PUC PROJECT NO. 55566

GENERATION INTERCONNECTION ALLOWANCE	**§** **§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TCPA'S RESPONSE TO SEPTEMBER 25, 2023 STAFF QUESTIONS

Texas Competitive Power Advocates ("TCPA")[1] appreciates the opportunity to provide comments regarding Staff's questions for implementing the generation interconnection allowance as enacted in House Bill ("HB") 1500, Section 9, 88th Regular Legislative Session. Importantly, any allocation to generation resources will result in a reduction in consumer costs since all interconnection costs in ERCOT are currently socialized to consumers. Thus, the act of the Commission setting the allowance, alone, will go a long way toward accomplishing the directive of HB 1500 for the Commission to reduce costs to consumers, regardless of the specific methodology chosen.

The allowance should be set at a level that encourages rational and efficient siting decisions. Data regarding historical interconnection costs in recent years will provide a rational starting point for determining what portion of interconnection costs should be borne by consumers, with the remainder to be paid by the interconnecting resource. The Commission could set a single allowance based primarily on those historical costs, at a level that excludes the highest cost interconnections in recent years (outliers), or could use a formulaic approach that takes into

[1] TCPA is a trade association representing power generation companies and wholesale power marketers with investments in Texas and the Electric Reliability Council of Texas (ERCOT) wholesale electric market. TCPA members and their affiliates provide a wide range of important market functions and services in ERCOT, including development, operation, and management of power generation assets, power scheduling and marketing, energy management services and sales of competitive electric service to consumers. TCPA members participating in this filing own more than 55,000 MW of generating capacity in ERCOT, representing billions of dollars of investment in the state, and employing thousands of Texans. TCPA member companies participating in these comments include: Calpine, Cogentrix, Constellation (formerly Exelon), EDF Trading North America, Hull Street Energy, LS Power, NRG, Rockland Capital, Shell Energy North America, Talen Energy, Tenaska, TexGen Power, and Vistra, WattBridge is filing separate comments.

account additional factors like projected reliability contribution to the grid. There are advantages and disadvantages to each option. A single amount will be easier to administer and necessarily will conform with the general open access framework in the Public Utility Regulatory Act ("PURA").[2], Comparatively, a formulaic approach may be more complicated to administer but also could account for things like reliability contribution (consistent with HB 1500's directive for the Commission to consider "other factors" in setting the allowance) and still be implemented in a manner that is consistent with open access if calculated based on objective criteria that is uniformly applied.

Regardless of the single versus formulaic approach, TCPA recommends that, absent compelling evidence that interconnection costs are substantially higher (historically) in a particular transmission service provider ("TSP") area, the allowance should be the same across all TSP service territories, because that would be consistent with the system-wide, postage-stamp approach used generally for transmission costs in the ERCOT region.

RESPONSES TO STAFF QUESTIONS

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

Absent compelling historic data that indicates the need for TSP-specific allowances, TCPA recommends establishing a single ERCOT-wide allowance amount or formula. Current wholesale transmission costs, including interconnection costs, are allocated across ERCOT on a postage-stamp basis, meaning distribution service providers ("DSPs"), and in turn load serving entities ("LSEs") and customers,

[2] Tex. Util. Code §§ 11.001-66.016.

across ERCOT pay an aggregated single price for the interconnection of new resources and delivery of power across the ERCOT system.

While HB 1500 creates an exception to the general postage-stamp cost allocation for interconnection costs exceeding the specified allowance, it is still appropriate to establish a single ERCOT-wide allowance amount or formula to maintain the overall system-wide approach to transmission cost allocation in the ERCOT region. To establish a different amount or formula for each TSP in the ERCOT region would be administratively burdensome, unnecessarily confusing for generation developers, and could create inefficient incentives for generation siting if there were to be material variation in TSP allowances. A single system-wide allocation methodology provides transparent information for all market participants in ERCOT, and would undoubtedly ease the administrative burden of managing allowances for the Commission (in addition to the administrative burden of monitoring the various allowances for generation developers). TCPA therefore supports a single ERCOT-wide allowance, absent compelling historic data that indicates the costs of interconnecting in a particular TSP area are significantly higher than interconnecting with other TSPs (in which case, it could be appropriate to modify the allowance for that TSP).

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

There are pros and cons to each approach – i.e., using a single allowance or creating different allowances based on factors such as operational resource characteristics or size – and either could be done consistently with HB 1500. HB 1500 provides some flexibility for the Commission in setting the allowance, by directing the Commission to consider several factors, including the potential to reduce costs to consumers, historical interconnection costs, and "any other factor" the Commission considers "reasonable to accomplish the goal" of this new provision.

