this rule
5 because, as TIEC noted, the historical cost data from TSPs indicates that the greatest
6 proportion of savings will be recognized at interconnections greater than 138kV.

7
8 *Statutory interpretation and policy concerns*

9 SEIA, TPPF, ACE and CCR commented that the legislative intent and statutory language of HB
10 1500, §9 requires a single allowance. SEIA and ACE and CCR did not elaborate on this point.
11 TPPF stated that the allowance should incentivize dispatchable generation and advocated for
12 heightened cost scrutiny of intermittent generation sources.

13
14 *Commission response*

15 The commission disagrees that statutory language requires a single allowance. PURA
16 §35.004 states that “[t]he commission by rule shall establish a reasonable *allowance*...”
17 Insofar as commenters recommend a single allowance based on the singular usage of the
18 term ‘allowance,’ under 311.012(b) of the Texas Code Construction Act, “[t]he singular
19 includes the plural and the plural includes the singular.” Following this rule of construction
20 in this context and allowing a two-tiered allowance is particularly relevant considering
21 PURA §35.004’s directives that the allowance must consider “historical generation
22 interconnection costs” and “any other factor that the commission considers reasonable to
23 accomplish the goal of this subsection.” As previously discussed, historical data shows that

1 voltage is a statistically significant cost driver, and that it would be infeasible to design a
2 single allowance that is meaningful for both high voltage and low voltage lines.
3 Disincentivizing generation from interconnecting at particular voltage levels, as previously
4 noted, would be an unintended consequence of a single-tiered allowance.

5
6 Conversely, generation resource type did not correspond with cost in a statistically
7 significant manner. Accordingly, historical generation interconnection costs do not support
8 increased scrutiny of the interconnection costs of intermittent renewable resources, as
9 recommended by TPPA.

10
11 *Alternative allowance proposals and methodologies*

12 OPUC recommended replacing the proposed two allowance tier amounts with a formula using a
13 cost sharing ratio, which would require a generator to bear 25% of the costs of an interconnection
14 while the TSP bears the remaining 75%. As part of this formula, OPUC recommended retaining
15 the proposed \$12 and \$22.5 million voltage tier amounts, where all costs at or below each amount
16 would be subject to the 25/75 cost sharing formula and any costs exceeding those amounts would
17 be the responsibility of the generator. TEC, TCPA, Oncor, LCRA, TNMP, AEP, and CPS Energy
18 opposed OPUC's recommendation.

19
20 *Commission response*

21 The commission declines to implement OPUC's proposal as the recommendation would be
22 administratively complex to implement and does not comport with the language of the
23 statute. PURA §35.004(d-1) requires the commission by rule to establish "a reasonable

1 *allowance.*” The term “allowance” and the context in which it is used is unambiguous. Per
2 *Merriam-Webster*, an “allowance” is “a sum granted as a reimbursement or bounty or for
3 expenses... especially: a sum regularly provided for personal or household expenses” or as
4 “a fixed or available amount.” Similarly, *Black’s Law Dictionary* defines “allowance” as “A
5 deduction, an average payment, a portion assigned or allowed: the act of allowing” (*emphasis*
6 *added*). Requiring generators to assume a percentage of costs within the allowance is not
7 consistent with the safe harbor such an allowance is intended to provide. Moreover, using
8 a pre-determined, predictable allowance strikes an appropriate balance between protecting
9 ratepayers from costs of the most expensive projects, while preserving the current
10 generation-friendly interconnection process for generators that practice good siting
11 discipline. This is especially important to avoid undermining the commission’s resource
12 adequacy goals by imposing interconnection costs and associated inconveniences on all new
13 generation.

14
15 OPUC alternatively recommended that any given allowance be limited or “capped” by either the
16 interconnecting TSPs “actual cost to design, procure, and construct the interconnection, or on a
17 dollar-per-Megawatt basis.” TEC, TCPA, Oncor, LCRA, TNMP, AEP, and CPS Energy opposed
18 both of OPUC’s alternative recommendations. TCPA recommended that, if an allowance
19 methodology based on dollar per MW is adopted, the commission should consider the effective
20 load carrying capability (ELCC) of a generator when determining the capacity that would be
21 included in calculating the allowance. TCPA stated that using nameplate capacity could result in
22 a generator qualifying for a higher allowance based on “having a relatively high nameplate
23 capacity even if most of that capacity will never be delivered to load.” TCPA commented that such

an outcome would neither benefit Texas energy consumers nor effectuate the legislative intent of PURA §35.004. TPPF also argued that an allowance based on ELCC, generation output during peak demand, or fixing the allowance as a percentage of interconnection costs would be inferior to a single allowance amount in reining in high cost outliers.

Commission response

The commission declines to cap the allowance at a TSP's actual costs, because it is unnecessary. The allowance only applies to costs *incurred* to interconnect a transmission-level generator, and the rule makes it clear that other costs such as those associated with transmission system upgrades are not covered by the allowance, and those associated with generator-side step up transformers remain the responsibility of the generator in all cases.

The commission also declines to implement OPUC's dollar per MW proposal. While the motivating instinct supporting this proposal – that ratepayers should be willing to pay more to get more – is reasonable, it does not align with the statutory intent of PURA §35.004. This provision is focused on reducing costs by incentivizing generators to properly site their units, not incentivizing the interconnection of large units and disincentivizing the interconnection of small units, regardless of location.

