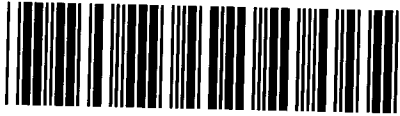


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PUBLIC UTILITY COMMISSION
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APPLICATION OF THE CITY OF GARLAND TO AMEND A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR THE RUSK TO PANOLA DOUBLE-CIRCUIT 345-KV TRANSMISSION LINE IN RUSK AND PANOLA COUNTIES	§ § § § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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**COMMISSION STAFF'S STATEMENT OF POSITION
PUBLIC REDACTED VERSION**

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files this Statement of Position pursuant to 16 Tex. Admin. Code § 22.124. In support thereof, Staff shows the following:

I. INTRODUCTION

On February 25, 2016, the City of Garland (Garland) filed an application to amend its certificate of convenience and necessity for the Rusk to Panola double-circuit 345-kV transmission line in Rusk and Panola Counties (Garland Project). The proposed Garland Project will interconnect a new Rusk Switching Station (Rusk Substation) in Rusk County to a new Panola Switching Station (Panola Substation) in Panola County at the Texas-Louisiana border. The new Rusk Substation, which is to be constructed and owned by Oncor, will interconnect with Electric Reliability Council of Texas, Inc. (ERCOT) transmission system and the new Panola Substation will interconnect to a new high-voltage direct current converter station to be owned by Southern Cross Transmission LLC (Southern Cross) located across the border in Louisiana (Southern Cross DC Tie). The Southern Cross DC Tie will interconnect on the Louisiana side to a 400-mile transmission line that terminates at a yet to be determined end point in the South Eastern Reliability Council (SERC) transmission system (Southern Cross Line).

According to Southern Cross, the Southern Cross DC Tie will accept approximately 2,100 MW in either direction, and after losses, deliver 2,000 MW in either direction.¹ The Southern Cross DC Tie will be privately funded and operated as a merchant transmission line subject to Federal Energy Regulatory Commission (FERC) regulation. The interconnection of a privately funded DC tie that can import 2000 MW to or export 2000 MW from the ERCOT transmission system presents significant reliability and operational challenges that must be addressed prior to the Garland Project being energized.

Currently, there are five DC ties that interconnect ERCOT to neighboring regions, the largest of which is 600 MW. ERCOT's Protocols have successfully managed these smaller DC ties. But it is clear from testimony filed in this docket that the current ERCOT Protocols and operations were not developed to process a DC tie of this magnitude and must be revised to address the novel reliability and policy challenges presented by the proposed Southern Cross DC Tie. Therefore, Staff recommends several conditions to ensure that reliability in ERCOT will not be negatively affected by the interconnection of the Southern Cross DC Tie and that Texas ratepayers will not be forced to subsidize the cost of new facilities and changes to the ERCOT system that are needed solely to accommodate the Southern Cross DC Tie.

II. LEGAL AUTHORITY

Garland filed its application under the Public Regulatory Act, Tex. Util. Code Ann. §§ 37.051(c-1), (c-2), (g) and (i) (West 2007 & Supp. 2015) (PURA). Subsections (c-1) and (g) require a CCN for a facility that enables power to be imported into or exported out of the ERCOT transmission system and a municipally-owned transmission facility located outside the boundaries of the municipality. However, subsections (c-2) and (i) direct the Commission, not later than the 185th day after the application is filed, to approve an application under (c-1) or (g) for a facility that is to be constructed under an offer of settlement approved in a final FERC order that directs physical connection between the ERCOT and SERC regions. The subsections specifically reference FERC Docket No. TX11-01-001. The Garland Project and Southern Cross DC Tie are the subject of the FERC order referenced in 37.051(c-2) and (i) of PURA.

¹ Direct Testimony of David Parquet, Southern Cross at 3:20-23 (Parquet Direct).

