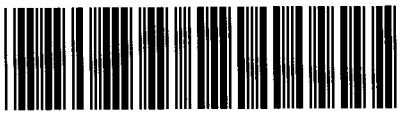

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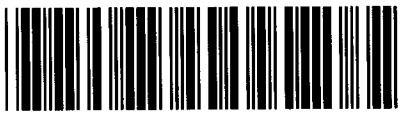

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APPLICATION OF THE CITY OF GARLAND TO AMEND A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR THE RUSK TO PANOLA DOUBLE-CIRCUIT 345-KV TRANSMISSION LINE IN RUSK AND PANOLA COUNTIES	**§**

BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

TEXAS COMPETITIVE POWER ADVOCATES STATEMENT OF POSITION

Texas Competitive Power Advocates (TCPA) hereby offers this Statement of Position in lieu of testimony. This Statement of Position addresses issues of first impression for the Public Utility Commission of Texas (Commission) that are not unique to Garland's Certificate of Convenience and Necessity (CCN) application for transmission upgrades required to interconnect the proposed Southern Cross DC Tie to ERCOT. Thus, this Statement of Position is intended to address urgent threshold policy issues related to this and other new large-scale DC tie projects in ERCOT.

TCPA represents a number of market participants who fully support competition in the ERCOT competitive marketplace, including Wholesale Generators, Retail Electric Providers, and Independent Power Marketers. However, TCPA has legitimate concerns about the impact of large DC ties on the ERCOT competitive market, now and in the future. A project of the size proposed by Southern Cross introduces novel policy issues and market impacts, including the ability to significantly increase the exposure of the ERCOT market to the system deliverability and economics of neighboring electric markets. TCPA urges the Commission to be guided by the market principle: first, do no harm. TCPA is committed to preserving the success of ERCOT's competitive marketplace and views the following principles as supportive and necessary for continued success:

Generation Deliverability

DC ties are modeled as a large load on the ERCOT system when the tie is exporting power from ERCOT and as a resource to the ERCOT system when the tie is importing power into

ERCOT. The economic rationale for operating expanded DC ties is to take advantage of low system prices, primarily during the high wind output/low ERCOT load hours, and high system prices when generation capacity inside of ERCOT is scarce and power can be imported from another location into ERCOT. Physical flows associated with exporting wind from West Texas to a neighboring grid at ERCOT's eastern boundary, and importing power into ERCOT at a point that already has large amounts of generation supply, requires a careful assessment of generation deliverability for numerous system scenarios. Transmission upgrades to enable flows across the ERCOT system to a potential DC tie must be considered during the study process. Absent careful transmission planning for full export/import under a range of system conditions, the load/resource associated with a DC tie may cause congestion and elevated volatility of local prices around the DC tie. Said another way, all DC ties should be studied and assessed (economically) considering full deliverability of the DC tie to and from the ERCOT system. Absent sufficient transmission infrastructure to accommodate a new tie, ERCOT load customers and resources competing for transmission capacity could be harmed relative to the potential off-system benefit associated with the presence of a new DC tie.

Special Protection Systems (SPSs) and Remedial Action Schemes (RASs) may be viable alternatives for some of the transmission expansion that would otherwise be required to ensure exportability and deliverability to and from the proposed Southern Cross DC Tie Project. An SPS or RAS, by design, would enable higher pre-contingency flows from a facility or group of facilities by programmatically reducing, and as a backup, tripping output from the DC tie without operator direction, if a defined system contingency occurs. Currently, these special relaying systems are voluntary for potentially affected resources. Further, SPSs/RASs typically curtail a defined amount of capacity, irrespective of costs, to make sure certain post-contingency operations are within system element loading limits. Given the magnitude and complexity of these systems, it is infeasible for the Commission to design a specific SPS or RAS on its own; thus, TCPA suggests that the Commission consider directing ERCOT to develop operational mechanisms to address these issues to ensure ratepayers do not pay for more than fair and reasonable costs to maintain or improve access for existing and new resources.

