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

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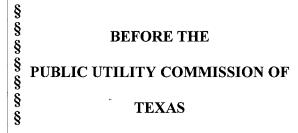
RESPONSE OF LUMINANT GENERATION COMPANY LLC AND LUMINANT ENERGY COMPANY LLC TO EXCEPTIONS TO THE PROPOSAL FOR DECISION

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RESPONSE OF LUMINANT GENERATION COMPANY LLC AND LUMINANT ENERGY COMPANY LLC TO EXCEPTIONS TO THE PROPOSAL FOR DECISION

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

COME NOW Luminant Generation Company LLC and Luminant Energy Company LLC (collectively, Luminant) and file this Response to the Exceptions to the Proposal for Decision (PFD) filed by Southern Cross Transmission LLC (Southern Cross or SCT), Texas Industrial Energy Consumers (TIEC), the Electric Reliability Council of Texas, Inc. (ERCOT), and the Staff of the Public Utility Commission of Texas (Commission).

I. RESPONSE TO EXCEPTIONS OF SCT

SCT filed a number of exceptions to the PFD, addressing a broad range of issues and recommendations. Luminant responds to SCT's exceptions regarding transmission system upgrades that will be needed to support power flows across the SCT Project; the PFD's determination not to impose a completion date for various activities that ERCOT must resolve before energization of the SCT Project; and the PFD's findings that the SCT Project is in many ways unique from other Direct Current (DC) ties

A. Transmission System Upgrades

In its Exception No. 6, SCT disagrees with the PFD's discussion and recommendation concerning the need for transmission system improvements to facilitate exports over the SCT Project. SCT's arguments misconstrue the record evidence and should be rejected.

See Proposal for Decision (PFD) at Finding of Fact (FOF) Nos. 55-62; Ordering Paragraph (OP) No. 23.

The record evidence conclusively establishes that existing transmission capacity is inadequate to accommodate both current generation operating in the area of the SCT Project and imports over the tie line.² It is evident from even a simple analysis of peak hour operation that the transmission system would be unable to accommodate the resulting transmission flows of the SCT Project fully importing.³ SCT's reliance on the study Oncor performed in 2013, and its witness Mr. Stan Gray's attempts to interpolate from the results of that study, to support any contrary conclusion is demonstrably flawed. As the PFD correctly recites, the Oncor interconnection study does not support SCT's characterization of the transmission system needs to support flows over the SCT Project at even the 1,500 MW-level (let alone for 2,100 MW of import, less lines losses, which was not studied).⁴ The amicus letter filed on behalf of Oncor in this docket,⁵ while not evidence, echoes the detailed record evidence in this case calling into question the proprietary of SCT basing conclusions on a study that did not consider the import and export levels it proposes today, challenging the validity of Mr. Gray's interpolation methodology, and highlighting the staleness of Oncor's interconnection study based on subsequent generation resource and transmission topology changes.⁶

In view of the evidence, SCT's assertion that there is no benefit to ERCOT studying what transmission upgrades, if any, are necessary to address congestion caused or exacerbated by power flows over the SCT Project before it is energized is at odds with the public interest.⁷ In fact, because the evidence demonstrates that such transmission congestion is likely to occur, it is important for ERCOT not only to study the issue prior to energization of the SCT Project, but also to evaluate and implement an appropriate plan to manage transmission congestion resulting from power flows across the SCT Project. This issue directly implicates the public interest and

Rebuttal Testimony of Stan Gray, Southern Cross Ex. 10, Exhibit SG-1-R at 4, 13, 21-32; Tr. 201:21-25 (Gray Cross), 276:10-14 (Lasher Cross) (June 1, 2016).

Direct Testimony of Dr. Shams Siddiqi, Luminant Ex. 1 at 13:5-8.

⁴ PFD at 42, 44.

Letter to Administrative Law Judges Bell and Rodriguez (July 19, 2016).

Tr. at 195:7-197:18 (Gray Cross); Tr. at 276:10-14 (Lasher Cross) (June 1, 2016).