Although subsections 37.051(c-2) and (i) of PURA require the Commission to approve the CCN application, the subsections preserve the Commission's authority to prescribe reasonable conditions to protect the public interest that are consistent with the FERC order. Further, nothing in the subsections alter the Commission authority under PURA to maintain reliability and protect Texas ratepayers.² The conditions recommended herein also are consistent with the FERC order. Therefore, the Commission has the authority to require that certain specific conditions be met prior to the build-out of the Garland Project. Any approval of the Garland Project should first have to meet the conditions recommended herein and in Staff's prefiled testimony.³ Staff also reserves the right to further develop its positions on the issues discussed below, or additional issues that arise as the evidentiary record is further developed.

III. STAFF'S RECOMMENDED CONDITIONS

In the Preliminary Order, the Commission identified a number of technical and policy issues related to the interconnection of the Southern Cross DC Tie to the ERCOT transmission system.⁴ Staff agrees with ERCOT that the ERCOT-related issues set out in the Preliminary Order are highly technical in nature and may be difficult to address in a contested case relating to a specific DC tie.⁵ ERCOT also points out that many of these issues would benefit from additional studies that cannot be completed in the 185 days required by PURA.⁶ However, given that many of these issues relate to reliability of the ERCOT transmission system, Staff recommends that the Commission ensure that these issues are addressed before the Garland Project is energized by conditioning approval of the CCN application on their resolution. Staff therefore recommends that a compliance docket be opened so that the Commission can confirm when and how these conditions are being met.

² PURA §§ 14.001, 31.001, 36.001, 36.003, 38.001, & 38.002.

³ Direct Testimony of Kevin Mathis, Staff at 12:4-14:10, 29:1:8.

⁴ Preliminary Order at 2-4. These issues are also the subject of two open projects at the Commission. *See* ERCOT Planning and System Costs Associated with Renewable Resources and New Large DC Ties, Project No. 42647; Rulemaking Regarding DC Ties Pursuant to SB 933, Municipally-Owned Utilities Pursuant to SB 776, and Non-ERCOT Utilities Pursuant to HB 1535 of the 84th Legislature (R.S.); Competitive Renewable Energy Zones, Project No. 45124.

⁵ ERCOT Statement of Position at 2.

⁶ *Id.*

Staff also recommends that the Commission put protections in place to ensure that Texas ratepayers do not subsidize Southern Cross's project,⁷ a project from which Texas ratepayers may receive few, if any, benefits. Southern Cross claims that its project offers production cost and consumer energy benefits.⁸ Southern Cross attempts to support its assertion with a study that it argues demonstrates the benefits of the Southern Cross DC Tie to ERCOT ratepayers.⁹ But Southern Cross's claims that there are benefits is at best theoretical given that Southern Cross does not know where the Southern Cross Line will interconnect on the eastern end.¹⁰ As TIEC Witness Charles Griffey points out, it is "impossible to meaningfully estimate the value of this additional source of supply" without know the end point.¹¹ According to TIEC Witness Griffey, Southern Cross's study also shows that imports over the Southern Cross DC Tie are *de minimis* reducing the significance of the claimed benefits.¹²

Finally, Southern Cross did not factor in the potential costs to ERCOT ratepayers in the form of funding additional studies and modifications to ERCOT's systems. Under the current ERCOT protocols and rules, ERCOT ratepayers will be saddled with these costs, which may be significant.¹³ Again, the full extent of the costs cannot be known because they require additional study and discussion at ERCOT.¹⁴

If Texas ratepayers will not benefit from the Southern Cross DC Tie, they should not be required to pay for the costs of interconnecting it to the ERCOT transmission system. As discussed in the following section, these costs include ERCOT studies required to identify changes ERCOT must make to its system as well as the costs of operating and maintaining the Garland Project and constructing the new Rusk Substation.

⁷ Southern Cross project includes the Southern Cross DC Tie as well as the Garland Project and the Rusk Substation.

⁸ Parquet Direct at 12:16-21; Direct Testimony of Ellen Wolfe, Southern Cross at 4-5 (Wolfe Direct).

⁹ Wolfe Direct at 4-5.

¹⁰ See, e.g. Wolfe Direct at 4:7 (referring to the endpoints of the Southern Cross DC Tie as the Rusk Substation and "the Mississippi/Alabama 500-kV system"). See also Southern Cross Response to TIEC's Motion to Compel on TIEC RFI 1-15.