Because, as the TSP data demonstrates, capacity of a facility is not a statistically significant cost driver for interconnecting that facility, the primary function behind a per MW allowance would be to impose higher costs on smaller units while effectively exempting large units from the requirements all together – not improve the siting decisions of all units. This

1 is problematic because a unit's size has no relationship to its siting decisions. Furthermore,
2 this could create a significant unintended consequence of disincentivizing new generation in
3 dense load pockets where the construction of larger units may not be plausible.

4
5 Furthermore, evidence of the statutory intent behind PURA §35.004 can also be gleaned
6 from the inclusion of a per MW allowance in SB 1287, the predecessor bill to HB 1500, §9.
7 Because this per MW approach was removed from this language before it was added to HB
8 1500, it is evident that the Legislature considered requiring this approach and elected not to
9 do so.

10
11 **§25.195(f)(3)(A)(ii) – Generation interconnection allowance adjustment**

12 Proposed §25.195(f)(3)(A)(ii) provides that the allowance amounts under §25.195(f)(3)(A)(i) will,
13 beginning on January 1, 2025, be adjusted annually on or before January 1 for each calendar year.
14 The provision also specifies that, no later than September 1, 2024, the commission will publish the
15 new values of the allowance to be used in the subsequent calendar year.

16
17 *Allowance adjustment process and public comment*

18 TPPA and Sierra Club requested clarification on the process for adjusting the allowance and
19 recommended allowing public comment on the allowance adjustment, even if a rulemaking is not
20 required. Similarly, CenterPoint requested clarification regarding whether the annual adjustment
21 will be a purely administrative action with no opportunity for comments, evidence, or hearings.
22 CenterPoint requested the location where the adjusted allowance amount will be published, such
23 as in the *Texas Register*, and the form the adjustment will take, such as through a commission

order. CenterPoint also recommended deleting “2024” from the publication date in §25.195(f)(3)(A)(ii) and instead stating that “the annual adjustment should be published no later than September 1 of each year, beginning in 2025.”

Commission response

The adjustments will be performed administratively, via commission order. Each adjustment will be initiated by a memo filed by commission staff. No hearing will be held, and the adjustment will not require any interested person to submit written statements or evidence. However, any member of the public is permitted to provide comments at the open meetings on any project being taken up at that open meeting. The adjusted allowance amounts will not be published in the *Texas Register* but will be filed by commission staff in a dedicated commission project for that purpose.

Additionally, in recognition of commenter concerns and the statutory requirement for the commission to review the adjustment every five years under PURA §35.004(d-3), the commission adds new §25.195(f)(3)(F), which describes the procedure for that review, including public comment.

Economic index for adjustment

TPPA and TIEC opposed using the NIPA index and recommended an alternative index or no index. TPPA and TIEC noted that since the NIPA index is not a state-specific index, it may not accurately reflect changing costs in Texas, and there may be further Texas-specific concerns that justify the use of a different index or method to update the allowance. TSPA, Sharyland, LCRA, AEP, and

CenterPoint recommended using a recognized economic index as a benchmark for allowance adjustments. TPPA recommended using the Handy Whitman Index, which encompasses Texas, Oklahoma, Arkansas, and Louisiana, if the commission determined that a regional index is more appropriate. TIEC also opposed using the NIPA index because it only accounts for transmission structures and does not include land, labor, or equipment. Because of these omissions, TIEC asserted, the NIPA index would be inaccurate for purposes of overall interconnection costs, which involve all four factors. If the commission retains an index to adjust the allowance, TIEC alternatively recommended that the commission use the Consumer Price Index (CPI) or Gross Domestic Price Deflator Index. TIEC proposed basing any adjustment on the selected index exceeding a certain threshold, such as 20% over a two-year period.

Commission response

The commission agrees with TIEC's alternative recommendation to adopt CPI to adjust the allowance and revises the provision accordingly. CPI is a national index that is frequently used across industries as a key financial benchmark, is free and easily available to the public, and is already referenced in commission rules. As TIEC intimated, CPI includes land, labor, and equipment, and is accordingly more appropriate to use as an index. Regarding a regional index, the commission declines to utilize the Southwest Region CPI in favor of the national CPI. The nationwide index is appropriate given the breadth and complexities involved in utilities' sourcing materials and equipment.

Timeline for adjustment

OPUC recommended adjusting that the allowance every four years to align with the four-year rule-review process under the Texas Administrative Procedure Act (Texas Government Code §2001.039). OPUC recommended adjusting the allowance every five years, per the requirement of PURA §35.004(d-3) for the commission to review the allowance every five years. OPUC stated that an annual adjustment is not needed because most generation resources interconnect at a cost below the proposed allowance amounts. TIEC similarly recommended adjusting the allowance on a three-year basis to avoid unnecessary administrative complexity. TIEC also remarked that inflation would have only a slight impact on the allowance's value and therefore not meaningfully impact interconnection costs that exceed the allowance threshold. TIEC emphasized that predictability and simplicity would help generation developers evaluate financial investments and assist TSPs implement and administer the allowance. TIEC expressed that certain significant market changes, such as hyperinflation, may justify an earlier, interim adjustment, provided that those changes are pre-defined, and interim adjustments are limited. Sierra Club, TSPA, WETT, Oncor, Sharyland, AEP, and CenterPoint opposed OPUC's and TIEC's proposals. These commenters cited concerns regarding inflation and supply chain issues, stating that such issues justify an annual adjustment, and recommended retaining the proposed annual adjustment timeframe in the final rule.

