



Control Number: 45624



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**PUC DOCKET NO. 45624
SOAH DOCKET NO. 473-16-2751**

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	§ § § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS
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**COMMISSION STAFF'S RESPONSES TO EXCEPTIONS TO THE PROPOSAL FOR
DECISION**

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files these Responses to Exceptions to the Proposal for Decision. In support thereof, Staff shows the following:

I. INTRODUCTION

On July 27, 2016, the Administrative Law Judges (ALJs) issued a Proposal for Decision (PFD) in this proceeding. Southern Cross Transmission LLC (Southern Cross), Texas Industrial Energy Consumers (TIEC), Luminant Generation Company LLC and Luminant Energy Company LLC (collectively, Luminant), the Electric Reliability Council of Texas, Inc. (ERCOT), and Staff filed exceptions to the PFD on August 4, 2016. Staff supports the majority of the ALJs' findings in this proceeding, and continues to recommend the Commission consider the exceptions filed by Staff on August 4, 2016. Consistent with the Commission's direction, Staff's responses to exceptions follows the outline of the PFD.

II. STAFF'S RESPONSE TO EXCEPTIONS

A. Application (Preliminary Order Issue No. 1)

No response.

B. Reasonable Conditions to Protect the Public Interest (Preliminary Order Issue No. 2)

1. Conditions for Condemnation

No response.

2. Mutual Coupling

No response.

3. Disconnection from the SCT DC Tie

Southern Cross excepts from the PFD the requirement that Garland and Southern Cross disconnect the Garland Project from the Southern Cross DC Tie if a synchronous connection is made with the transmission line outside of Texas.¹ Southern Cross argues that the condition is unnecessary because a Southern Cross executive testified that such a connection would necessarily be inside of Texas and therefore under the Commission's jurisdiction.² While a synchronous connection may not be possible outside of Texas with current technology, advancements in technology may allow for a synchronous connection to be made outside of Texas. In the limited chance Southern Cross's executive is wrong, or future advancements in technology make a synchronous connection possible, it is not a burden upon Garland or Southern Cross to agree to disconnect should a synchronous connection be made to the Garland Project outside the state. It is in the public interest to account for all possible variables; therefore, Staff recommends that the Commission adopt the relevant portions of the PFD as written.

Staff supports ERCOT's exceptions to the PFD wherein it recommends "adding the word 'plenary' before the word 'jurisdiction' in findings of fact 122, 124, and 125, and changing the term 'FERC Rules' to 'FERC's plenary jurisdiction' in Ordering Paragraph 18."³ ERCOT correctly observes that it is already subject to limited FERC jurisdiction, and Staff believes that ERCOT's suggested changes may reduce future confusion.⁴

4. Put and Call Options Under Transmission Line Agreement

No response.

5. Treatment of Garland as Affiliate of Southern Cross and the Pattern Companies

No response.

C. Routing Issues (Preliminary Order Issue No. 2a)

No response.

D. Representations Made in *Southern Cross* (Preliminary Order Issue No. 2b)

No response.

¹ Exceptions to the Proposal for Decision of Southern Cross Transmission LLC at 5-7 (Aug. 4, 2016) (Southern Cross Exceptions) (excepting to PFD at 11-5, Proposed Finding of Fact Nos. 126-7, and Ordering ¶ 19).

² *Id.* at 6.

³ ERCOT's Exceptions to the Proposal for Decision at 2 (Aug. 4, 2016) (ERCOT Exceptions).

