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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**

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**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**

PUBLIC UTILITY COMMISSION
HEARINGS CLERK

REDACTED

**TEXAS INDUSTRIAL ENERGY CONSUMERS'
REPLY BRIEF**

June 17, 2016

Phillip Oldham
State Bar No. 00794392
Katie Coleman
State Bar No. 24059596
Michael McMillin
State Bar No. 24088034
98 San Jacinto Blvd., Suite 1900
Austin, Texas 78701
(512) 469.6100
(512) 469.6180 (fax)

**ATTORNEYS FOR TEXAS INDUSTRIAL
ENERGY CONSUMERS**

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TEXAS INDUSTRIAL ENERGY CONSUMERS' REPLY BRIEF

I. INTRODUCTION

The conditions recommended in Texas Industrial Energy Consumers' (TIEC's) initial brief,¹ and as further supplemented below, seek to ensure that the Commission and ERCOT have full authority to regulate the operations of the Southern Cross DC tie (the "SCT Tie"). This is necessary to ensure that interconnecting the SCT Tie does not compromise reliability in ERCOT or the PUC's exclusive jurisdiction. TIEC's conditions also seek to prevent the City of Garland (Garland) and Southern Cross Transmission LLC (SCT) from burdening ERCOT customers with costs required to support exports from ERCOT to other power pools over the SCT Tie. These transactions do not benefit ERCOT customers, who should not be asked to bear any incremental costs associated with these export transactions, including incremental transmission and ancillary service costs. SCT claims that the SCT Tie will provide benefits to customers that justify socializing the incremental costs required to support it, but as discussed in TIEC's initial brief and below, SCT's study is fundamentally flawed and misrepresents the financial impact that the SCT Tie will have on consumers. While the Commission cannot reject the Garland's request for a CCN in this proceeding, it must identify and impose any conditions necessary to align the proposed interconnection with public interest.² TIEC's recommended conditions promote that objective.

In addition to the conditions proposed in its initial brief, TIEC does not oppose ERCOT studying the need for a Congestion Management Plan (CMP) or Special Protection System (SPS)

¹ See TIEC Initial Br. at 26-27.

² See PURA § 37.051(c-2).

under the existing process, as several parties have recommended. SPSs and CMPs can provide benefits for ERCOT customers by allowing more robust use of the existing transmission infrastructure, which is paid for entirely by consumers. However, ERCOT's current process for considering an SPS or CMP is sufficient and suitable for considering ways to alleviate congestion around the SCT Tie. The Commission should not imply that the SCT Tie will be subject to any special process for evaluating a potential SPS or CMP, and should also be careful to ensure that any recommendation for ERCOT to study these mechanisms is not misconstrued as endorsing proposals to back down imports over the SCT Tie in favor of ERCOT generators without considering economics—i.e., which power is cheaper for customers. TIEC (and SCT) oppose an SPS or CMP that would give dispatch priority for existing generators in ERCOT over DC tie imports regardless of cost. This will not produce the most economic price for customers, and is not in the public interest because potential savings when the SCT Tie is importing and displaces higher-cost units in ERCOT are the only potential source of benefits to consumers.

The Commission should also reject proposals to artificially increase prices for ERCOT customers to protect ERCOT generators from potential price reductions driven by competition from generators selling into ERCOT over the SCT Tie. Luminant Generation Company LLC (Luminant) and Texas Competitive Power Advocates (TCPA) are seeking various conditions that would protect them from the financial impacts of competition from imports over the SCT Tie, while exposing Texas customers to price increases when generators in ERCOT export power to serve customers in other regions.³ The financial interests of ERCOT generators are not the “public” interest, and the impact of such one-sided proposals on customers must be considered. The Commission should reject these proposals as against the public interest because they would deprive ERCOT ratepayers of the one, very limited benefit of the SCT Tie: potential price reductions when imports are cheaper than local generation, or when there is not available generation in ERCOT.⁴ At the very least, if the Commission intends to increase prices for generators when the SCT Tie is importing, it should adopt a symmetrical adjustment to compensate load when the SCT Tie *increases* prices by exporting. Any other outcome would be unduly preferential to generation and against the public interest.

³ See Section III, *infra*.

⁴ As TIEC has explained, such reductions are minimal at best. See TIEC Initial Br. at 18 n.94. Nevertheless, they are the only *real* benefits that ERCOT ratepayers can expect to see from the SCT Tie.