Commission response

The commission agrees with Sierra Club, TSPA, WETT, Oncor, Sharyland, AEP, and CenterPoint and declines to implement OPUC's or TIEC's proposals. The commission also disagrees with TIEC's rationale regarding inflation and declines to implement its proposals

1 for interim updates to the adjustment for extenuating circumstances and for a three-year
2 adjustment period. Since 2020, inflation volatility has been an issue of global concern and
3 could drastically reduce the value of the adjustment if such volatility continues. Per the CPI
4 Inflation Calculator published by the U.S. Bureau of Labor Statistics, a fixed allowance
5 established in January 2019, 2020, or 2021 would have lost at least 15% of its value by
6 December 2023. It is therefore appropriate for the adjustment to occur annually,
7 independent of the review, to efficiently account for uncertain future circumstances that may
8 impact the value of the allowance.

9
10 Furthermore, an annual adjustment will prevent unintended consequences that could be
11 associated with a five-year adjustment. As noted, a minor adjustment each year is unlikely
12 to make a material difference in the amount of the adjustment each year. However, an
13 adjustment that is delayed for five years could merit a 15 percent or more increase at the
14 end of the five-year period. This difference could create an unreasonable incentive to delay
15 construction of new facilities – especially smaller facilities - in years four or five of the review
16 cycle in hopes of benefiting from a larger allowance.

17
18 **§25.195(f)(3)(A)(ii)(I) – Mechanism for generation interconnection allowance adjustments**

19 Proposed §25.195(f)(3)(A)(ii)(I) specifies that the allowance adjustments will be based on the
20 proportional change from the corresponding 2023 value reflected in the National Income and
21 Product Accounts (NIPA) Seasonally Adjusted Price Index for Private Fixed Investment-
22 Nonresidential Structures for Power and Communication published by the United States
23 Department of Commerce, Bureau of Economic Analysis.

TSPA, AEP, TNMP, SEIA, and CenterPoint commented that the mechanism for revising the allowance using the selected economic index under proposed §25.195(f)(3)(A)(ii)(I) is ambiguous. Specifically, TSPA, AEP, and TNMP noted that the provision is unclear as to whether the change is cumulative year-over-year or if the allowance resets to the 2023-dollar value every calendar year. TSPA also recommended revising proposed §25.195(f)(3)(A)(ii)(I) to clarify that the allowance will be adjusted separately for each year, beginning in 2024, because it is uncertain whether the rule language accounts for the initial 2023-2024 and 2024-2025 adjustments.

Commission response

The commission revises §25.195(f)(3)(A)(ii) to indicate that the adjustment is a cumulative year-over-year change and does not reset to the 2023 dollar value every year, and to account for the pre-2026 adjustments.

§25.195(f)(3)(C)– Application of allowance and CIAC

Proposed §25.195(f)(3)(C) specifies that the allowance amount is the amount that was in effect on the date that the generation resource issued the notice to proceed to the TSP, in accordance with the executed SGIA. Proposed §25.195(f)(3)(C) also requires a generator to be responsible for all costs that exceed the allowance and authorizes a TSP to collect such costs as a CIAC.

CenterPoint recommended replacing “upgrade” with “procuring” in §25.195(f)(3)(C), to be consistent with the last sentence of the provision that references “procuring,” and to align with the defined term “transmission system upgrade.”

1

2 *Commission response*

3 **The commission agrees with CenterPoint and implements the recommended change by**
4 **inserting “procure.” The commission also rephrases both sentences to refer to construction**
5 **“or” upgrades, in the alternative, to ensure both circumstances are identified.**

6

7 **§25.195(f)(3)(E) – Cost responsibility for subsequent modifications**

8 Under proposed §25.195(f)(3)(E), a transmission-level generator is responsible costs incurred by
9 a TSP for new or upgraded interconnection facilities required because of modifications made by
10 the generator. However, the generator may use any of its remaining allowance for that site to cover
11 these costs for a period of 10 years.

12

13 Sierra Club, CenterPoint, ACE and CCR, APA and ACP, TSPA, and OPUC recommended
14 removing proposed §25.195(f)(3)(E) because the provision is ambiguous, “resembles a delay-
15 inducing cost-sharing model,” and is unsupported by statute. Sierra Club recommended taking up
16 the provision in a separate rulemaking or reducing from a ten-year to five-year window.
17 CenterPoint recommended the ten-year period be reduced to three years to account for TSP record
18 retention periods. CenterPoint questioned the ten-year period and commented the provisions are
19 unclear as to whether a generation resource modification is entitled to a new allowance or is limited
20 to any remainder of the original allowance. CenterPoint and SEIA recommended the original
21 allowance apply to “any interconnection facility modifications caused by any post-energization
22 generation modification, regardless of when it occurs,” for which the TSP and generation resource

1 execute a new SGIA. Whereas if the generation resource modification does not require a new
2 SGIA to be executed, the TSP is responsible for the cost of any new or upgraded facilities.

3
4 ACE and CCR interpreted PURA §35.004(d-1) as only contemplating an allowance applying to
5 the “initial” generator interconnection. Specifically, ACE and CCR stated the allowance does not
6 apply to “new or upgraded interconnection facilities due to modifications made by a generation
7 resource” after the initial interconnection and energization as proposed §25.195(f)(3)(E) provides.