Exceptions to the Proposal for Decision of Southern Cross Transmission LLC at 20 (Aug. 4, 2016) ("SCT Exceptions").

squarely addresses the "resource dispatch" issue that the Legislature instructed the Commission to carefully review and prescribe conditions to address in reviewing this application.⁸

Resource dispatch issues arise when, as here, transmission capacity is inadequate to accommodate the output of existing generators and the imports over the DC tie. Such issues are amplified during peak load times when the generation and energy imports would benefit consumers and system adequacy the most. Further exacerbating the issue, ERCOT does not dispatch DC ties in SCED today. Instead, current ERCOT protocols provide for DC ties to be scheduled outside of SCED, meaning that in the event of transmission congestion, the DC ties effectively have physical priority over resources dispatched through SCED. As ERCOT's witness explained, if a scheduled DC tie transfer contributes to a potential overload,

SCED will dispatch other generation to relieve the overload by lowering the output of one or more generators that may be contributing to the overload and increasing the output of other, more costly generators in a corresponding amount... [T]his result... does not take into account the economics of this redispatch relative to the value of the power that is being transferred over the tie." ¹²

Therefore, in the event of transmission congestion, DC ties that are importing would not be instructed to lower their output. Instead, existing resources would be backed down through SCED, effectively giving imports from resources outside of ERCOT priority over existing ERCOT resources, without regard to economics. Importantly, the backing down of ERCOT generation resources in SCED to accommodate imports over the SCT Project could negatively impact consumers by resulting in increased congestion costs.¹³ No record evidence disputes the impact that the SCT Project poses to the public interest in this regard.

Accordingly, it is appropriate for the Commission in this case to condition approval of the interconnection of the SCT Project on ERCOT developing an appropriate congestion management plan (CMP), potentially including a Special Protection System (SPS), to protect the

See Senate Research Center, Bill Analysis, S.B. 933, 84th Leg., R.S. (July 1, 2015).

Luminant Ex. 1 at 10:15-18.

¹⁰ Id. at 10:18-20.

Direct Testimony of Dan Woodfin, ERCOT Ex. 2 at 7:14; Luminant Ex. 1 at 10:20-21.

ERCOT Ex. 2 at 7:20-8:4.

Cross-Rebuttal Testimony of Amanda J. Frazier, Luminant Ex. 3 at 8:7-12; Tr. 244:17-245:12 (Frazier Cross) (June 1, 2016).

public interest and address transmission congestion that would result from or be exacerbated by the SCT Project, as Luminant described more fully in its Exceptions to the PFD.¹⁴

B. Completion Dates for ERCOT Determinations

In its Exception Nos. 3, 4, 5, 9, and 10, SCT disagrees with the PFD's recommendation¹⁵ not to impose a completion date for ERCOT to do the following: designate a market participant category and market segment for Southern Cross; study and determine whether and how to include the SCT Project in ERCOT planning models; study and determine how best to model the SCT Project in transmission planning cases; determine what transmission upgrades are necessary to avoid congestion resulting from power flows over the SCT Project; and determine whether some or all DC ties should be economically dispatched, or whether implementation of a CMP or SPS would more reliably and cost effectively manage congestion caused by DC tie flows.¹⁶

Underlying each of these complaints is SCT's assertion that it cannot obtain financing that will make the interconnection possible if these activities are not "timely" completed, ¹⁷ which SCT asserts would violate Section 37.051(c-2) of the Public Utility Regulatory Act (PURA). According to SCT, a condition "that permits denial of the interconnection"—i.e., a condition that makes it more difficult for SCT to secure financing—"just by the passage of time is neither reasonable nor consistent with the FERC [Federal Energy Regulatory Commission] order directing the interconnection and would therefore violate section 37.051(c-2)." ¹⁹

SCT's interpretation of both PURA § 37.051(c-2) and the FERC order places the Commission in an untenable position of having to approve the interconnection subject only to public interest conditions that can be completed within SCT's preferred timelines for financing and construction. Some activities, SCT asserts, must be completed by June 1, 2017, 20 others by

Luminant Exceptions to the PFD at 4-6 (Aug. 4, 2016).

See PFD FOF Nos. 37, 42, 48, 54, 60, 61, 68; OP Nos. 13, 22, 23, 24.

In its exceptions to the PFD, SCT complains of other conditions recommended in the PFD that also do not include a date certain for completion. SCT Exceptions at 30, 31, 33. Luminant does not respond specifically to these exceptions, although the same arguments apply.

SCT Exceptions at 10-11, 14, 16, 29.

Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.016 (West 2007 & Supp. 2015) (PURA).

¹⁹ *Id.* at 11.

²⁰ *Id.* at 4.

"mid-2020."²¹ Because SCT's argument is based on a faulty premise that assumes an arbitrary, unwritten timeline, found nowhere in the statute, and is inconsistent with both PURA and the FERC order, as explained below, the Commission should deny SCT's exceptions.