¹¹ Direct Testimony of Charles S. Griffey, TIEC at 10:14-16 (Griffey Direct).

¹² *Id.* at 10.

¹³ See ERCOT Response to Staff RFIs 2-1 through 2-3 and 2-5 through 2-8.

¹⁴ See ERCOT Response to Staff RFIs 2-2, 2-3 and 2-5 through 2-8.

A. Staff's Recommended Conditions to Address the ERCOT Issues

1. Southern Cross must execute the Market Participant Agreement.

All parties agree that it is necessary for Southern Cross to execute the Market Participant Agreement because, among other benefits, it will legally bind Southern Cross to comply with the ERCOT Protocols.¹⁵ Parties disagree, however, about what type of market participant Southern Cross should be, and whether a new type of market participant should be created for Southern Cross.¹⁶ Southern Cross Witness Mark Bruce argues that the Commission should decide this issue in this docket. But ERCOT Witness Ted Hailu notes that, in order to determine the appropriate market participant category for Southern Cross, ERCOT needs to know how Southern Cross will be categorized under the NERC functional registration model and whether Southern Cross will operate similar to other DC ties.¹⁷

Staff recommends that the Commission require that this issue be addressed through the ERCOT stakeholder process, and require that Southern Cross have executed the market participant agreement before the Garland Project is energized.¹⁸ While Staff takes no position at this time on what type of market participant Southern Cross should register as, depending on the category, ERCOT may need to make extensive changes to its software and system to accommodate Southern Cross.¹⁹ Because these changes are necessitated by Southern Cross's proposed interconnection, Staff also recommends that the Commission include a condition that Southern Cross be required to pay ERCOT for any costs associated with the changes.²⁰

2. ERCOT must execute a coordination agreement with any Regional Transmission Organization, Independent System Operator, or Balancing Authority on the eastern end of the Southern Cross DC Tie.

¹⁵ Supplemental Direct Testimony of Mark Bruce, Southern Cross at 5 (Bruce Supp. Direct); Direct Testimony of Ted Hailu, ERCOT at 4 (Hailu Direct); Direct Testimony of Amanda J. Frazier, Luminant at 5-6; Griffey Direct at 29.

¹⁶ *See id.*

¹⁷ Hailu Direct at 5.

¹⁸ Southern Cross has stated that it would agree to this condition. Rebuttal Testimony of David Parquet, Southern Cross at 5 (Parquet Rebuttal).

¹⁹ Hailu Direct at 6-7, 9. For instance, creating a new type of market participant likely would cost more than \$100,000. *Id.*

²⁰ Currently, such costs would be paid from ERCOT's annual budget, which is funded through the system administration fee. ERCOT Response to Staff RFI 2-1.

ERCOT states that it will likely need a coordination agreement with the ISO, RTO, or BA for the corresponding system on the eastern end of the tie.²¹ According to ERCOT, the coordination agreement should address issues such as emergency coordination, inadvertent energy transfers, and compensation for any emergency imports or exports.²² Southern Cross contends that, even if ERCOT is unable to execute a satisfactory agreement with the other ISO, RTO, or BA, ERCOT possesses unilateral authority to ensure reliability.²³ Southern Cross Witness Mark Bruce notes, for instance, that ERCOT can disapprove e-Tag requests.²⁴ But ERCOT may not have sufficient time to evaluate whether an e-Tag request can be accommodated, leaving open the door to reliability issues.²⁵ Therefore, it is necessary for coordination issues to be decided and agreed upon before the Southern Cross DC Tie is interconnected with the ERCOT transmission system.

As a condition to approval, Staff recommends that ERCOT and any ISO, RTO, or BA for the corresponding system on the eastern end of the tie have executed a coordination agreement prior to the Garland Project being energized.²⁶ Staff further recommends that the Commission include a condition that Southern Cross pay ERCOT for the costs of negotiating the coordinating agreement.

3. ERCOT be required to study price formation issues during emergencies when ERCOT takes out-of-market actions to import or export power over the Southern Cross DC Tie.