8 ACE and CCR concluded the allowance is limited *only to* the construction of new facilities and
9 the modification of existing facilities at the time of initial interconnection and energization. Oncor
10 commented that §25.195(f)(3)(E)(ii) is ambiguous because it could be read to allow a generation
11 resource to have all costs for new or upgraded TSP facilities be paid for by the TSP and, therefore,
12 be socialized to the grid through TOCS. Oncor recommended amending the provision to
13 specifically authorize a generation resource’s eligibility for a new allowance after the end of the
14 ten-year period. TSPA, ACE and CCR, and Oncor provided redlines consistent with their
15 recommendations.

16
17 *Commission response*

18 **The commission declines to omit §25.195(f)(3)(E) as recommended by Sierra Club,**
19 **CenterPoint, and ACE and CCR. The provision mitigates the risk of a generator not fully**
20 **building out the site at the time of the initial interconnection to ensure costs are below the**
21 **allowance, and then significantly expanding the project knowing its additional costs would**
22 **be paid for by the TSP and end-use consumers. Even in the absence of such strategic**
23 **behavior, this provision ensures a generator fully considers the potential costs associated**

1 with its siting decision, regardless of whether those costs are immediately incurred. However,
2 commission agrees with Oncor that this provision should be clarified and revises the rule to
3 provide a generator with a new allowance at the end of the ten-year period. Providing a new
4 allowance every ten years encourages economic generator siting by promoting the build-out
5 of an existing project rather than building elsewhere solely to access the full allowance. For
6 this reason, the commission also declines to apply the initial allowance to modifications that
7 require an amended SGIA, regardless of when the modifications are made.

8
9 The commission disagrees with ACE and CCR that the allowance is limited only to the initial
10 interconnection and energization due to statutory language. PURA §35.004 applies to “cost
11 required to interconnect generation resources.” The statute is silent on whether this includes
12 costs required to keep a generation resource interconnected when the generator’s own
13 actions – potentially foreseeable at the time of the initial interconnection - require the TSP
14 to incur additional costs directly related to the interconnection. PURA §35.004 requires that
15 the allowance take into account “any other factor that the commission considers reasonable
16 to accomplish the goal of this subsection.” In order to accomplish the explicit statutory goal
17 of consumer cost savings, the commission considers it reasonable to take into account
18 subsequent modifications made by the interconnecting generator that require TSPs to incur
19 additional costs.

20
21
22 The commission revises the provision to ensure the remainder is cumulatively adjusted year-
23 over-year in the same manner as the allowance would be adjusted under §25.195(f)(3)(A)(ii).

This revision will ensure generators receive the maximum benefit of the remainder and avoids penalizing generators for delays in an inflationary environment.

Cost-sharing

TSPA, Sierra Club, SEIA, APA and ACP, ACE and CCR, and CenterPoint recommended addressing cost-sharing between an initial interconnecting generator and subsequent interconnecting generators in the rule and endorsed proposed language provided by TSPA. Oncor neither opposed nor supported the inclusion of a cost-sharing provision, while AEP and TSPA opposed the inclusion of a cost-sharing provision on the basis that it is not required by statute and presents complex and litigious issues. Oncor, AEP, and TSPA recommended that, if the rule includes such a cost-sharing provision, TSPs not be required to be involved as a party between any agreement made between generators.

TSPA recommended adding new §25.195(f), which would, if costs of the initial interconnection exceed 10% of the allowance, authorize an initial interconnecting generator to share costs and receive payments from any subsequent interconnections within a two-year period from the date of energization of the initial project. TSPA recommended establishing shared payments on a pro-rata basis, determined at the end of the two-year period between the two generators with no involvement by the TSP.

Sierra Club recommended a three-to-five-year formula that requires pro-rata contributions from subsequent generators to the initial generator, or to take up the issue in a separate rulemaking alongside proposed §25.195(f)(3)(E). ACE and CCR supported requiring contributions from

1 interconnecting generators for the cost of a new substation or for the cost of a station bay because
2 those costs can be determined on a pro-rata basis. TSPA remarked that requiring cost-sharing
3 among generators is “consistent with commission precedent regarding cost sharing of
4 contributions in aid of construction (CIAC) funded facilities.” TSPA provided redlines consistent
5 with its recommendation. WETT commented that “excluding the costs beyond those needed for
6 an individual interconnection from the allowance will greatly assist in avoiding the problem of
7 inequitable investment among developers and alleviate the need for burdensome and potentially
8 contentious cost-sharing arrangements.”

9
10 *Commission response*

11 **The commission agrees with AEP and TCPA that a cost sharing mechanism is not required**
12 **by statute and would introduce added complexity and potentially litigious issues to the**
13 **interconnection process. Certain costs, such as for a new substation or substation bay, may**
14 **be suitable for a pro-rata distribution between generators. However, the historical data**
15 **provided by the TSPs does not provide clear insight into these circumstances. Other aspects**
16 **of the cost-sharing process, such as the procedure for dispute resolution, are unclear and**
17 **may create resource-intensive contested cases for little benefit. Accordingly, the commission**
18 **declines to implement a cost-sharing mechanism for interconnecting generators. If multiple**
19 **generators seeking to interconnect at the same location are experiencing delays caused by**
20 **each attempting to avoid incurring a significant interconnection cost, such as the initial**
21 **construction of a substation, these parties may elect to share the costs by private agreement**
22 **without the involvement of the commission or the TSP.**

LCRA commented that §25.195(f)(3)(E) and its sub-provisions could be interpreted to require the initially-interconnected generator to bear the costs of subsequent interconnections by other generators due to the ambiguity of applying cost responsibility to the “current owner of the interconnected resource.” LCRA recommended basing the trigger for determining “new or upgraded interconnection facilities” on whether the ERCOT Planning Guide §5.2.1(1)(c) criteria for a “Generator Interconnection or Modification (GIM) is met.” LCRA explained that the cited provision of the ERCOT Planning Guide “defines the requirements and processes used to facilitate new or modified generation interconnections” within ERCOT and therefore should be referenced in this context. LCRA provided redlines consistent with its recommendation.