⁴ *Id.*

E. Application of PURA § 37.051(c-2) to Southern Cross (Preliminary Order Issue 3)

1. Market Participant Agreement (Preliminary Order Issue No. 3a)

Staff disagrees with Southern Cross's exceptions to the ALJs' determination that execution of the market participant agreement need not occur by June 1, 2017.⁵ In its exceptions, Southern Cross requests the Commission to require ERCOT to determine the appropriate market participant category and market segment applicable to Southern Cross by June 1, 2017. Southern Cross attempts to argue that the failure of the PFD to include such a definitive time requirement on ERCOT for completing necessary revisions to protocols and systems results in Southern Cross's inability to secure financing and is contrary to the FERC order.⁶ However, Staff supports the PFD's finding that the record contains insufficient evidence to support a conclusion that the June 1, 2017 deadline is in the public interest⁷ and, as written, the condition is consistent with the FERC Order.⁸

By declining to include the June 1, 2017 deadline, the ALJs properly reasoned that the record lacks insufficient evidence to support the deadline's inclusion. Southern Cross continues to advocate for the June 1, 2017 deadline as necessary to Southern Cross securing financing for the project.⁹ Southern Cross mistakenly asserts that since the FERC Order found Garland's interconnection with Southern Cross to be in the public interest, then the timely financing for the project must also be in the public interest.¹⁰ However, there is no evidence in the record to support a correlation between the interconnection of Southern Cross into ERCOT as being in the public interest with Southern Cross's desire for timely financing. Southern Cross's assertions make clear that the June 1, 2017 deadline is solely in the interest of Southern Cross, its lenders, and its investors.¹¹ Timely financing of the project is in the best interest of Southern Cross, its lenders, and its investors, but does not have any corresponding effect on the conclusions of whether the project is in the public interest.

⁵ Proposal for Decision at 20 (July 27, 2016) (PFD).

⁶ Southern Cross Exceptions at 10–14.

⁷ PFD at 30.

⁸ *Id.* at Finding of Fact No. 42; *Southern Cross Transmission LLC, et. al*, 147 FERC ¶ 61,113 (2014) (FERC Order).

⁹ Southern Cross Exceptions at 12–13.

¹⁰ *Id.* at 10.

¹¹ *Id.* at 10–13.

The condition, as written in the PFD, is in the public interest by allowing ERCOT to determine the appropriate market participant category and market segment for Southern Cross without being hindered by a definitive deadline: Southern Cross Witness Mark Bruce admitted at the hearing this is a “fundamental question for all of the stakeholders involved.”¹² Discussions and decisions on such fundamental issues cannot be rushed. In fact, ERCOT may be unable to meet a June 1, 2017 deadline for reasons completely out of its control. ERCOT Witness Ted Hailu testified that decisions about the market participant category for Southern Cross is partially determined by how Southern Cross will be categorized under the North American Electric Reliability Corporation (NERC) functional registration model.¹³ Southern Cross is attempting to rush fundamental decisions for how it will interact with ERCOT and its stakeholders without allowing sufficient time for the necessary discussions. Such a request is not protective of the public interest, and should be rejected.

Further, a definitive deadline for determining the market participant category and market segment may in fact harm the public interest by threatening ERCOT’s reliability. Southern Cross refuses to pay for any of the administrative expenses relating to creating a new market participant category and market segment for Southern Cross.¹⁴ As a result of this refusal, the inclusion of a June 1, 2017 deadline requires ERCOT to expend funds and resources before Southern Cross even secures financing for the project.¹⁵ ERCOT operates on a budget¹⁶ and including a deadline for the execution of the market participant agreement results in prioritizing and accommodating one market participant at the risk of depleting funds necessary for projects related to overall market reliability. Such a depletion of ERCOT’s resources for the arbitrary timeline of one market participant is contrary to the public interest.

¹² Tr. at 222:14-25 (Bruce Cross) (June 1, 2016).

¹³ Direct Testimony of Ted Hailu, ERCOT Ex. 3 at 5:8–11 (Apr. 27, 2016).

¹⁴ Initial Brief of Southern Cross Transmission LLC at 11 (Jun. 10, 2016) (Southern Cross Brief); Reply Brief of Southern Cross Transmission LLC at Reply 17–23 (Jun. 17, 2016) (Southern Cross Reply Brief).

¹⁵ See Tr. at 279:14-281:4 (Hailu Cross) (June 1, 2016) (stating changes to Protocols and computer systems need to be made in order for Southern Cross to sign the market participant agreement and that this would cost in the low range \$100,000).