While the coordination agreement will govern compensation for emergency imports or exports between ERCOT and the ISO, RTO, or BA on the eastern end of the tie, there remains a question of price formation in the ERCOT market during these periods. In emergency situations, ERCOT may take out-of-market reliability actions to import power over the Southern Cross DC Tie, or export power over the Southern Cross DC Tie to assist a neighboring region.²⁷ Such

²¹ ERCOT Statement of Position at 5.

²² *Id.*

²³ Bruce Supp. Direct at 15-16. *See also* Southern Cross Response to TIEC RFI 2-41.

²⁴ *Id.* at 16.

²⁵ Direct Testimony of Dan Woodfin, ERCOT at 12 (Woodfin Direct).

²⁶ Southern Cross has stated that it would agree to this condition. Parquet Rebuttal at 4.

²⁷ Direct Testimony of Dr. Shams Siddiqi, Luminant at 6-10 (Siddiqi Direct).

actions will impact pricing in the ERCOT market by either lowering the price when power is imported or increasing the price when exporting. Because ERCOT is taking the action out-of-market and thereby affecting the interaction of supply and demand, ERCOT's actions may move prices away from the competitive level. Staff recommends that the Commission require ERCOT to study this issue to determine whether any changes to pricing within the ERCOT market during emergencies is necessary prior to the Garland Project being energized.

4. ERCOT be required to study whether changes should be made to planning assumptions/criteria to identify transmission upgrades that may address congestion related to power flows over the Southern Cross DC Tie in a cost-effective manner..

Staff agrees with parties that argue that ERCOT may need to adjust its planning assumptions and criteria for DC ties to ensure that ERCOT identifies needed transmission upgrades.²⁸ ERCOT's current reliability and economic planning studies model DC ties using assumptions based on historical usage of each of the DC ties but there may other ways to model DC ties that more accurately capture the actual power flows across DC ties. While this has not been a significant issue with the smaller DC ties, it could become a major issue if Southern Cross begins importing or exporting large amounts of power. For instance, ERCOT's economic studies could fail to identify transmission upgrades that could relieve congestion caused by exports over the Southern Cross DC Tie. Therefore, Staff recommends that the Commission require ERCOT to study whether changes should be made to planning assumptions or criteria to identify transmission upgrades that may address congestion related to power flows over the Southern Cross DC Tie in a cost-effective manner prior to the Garland Project being energized.

5. Staff be required to open a project to consider whether changes should be made to the cost allocation method for transmission upgrades built to facilitate imports/exports over the Southern Cross DC Tie.

To date, ERCOT has not identified any transmission upgrades needed in ERCOT to accommodate the Southern Cross DC Tie.²⁹ However, if future upgrades are identified that are only necessary to accommodate the Southern Cross DC Tie, then it may be appropriate for Southern Cross to pay for the necessary transmission upgrade. While this would be a departure

²⁸ See Direct Testimony of Warren Lasher, ERCOT at 9:20-10:6; Texas Competitive Power Advocates Statement of Position at 1-2. See also Bruce Supp. Direct at 11:10-22 (noting that there could be modifications to ERCOT's current assumptions that could lead to better modeling).

²⁹ ERCOT Response to Staff RFI 1-3.

from postage-stamp cost allocation currently applicable to reliability and economic transmission upgrades, requiring Southern Cross to pay for upgrades specifically identified as necessary because of the Southern Cross DC Tie would be consistent with the principle that the entity causing the cost, pay the cost. Staff recommends that the Commission direct Staff to consider in a project whether changes should be made to the cost allocation method for transmission upgrades built to facilitate imports/exports over the Southern Cross DC Tie.³⁰

6. Require ERCOT to study ways to manage congestion caused by imports and exports over the Southern Cross DC Tie and then, to the extent necessary, implement a plan to address congestion in a cost-effective manner before the Garland Project is energized.

