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Status of Cost-Sharing for Distribution Interconnection in New Mexico's Community Solar Program

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Cost Sharing in Interconnection Rule 568

The concept of cost-sharing for interconnection upgrades was first raised in the February 2, 2023, revision of the PRC's Interconnection Rule [17.9.568.19, aka Rule 568] for distributed energy resources (<10 MW).

- Interconnection upgrade cost sharing is a regulatory mechanism designed to distribute the expenses for grid infrastructure improvements needed to connect renewable energy projects.
- By default, applicants are responsible for upgrades costs unless the commission determines that the upgrades offer system-wide benefits justifying cost-sharing.
- The commission may approve cost-sharing among multiple developers, all utility ratepayers, or specific rate classes (ex: community solar subscribers) based on public benefit criteria.
- For approval, upgrades must align with statutory goals like improving grid efficiency and resilience, expanding renewable energy access to underserved communities, and/or reducing pollution.

Although the IX Rule allowed for cost-sharing, specifics of how to implement that were supposed to be developed in an expected Grid Modernization Act implementation rule [Section 62-8-13 NMSA Grid Modernization Act 2019, HB 233) . However, that effort has transformed into a draft Distribution Planning Rule that does not reference cost-sharing mechanisms.

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Cost Sharing in Interconnection Rule

17.9.568.19 COST SHARING FOR INTERCONNECTION UPGRADES:

A. The cost of utility system modifications required pursuant to the fast track process or the full interconnection study process shall be borne by the applicant unless otherwise agreed to by the parties or following a determination by the commission that some or all of the costs constitute system benefits eligible for cost-sharing options:

(1) The commission may determine on a case-by-case basis whether the cost of distribution system upgrades necessary to interconnect one or more generating facilities may be eligible for some form of cost-sharing:

(a) among several developers using the same distribution facilities;

(b) among all ratepayers of the qualifying utility via rate base adjustments; or

(c) among ratepayers of the same rate class as subscribers to the community solar facility via a rate rider for that class.

(2) In making such a determination that there are public benefits to such a cost-sharing mechanism, the commission shall employ the same analysis as provided for cost-sharing or rate basing grid modernization projects as defined by Section 62-8-13 NMSA 1978 (Grid Modernization Act 2019, HB 233) to make a finding that the approved expenditures are:

(a) reasonably expected to improve the public utility's electrical system efficiency, reliability, resilience and security; maintain reasonable operations, maintenance and ratepayer costs; and meet energy demands through a flexible, diversified and distributed energy portfolio;

(b) reasonably expected to increase access to, and use of, clean and renewable energy, with consideration given to increasing access to low-income subscribers and subscribers in underserved communities;

(c) designed to contribute to the reduction of air pollution, including greenhouse gases;

(3) Expenditures approved for such cost sharing of necessary interconnection upgrades shall not be considered a "subsidization" subject to the three percent limitations spelled out in this rule or in the Community Solar Act.

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Cost Sharing for Community Solar

The Community Solar Act of 2021 directed the New Mexico Public Regulation Commission to establish rules and policies by April 1, 2022, governing a new state-wide program that allows for non-utility development of up to 200 MW of small-scale (5 MW-ac or less) solar projects (62-16B-2 NMSA 1978).

The legislative requirements provided a foundation for the Commission to adopt Community Solar Rule 573, unanimously passed on March 31, 2022, and formally published July 12, 2022 (Title 17.9.573.1 NMAC).

A subsequent order expanded the program capacity limit by 300 MW [October 3, 2024, in 24-00094-UT]. Parties are currently in the process of revising Rule 573 to allow for such an expansion [in 24-00258-UT]. This includes a section on cost-sharing.

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Cost Sharing for Community Solar

The Community Solar Rule 573 contemplated several allowed instances of cost sharing (similar to the IX Rule 568):

Cost-sharing options for interconnection upgrades may be approved by the commission on a case by base basis and can involve:

- Sharing costs among multiple subscriber organizations
- Spreading costs across all utility rate payers, or
- Charging only the rate class that subscribes to the community solar facility
- Approval depends on public benefits (ex: improving grid efficiency, increasing reliability, increasing low-income clean energy access, and reducing pollution).
- Costs can only be shared with non-subscribing ratepayers if the benefits they receive are equal to or greater than the costs.

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- After NMPRC selection of some 45 projects with 198 MW of capacity, those projects entered the Interconnection review and approval process. Developers soon discovered that New Mexico's utility system was unable to accommodate interconnection without substantial upgrade costs.

- For the initial 45 selected projects, utilities identified more than **$122 million** in potential upgrade costs.

- The utilities claimed not just capacity constraints on circuits but thermal constraints at the network level, many of the Community Solar projects faced utility network upgrades that amount to several million dollars per project.