¹⁶ See ERCOT Response to Staff Request for Information Staff 2-1, Staff Ex. 13 (May 12, 2016) (stating changes to create a new market participant type would be paid for from ERCOT’s annual budget which is funded through the system administration fee approved by the Commission).

Southern Cross incorrectly reasons that a failure to require ERCOT to determine the appropriate market participant category and market segment for Southern Cross by June 1, 2017 is inconsistent with the FERC Order. PURA § 37.051(c-2) allows the Commission to prescribe reasonable conditions protecting the public interest. The FERC Order does not establish a timeline for ERCOT to determine the appropriate market participant category and market segment, it merely directs Garland to interconnect with Southern Cross. Thus, on its face, the condition is not inconsistent with the FERC Order. Southern Cross also seems to suggest that the condition violates the FERC Order by allowing ERCOT to indefinitely postpone its decision.¹⁷ However, Southern Cross fails to present any evidence that failure to include a definitive deadline will result in an indefinite postponement. To the contrary, ERCOT has committed to diligently working towards the interconnection of the Southern Cross DC Tie.¹⁸ The condition, as written, is not contrary to the FERC Order on its face or in its implementation.

Including a June 1, 2017 deadline for determining the market participant category and market segment for Southern Cross does not protect the public interest and cannot be included as a condition to approval.¹⁹ Staff recommends the finding of fact and ordering paragraph requiring ERCOT to determine the appropriate market participant category and market segment for Southern Cross prior to energization of the Southern Cross DC Tie and Garland Project protect the public interest remain unchanged as appropriately protecting the public interest and consistent with the FERC Order.²⁰

2. Coordination Agreement (Preliminary Order Issue No. 3b)

No response.

F. ERCOT Issues (Preliminary Order Issue No. 4)

As a preliminary matter, Staff disagrees with Southern Cross's attempts to impose a June 1, 2020 deadline for ERCOT to study or implement a number of the conditions recommended in the PFD. Southern Cross would like to impose a June 1, 2020 deadline on ERCOT to: (1) make a final determination as to when the Southern Cross DC Tie should be included in ERCOT's

¹⁷ Southern Cross Exception at 10.

¹⁸ ERCOT Exceptions at 2 (Aug. 4, 2016).

¹⁹ PURA § 37.051(c-1) only allows the Commission to include conditions that protect the public interest.

²⁰ PFD at Finding of Fact No. 42, Ordering Paragraph No. 13.

transmission planning models and implement any needed change;²¹ (2) study and determine how best to model the Southern Cross DC Tie in its transmission planning cases and make any necessary revisions to its standards and protocols;²² (3) study and determine what economic transmission upgrades, if any, are necessary to interconnect the Southern Cross DC Tie;²³ (4) study and determine whether some or all DC ties should be economically dispatched through SCED, or whether a CMP or SPS would more reliably and cost-effectively manage congestion caused by DC tie flows; and implement any necessary revisions to ERCOT protocols and standards;²⁴ (5) determine what ramp rate restrictions will be necessary to accommodate interconnection of the Southern Cross DC Tie and implement those restrictions;²⁵ (6) develop and implement a methodology to reliably and cost-effectively coordinate outages following the interconnection of the Southern Cross DC Tie;²⁶ (7) execute a coordination agreement or agreements with the ISO/RTO and/or RC on the eastern end of the Southern Cross Line;²⁷ and (8) evaluate what additional ancillary services, if any, are necessary for the reliable interconnection of the Southern Cross DC Tie and implement any needed modifications to ancillary services procurement.²⁸ However, the PFD appropriately directed ERCOT to complete all of the above conditions “prior to energization” of the Southern Cross DC Tie and Garland Project.²⁹

As with Southern Cross’s attempts to impose an arbitrary deadline for ERCOT action concerning the market participant agreement,³⁰ Southern Cross fails to cite to any evidence in the record demonstrating that a June 1, 2020 deadline for the completion of a number of complex

²¹ Southern Cross Exceptions at 14–15 (proposing the inclusion of Ordering Paragraph No. 21A).