The addition of 2000 MW on the ERCOT transmission system through the Southern Cross DC Tie raises the possibility that there will be a significant increase in congestion when the tie is importing power.³¹ ERCOT Witness Dan Woodfin discusses ways to manage the congestion, including modifying ERCOT's Security Constrained Economic Dispatch system (SCED) to include DC tie transfers or implementing a congestion management plan.³² Staff agrees with ERCOT and Southern Cross that this issue is better resolved through the ERCOT stakeholder process.³³ Therefore, Staff recommends that the Commission require ERCOT to study ways to manage congestion caused by imports over the Southern Cross DC Tie and then, to the extent necessary, implement a plan to address congestion in cost-effective manner before the Garland Project is energized. Staff further recommends that the Commission include a condition that Southern Cross be required to pay ERCOT for the study, and to the extent necessary, implementing a plan to address congestion.³⁴

7. Require that ERCOT develop new tools and processes to evaluate whether ERCOT can accommodate an e-Tag request by the proposed Southern Cross DC Tie and,

³⁰ Staff notes that this is a general issue in an open project, ERCOT Planning and System Costs Associated with Renewable Resources and New Large DC Ties, Project No. 42647.

³¹ Woodfin Direct at 8:19-9:6; Siddiqi Direct at 10-14.

³² Woodfin Direct at 9:8-10:1. Southern Cross Witness Mark Bruce also suggests that there may be ways to approximate economic dispatch. See Bruce Supp. Direct at 13:20-22.

³³ Woodfin Direct at 10:2-3; Bruce Supp. Direct at 13:20-14:7.

³⁴ Currently, amending the ERCOT protocols and subsequent system changes to modify SCED or create a CMP for the Southern Cross DC Tie would be paid from ERCOT's annual budget, which is funded through the system administration feed approved by the Commission. ERCOT Response to Staff RFIs 2-2 and 2-3.

if necessary, establish new ramp restrictions for the Southern Cross DC Tie before the Garland Project is energized.

ERCOT Witness Dan Woodfin explains that the Southern Cross DC Tie presents a significant challenge to the ramp capability of the ERCOT transmission system.³⁵ If the Southern Cross DC Tie were to ramp from zero transfer in one hour to 2100 MW export in the next, then the other generation on the ERCOT transmission system must increase by 2100 MW within 10 minutes.³⁶ This would exceed the ramping capability of the ERCOT transmission system and likely require immediate operator actions.³⁷ ERCOT could deny the e-Tag request, but NERC standards allow Southern Cross to provide as little as fifteen minutes notice of its intent to import or export. This leaves ERCOT little time to evaluate whether the schedule can be accommodated, and not enough time to dispatch generation to accommodate such a drastic change to the system.³⁸ ERCOT Witness Dan Woodfin explains that ERCOT would need to implement additional tools and processes to ensure sufficient review can occur within the necessary time frame.³⁹

Southern Cross acknowledges that there may need to be some ramp limitation placed on the Southern Cross DC Tie, and that it is in an issue that will involve coordination with the RTO, ISO, or BA on the other end of the Southern Cross DC Tie.⁴⁰ However, at the present, there is no agreement with any RTO, ISO or BA.

Staff recommends that this issue be addressed through the ERCOT stakeholder process and through the negotiation of a coordination agreement with the RTO, ISO, or BA on the other end of the Southern Cross DC Tie. To that end, Staff recommends that the Commission condition approval of the application on ERCOT having resolved this issue prior to the Garland Project being energized. Staff further recommends that the Commission require Southern Cross

³⁵ Woodfin Direct at 12:2-8.

³⁶ *Id.* at 12:1-4.

³⁷ *Id.* at 12:4-6.

³⁸ *Id.* at 9-14.

³⁹ *Id.* at 12:14-16; *see also* ERCOT Response to Staff RFI 2-5 (describing the type of tool and revisions to ERCOT's procedures).

⁴⁰ Bruce Supp. Direct at 14:12-20.

to pay ERCOT for any studies and new tools required to determine the appropriate ramp limitations.⁴¹

8. Require ERCOT to study and implement any new systems or tools necessary to coordinate outages before the Garland Project is energized.