II. THE COMMISSION SHOULD ADOPT THE CONDITIONS RECOMMENDED BY TIEC TO ENSURE THAT THE SCT TIE INTERCONNECTION IS IN THE PUBLIC INTEREST

A. ERCOT customers should not be required to pay any incremental ancillary service or transmission costs to support exports over the SCT Tie. (Preliminary Order Issue 4.c and 4.i)

As discussed in TIEC's initial brief,⁵ SCT and Garland are attempting to saddle ERCOT customers with the cost of certain facilities they intend to construct to support the SCT Tie, as well as any incremental ancillary service and transmission costs required to support exports over those facilities.⁶ SCT premises this argument on purported benefits that the SCT Tie will provide to ERCOT customers, contending that these benefits support applying the same cost allocation policies to both native ERCOT load and exports over the SCT Tie. However, the alleged net benefits of the SCT Tie are purely an illusion created by unreasonable modeling practices. More fundamentally, SCT admits that the tie will be exporting the vast majority of the time.⁷ Forcing ERCOT customers to subsidize facilities and services that are only necessary to export power to other regions is contrary to PURA and sound cost allocation principles.

It is important to remember that SCT has the burden to prove that this interconnection will provide benefits to ERCOT customers sufficient to avoid the need for direct cost assignment as proposed by TIEC, Commission Staff, and others. Yet, SCT cannot even tell the Commission where the tie will terminate in the Eastern Interconnect, which is critical to evaluating the potential economics of import/export activity.⁸ Nor was SCT able to provide any of the data underlying its calculation of the purported price savings to customers from SCT Tie imports.⁹ Ultimately, SCT has not proven that the tie will benefit ERCOT customers, and the conditions recommended by TIEC and others to require SCT (and entities transacting over the tie) to bear the incremental costs of facilitating exports is necessary to protect the public interest.

⁵ See TIEC Initial Br. at 6-9.

⁶ See, e.g., SCT Initial Br. at 11-14.

⁷ See SCT Initial Br. at 28 ("QSEs will likely export over the [SCT Tie] many more hours each year than they will import.").

⁸ Direct Testimony of Charles Griffey (Griffey Dir.), TIEC Ex. 1 at 18:1-7.

⁹ See SOAH Order No. 5 at 2-3; TIEC Ex. 1 (Griffey Dir.) at 18:11-17.

1. *All incremental transmission and ancillary service cost increases to support exports over the SCT Tie should be directly charged to those exports. (Preliminary Order Issue 4.i)*

SCT and Garland confuse the appropriate treatment of transmission and ancillary service costs incurred for the benefit *all customers*, including exports over DC Ties, with the appropriate allocation of costs incurred *exclusively* to support exports. Export transaction fees are designed to make ERCOT ratepayers whole when exporters use the existing ERCOT transmission system to move power from its point of generation in ERCOT to a DC tie to be exported.¹⁰ These export charges are necessary to ensure that ratepayers are not subsidizing exports by providing a free transmission grid for such “wheeling” activities.¹¹ In contrast, SCT and Garland are attempting to socialize incremental transmission and ancillary service costs that will be incurred *exclusively* to support transactions over the SCT Tie. These incremental costs do not provide benefits to all ratepayers, and should be directly assigned to the SCT Tie and those who transact over it. As discussed in TIEC’s initial brief, ERCOT’s rate design principles center around the concept that socializing costs among ERCOT ratepayers only makes sense if those costs benefit ERCOT ratepayers as a whole, and that system falls apart if ERCOT begins subsidizing private power exporters and, by proxy, loads in neighboring regions that will benefit from receiving cheap power from ERCOT.¹² Since the new facilities and services that will be needed to support the SCT Tie will only benefit private parties and load outside of ERCOT, there is no justification for forcing ERCOT ratepayers to subsidize them, and certainly no obligation to fund them under current cost allocation principles.

2. *No costs associated with the Rusk or Panola substations, the Rusk to Panola line, or any other transmission upgrades required to support the SCT Tie should be allowed in TCOS under any circumstances. (Preliminary Order Issue 4.c)*

SCT and Garland provide no new arguments or evidence to justify forcing ERCOT ratepayers to fund transmission facilities that are admittedly being built solely to serve the SCT

¹⁰ See PUC Subst. R. 25.192(e) (assessing service charges for transmission service “*within* the boundaries of the ERCOT region”) (emphasis added).

¹¹ See *id.* (basing service charges on the megawatts actually exported and the duration of the transaction).

¹² See TIEC Initial Br. at 7-8.

Tie.¹³ As discussed in TIEC's initial brief, Garland is seeking to reserve the right to include certain costs in the Transmission Cost of Service (TCOS) rates paid by all ERCOT customers if Rusk Interconnection, LLC (Rusk), fails to fund those costs. Garland goes to great lengths to emphasize that there is "little risk" that it will become responsible for costs related to the construction, operation, or decommissioning of the Rusk to Panola line or the Panola substation.¹⁴ But if there is so little risk, then Garland should have no trouble bearing that risk, especially in light of the ***[REDACTED]*** of dollars in profit that Garland stands to make simply for owning these facilities.¹⁵ The Commission should not allow Garland to shift the risk of its transaction with Rusk onto ERCOT ratepayers while retaining all the financial benefits.