PURA § 37.051(c-2) is directly aimed at maintaining the jurisdictional balance between the FERC and the Commission with respect to the ERCOT transmission grid. Contrary to SCT's intimations in its exceptions, the FERC's jurisdiction over ERCOT generally, and its order with respect to interconnection of the SCT Project specifically, are limited in scope; that jurisdiction does not extend to the SCT Project's impacts on the interconnected ERCOT grid or the ERCOT wholesale power market—the very subjects the public interest conditions under discussion are aimed at preserving. Under the Federal Power Act ("FPA"), the FERC has plenary jurisdiction over the "transmission of electric energy in interstate commerce" and the "sale of electric energy at wholesale in interstate commerce[,]" as well as over "all facilities for such transmission or sale of electric energy"²² and "any person who owns or operates" these facilities (called a "public utility").23 However, under the current regime (which parties in this case are committed to maintaining²⁴), electric utilities that own the facilities comprising ERCOT are not subject to the FERC's plenary jurisdiction and are not deemed "public utilities" under the FPA because they are interconnected with the interstate transmission grid solely by virtue of FERC orders²⁵ under FPA §§ 210, 26 211, 27 and 212. 28 Interconnections approved by the FERC under these statutory sections do not make such electrical utilities "public utilities" within the meaning of the FPA and

Id.

²² 16 U.S.C. § 824(b).

²³ *Id.* § 824(e).

See PFD at 11-14 (discussing and recommending proposed condition that Garland must disconnect from the SCT DC Tie if FERC asserts jurisdiction over ERCOT due to the Garland Project).

See, e.g., Central Power and Light Co., 40 FERC ¶ 61,077 (1987); Central Power and Light Co., 17 FERC ¶ 61,078 (1981), as corrected by the Errata Notice issued November 5, 1981, and Order on Rehearing, 18 FERC ¶ 61,100 (1982) (the "DC ties" cases, connecting ERCOT to the Southwest Power Pool through two high voltage direct current interconnections); see also Kiowa Power Partners, LLC, 99 FERC ¶ 61,251 (2002) (directing Oncor Electric Delivery Company ("Oncor") to provide interconnection with Kiowa Power Partners, LLC's ("Kiowa") generating facilities in Oklahoma and to provide transmission services necessary for Kiowa to deliver energy and ancillary services into the ERCOT grid at the point of interconnection; also directing Reliant Energy HL&P to provide transmission service to, from, and over Kiowa's interconnection facilities). All of these orders resulted from settlement agreements.

²⁶ 16 U.S.C. § 824i.

²⁷ *Id.* § 824j.

²⁸ *Id.* § 824k.

only vest the FERC with limited jurisdiction over them—i.e., only what is necessary to enforce the interconnection orders.²⁹

In short, the FERC's jurisdiction in ERCOT pursuant to Sections 210, 211, and 212 of the FPA is limited to interconnection orders. The FERC does not have plenary jurisdiction over wholesale transmission service or power sales within ERCOT. The wholesale electric market in ERCOT is exclusively within the jurisdiction of the Commission. Moreover, the Commission is tasked with responsibility for ensuring the reliability of the electric grid and the proper accounting of electricity, 30 and with generally safeguarding the competitive electric market. 31 Imposing reasonable conditions on the interconnection and dispatch of the SCT Project, if necessary to protect the public interest, is consistent with the Commission's statutory authority, under PURA § 37.051(c-2), as well as its broader authority under PURA to ensure reliability and safeguard the competitiveness of the market, and does not encroach on the FERC's very limited jurisdiction with respect to ERCOT. SCT's attempts to constrain the Commission's exercise of its clear statutory authority on the basis of an alleged inconsistency with the FERC interconnection order—which does not, and cannot, attempt to regulate wholesale electric market activities in ERCOT—should be rejected.

C. Unique Characteristics of SCT Project

In its Exception No. 14, SCT makes a general complaint that it should not be treated any differently than other DC ties in ERCOT, followed by an assertion that should it not "be required to abide by ERCOT's decisions" regarding whether the SCT Project should be required to provide Primary Frequency Response (PFR) or Voltage Support Service (VSS).³² On its face, this statement is contradictory, as all current DC tie owner/operators are ERCOT market participants who are required to abide by ERCOT decisions. In any event, the record evidence rebuts the central premise of SCT's argument and demonstrates that the SCT Project is in fact unique in a number of significant respects:

See id. § 824(b)(2), (e) (stating that compliance with an order under FPA §§ 210, 211, and 212 does not subject an electric utility to FERC jurisdiction or make the utility a "public utility").

³⁰ PURA § 39.151.

³¹ *Id.* § 39.001.

SCT Exceptions at 32 (excepting to PFD FOF Nos. 95-98, 103-106, OP No. 25).