ERCOT Witness Dan Woodfin testified that incorporating the Southern Cross DC tie into outage coordination will require ERCOT “to substantially expand its analytical capabilities.”⁴² ERCOT also explains that the extent and cost of the changes depend on the resolution of certain policy issues that would benefit from stakeholder discussion.⁴³ While Southern Cross Witness Mark Bruce argues that DC flows should be predictable because they should adhere to market principles, he concedes that “additional DC [t]ies do increase the complexity of outage coordination” and that the issue should be addressed through the ERCOT stakeholder process.⁴⁴ Staff agrees with Mr. Bruce and ERCOT that ERCOT should address this additional complexity through the ERCOT stakeholder process. Therefore, Staff recommends that the Commission condition approval of the application on ERCOT having studied and, to the extent necessary, implemented any new systems or tools necessary to coordinate outages before the Garland Project is energized. Staff further recommends that the Commission require Southern Cross pay ERCOT for the cost of any studies or tools necessary to address the additional complexity of coordinating outages after the interconnection of the Southern Cross DC Tie.

9. Southern Cross should be required to supply Primary Frequency Response and reactive power to the ERCOT transmission system.

Southern Cross Witness Mark Bruce argues that Southern Cross should not be required to provide Primary Frequency Response or reactive power because the Southern Cross DC Tie is not a generator.⁴⁵ While technically true, when the Southern Cross DC Tie is importing, it may displace generation on the ERCOT transmission system that provides Primary Frequency

⁴¹ Currently, the cost of implementing additional tools and processes to evaluate Southern Cross’s request to import or export power would be paid from ERCOT’s annual budget, which is funded through the system administration fee. ERCOT Response to Staff RFI 2-5.

⁴² Woodfin Direct at 14.

⁴³ ERCOT Response to Staff RFI 2-6.

⁴⁴ Bruce Supp. Direct at 15.

⁴⁵ *Id.* at 16:16-19.

Response and Voltage Support Service.⁴⁶ This would have reliability implications and ERCOT would need to take steps to secure Primary Frequency Response from other generators.⁴⁷ Southern Cross Witness Stan Gray notes that it is better to define in the early stages of the design process what capabilities the Southern Cross DC Tie should or must have because it is expensive to make changes later.⁴⁸ Staff agrees. As a condition to approval, Staff recommends that the Commission require ERCOT to study whether and how Southern Cross should provide Primary Frequency Response and reactive power to the ERCOT transmission system in advance of the Garland Project being energized. As further condition, Southern Cross should pay for the study.

11. Require Staff to study whether changes to the cost allocation method for ancillary services is necessary.

As explained by ERCOT Witness Dan Woodfin, NERC standards require ERCOT to maintain sufficient contingency reserve to cover the loss of the most severe single contingency (MSSC).⁴⁹ ERCOT's current MSSC is 1375 MW, which represents the loss of a nuclear unit at the South Texas Project.⁵⁰ The Southern Cross DC Tie will have the ability to import and export up to 2000 MW, and thus 2000 MW will become the MSSC.⁵¹ Southern Cross Witness Mark Bruce attempts to downplay this change by insisting that the Southern Cross DC Tie will rarely import more than 1375 MW.⁵² But the NERC standards require planning as though it will, and thus ERCOT will be required to obtain additional ancillary services to cover the potential loss.⁵³

The current rules require load to bear the cost of ancillary services, and thus, Southern Cross would not be required to pay for the incremental cost of procuring additional ancillary service. Under a cost causation analysis, however, it may be appropriate for Southern Cross to bear at least some of the incremental cost of procuring ancillary services as it is driving the need. Staff takes no position at this time on whether Southern Cross should be required to pay for the

⁴⁶ See Woodfin Direct at 16:16-19.

⁴⁷ *Id.*

⁴⁸ Rebuttal Testimony of Stan Gray, Southern Cross at 9:9-13.

⁴⁹ Woodfin Direct at 17:1-14 (citing NERC Standard BAL-002-1 R3 (Disturbance Control Performance)).

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Bruce Supp. Direct at 18:5-9.

⁵³ NERC Standard BAL-002-1 R3 (Disturbance Control Performance).

incremental amount of ancillary services that will be required if the Southern Cross DC Tie is interconnected to the ERCOT transmission system.⁵⁴ However, Staff recommends that the Commission direct Staff to open a project to consider whether there should be changes to the rules.

B. Staff's Other Recommended Conditions

1. No costs related to the Rusk Substation or the Garland Project shall be allowed in a Transmission Cost of Service under any circumstances.