Garland¹⁶ and SCT¹⁷ both argue that it is unfair to exclude the facilities from TCOS for various reasons that all amount to assertions that the facilities may one day become useful for some reason other than simply supporting exports. There is no proof that the Rusk to Panola line or the Rusk or Panola substations will ever become useful for such a purpose. At most, this argument would justify a condition where the costs associated with these facilities could only be placed into TCOS if it is shown that the facilities would have been needed independent of the SCT Tie. In that case, Garland should also have to apply the fee revenue it has received for operating the line as a credit to TCOS.

3. SCT's "benefits" analysis is flawed, unreliable, and does not support requiring ERCOT customers to subsidize the costs of transactions over the SCT Tie. (Preliminary Order Issue 4.c and 4.i)

SCT asserts that the SCT Tie will provide "hundreds of millions of dollars in benefits to ERCOT ratepayers."¹⁸ But as explained in detail in Mr. Griffey's testimony and TIEC's initial brief, those benefits are largely, if not entirely, illusory.¹⁹ One major issue is that SCT has been unable to specify where the SCT Tie will interconnect in the Southeastern Reliability Council

¹³ See, e.g., Tr. (Cline Cr.) at 21:24-22:6 (May 31, 2016).

¹⁴ See Garland Initial Br. at 8.

¹⁵ Confidential Direct Testimony of Charles Griffey (Griffey Dir., HSPM) TIEC Ex. 1A at 9:17-10:2.

¹⁶ Garland Initial Br. at 8-9.

¹⁷ SCT Initial Br. at 13.

¹⁸ SCT Initial Br. at 6.

¹⁹ See TIEC Initial Br. at 12-20.

(SERC) region.²⁰ Without this information, any modeling exercises will be inherently inaccurate as there is no reliable information about the pricing, congestion, or other conditions at the SCT Tie interconnection point.²¹ SCT asks the Commission to simply trust that it would not interconnect to SERC in a congested region,²² but as evidenced by the fact that ERCOT generators in proximity to the SCT Tie are requesting congestion management plans,²³ SCT did exactly that in ERCOT. Further, without knowing the interconnection point, it is impossible to determine whether adding up to 2,000 MW of additional power in a region would create congestion that may not exist today. SCT has the burden to prove the alleged “benefits” that it relies on to justify burdening ERCOT customers with incremental costs associated with the SCT Tie, and it cannot meet that burden without even knowing where the facility will terminate.

Further, as discussed in TIEC’s initial brief, Resero (SCT’s consultant) also estimated the supposed benefits of the SCT Tie by using a model that improperly forced power into ERCOT over the existing DC ties with Mexico,²⁴ added thousands of MW of new renewables,²⁵ and then prevented export flows from ERCOT over the DC ties with SPP.²⁶ All of these modeling errors caused renewable resources to be artificially curtailed due to manufactured congestion, which Resero then relieved by allowing exports in the change case—but *only* over the SCT Tie.²⁷ This approach, along with several other techniques, grossly inflates the purported benefits of the SCT Tie and renders Resero’s conclusions meaningless.

One glaring misstatement from SCT’s initial briefing is illustrative of many of the issues with Resero’s model. When attributing the benefits in Resero’s change cases exclusively to the SCT Tie, SCT stated that “If the existing SPP ties alone could have resulted in lower production costs those lower production costs would already be showing themselves in the Base Case.”²⁸

²⁰ TIEC Ex. 1 (Griffey Dir.) at 18:1-7.

²¹ *Id.*

²² See SCT Initial Br. at 9-10; Rebuttal Testimony of David Parquet (Parquet Reb.), SCT Ex. 6 at 11:3-4.

²³ See, e.g., Luminant Initial Br. at 7-9; TCPA Initial Br. at 7-8.

²⁴ See TIEC Ex. 1 (Griffey Dir.) at 21:13-16.

²⁵ Tr. (Wolfe Cr.) at 62:8-63:7 (Jun. 1, 2016).

²⁶ Tr. (Wolfe Cr.) at 68:15-19 (Jun. 1, 2016).

²⁷ See TIEC Ex. 1 (Griffey Dir.) at 17:13-22.

²⁸ SCT Initial Br. at 8.