Commission response

Section 25.195(f)(3)(E) does not contemplate cost-sharing between separate generators. Accordingly, the commission makes clarifying edits to the rule. The commission declines to base “new or upgraded interconnection facilities” on the ERCOT Planning Guide, as requested by LCRA, because the commission has not comprehensively scrutinized the provisions of this guide to ensure it fully captures the intent of this requirement.

TCPA recommended removing §25.195(f)(3)(E) because it is not required by statute and alternatively recommended if it is retained, the allowance not include costs associated with transmission upgrades required to satisfy the obligations under ERCOT Planning Guide 4.1.1.7 relating to Minimum Deliverability Criteria because those upgrades are required by ERCOT, rather than becoming necessary due to modifications by the generation resource.

Commission response

The commission declines to omit §25.195(f)(3)(E) for the reasons stated previously and declines to amend the provision as TCPA recommends because it is unnecessary. This language specifically applies to upgrades required by generator modifications, not upgrades that are required by ERCOT.

§25.195(h) – Filing of contracts

Section 25.195(h) requires TSP to file new interconnection agreements with the commission within 30 days from the date the agreement is executed.

TPPA, TEC, Sierra Club, and CPS Energy recommended exempting municipally-owned utilities (MOUs) and electric cooperatives from the requirement to file the SGIA with the commission under §25.195(h) because the existing filing requirement only applies to “electric utilities” as defined under PURA, which does not include MOUs or electric cooperatives. Commenters noted that, for MOUs and electric cooperatives that own both transmission and generation, no SGIA will be executed because the MOU or electric cooperative is interconnecting within itself using its own system. TPPA also noted that under PURA §40.004(7) and 41.004(5), the commission has limited authority to require reports from MOUs and electric cooperatives, respectively. TPPA also notes that implementation of PURA §35.004 does not appear to require MOUs and electric cooperatives to submit SGIAs to the commission.

Commission response

1 **The commission agrees with TPPA that the implementation of PURA §25.004 does not**
2 **require MOUs and electric cooperatives to submit SGIAs to the commission. Accordingly,**
3 **the commission modifies the rule to require “electric utilities” rather than**
4 **“TSPs” to file SGIAs with the commission. However, the commission encourages all TSPs**
5 **to file their SGIAs with the commission, as is common practice for many that are not**
6 **currently required to do so. The commission does not address the commenter’s**
7 **jurisdictional arguments at this time because it is unnecessary.**

8
9 **§25.195(i) – Generation interconnection costs report**

10 Proposed §25.195(i) requires ERCOT, in consultation with commission staff, to regularly publish
11 a report that includes the generation interconnection costs for each generator interconnection.

12
13 Oncor, LCRA, TNMP, AEP, and CPS Energy recommended that proposed §25.195(i) direct TSPs
14 to provide, and ERCOT to publish, the total cost - including the total amount of CIAC paid by the
15 generation resource - for each generator interconnection that begins taking service under an SGIA.
16 Commenters explained it is not necessary for the interconnection cost report be enacted via an
17 ERCOT Nodal Protocol Revision Request, and that the report could be established more
18 expeditiously through amending the provision. Oncor, TNMP, AEP, and CPS Energy
19 recommended publishing the report annually, beginning in 2027, the calendar year after the
20 allowance goes into effect in 2026. Sierra Club recommended publishing the report quarterly and
21 including aggregated costs by resource type to identify cost differences. WETT opposed changing
22 the report to an annual basis and stated that no additional reporting is required outside of what is
23 provided under the pre-existing GIS report. TPPA proposed the commission direct ERCOT to

1 develop the report at an open meeting or, alternatively, amend the rule to provide for the specifics
2 of ERCOT's obligations surrounding the report. TSPA recommended including interconnection
3 cost information in ERCOT's pre-existing GIS report and suggested that the SGIA should account
4 for and indicate whether any above-allowance costs were incurred for the interconnection. Oncor
5 and TSPA provided redlines consistent with their recommendations.

6
7 *Commission response*

8 **The commission agrees with WETT and declines to change the reporting period under**
9 **§25.195(i) to an annual basis as recommended by Oncor, TNMP, AEP, and CPS Energy.**
10 **The pre-existing GIS report is sufficient to account for the costs relevant to the allowance.**
11 **The commission agrees that further specificity is required for the data to be included in the**
12 **report and revises the provision accordingly.**

13
14 **Good cause exception**

15 Oncor, SEIA, ACE and CCR, TCPA, WETT, and CenterPoint recommended a good cause
16 exception, to exceed the allowance, be included in the rule. Oncor, SEIA, and ACE and CCR
17 noted that a good cause exception would be useful when atypically high costs of interconnection
18 are justifiable and are not a function of uneconomic siting by the generation resource, or when
19 unique circumstances arise that are beyond the control of the generator or TSP. Specifically, Oncor
20 recommended a good cause exception require a joint application between the generator and
21 interconnecting TSP, along with a determination from the commission that extenuating
22 circumstances justify an increased allowance for a particular interconnection project. Oncor
23 explained such a provision is necessary to ensure incentives for certain projects that are priorities

of the commission and State of Texas, such as nuclear, are preserved. Oncor provided redlines consistent with its recommendation. TCPA stated that a good cause exception would benefit interconnections that would bear higher costs in high-load service territories. WETT commented that a good cause exception for exceeding the allowance would be consistent with the intent of B 1500, Section 9 to reduce interconnection costs to ratepayers and benefit reliability.