Garland and Rusk Interconnection LLC (Rusk), a Southern Cross affiliate, entered into a Transmission Line Agreement that set out Southern Cross's responsibility for funding the construction of the Garland Project and its subsequent operations. The Transmission Line Agreement requires Rusk to design and construct the Garland Project and, after it is complete, to convey it to Garland for \$1 and the assumption by Garland of certain liabilities associated with the Project. The Transmission Line Agreement also provides that Rusk will pay Garland certain fees and reimburse Garland for reasonable and necessary operation, maintenance, and decommissioning expenses. But there are costs that Rusk is not required to pay, and there is the possibility that Rusk would default on its obligation. Garland has so far declined to commit to not seek those costs in Transmission Cost of Service (TCOS).⁵⁵

Under the agreement between Oncor and Southern Cross, Oncor will construct, own, and operate the Rusk Substation. Oncor plans to include these costs in Oncor's TCOS. If Oncor is unsuccessful, then Southern Cross will reimburse Oncor.

Staff recommends that the Commission decide now that neither Garland nor Oncor should be permitted to include these costs in TCOS. As explained above, there has been no showing that ERCOT ratepayers will benefit from the addition of a large DC tie to the ERCOT transmission system. Instead, Staff and other parties have identified several challenges and potential negative consequences of interconnecting such a large DC tie. Texas ratepayers should not be required to both bear the risk of the Southern Cross DC Tie negatively affecting the reliability of the ERCOT transmission system and at the same time pay for facilities and the

⁵⁴ Staff reserves the right at hearing or in briefing to take a position on this issue.

⁵⁵ Garland Response to TIEC 2-1 and 2-2.

operation of the facilities that are only necessary to interconnect a privately-owned DC tie to the ERCOT transmission system.

2. Rusk should be permitted to condemn land and begin construction on the Garland Project only after the Southern Cross DC Tie meets certain milestones.

Southern Cross acknowledges that it will be several years before the Southern Cross DC Tie is complete.⁵⁶ Southern Cross has not secured funding for the full estimated cost of the Southern Cross DC Tie⁵⁷ and [HSPM] [REDACTED] [HSPM].⁵⁸ But the estimated schedule for the Garland Project would have right-of-way and land acquisition completed by April 2018.⁵⁹ The Garland Project is only necessary to interconnect the Southern Cross DC Tie. As such, it would be premature for Rusk to condemn land or begin construction on the Garland Project until it is highly certain that the Southern Cross DC Tie will be completed. Otherwise, landowners may be burdened with an easement that serves no purpose and a line that leads to nowhere. Staff recommends that the Commission condition approval on Garland filing evidence that Southern Cross: (1) has obtained all necessary regulatory approvals in the states where the Southern Cross DC Tie is to be built; (2) Southern Cross has secured funding for the full cost of both the Southern Cross DC Tie, Southern Cross Line, and Garland Project; and (3) at least 75% of the Southern Cross DC Tie has been constructed.

IV. CONCLUSION

There are several reliability and operational challenges that must be addressed before the Garland Project is energized. The Commission has the authority to condition approval of the application on the conditions recommended herein. Given that the Southern Cross DC Tie is years from operation, there should be sufficient time for these issues to be decided and reviewed by the Commission in a separate compliance docket. Staff also respectfully recommends that the Commission decide now that Southern Cross and Garland not be permitted to shift costs to Texas ratepayers while offering few, if any, benefits to Texas ratepayers. Staff will continue to

⁵⁶ See Bruce Supp. Direct at 13:20-14:1.

⁵⁷ Southern Cross Response to Staff RFI 1-9; *see also* Southern Cross Response to TIEC RFI 2-42 (stating that Southern Cross anticipates closing on the construction financing of the Southern Cross DC Tie by the end of 2017).

⁵⁸ Southern Cross Response to Staff RFI 2-2.

⁵⁹ Direct Testimony of Chris McCall, Southern Cross at 5:8.

evaluate the evidence presented. Therefore, Staff reserves the right to further develop its position on these issues or additional issues during or after the hearing.

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
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**SOAH DOCKET NO. 473-16-2751
PUC DOCKET NO. 45624**

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on May 25, 2016, in accordance with 16 TAC § 22.74.


Christina R. Switzer