However, Resero chose to inaccurately model the existing SPP ties as *import only* in both the base and change cases²⁹ despite having the capability to economically dispatch both imports and exports over those ties.³⁰ Because power was unable to flow out of ERCOT over the SPP ties in either the base or change cases, it was *impossible* for the SPP ties to relieve congestion on the ERCOT system and thereby register “production cost savings” in either the base or change cases of Resero’s model. Additionally, since the SPP ties are closer than the SCT Tie to the areas of wind curtailment,³¹ any trapped power would have been more likely to flow out of ERCOT over the SPP ties rather than the SCT Tie—if only Resero had allowed the SPP ties to export in its model.³² So, contrary to SCT’s arguments, many of the purported benefits of the SCT Tie would have been attributed to the existing SPP ties if Resero not rigged the model to: 1) inflate the amount of curtailed renewable power and 2) force all curtailed power that could otherwise be economically exported to flow out of ERCOT over the SCT Tie. Simply put, Resero’s base case does not accurately reflect the conditions that would occur without the SCT Tie, so the change case is entirely meaningless.

SCT provides wholly unsatisfactory explanations for its (and Resero’s) deliberate decision to inaccurately model the existing DC Ties. *** [REDACTED]

[REDACTED] ***³³

In response to Mr. Griffey’s argument that Resero could and should have modeled the SPP ties based on economics, which would have better reflected actual operations, SCT cites ERCOT’s modeling practices.³⁴ However, as Mr. Griffey explained in his testimony³⁵ and Mr. Lasher discussed at the hearing,³⁶ ERCOT has only used that method for modeling the SPP ties when

²⁹ Tr. (Wolfe Cr.) at 68:15-19 (Jun. 1, 2016).

³⁰ Tr. (Wolfe Cr.) at 74:6-21 (Jun. 1, 2016).

³¹ Tr. (Wolfe Cr.) at 84:13-22 (Jun. 1, 2016).

³² See Tr. (Wolfe Cr.) at 81:10-82:2 (Jun. 1, 2016) (shift factors generally correlate with distance).

³³ See TIEC Ex. 1A (Griffey Dir., HSPM) at 19:1-14.

³⁴ See SCT Initial Br. at 8.

³⁵ TIEC Ex. 1 (Griffey Dir.) at 21:5-13.

³⁶ See Tr. (Lasher Cr.) at 271:14-18 (“Q: Would you agree that ERCOT’s practice of modeling the SPP ties in that manner to date has only been used to study transmission projects to be located entirely within ERCOT? A: That is correct.”).

evaluating transmission projects that are located exclusively *within* ERCOT. ERCOT is tasked with studying transmission upgrades required solely within ERCOT—not the economics of DC ties—and unlike Resero it does not have the ability to modeling capability to economically dispatch the SPP ties. Ms. Wolfe stated in rebuttal that she “would not presume that it is better to model the ties as fully economically dispatched until ERCOT offered its position on the merits of doing so.”³⁷ At the hearing Mr. Lasher unequivocally agreed that economic dispatch is a better way of modeling the SPP Ties, if the capability exists.³⁸ SCT and Resero’s decision to model the SPP ties in this inaccurate manner drove the study results and made the model outputs entirely unreliable.

Additionally, even Ms. Wolfe was forced to admit that Resero improperly modeled flows over the DC ties to Mexico, which ERCOT usually approximates by using historical data.³⁹ While not perfect, using historical flows as a proxy for economically modeling the Mexico ties is undoubtedly less biased than Resero’s approach, which simply set those ties to import their maximum capacity of 430 MW in every hour all year. The contrast between ERCOT and Resero’s approach is especially glaring because the Mexico ties generally *export* power.⁴⁰ This modeling flaw means that Resero artificially forced power into ERCOT, thereby increasing congestion that could only be relieved by the SCT Tie.⁴¹ Rather than simply admitting that incorrectly modeling the Mexico ties is a flaw in Resero’s analysis, SCT doubled down, claiming that “if the Mexico ties had been modeled based on historical flows as Mr. Lasher suggests, the SCT Project *may have been shown* to import more energy during peaks [sic] periods.”⁴² But this is pure speculation; Resero never reran its model to correct the mistake it made with the Mexico ties, so there is no support for this assertion. Also, SCT’s claim that lower-than-maximum imports along the Mexico ties could lead to greater imports along the SCT Tie flatly contradicts its *other* claim about the Mexico ties: that they are simply too far from the areas of wind curtailment for Resero’s modeling mistakes to have meaningfully impacted flows over the SCT

³⁷ Rebuttal Testimony of Ellen Wolfe (Wolfe Reb.), SCT Ex. 7 at 14:5-7.

³⁸ Tr. (Lasher Cr.) at 272:1-10.