A single allowance is a simpler method to implement and would be easier for interconnecting entities to account for in their project development plans. A single allowance would also preserve the open access framework of PURA by treating all interconnecting resources exactly the same with respect to the costs to interconnect.[3] Further, a single allowance could achieve the factors set out above if it is set at the right level that is tied to historic generation costs (based on a holistic evaluation of such data in recent years) and set at a representative level that would exclude the cost outliers. This would reduce the costs that otherwise would be socialized to consumers on a go-forward basis. Picking the "right" allowance level (e.g., that excludes outliers) also should promote more efficient siting decisions by interconnecting entities, because it would discourage them from siting in a way that would cause their interconnection costs to greatly exceed the allowance (e.g., several miles from the point of interconnection). The primary downside to a single allowance is that it would not account for meaningful differences in potential benefits, such as reliability attributes, that resources may provide to the grid and customers once interconnected. A secondary downside is that a flat, aggregate allowance could in some cases disproportionately incentivize smaller resources to develop, raising the overall "cost per MW" associated with the transmission system.

A formulaic approach could reflect holistic values such as the marginal reliability benefit of a proposed resource to the system and load based on the resource type, size, and its contribution to meeting demand (e.g., based on the resource type's marginal Effective Load Carrying Capability, or "ELCC" and/or valuing on a $/MW basis). The downsides of a formulaic approach are that it would be meaningfully more complex to implement and could create perverse incentives such as a "race to interconnect" if done in a way that measures reliability contributions (and discounts the available allowance) on an individual resource basis (since measures like ELCC can decrease for certain resource types as more resources with common and correlated risk factors interconnect).

In addition, a formulaic allowance could represent a more significant departure from the general open access framework in PURA. That said, it could potentially be done in a manner that is not inconsistent with

[3] PURA § 35.004(b).

that framework if the formula is based on objective criteria and is uniformly applied to similarly situated entities.

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

If the Commission decides to adopt different allowance amounts based on a formula, the formula should be based on objective criteria that can be uniformly applied to interconnecting entities and should not be overly complex to administer. The focus of any such formula should be on the reliability contribution of a proposed resource. For example, the formula could consider relative the size of the project and provide a greater allowance to relatively larger resources, as larger capacity resources tend to provide greater reliability benefits than a smaller resource with the same fuel type and location, all else being equal. Marginal ELCC also may be worthy of further consideration as a characteristic to consider in determining any formulaic allowance.

Any method adopted should work to encourage rational and reasonable efficient siting of resources. As noted in response to Question 2 above, a single flat allowance would have certain advantages over a formulaic one and could still be used to encourage rational and efficient siting decisions if sized appropriately.

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

As an initial matter, all generation investment benefits load because generation provides power to the grid that is needed to serve load. Further, the implementation of HB 1500 necessarily will reduce the costs of interconnection to consumers if the allowance level (whether a single or formulaic value) is set at an appropriate historic benchmark, such that interconnecting entities with relatively higher interconnection costs (compared to the benchmark) now have to bear those costs directly.

In other words, simply setting the allowance at a reasonable level should reduce costs to consumers as compared to the status quo, since all interconnection costs are currently allocated to consumers. The setting of an allowance also should encourage more efficient siting decisions by interconnecting entities and will thus alleviate the impacts to loads by ensuring loads do not singularly bear the cost burden of poor siting decisions on the part of generation resource owners. The allowance should be set at an amount that creates an appropriate allocation of costs to consumers who will benefit from the added reliability of these interconnecting resources without providing unlimited cost allowances to generation resources.

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

The Commission should not look back too far in the historical timeframe when considering historical costs to ensure the allowance is reflective of current costs in the market, but an analysis of the actual data will need to be done before determining exactly how far back to stop. Particularly with inflation and supply chain cost increases in the past two years, it likely would be unreasonable to consider a historical timeframe significantly beyond three or four years in setting the allowance.

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

No, this recommendation would likely be complex and problematic to administer and goes beyond the scope of HB 1500, Section 9.

CONCLUSION

TCPA appreciates the opportunity to provide comments on these initial questions and looks forward to working with the Commission, Staff and other stakeholders throughout this project.

Respectfully submitted,

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EXECUTIVE SUMMARY OF TCPA COMMENTS

- Any allocation to generation resources will result in a reduction in consumer costs since all interconnection costs in ERCOT are currently socialized to consumers.
- The allowance should be set at a level that encourages rational and efficient siting decisions.
- The allowance should be the same across all transmission service provider (TSP) service territories, because that would be consistent with the system-wide, postage-stamp approach used generally for transmission costs in the ERCOT region.
- A single allowance is easier to administer and easier to account for in project development plans. It would also preserve the open access framework of PURA by treating all interconnecting resources exactly the same with respect to the costs to interconnect.
- A formulaic approach could reflect holistic values such as the marginal reliability benefit of a proposed resource to the system and load based on the resource type and its contribution to meeting demand; but it would be more complex to implement and could create incentives for a "race to interconnect" if done in a way that measures reliability contributions on an individual resource basis.
- If a formulaic approach is preferred, the formula should be based on objective criteria that can be uniformly applied to interconnecting entities, should focus on the reliability contribution of the interconnecting resource, and should not be overly complex to administer.
- An analysis of the actual data will need to be done before determining exactly how far back to stop when considering historical costs. Recent inflation and supply chain cost increases over the past two years likely makes it unreasonable to consider a historical timeframe significantly beyond three or four years in setting the allowance.