²² *Id.* at 15–16 (excepting to PFD at Finding of Fact No. 54, Ordering Paragraph No. 22).

²³ *Id.* at 28–29 (excepting to PFD at Ordering Paragraph No. 23).

²⁴ *Id.* at 29–30 (excepting to PFD at Finding of Fact No. 68, Ordering Paragraph No. 24).

²⁵ *Id.* at 30 (excepting to PFD at Finding of Fact No. 83, Ordering Paragraph No. 15).

²⁶ *Id.* at 30–31 (excepting to PFD at Finding of Fact No. 91, Ordering Paragraph No. 16).

²⁷ *Id.* at 31 (excepting to the PFD at Finding of Fact No. 44, Ordering Paragraph No. 14).

²⁸ *Id.* at 36 (excepting to the PFD at Findings of Fact Nos. 116, 118, Ordering Paragraph No. 26).

²⁹ PFD at Findings of Fact Nos. 44, 54, 68, 83 (only requiring prior to the energization of the Garland Project), 91 (only requiring ERCOT action prior to the energization of the Garland Project), and 116 (only requiring ERCOT action prior to the interconnection of the Southern Cross DC Tie and Garland Project); *id.* at Ordering Paragraph Nos. 14–16, 22–26.

³⁰ Southern Cross Exceptions at 10–14.

issues concerning the reliability of ERCOT is in the public interest. Southern Cross claims that failing to establish a deadline for ERCOT action frustrates the intention of the Texas Legislature for expeditious approval of the application.³¹ However, Southern Cross's argument ignores the remaining language in the statute. PURA § 37.051(c-2) is not a wholesale approval of Garland's application because the statute includes specific language conditioning approval of the application; i.e., that the Commission may "prescribe reasonable conditions to protect the public interest."³² This language is an expression of the Texas Legislature's understanding that the Commission is responsible for the protection of the public interest in interconnecting the Southern Cross DC Tie and that the language in the statute is not a carte blanche for Southern Cross to cherry-pick the conditions under which it will build the line. Otherwise, the Texas Legislature would have simply directed the Commission to approve Garland's application. The PFD appropriately approves the application by including reasonable conditions requiring ERCOT to take certain actions prior to the energization of the Southern Cross DC Tie and Garland Project. These conditions are in the public interest because they address important reliability issues for ERCOT and its stakeholders that should not and cannot be rushed. Additionally, as stated previously, ERCOT operates with a limited budget and thus ERCOT should be able to address more pressing reliability issues.

Southern Cross also threatens that failure to include a definitive deadline for ERCOT's actions will result in an "indefinite delay."³³ No witness testified to any such a fact and there is no evidence in the record that suggests the potential for an indefinite delay if these conditions lack a definitive timeline. In fact, the PFD includes a finding of fact directing ERCOT to initiate and expeditiously undertake the necessary stakeholder processes.³⁴ ERCOT also commits that it "will move forward expeditiously with any issues the Commission may require it to address, [but] ERCOT cannot jeopardize reliability to accommodate a market participant's desired development timeframe."³⁵ Requiring ERCOT action prior to the energization of the Southern Cross DC Tie and Garland Project appropriately protects the public interest while encouraging

³¹ *Id.* at 15.

³² PURA § 37.051(c-2).

³³ Southern Cross Exceptions at 15.

³⁴ PFD at Finding of Fact No. 118.

³⁵ ERCOT Exceptions at 2.

speedy action from ERCOT, but not at the risk of ERCOT's reliability as a whole. Therefore, Staff recommends the PFD remain unchanged with respect to the inclusion of definitive deadlines for certain ERCOT actions.

Staff addresses the specific exceptions to the various ERCOT issues of each of the parties below, outside of the issue of timing for ERCOT action.

1. Inclusion of Southern Cross DC Tie in Planning Models (Preliminary Order Issue No. 4a)

No response except for Staff's support of the PFD not including a definitive timeline for ERCOT action.

2. Treatment of DC Ties in Transmission Planning (Preliminary Order Issue No. 4b)

No response except for Staff's support of the PFD not including a definitive timeline for ERCOT action.