³⁹ Tr. (Wolfe Cr.) at 65:3-13 (Jun. 1, 2016).

⁴⁰ TIEC Ex. 1 (Griffey Dir.) at 20:12-17.

⁴¹ See TIEC Ex. 1 (Griffey Dir.) at 21:13-16.

⁴² SCT Initial Br. at 8 (emphasis added).

Tie.⁴³ Further, by asserting that lowering imports or exporting along the Mexico ties will cascade through ERCOT and increase flows along the SCT Tie, SCT is tacitly admitting that Mr. Griffey's concerns about modeling the Mexico ties as importing are dead on—forcing 430 MW of power in through the Mexico ties every hour all year will create similar “cascading” effects, driving artificial congestion throughout ERCOT and inflating the amount of low-cost power to be exported over the SCT Tie.⁴⁴

Even ignoring the glaring flaws in Resero's process, its model still only shows minimal benefits to ERCOT customers. Imports along the line, which are the only part of this project that actually benefits ERCOT ratepayers, amounted to only 50,000 MWh, which is a tiny fraction of ERCOT's total consumption.⁴⁵ Additionally, as shown in the chart attached to TIEC Exhibit 7, the *total* claimed difference in production costs between Resero's base case and the change case with the SCT Tie is only \$25 million, most of which can be attributed to increased imports on the DC ties with SPP displacing ERCOT generation.⁴⁶ The same chart shows that the vast majority of the supposed production cost benefit comes from the claimed \$148 million in “Import/Export Benefit.”⁴⁷ But Resero's Import/Export adjustment miscounts the difference in locational marginal prices (LMPs) between the SPP tie import point and the SCT Tie export point as production cost savings.⁴⁸ Using LMPs to assign value to imports and exports is improper because it treats the value of congestion as a production cost benefit.⁴⁹ Further, most of Resero's Import/Export adjustment comes from importing power over the other DC ties and exporting it out over the SCT Tie in the same hour,⁵⁰ and in any event, only \$3 million of that number comes from imports over the SCT line.⁵¹ While wheeling power from the SPP to the Eastern Interconnect may be good business for SCT and generators looking to sell power, it does not

⁴³ See SCT Initial Br. at 8. This argument was thoroughly refuted in TIEC's initial brief. See TIEC Initial Br. at 15-16.

⁴⁴ See TIEC Ex. 1 (Griffey Dir.) at 21:13-16.

⁴⁵ TIEC Ex. 1 (Griffey Dir.) at 10:16-19 (50,000 MWh is approximately 0.01% of ERCOT's overall usage).

⁴⁶ See TIEC Ex. 7 (Southern Cross's Response to TIEC 1-26) at Attachment 1 (total “Prod Costs” were \$9,082 million in the Base case, but only \$9,057 million in the Base+SCT case, for a difference of just \$25 million).

⁴⁷ See *id.*

⁴⁸ See Tr. (Wolfe Cr.) at 94:5-95:2, 97:15-98:1 (Jun. 1, 2016).

⁴⁹ See TIEC Initial Br. at 17-18.

⁵⁰ See TIEC Initial Br. at 18-19.

⁵¹ See SCT Ex. 12 (TIEC's Response to SCT 3-1).

benefit the ERCOT customers who SCT seeks to burden with the incremental ancillary service and transmission costs required to support these transactions.

B. The Commission should encourage ERCOT to consider a Congestion Management Plan or Special Protection Scheme under the existing process, but should not prejudge the features of such a plan in this case. (Preliminary Order Issue 2)

Several parties have suggested that interconnecting the SCT Tie could cause congestion in the area surrounding the Rusk substation, and that such problems could be averted by creating a Congestion Management Plan (CMP) and/or a Special Protection System (SPS). TIEC is not opposed to evaluating whether a CMP or SPS could better manage potential congestion issues and maximize use of the transmission grid. CMPs and SPSs generally allow ERCOT customers greater use of existing transmission assets that are already in rates.⁵² However, TIEC agrees with Garland⁵³ and SCT⁵⁴ that the Commission should not prejudge whether or how a CMP or SPS should be implemented, and that the need for and features of such a plan should be determined through the ERCOT stakeholder process. To that end, the Commission should recommend that ERCOT study whether a CMP or an SPS is appropriate to manage congestion caused by imports and exports over the SCT Tie under the existing process,⁵⁵ without prejudging the features of such a plan. It would be premature to mandate the *adoption* of a CMP or SPS as a condition in this case, as suggested by Luminant⁵⁶ and TCPA,⁵⁷ without first undertaking this study process. As discussed by ERCOT witness Mr. Woodfin, CMPs are not a one-size-fits-all solution, and their effectiveness depends upon the facts involved.⁵⁸ Therefore, the Commission should not require ERCOT to create a plan that, upon further study, may prove to be unnecessary or even

⁵² Tr. (Frazier Cr.) at 246:22-247:1 (Jun. 1, 2016).