Commission response

The commission declines to add a good cause exception to the rule because such a provision would be administratively burdensome to implement, incentivize strategic behavior, and undermine the effectiveness of the allowance. Any interconnection may possess unique features that could be argued to exceed the allowance amounts, and it is unclear what criteria the commission would use to evaluate such requests. Moreover, under PURA §35.004(d-2) “[c]osts in excess of the...allowance...must be directly assigned to and collected from the generation resource...”. This statutory language does not contemplate granting exceptions to the standard allowance.

The amended rule is adopted under the following provisions of PURA: §14.001, which provides the commission the general power to regulate and supervise the business of each public utility within its jurisdiction and to do anything specifically designated or implied by PURA that is necessary and convenient to the exercise of that power and jurisdiction; PURA §14.002, which provides the commission with the authority to make adopt and enforce rules reasonably required in the exercise of its powers and jurisdiction; PURA 35.004(d) and (d-1)-(d-3) which requires the

1 commission to develop a reasonable allowance applicable to generation resources
2 interconnecting directly with the ERCOT transmission system at transmission voltage.

3

4 Cross reference to statutes: Public Utility Regulatory Act §§14.001, 14.002, PURA §35.004(d)
5 and (d-1)-(d-3).

6

1 **§25.195. Terms and Conditions for Transmission Service.**

2
3 ~~(a) **Applicability.** This section applies to the provision of transmission service in the Electric~~
4 ~~Reliability Council of Texas (ERCOT) region by transmission service providers (TSPs) to~~
5 ~~transmission service customers. This section also applies to ERCOT.~~

6 ~~(a) — **Applicability.** This section applies to transmission service providers (TSPs) in the Electric~~
7 ~~Reliability Council of Texas (ERCOT) region providing transmission service to~~
8 ~~transmission service customers~~

9
10 (b) **Definitions.** The following terms have the following meanings unless context indicates
11 otherwise.

12 (1) **Transmission-level generator** -- a transmission service customer that is an electric
13 generating facility under §25.5 of this title (relating to Definitions), is
14 interconnected to a TSP's system at or above 60 kilovolts (kV), and is located
15 behind one or more unique points of interconnection.

16 ~~(1) — **Generation resource** -- a transmission service customer that sells generation at~~
17 ~~wholesale, is interconnected to a TSP's system at a voltage above 60 kilovolts~~
18 ~~(kV), and is required to execute a standard generation interconnection agreement~~
19 ~~(SGIA) under this section.~~

20 (2) **Transmission system upgrade** -- any additional transmission ~~facilities~~ facilities or
21 modifications beyond what is required to interconnect a transmission-level
22 ~~generator~~ transmission service customer to the transmission system, ~~and which~~
23 ~~provide benefits to other customers that are independent of the benefit provided by~~

~~interconnecting the transmission service customer alone.~~ The construction of a new substation or modifications to an existing substation is not a transmission-system upgrade if necessary to interconnect a transmission-level generator.

(c) **Interconnection agreement.** As a condition of obtaining transmission service, a transmission service customer that owns electrical facilities in the ERCOT region must execute an interconnection agreement with the TSP__to which it is physically interconnected. The commission-approved standard generation interconnection agreement (SGIA)SGIA must be used for the interconnection of a new transmission service customer that is a transmission-level generator. The SGIA may be modified by mutual agreement of the parties to address specific facts presented by a particular interconnection request provided that the modifications do not frustrate the goal of expeditious, nondiscriminatory interconnection and are not otherwise inconsistent with the principles underlying the commission-approved SGIA. The SGIA must not be modified to relieve a transmission-level generator's responsibility for all costs of installing interconnection facilities that are incurred by the TSP that exceed the allowance under subparagraph (f) of this section.

(d) **Transmission service provider responsibilities.** The TSP must plan, construct, operate, and maintain its transmission system in accordance with good utility practice to provide transmission service customers with transmission service over its transmission system in accordance with Division 1 of this subchapter (relating to Open-Access Comparable Transmission Service for Electric Utilities in the Electric Reliability Council of Texas).

The TSP must, consistent with good utility practice, endeavor to construct and place into service sufficient transmission capacity to ensure adequacy and reliability of the network to deliver power to transmission service customer loads. The TSP must plan, construct, operate, and maintain facilities that are needed to relieve transmission constraints, as recommended by ERCOT and approved by the commission, in accordance with Division 1 of this subchapter. The construction of facilities requiring commission issuance of a certificate of convenience and necessity is subject to such commission approval.

(e) **Construction of new facilities.** If new transmission facilities or interconnections between TSPs are needed to provide transmission service in response to a request for such service, the TSPs must construct or acquire transmission facilities necessary to provide the transmission service in accordance with good utility practice, unless ERCOT identifies an alternative means of providing the transmission service that is less costly, is operationally sound, and is as effective as the new transmission facilities would be at providing the requested transmission service.