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Cost Sharing for Community Solar

The utilities identified these facilities and components for most of the projects:

- Overhead feeder extensions
- Reconductoring circuits to handle the increased power flows
- Capacitor banks
- Reclosers
- Relays settings
- Intelliruptors
- Substation transformers
- Switchgear
- Voltage protections

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Earlier this year, two CS developers PPC NEW ENERGY LLC (Otero 3.6 MW) AND SVOE, LLC (Las Lunas 1, 4 MW) found themselves behind another project seeking to interconnect at the same substation. Upgrade costs exceeded $10 million.

They petitioned the commission for cost-sharing approval:

"Petitioners' community solar projects are cost prohibitive and unlikely to be developed unless cost-sharing is allowed for the interconnection upgrades…allowing cost-sharing for the proposed utility system upgrades will clearly be expected to improve PNM's electrical system efficiency, reliability, resilience and security and help it to meet energy demands through a flexible, diversified and distributed energy portfolio…by allowing significant utility system upgrades to be constructed at no cost to ratepayers or the utility for the interconnection of community solar facilities." [25-00058-UT]

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The Commission determined that it was not necessary to act on the petition, as such cost-sharing was clearly contemplated by the IX Rule:

"The Petitioners have the capacity to enter into such an agreement without the approval of the Commission. The Interconnection Rule requires that the costs of system modifications "shall be borne by the applicant unless otherwise agreed to by the parties . . .." The Petitioners need not show that 'some or all of the costs constitute system benefits eligible for cost-sharing options,' as the agreement between the Petitioners is an independent basis for cost sharing pursuant to the Interconnection Rule."

The petition was dismissed as moot, but allowed the parties to refile if for business or financial reasons they require a Commission order [September 19, 2025, in 25-00058-UT].

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Cost Sharing for Community Solar

In a separate case, the Commission approved a "variance" of the IX rule for utility SPS to allow for joint or "cluster studies" of the interconnections for two developers, Sunvest and SVOE, LLC (Clovis II, 5 MW) and Cannon Solar, LLC (5 MW).

Both projects would interconnect to a SPS substation and feeder in rural Curry County.

"SPS seeks variances under Rules 1.2.2.40 NMAC and 17.9.568.30 NMAC so that it can conduct a single system impact study, a "cluster" system impact study, containing the proposed generation capacities of both the Clovis IV and Cannon Solar projects."

Taking a strictly procedural approach, the NMPRC granted the variance, allowing for a cluster study in this instance (February 6, 2025, in 25-00001-UT].

The study is underway, with work having begun on the facilities study part of the process, and SPS has obtained preliminary estimates on substation upgrades.

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Cost Sharing for Community Solar

Though the outcomes were favorable to the petitioners, these cases did not resolve the bigger question of *whether and how* IX upgrade costs could be shared *between* a developer and ratepayers.

In the current process to revise the Community Solar Rule, a specific proposal for cost sharing has been developed and is under consideration.

- The commission must find public benefits using the Grid Modernization Act criteria before approving cost sharing for interconnection.
- Non-subscribing ratepayers can only share in the costs if they receive equal or greater benefits, ensuring they are not unfairly subsidizing upgrades.

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Cost Sharing for Community Solar (DRAFT)

17.9.573.13 INTERCONNECTION AND ADMINISTRATIVE COSTS:

A. The commission may determine on a case-by-case basis whether the cost of distribution system upgrades necessary to interconnect one or more community solar facilities, including native community solar projects, may be eligible for some form of cost-sharing:

(1) among subscriber organizations using the same distribution facilities;

(2) among all ratepayers of the qualifying utility via rate base adjustments; or

(3) among ratepayers of the same rate class as subscribers to the community solar facility via a rate rider for that class.

- **B.** In making a determination that there are public benefits to such a cost-sharing mechanism, the commission will employ the analysis that the commission employs when considering cost sharing or rate basing grid modernization projects as defined by 71-3 NMSA 1978, the Grid Modernization Act, to make a finding that the approved expenditures are:

  (1) reasonably expected to improve the utility's electrical system efficiency, reliability, resilience and security;

  (2) reasonably expected to maintain reasonable operations, maintenance and ratepayer costs;

  (3) reasonably expected to meet energy demands through a flexible, diversified and distributed energy portfolio;

  (4) reasonably expected to increase access to and use of clean and renewable energy, with consideration given to increasing access to low-income subscribers and subscribers in underserved communities; or

  (5) designed to contribute to the reduction of air pollution, including greenhouse gases.

- **C.** The commission will consider approving sharing of interconnection costs with non-subscribing ratepayers only to the extent that the costs borne by such ratepayers are matched or exceeded by demonstrable benefits to such ratepayers, so that there will be no subsidization of interconnection costs by non-subscribing ratepayers.in appropriate cases.

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Next Steps:

The NMPRC expects to issue a Notice of Proposed Rulemaking for Community Solar revisions before the end of the year.

A Special Meeting/Workshop has been scheduled for November 6 to review all the proposed changes, including Section 13.

After that, a formal NOPR process commences for early 2026.

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Thank You!