⁵³ Garland's Proposed Findings of Fact and Conclusions of Law at 9 (Proposed FoF 69-71).

⁵⁴ See SCT Initial Br. at 5. Southern Cross supports the findings of fact and conclusions of law that were presented by Garland. See SCT Initial Br. at 4.

⁵⁵ See Commission Staff Initial Br. at 39 (Proposed FoF 113).

⁵⁶ Luminant Initial Br. at 14 (Proposed FoF 14); Direct Testimony of Shams Siddiqui (Siddiqui Dir.), Luminant Ex. 1 at 13:12-17.

⁵⁷ TCPA Initial Br. at 8 ("TCPA suggests that the Commission direct ERCOT, through the stakeholder process, to develop operational mechanisms to address these issues prior to allowing the Application's proposed facilities to be placed in service.").

⁵⁸ Direct Testimony of Dan Woodfin (Woodfin Dir.), ERCOT Ex. 2 at 9:20-10:1.

counterproductive. Rather, ERCOT should consider and, as appropriate, develop and implement an SPS or a CMP through the existing process.

Importantly, if the Commission recommends that ERCOT study (and/or adopt) a CMP or SPS, it should be clear that this is not a recommendation to back down DC Tie imports to favor native generation, regardless of cost. With the exception of TCPA, who suggests a plan that would back down DC tie imports “irrespective of costs,”⁵⁹ all parties—even those suggesting that the Commission mandate the implementation of a CMP or SPS—agree that to the extent such a plan is adopted, the specifics should be worked out through the ERCOT stakeholder process.⁶⁰ Curtailing SCT Tie imports to ensure that native ERCOT generators can produce at full output, even if the imports are cheaper, will prevent ERCOT customers from realizing some of the limited savings that SCT Tie imports could provide. Prejudging those issues here would be against the public interest, and should be left to the ERCOT stakeholder process.

The Commission should recommend that ERCOT evaluate the need for a system to manage congestion related to interconnecting the SCT Tie, but should clarify that this recommendation is not prejudging whether SCT Tie imports should be backed down in favor of native generation, regardless of the cost to customers.

III. RESPONSE TO PROPOSED CONDITIONS TO ARTIFICIALLY INCREASE PRICES TO COUNTERACT POTENTIAL PRICE REDUCTIONS FROM THE SCT TIE.

TCPA and Luminant have proposed conditions aimed at artificially increasing the prices charged to ERCOT customers when the SCT Tie is importing, or if exports are curtailed, to prevent that additional supply from reducing prices in ERCOT.⁶¹ These proposals consider only the financial interests of competitive generators, and not the “public interest” or the unjustified cost increases these proposals promise for ERCOT ratepayers. TCPA and Luminant’s proposed conditions should either be rejected outright as against the public interest, or the Commission

⁵⁹ TCPA Initial Br. at 8.

⁶⁰ See, e.g., Garland’s Proposed Findings of Fact and Conclusions of Law at 9 (Proposed FoF 69-71) (stating that any CMP/SPS should be evaluated through the ERCOT stakeholder process); Tr. (Frazier Cr.) at 247:16-248:4 (Jun. 1, 2016) (“We’ve asked that a CMP or SPS be ordered in this case in order to address congestion, but *that request does not pre-decide who would get backed down if the CMP or SPS were to be activated.*”) (emphases added).

⁶¹ TCPA Initial Br. at 4 (addressing “negative effects on proper price formation in ERCOT, perpetually limiting new resource development opportunities *within* ERCOT.”).

should ensure that any pricing adjustments are implemented in a way that is *fair and symmetrical* to ERCOT customers.

The evidence shows that the SCT Tie will be exporting the vast majority of the time.⁶² These exports effectively increase demand on the ERCOT system and, under the most basic laws of economics, will *increase* the prices that customers pay in ERCOT.⁶³ In the limited hours where the SCT Tie would import,⁶⁴ this additional supply would reduce prices in ERCOT, providing some potentially offsetting savings for customers. If prices are adjusted upward to counteract potential price reductions when DC ties import (as TCPA suggests), then prices should similarly be adjusted downward to counteract potential price increases when the DC ties export. Similarly, if prices are artificially increased when exports are curtailed or imports are called during an Energy Emergency Alert (EEA) (as Luminant suggests), then customers should conversely be held harmless against price increases when emergency conditions exist in a neighboring grid on the other side of a DC tie and exports are requested from ERCOT, or imports to ERCOT from that grid are curtailed.