(1) An affected TSP may require the transmission service customer to pay a reasonable deposit or provide another means of security, to cover the costs of planning, licensing, and constructing any new transmission facilities that will be required in order to provide the requested service. Any repayment of a cash deposit under subparagraphs (A) or (B) of this paragraph must include interest at a commercially reasonable rate based on that portion of the deposit being returned.

(A) If the new transmission service customer's interconnection is completed and the transmission service customer begins to take the requested

1 transmission service, the TSP must return the deposit or security to the
2 transmission service customer.

3 (B) If the new transmission service customer's interconnection is not completed
4 and the new transmission facilities are not required, the TSP may retain as
5 much of the deposit or security as is required to cover the costs the TSP
6 incurred in planning, licensing, and construction activities related to the
7 planned new transmission facilities. ~~Any repayment of a cash deposit must~~
8 ~~include interest at a commercially reasonable rate based on that portion of~~
9 ~~the deposit being returned.~~

10 (2) If the TSP's acquisition or construction of the new transmission facilities would
11 impair the tax-exempt status of obligations issued by the TSP then the TSP may
12 require a contribution in aid ~~of~~ construction (CIAC) from the transmission service
13 customer to cover all or part of the cost of acquiring and constructing the new
14 transmission facilities facilities.

15 (3) For a transmission service customer that is not a transmission-level
16 ~~generator~~ generation resource, the TSP is responsible for the cost of installing any
17 new transmission facilities, other than those ~~provided for~~ described in paragraph (2)
18 of this subsection, in a contractual agreement between the TSP and the customer,
19 or in a commission-approved transmission service tariff.

20 (4) For a transmission-level generator ~~generation resource~~, the costs of installing new
21 transmission facilities must be borne in accordance with subsection (f) of this
22 section.

(f) **Cost responsibilities to interconnect transmission-level generator~~generation~~
~~resources~~ at transmission voltage.**

(1) A new transmission-level generator~~generation resource~~ seeking interconnection to a TSP's transmission network is responsible for the cost of installing step-up transformers and protective devices at the point of interconnection capable of electrically isolating the transmission-level generator~~generation resource~~.

(2) If the SGIA between the transmission-level generator~~generation resource~~ and the TSP is executed on or before December 31, 2025, then the TSP is responsible for the cost of installing any new transmission facilities.

(3) If the SGIA between a transmission-level generator~~generation resource~~ and TSP is executed after December 31, 2025, then the interconnecting transmission-level generator~~generation resource~~ is responsible for all costs of installing interconnection facilities that are incurred by the TSP that exceed the allowance established in accordance with this paragraph. The TSP is responsible for the costs of installing any transmission system upgrades deemed necessary by the TSP ~~and ERCOT that are made concurrently with the installation of the interconnection facilities.~~

(A) The allowance will be calculated by the commission as follows:

(i) For a transmission-level generator~~generation resource~~ interconnecting at a transmission voltage of 138 kV or less, the allowance beginning on January 1, 2026, is based on the ~~2024~~2023 amount of ~~\$14,000,000~~\$12,000,000 adjusted for subsequent years consistent with clause (ii) of this subparagraph. For a transmission-

1 ~~level generator~~~~generation resource~~ interconnecting at a transmission
2 voltage higher than 138kV, the allowance beginning on January 1,
3 2026, is based on the ~~2024~~~~2023~~ amount of \$22,500,000 adjusted for
4 subsequent years consistent with clause (ii) of this subparagraph.

5 (ii) ~~Beginning on January 1, 2025, the~~The commission will increase or
6 decrease the allowance prescribed by clause (i) of this subparagraph
7 ~~annually~~ on or before January 1 of each calendar year in accordance
8 with this clause. ~~Annually, no later than September 1, 2024, the~~The
9 commission will publish the new values of the allowance to be used
10 in the subsequent calendar year on or around November 1 of each
11 calendar year.

12 (I) The annual adjustment will be proportional to the third
13 quarter to third quarter percentage change in the national
14 Consumer Price Index (CPI) published by the United States
15 Department of Labor, Bureau of Labor Statistics ~~change~~
16 ~~from the corresponding 2023 value reflected in the National~~
17 ~~Income and Product Accounts (NIPA) Seasonally Adjusted~~
18 ~~Price Index for Private Fixed Investment Nonresidential~~
19 ~~Structures for Power and Communication published by the~~
20 ~~United States Department of Commerce, Bureau of~~
21 ~~Economic Analysis.~~

22 (II) The executive director must designate a substitute index to
23 be used as a reference for adjustments under this clause if the

index referenced by subclause (I) of this clause becomes unavailable.

(B) A transmission-level generator~~generation-resource~~ that seeks to interconnect an energy storage resource is only eligible to receive the allowance described under this subsection and not additional allowances provided to interconnect load, such as may be provided under a -tariff.

(C) The amount of the allowance that a transmission-level generator~~generation-resource~~ is provided to complete the interconnection is the amount that was in effect on the date the notice to proceed with the interconnection was issued by the transmission-level generator~~generation-resource~~ to the TSP in accordance with the executed SGIA. A TSP's costs to procure~~construct~~, design, and construct or upgrade interconnection facilities that exceed the allowance must be directly billed to and collected from the transmission-level generator~~generation-resource~~ that caused the costs to be incurred by the TSP. The TSP may collect such costs as a contribution in aid to construction prior to procuring, designing, and constructing or upgrading the interconnection facilities.