3. Transmission Upgrades to Facilitate Exports Over DC Ties (Preliminary Order Issue No. 4c)

The ALJs properly concluded that Southern Cross's application should be conditioned on ERCOT studying whether transmission upgrades are necessary to accommodate the Southern Cross DC Tie, as well as whether ERCOT ratepayers will derive benefits from any necessary transmission upgrades.³⁶ In its exceptions, Southern Cross asserts that the ALJs did not properly distinguish between transmission upgrades needed for reliability and transmission upgrades that provide economic benefits.³⁷ In any event, Southern Cross argues that no reliability or economic transmission upgrades are necessary.³⁸ It bases its argument on Oncor's interconnection study from 2013,³⁹ which identified reliability upgrades necessary at different maximum flows.⁴⁰ Southern Cross argues that reliability upgrades are necessary to allow full deliverability of the Southern Cross DC Tie, but that Southern Cross will operate the tie within ERCOT's existing

³⁶ PFD at 45-46.

³⁷ Southern Cross Exceptions at 17.

³⁸ *Id.*

³⁹ Oncor subsequently filed a letter in this docket on July 19, 2016, which, although not in evidence, it questions the extent to which the 2013 study is still viable. It states in part: "Further, Oncor never studied the impact of a 2,000 MW import/export level....it is not reasonable to assume that the 2013 study results will accurately reflect the interconnection needs of the Southern Cross Project with a new in-service date of 2021,..."

⁴⁰ Southern Cross Exceptions at 19.

limits and is not seeking full deliverability.⁴¹ As for economic upgrades, Southern Cross argues that it is premature to study whether there are any economic upgrades because ERCOT has not decided how it will identify economic upgrades.⁴²

Staff does not take a position on whether transmission upgrades are necessary, but rather agrees with the ALJs that this is an issue that should be referred to the ERCOT stakeholder process for further consideration. As the ALJs noted, there is conflicting evidence as to whether some type of transmission upgrade is necessary to reliably interconnect the Southern Cross DC Tie, which Southern Cross acknowledges in its exceptions.⁴³ Furthermore, as Southern Cross acknowledges, the Oncor interconnection study was completed back in 2013, and therefore could be outdated.⁴⁴ Given the limited nature of this proceeding, it is appropriate to consider these issues through the ERCOT stakeholder process rather than attempt to resolve them in this proceeding. These are issues best resolved through the ERCOT stakeholder process.

As for the cost allocation of any necessary transmission upgrades, contrary to Southern Cross's statements, Staff is not advocating that the Commission change the cost allocation method, but rather that the Commission should consider whether any changes to the cost allocation rules for transmission upgrades are necessary.⁴⁵ Southern Cross asserts that the rules already ensure that exporters, or load outside of ERCOT, pay their fair share of transmission charges.⁴⁶ But as proposed, the Southern Cross DC Tie will significantly increase export capability, and it is reasonable and prudent to study whether there should be changes to the Commission's cost allocation rules before Southern Cross is interconnected to the ERCOT transmission system. However, Staff agrees with ERCOT that the Commission, not ERCOT, should consider whether changes to cost allocation are necessary.⁴⁷ Staff recommends the Commission modify the PFD to clarify that Staff is to consider these issues in a rulemaking or

⁴¹ *Id.* at 17–19.

⁴² *Id.* at 20.

⁴³ PFD at 45–46.

⁴⁴ Southern Cross Exceptions at 19 n.35 (acknowledging Oncor's letter that expressed concern that an updated interconnection study may be necessary due to grid topology changes since 2013).

⁴⁵ Commission Staff's Initial Brief at 16–17 (Jun. 10, 2016) (Staff's Initial Brief); Commission Staff's Reply Brief at 18–19 (Jun. 17, 2016).

⁴⁶ Southern Cross Exceptions at 20–22.

⁴⁷ ERCOT Exceptions 2–3.

project instead of ERCOT.⁴⁸ Outside of the recommended modification, Staff supports the PFD as written on transmission upgrades.