As TCPA acknowledges, generators in areas outside of ERCOT have an incentive to sell power into ERCOT when prices are sufficiently high to provide a profit, net of the transaction costs.⁶⁵ TCPA confusedly frames this as an “arbitrage” opportunity, but this is the natural, expected outcome in a competitive environment that spans multiple power pools. The additional, potentially lower-cost supply from imports over the SCT Tie can prevent ERCOT customers from being exposed to prices up to \$9,000/MWh.⁶⁶ ***This is the only benefit that the SCT Tie provides to ERCOT customers.*** TCPA suggests effectively eliminating this benefit through some sort of price adjustment that would pay ERCOT generators as if the imports did not occur. This would be plainly anti-competitive, would undermine any potential benefits of the SCT Tie for ERCOT customers, and would not be in the public interest. At a minimum, in order for such artificial price increases to be fair and symmetrical to ERCOT customers, prices would

⁶² SCT Ex. 3 (Wolfe Dir.) at 17:14-15 (“The simulations show that the SCT project would result in export flows out of ERCOT during the bulk of the hours.”) and Exhibit EW-2 at 10 of 33. See also TIEC Ex. 1 (Griffey Dir.) at 10:16-19 (noting that imports are *de minimis*).

⁶³ Cross-Rebuttal Testimony of Charles Griffey (Griffey Cross-Reb.), TIEC Ex. 2 at 6:12-13.

⁶⁴ See *id.*

⁶⁵ TCPA Initial Br. at 4.

⁶⁶ See PUC Subst. R. 25.505(g)(6)(B)(iii)

also have to be adjusted *downward* in all periods where SCT Tie exports increase prices for ERCOT customers⁶⁷—which would be the vast majority of the hours. Trying to artificially replicate the prices that would have existed without the SCT Tie is a futile, counterproductive exercise and TCPA’s proposed conditions should be rejected.

Luminant’s pricing proposal is narrower than TCPA’s, but similarly asymmetrical and misguided. Luminant would impose an artificial price increase only during periods when ERCOT is experiencing an “Energy Emergency Alert” (EEA) that causes ERCOT to adjust imports and exports across the DC ties.⁶⁸ Prices during EEAs are the highest-priced periods ERCOT experiences, and can reach \$9,000/MWh for the majority of an EEA.⁶⁹ These are times when generators in neighboring power pools would have the greatest economic incentive to sell into ERCOT, and also the times when imports over the DC ties would provide maximum benefit to ERCOT customers. Luminant premises its proposal on the claim that adjusting DC tie import/export activity during an EEA is an “out-of-market” action, but this characterization is inaccurate. When prices are extremely high during an EEA in ERCOT, generators in other power pools would have every incentive to try to sell their power into ERCOT.⁷⁰ As numerous parties have observed, however, ERCOT cannot currently economically dispatch the DC ties,⁷¹ and generators in the Eastern Interconnect are not direct participants in ERCOT and are primarily integrated utilities that are not used to participating in competitive markets.⁷² Mr. Griffey accurately observed that “[i]f outcomes were purely driven by economics, and were not impaired by shortcomings in market coordination, scheduling, or transparency across [different grids], then imports would be higher and prices would be lower in these instances.”⁷³ Therefore, if DC ties are not importing at their full capacity during an EEA, ERCOT’s actions to curtail exports and request imports are simply correcting for a market failure and replicating a competitive

⁶⁷ See TIEC Ex. 2 (Griffey Cross-Reb.) at 6:12-20 (discussing how similar proposal from Luminant is biased and asymmetrical).

⁶⁸ Luminant Ex. 1 (Siddiqi Dir.) at 5-6.

⁶⁹ See TIEC Ex. 2 (Griffey Cross-Reb.) at 16-18 (noting that if generators in other power pools have energy to sell at less than \$9,000/MWh, they should sell into ERCOT during an emergency).

⁷⁰ TIEC Ex. 2 (Griffey Cross-Reb.) at 7:21 to 8:2.

⁷¹ See TCPA Initial Br. at 3; TIEC Ex. 2 (Griffey Cross-Reb.) at 6-16.

⁷² See TIEC Ex. 2 (Griffey Cross-Reb.) at 7:6-9, 14-16.

⁷³ *Id.* at 7:21-23.

result—not creating “out-of-market” outcomes. Customers should not be penalized through artificial price increases for inefficiencies in coordinating between two markets.