(D) Notwithstanding any payments made by a transmission-level generator~~generation-resource~~ under this section, an interconnecting TSP retains ownership and control of its transmission facilities.

(E) After the completion and energization of the initial interconnection, the~~The~~ responsibility ~~for~~of costs incurred by a TSP for new or upgraded interconnection facilities due to modifications or expansions made by the

1 ~~interconnected~~ transmission-level generator~~generation resource~~ will be
2 borne in accordance with this subparagraph.

3 (i) For the ten calendar years following the date of energization for the
4 initial interconnection of the transmission-level generator, and
5 ~~generation resource~~~~(I) To~~ to the extent that the costs of the new or
6 upgraded interconnection facilities needed due to modifications
7 made by the transmission-level generator exceed the remainder of
8 the allowance calculated under ~~subsection~~~~paragraph~~ (f)(3) of this
9 section, the current owner of the ~~interconnected~~ transmission-level
10 generator that is listed in the new or amended SGIA~~generation~~
11 ~~resource~~ is responsible for the interconnection costs incurred by the
12 TSP, where:

13 (I) ~~(a)~~ the allowance is the amount that was in effect on the
14 date the notice to proceed with the initial interconnection
15 was issued in accordance with paragraph (3) of this
16 subsection and the executed SGIA; and

17 (II)~~(b)~~ the remainder is the difference between the
18 allowance described under subclause (I) of this clause and
19 the actual costs that a TSP incurred to construct, design, and
20 upgrade interconnection facilities to initially interconnect
21 the transmission-level generator~~generation resource~~. The
22 remainder will be adjusted by the TSP in accordance with
23 the methodology in subparagraph (A)(ii) of this paragraph.

1 ~~(H) — The current owner of an interconnected transmission level~~
2 ~~generator generation resource is determined in accordance~~
3 ~~with the most recently executed SGIA for that generation~~
4 ~~resource.~~

5 (ii) After ten calendar years from the date of energization for the initial
6 interconnection, the transmission-level generator is eligible for a
7 new allowance determined in accordance with subparagraph
8 (f)(3)(A) of this paragraph for the costs of new or upgraded
9 interconnection facilities necessary to accommodate modifications
10 made by the transmission-level generator at the same point of
11 interconnection.

12 ~~(ii) — After ten calendar years from the date of energization for the initial~~
13 ~~interconnection of the transmission level generator generation~~
14 ~~resource, the TSP is responsible for the costs of new or upgraded~~
15 ~~interconnection facilities.~~

16 (F) Beginning on or around May 1, 2029, and at least every five calendar years
17 thereafter, the commission will open a project and request comments on
18 whether the allowance or annual allowance adjustment methodology
19 described in paragraph (3)(A) of this subsection should be modified. If the
20 commission determines the allowance or the annual allowance adjustment
21 methodology should be adjusted, the commission will initiate a rulemaking
22 proceeding.

(g) **Curtailment of service.** In an emergency situation, as determined by ERCOT and at its direction, a TSP may interrupt transmission service on a non-discriminatory basis, if necessary, to preserve the stability of the transmission network and service to customers. Such curtailments must be carried out in accordance with §25.200 of this title (relating to Load Shedding, Curtailments, and Redispatch) and in accordance with ERCOT protocols.

(h) **Filing of contracts.** ~~An electric utility~~A TSP must file with the commission each new, and all amendments to, interconnection agreements within 30 days of execution, including a cover letter explaining any deviations from the commission-approved SGIA. An interconnection agreement is subject to commission review and approval upon request by any party to the agreement. Appropriate portions of the filings may be filed confidentially and be subject to provisions of confidentiality to protect competitively sensitive commercial or financial information.

(i) **Transmission-level generator interconnection costs report.** ERCOT must, in consultation with commission staff, include as part of the ERCOT Generation Interconnection Status report or any successor report the generation interconnection costs for each new transmission-level generator interconnected in each calendar month based on date of energization, including the total cost of the interconnection, any CIAC paid by the transmission-level generator, and any above-allowance costs incurred by the transmission-level generator.

(1) Beginning in January 2026, within 90 calendar days from the end of each calendar month the TSP must provide to ERCOT the information described in this

1 subsection for each new transmission-level generator interconnection to the TSP's
2 system in that calendar month.

3 (2) Beginning in April 2027 and every calendar year thereafter, ERCOT will publish
4 the information described in this subsection for each new transmission-level
5 generator interconnection to the ERCOT transmission system in the prior calendar
6 year. ERCOT will, at a minimum, provide the information described in this
7 subsection.

8
9 ~~(i) — ERCOT must, in consultation with commission staff, develop protocols to regularly~~
10 ~~publish a report that includes the generation interconnection costs for each transmission-~~
11 ~~level generatorgeneration resource interconnection.~~

This agency certifies that the adoption has been reviewed by legal counsel and found to be a valid exercise of the agency's legal authority. It is therefore ordered by the Public Utility Commission of Texas that §25.195, Terms and Conditions for Transmission Service, is hereby adopted with changes to the text as proposed.

Signed at Austin, Texas the ____ day of ____ 202_.

PUBLIC UTILITY COMMISSION OF TEXAS

THOMAS GLEESON, CHAIRMAN

LORI COBOS, COMMISSIONER

JIMMY GLOTFELTY, COMMISSIONER

KATHLEEN JACKSON, COMMISSIONER