4. Economic Dispatch and Congestion Management (Preliminary Order Issue No. 4d)

Staff agrees with the PFD's inclusion of a condition requiring ERCOT to study and determine whether DC ties should be economically dispatched or whether implementation of a congestion management plan (CMP) or special protection system (SPS) is a better means of addressing this issue.⁴⁹ In its exceptions, Luminant asserts this condition should go one step further requiring ERCOT to implement a CMP prior to the energization of the Southern Cross DC Tie and Garland Project.⁵⁰ However, economic dispatch and congestion management is a highly technical and complex issue that would benefit from additional studies and input from other potentially affected stakeholders. Staff supports the ALJs' conclusion that the preponderance of the evidence demonstrates that the ERCOT stakeholder process is the best forum for studying economic dispatch and congestion management issues arising from the interconnection of the Southern Cross DC Tie⁵¹ and recommends the PFD be adopted as written.

5. Ramp Rate Restrictions (Preliminary Order Issue No. 4e).

No response except for Staff's support of the PFD not including a definitive timeline for ERCOT action.

6. Outage Coordination (Preliminary Order Issue No. 4f)

No response except for Staff's support of the PFD not including a definitive timeline for ERCOT action.

7. Coordination with other Balancing Authorities (Preliminary Order Issue No. 4g)

No response except for Staff's support of the PFD not including a definitive timeline for ERCOT action.

⁴⁸ Commission Staff's Exceptions at 5–6 (Aug. 4, 2016).

⁴⁹ PFD at Ordering Paragraph No. 24 (analysis of decision PFD at 46–50).

⁵⁰ Luminant Generation Company LLC and Luminant Energy Company LLC's Exceptions to the Proposal for Decision at 4–6 (Aug. 4, 2016) (Luminant Exceptions).

⁵¹ PFD at 49.

8. Reactive Power and Primary Frequency Response (Preliminary Order Issue No. 4h)

Southern Cross objects to the ALJs' condition that ERCOT study and determine whether Southern Cross or any other entity scheduling flows across the Southern Cross DC Tie should be required to provide or procure Voltage System Support (VSS) or Primary Frequency Response (PFR), or the technical equivalents prior to the energization of the Southern Cross DC Tie.⁵² Southern Cross first argues that it is not a generator and therefore does not have the capability to provide PFR or VSS.⁵³ But in the very next sentence, Southern Cross acknowledges that it may be able to supply some PFR, and this is supported by Southern Cross witness Stan Gray's testimony.⁵⁴ Furthermore, as an alternative to the Southern Cross DC Tie providing these resources itself, the ALJs' included the possibility that Southern Cross be required to provide the "technical equivalent" to VSS or PFR.⁵⁵ Therefore, Southern Cross's argument that the Southern Cross DC Tie cannot provide these resources should be rejected.

Southern Cross also attempts to downplay the differences between it and existing DC ties.⁵⁶ But its size alone distinguishes it from the existing DC ties. The largest existing DC tie can import or export up to 600 MW, but it dwarfs in comparison to the Southern Cross DC Tie that will be able to import or export up to 2000 MW.⁵⁷ Given the meaningful increase in size, the Southern Cross DC Tie may impact reliability on the ERCOT transmission system by displacing generation that otherwise would provide these services.⁵⁸ In that case, it is appropriate to require Southern Cross or entities scheduling flows across the tie to essentially replace the PFR or VSS that would otherwise be available.

⁵² Southern Cross Exceptions at 32.

⁵³ *Id.*

⁵⁴ *Id.* ("DC ties cannot supply VSS but may be able to supply some PFR..."); Rebuttal Testimony of Stan Gray, Southern Cross Ex. 10 at 9:1-7.

⁵⁵ PFD at Ordering Paragraph No. 25.

⁵⁶ Southern Cross Exceptions at 32.

⁵⁷ Tr. at 284:11-18, 285:18-24 (Woodfin Cross) (June 1, 2016); *see also* Rebuttal Testimony of Ellen Wolfe, Southern Cross Ex. 7 at EW-2-R (Figure 1).