Similar to the TCPA proposal, if the Commission chooses to correct for potential price reductions during EEA events, it must also correct for the impact that system operators in other power pools can have on DC tie operations when *those* grids are experiencing emergency situations. ERCOT witness Dan Woodfin acknowledged that neighboring power pools also have rights to curtail exports or request imports when they are in an emergency, similar to the actions ERCOT can take.⁷⁴ In fact, Mr. Woodfin observed that Mexico had exercised its right to request imports from ERCOT (which would increase prices in ERCOT) “about three times within the last couple weeks.”⁷⁵ Actions by operators in neighboring grids to curtail imports to ERCOT or request exports from ERCOT will tend to *increase* prices for customers in ERCOT by reducing available supply. If ERCOT customers will be exposed to an upward price adjustment when ERCOT curtails exports or calls imports due to an emergency, then customers should receive a corresponding downward price adjustment when other power pools curtail take similar actions with respect to ERCOT. Otherwise, Luminant’s proposal is patently unfair, asymmetrical, and against the public interest.

The potential price reductions that could be driven by SCT Tie imports provide this project’s only real benefit to ERCOT customers. The Commission should not confuse the financial interests of generators in ERCOT with the “public” interest, and should be skeptical of proposals that would hold ERCOT generators harmless against the price impacts of competition from neighboring regions while allowing those same generators to receive the price increases and profits from selling power across the DC ties. At a minimum, if the Commission adopts proposals similar to what TCPA and Luminant have proposed, this must be done in a symmetrical, bidirectional manner (where prices are adjusted both upward *and downward*) to satisfy the public interest.

IV. CONCLUSION

For the reasons discussed above and in TIEC’s initial brief, TIEC requests that the Commission condition its approval in this case on the following requirements:

⁷⁴ Tr. (Woodfin Cr.) at 272:15-24, 273:2-5 (Jun. 1, 2016).

⁷⁵ Tr. (Woodfin Cr.) at 273:2-8 (Jun. 1, 2016).

1. Export transactions over the SCT tie must bear the full cost of supporting those transactions, including both transmission and ancillary services costs.
2. No costs related to the Rusk or Panola Substations or the Rusk to Panola Line shall be allowed in TCOS under any circumstances.
3. Commission Staff shall open a rulemaking to ensure that all Transmission Service Providers (TSPs) are including their costs in the DC tie export charges, so that exports appropriately contribute to recovery of ERCOT transmission costs.
4. SCT is ordered to register as an "Independent DC Tie Operator" for purposes of ERCOT's market participant agreement, and shall be included in the Investor-Owned Utility segment for ERCOT governance purposes and participation in the ERCOT stakeholder process.
5. SCT shall abide by all PUC requirements, ERCOT Protocols, Operating Guides, and other requirements. Garland shall disconnect the SCT facilities if SCT does not comply with these requirements and/or challenges the Commission's or ERCOT authority to enforce any of its requirements.
6. SCT shall curtail exports as required by the ERCOT Protocols during an Energy Emergency Alert (EEA).
7. Rusk shall not request that Garland upgrade the Rusk to Panola line under the terms of the Transmission Line Agreement.
8. Rusk and SCT shall disconnect the SCT upon receiving a final order from the Commission ordering such disconnection to preserve the PUC's exclusive jurisdiction over ERCOT, or for any other purpose.
9. Rusk must file an application showing that it meets the standards in PURA § 37.051(e) before it may own or operate the Panola substation, the Rusk to Panola line, or any other utility facilities in Texas.
10. Any requirements in this order that apply to Rusk or Garland must be transferred and assigned to any successor in interest.
11. ERCOT should study the need for a congestion management plan or special protection scheme in the area surrounding where the SCT Tie will interconnect. If ERCOT determines that such a plan is necessary, it should develop and implement that plan through the ERCOT stakeholder process. This recommendation should not be construed as expressing a preference for backing down DC tie imports to favor native generation, regardless of cost.

Respectfully submitted,

THOMPSON & KNIGHT LLP



Phillip G. Oldham

State Bar No. 00794392

Katherine L. Coleman

State Bar No. 24059596

Michael McMillin

State Bar No. 24088034

98 San Jacinto Blvd., Suite 1900

Austin, Texas 78701

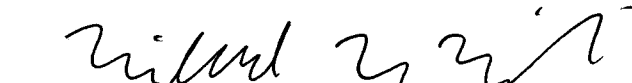
(512) 469.6100

(512) 469.6180 (fax)

ATTORNEYS FOR TEXAS INDUSTRIAL
ENERGY CONSUMERS

CERTIFICATE OF SERVICE

I, Michael McMillin, Attorney for TIEC, hereby certify that a copy of the foregoing document was served on all parties of record in this proceeding on this 17th day of June, 2016 by facsimile, electronic mail and/or First Class, U.S. Mail, Postage Prepaid.


Michael McMillin