Cost to Load - Inappropriate Allocation of Cost and Benefit

ERCOT has enjoyed an era of low prices, thanks largely to the abundance of wind and natural gas resources within the State of Texas. The competitive ERCOT market has responded to low gas prices by retiring uneconomic power plants, and replacing those plants with more economically efficient resource technologies. Introducing a large load addition/DC tie export could increase system prices during exports on the tie, as well as increase transmission costs to ERCOT load customers. As discussed above, in addition to the interconnection facilities for DC ties, additional transmission upgrades sufficient to support deliverability of imports and exports from the tie could be necessary, and their costs must be considered. The long-standing practice of load paying for transmission infrastructure through the "postage stamp" methodology to accommodate system upgrades associated with a resource would be equally applied to DC ties absent a change in the Commission's rules. As such, transmission projects to ensure resource deliverability over the DC tie would currently be borne by the ERCOT ratepayers. This is true even though the benefits of the DC tie will accrue, at least in part, to non-Texas customers.

Transmission rate structures may need to be adjusted to ensure equitable cost sharing of those upgrades associated with a new DC tie. The mechanism could assign system costs to the owners and/or beneficiaries (potentially including ERCOT ratepayers to reflect the system benefit) of the DC tie. TCPA has no specific recommendation for a cost allocation mechanism at this time. However, TCPA suggests that this mechanism should consider who benefits from an export and import over a DC tie and seek to equitably assign costs.

Unknown Consequences for ERCOT's Energy Only Market

ERCOT's energy-only market depends upon certain market fundamentals, including periods of scarcity pricing, to provide resource revenue levels sufficient to allow for the maintenance of existing resources as well as the cost of new resource entry. The proposed DC tie introduces ~2,100 MW of new capacity into the ERCOT marketplace. Additionally, the neighboring grid sourcing the DC tie for ERCOT imports is situated in the SERC Region, which has a very different market design than ERCOT, including that it is dominated by large, vertically integrated, regulated utilities. Given the substantial difference between ERCOT's potential scarcity prices and the prices available in other organized wholesale markets, DC tie imports into

ERCOT have the potential to receive much higher real-time prices than available in the exporting market when conditions in ERCOT are tight. As a result, ERCOT would likely be the premium market for coincident extreme demand across neighboring grids. This would likely be a short-term win for ERCOT customers, where real-time scarcity events would be indefinitely extinguished by imports over new large DC ties.

TCPA suggests that there could be possible negative long-term unintended consequences of large DC ties on resource adequacy, which could include limited generation development in ERCOT. For example, absent the scarcity events that the ERCOT energy-only market depends upon, a developer would be better suited to develop in neighboring markets, potentially receiving capacity payments in these other markets, and wheeling power into ERCOT only under rare scarcity pricing conditions. This set of price dynamics would effectively undo the scarcity pricing mechanism by encouraging regulatory arbitrage, which is unfair to ERCOT resources and ultimately unsustainable.

Unintended Consequences of the Addition of Uncontrollable Resources

DC tie scheduled flows can be more rigid in nature than conventional resources' output. That is to say, DC tie schedules all flow, and absent emergency conditions or reliability issues (when ERCOT can curtail DC tie schedules), they represent a large price-taking block of uncontrollable power production that cannot be dispatched by Security Constrained Economic Dispatch (SCED). The ERCOT region already has a large amount of uncontrollable resources in the form of intermittent renewables, and the addition of more large uncontrollable resources means that the remainder of the resources that are flexible will be leaned upon for system stability. As a balancing authority, ERCOT must have access to a sufficient amount of controllable resources to maintain stability and system frequency at all times, and a large mismatch of controllable resources in SCED versus those resources not in SCED would appear to pose difficulties when the system is in a dynamic state during real-time market conditions.

Impact on Ancillary Services

DC ties of the size being proposed by the Southern Cross DC Tie Project will also represent a new consideration when determining ancillary service requirements based on the size of the

largest single credible contingency. A 2,100 MW DC tie would significantly eclipse the largest single credible contingency that the ERCOT region must be able to respond to under NERC's BAL-002 reliability standard, which is currently set at 1,375 MW. The instantaneous loss of a DC tie should be reflected in the requirement for ERCOT's Contingency Reserves (RRS) and naturally followed by higher ancillary service costs to ERCOT load customers. Due to the large impact on ERCOT's ancillary service needs, TCPA believes that it may also be prudent to consider shared cost allocation with the owners and/or beneficiaries of large new DC ties.

Conclusion

TCPA strongly encourages the Commission to take into consideration the important threshold policy issues related to new large-scale DC tie projects in ERCOT discussed above, including how new large DC ties may interact with the resource adequacy mechanisms currently in place in the competitive, energy-only ERCOT market.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of this document was served on all parties of record on April 27, 2016 by hand delivery, first-class U.S. mail, facsimile, or e-mail.

Lindsey Hughes, Executive Director, TCPA