⁵⁸ *See* Direct Testimony of Dan Woodfin, ERCOT Ex. 2 at 16:16-19. Southern Cross Witness Mark Bruce agreed that when importing, the Southern Cross DC Tie may displace generation that is located in ERCOT. Tr. at 227:8-11 (Bruce Cross) (June 1, 2016).

In its exceptions, Southern Cross argues that the potential import level should be ignored because Southern Cross provided evidence that imports over the tie will occur during peak periods when prices are high.⁵⁹ While this is Southern Cross's expectation, it is just that, an expectation. There is no guarantee that imports will occur according to Southern Cross's expectations. Accordingly, it is reasonable and in the public interest to require ERCOT to determine whether the Southern Cross DC Tie should be required to provide or procure VSS or PFR, or their technical equivalents prior to the energization of the Southern Cross DC Tie.

Although Staff supports the ALJs' determination, Staff has no objection to ERCOT's request that the condition be rewritten to give ERCOT discretion as to whether a formal study is necessary.⁶⁰ Staff's objective is to ensure that ERCOT has the resources necessary to continue to maintain reliability if the Southern Cross DC Tie is interconnected to the ERCOT transmission system.⁶¹ As long as ERCOT considers the issue and makes a determination, then Staff agrees that is sufficient.

9. Costs of Ancillary Services (Preliminary Order Issue No. 4i)

Southern Cross argues that it should not be required to pay for any additional ancillary services.⁶² TIEC, on the other hand, argues that Southern Cross should be required to pay for ancillary services because the existing cost allocation method could lead to ERCOT customers subsidizing the cost of exporting cheap power out of ERCOT to neighboring regions.⁶³ Staff takes no position at this time whether it would be appropriate to change the cost allocation method. But Staff has raised the question because it may be appropriate to allocate the cost of additional ancillary services needed to accommodate a large DC tie that has not been shown to benefit all ERCOT ratepayers.⁶⁴ Thus, the addition of a large DC tie may warrant a change to the system and Staff recommends consideration of Southern Cross's arguments in the Commission's rulemaking docket, Project No. 46203.⁶⁵ To that end, Staff agrees with ERCOT

⁵⁹ Southern Cross Exceptions at 32.

⁶⁰ ERCOT Exceptions at 5.

⁶¹ Staff's Initial Brief at 14.

⁶² Southern Cross Exceptions at 36.

⁶³ Texas Industrial Energy Consumers' Exceptions to the Proposal for Decision at 6 (Aug. 4, 2016) (Public Version).

⁶⁴ Staff's Initial Brief at 18.

⁶⁵ Staff Exceptions at 6-7.

that ERCOT may not be the best forum for deciding whether to change the cost allocation method for ancillary services.⁶⁶ Instead, Staff recommends that the Commission require *Staff* to consider whether any changes to the cost allocation method for ancillary services is necessary.

G. Texas Parks & Wildlife Issues

No response.

H. Additional Issues Raised by Other Parties in Exceptions to the PFD

No response. *

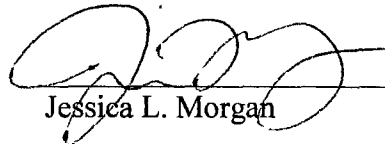
III. CONCLUSION

Staff recommends the Commission reject a number of the modifications proposed by Southern Cross as filed in its modifications. The interconnection of the Southern Cross DC Tie presents unique and complex issues coupled with potential unforeseen variables for ERCOT and its stakeholders. These issues should be addressed diligently and expeditiously, but not hastily, without a restrictive, arbitrary deadline or predetermined decision on the outcome. Staff continues to support a majority of the PFD, but respectfully requests the Commission consider Staff's exceptions to the PFD.

**PUC DOCKET NO. 45624
SOAH DOCKET NO. 473-16-2751**

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on August 9, 2016, in accordance with 16 TAC § 22.74.


Jessica L. Morgan

⁶⁶ ERCOT Exceptions at 5–6.