

PROPOSAL FOR INTERCONNECTION UPGRADES COST SHARING MECHANISM

The purpose of this “IC Upgrades Cost Sharing Mechanism” is to solve the otherwise irreconcilable challenge of interconnection upgrade costs. Many, if not most, DG projects (especially those in the 1MW – 2MW AC range) receive a CESIR that indicates the need for substation-level upgrades such as “3V0”, and/or distribution-level upgrades such as re-conductoring, etc. The costs of these upgrades often are in the hundreds-of-thousands of dollars – this is in addition to the “standard” 6-figure interconnection costs - which in most cases an individual project cannot afford to bear. Under the current policy, whichever project would proceed first on a given circuit/substation it would be forced to pay the entire amount of the upgrade costs, and all subsequent projects would be charged nothing. We believe this situation is inherently unfair, and that any project that makes use of an upgrade should have to pay its fair-share. Further, this policy delays all projects from moving forward, as project developers will wait for some other developer to absorb the costs of the upgrades.

This proposed Mechanism steers clear of any issues regarding what types of IC upgrades are “necessary”, and when they are what the proper/best technical methods are to employ in doing so. The Interconnection Technical Working Group is already engaged with this topic and that work certainly needs to continue in earnest.

A Cost-Sharing Mechanism for Interconnection Upgrades functions independently from the necessity of the upgrade, and without it there is simply no way to enable most of the projects that are sitting in the queue - with CESIRs in hand – to make a decision to move forward. Most of these projects (2MW AC projects for example) have been given CESIR results that include a requirement for substation upgrades (usually a 3V0 upgrade) at a cost of between \$400k and \$600k – in addition to the typical circuit-level IC costs of around \$250k. If the new SIR guidelines were enforced today, a project would either pay this full amount or would be dropped from the queue. If the project did pay the full amount, all of the projects that come afterwards would be charged zero and thus “ride for free”. That’s why so many of these projects are not proceeding. There was broad consensus at the 6/29 Interconnection Queue Management meeting that the time frames in the new SIR guideline cannot be enforced until cost sharing for IC upgrades is enacted.

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1. The mechanics of how this works are very, very simple. For example:
 - a. “Company A” has a 2 MW AC project that has a CESIR that includes a \$400,000 3V0 upgrade for the substation. Company A pays that full cost, and their project, “Project #1”, moves forward.
 - b. “Company B” is next in line with a 2MW AC project (“Project #2”), and it’s CESIR also confirms the necessity for it to utilize 3V0 at the substation. The utility already knows that Company A has signed the contract for the 3V0, so it simply does the calculation to determine the pro-rata share that Project #2 will be utilizing. In this example, that would be 50%, so Company B would be given a cost of \$200,000 for the 3V0 in its CESIR. Assuming that Project #2 moves forward, Company B would pay that \$200k for the 3V0, along with its other IC costs, and the utility would then send a check for that \$200k to Company A.

- c. Next, Company C comes along with a 1.2MW AC project (“Project #3) and their CESIR also states the need for 3V0. That would mean that the total amount of watts that would be utilizing the 3V0 would be 5.2 MW AC, or 5,200,000 watts AC. The total cost of \$400,000 is divided by the total watts served (5,200,000) which results in \$0.076923 per AC watt. Project #3 is quoted a cost of 1,200,000 watts times \$0.076923 which equals \$92,307.60. If Company C moves forward and pays its fee, both Company A and Company B will get a check from the utility for \$46,153.80.
2. The mechanics and math involved in this Interconnection Upgrades Cost Sharing Mechanism are very simple. We believe that the current CESIR study process, which costs up to \$35,000, and includes complex engineering, analysis and calculations, can easily and efficiently accommodate these simple cost sharing calculations and the administration of processing payments accordingly.

The above could be implemented immediately. The utilities expressed a desire to see projects that have CESIR’s in hand either move forward, or move out of the queue. The consensus at the 6/29 meeting, however, was that this is not possible or fair without cost sharing for IC upgrades. Solving “Grandfathering” simply puts a clock on projects that still face a “Hobson’s choice” of either paying IC fees that the project can’t afford while enabling everyone else to ride for free, or having their project run out of time and end up on the scrap heap. That is not the kind of message that New York State wants to send to the business community, and it’s one that would be particularly devastating to small developers.

It should be recognized that there are additional concepts that relate to the best way to address the issues of Interconnection Upgrade Costs – and how they should be funded, shared, etc. The above should be viewed as an initial step to enable projects to move forward in a manner that is fair and efficient, while solving the issue of the backlog in the queue. Meanwhile analysis and collaboration can and should continue on how best to evolve these issues in order to achieve the combined best interests of all stakeholders.