- Unlike all existing ERCOT DC ties, which are owned and operated by Transmission Service Providers (TSPs), Southern Cross is not a TSP and the SCT Project's "business model" is—by Southern Cross's own admission—potentially incompatible with the broad range of requirements to which a TSP is subject. The merchant-owned SCT Project, whose objective is to compete profitably in the ERCOT market in a new way by exporting and importing power, is fundamentally distinct from the existing DC ties that operate in ERCOT today. 34
- Unlike all existing ERCOT DC ties, the combined capacity of which is only 1,255 MW (with individual ties ranging from just 35 to 600 MW³⁵), the SCT Project received Federal Energy Regulatory Commission (FERC) orders to interconnect in ERCOT and provide transmission service for "up to" 3,000 megawatts (MW) and, according to Southern Cross's filings in this docket, is presently being designed to accept approximately 2,100 MW in either direction. 36
- Unlike all existing ERCOT DC ties, the SCT Project presents "substantially larger congestion management issues, thus making it "more difficult for SCED to manage thermal constraints impacted by transfers over the tie" than for the smaller existing DC ties.³⁷ Thus, even if the SCT Project were to import only 1,500 MW, rather than the 2,100 MW currently proposed (or 2,000 MW of import, net of losses), the record evidence establishes that the ERCOT transmission system as it exists today would experience thermal overloads.³⁸
- Unlike all existing ERCOT DC ties, the SCT Project will significantly impact resource dispatch in ERCOT, particularly during scarcity conditions, due to the inability of the existing transmission system to accommodate current resources and flows over the tie line on the scale proposed by Southern Cross. This situation is made worse by the fact that DC tie imports are not dispatchable by SCED, as explained in the testimony of Mr. Dan Woodfin and Dr. Shams Siddiqi. 40
- Unlike all existing ERCOT DC ties, the SCT Project will have a far greater potential to impact ERCOT system reliability, as confirmed by Mr. Woodfin, testifying on behalf of ERCOT: "If the Southern Cross DC tie is importing at full capacity without providing PFR [Primary Frequency Response] or VSS [Voltage

Direct Testimony of Charles Griffey, TIEC Ex. 1 at 28:9-21.

Direct Testimony of Amanda J. Frazier, Luminant Ex. 2 at 6:2-5.

Direct Testimony of Dan Woodfin, ERCOT Ex. 2 at 6:19-23.

Direct Testimony of David Parquet, Southern Cross Ex. 1 at 3:18-22.

³⁷ *Id.* at 8:20-23.

³⁸ Tr. at 276:10-14 (Lasher Cross) (June 1, 2016).

Luminant Ex. 1 at 11:15-12:8, 13:3-8.

ERCOT Ex. 2 at 7:14; Luminant Ex. 1 at 10:20-21.

Support Service], there could be reliability implications because it is displacing generation on the ERCOT System that has such capabilities."⁴¹

- Unlike all existing ERCOT DC ties, the size and configuration of the SCT Project introduces new uncertainty from a system planning perspective. As Mr. Warren Lasher testified on behalf of ERCOT, "A new DC tie, especially one that is larger than existing ties and connects ERCOT to a different portion of the Eastern Interconnect than do our existing DC ties, may not follow the operational patterns of the existing DC ties."
- Unlike all existing ERCOT DC ties, the SCT Project has the potential to impose significant new costs. For example, if insufficient PFR is available on the ERCOT System due to the displacement by this DC tie of other generation, ERCOT will have to procure more Responsive Reserve Service. Further, the SCT Project would establish a new Most Severe Single Contingency in the ERCOT system, necessitating the need for ERCOT to procure additional ancillary services. In addition, ERCOT will need to substantially expand its capabilities to incorporate the SCT Project into outage coordination, further increasing costs for ERCOT.

The PFD correctly acknowledges that the SCT Project represents a major departure—in purpose, scale, and complexity—from the Commission's and the ERCOT wholesale market's experience with DC ties to date. Accordingly, the conditions that the ALJs recommend in light of the unique characteristics of the SCT Project are reasonable, and the Commission should adopt the PFD's findings and conclusions in support of these reasonable conditions.

II. RESPONSE TO EXCEPTIONS OF TIEC

TIEC recognizes that the Commission is fully authorized to impose reasonable conditions necessary to protect the public interest, but suggests that this authority is narrowly confined to ensuring that the SCT Project does not "harm reliability or increase costs for ERCOT customers." In fact, the Legislature specifically directed the Commission to consider, and propose conditions to address, the public interest impacts of the SCT Project on "consumers and"

ERCOT Ex. 2 at 16:16-19.

Direct Testimony of Warren Lasher, ERCOT Ex. 1 at 10:20-22.

ERCOT Ex. 2 at 16:20-23.

⁴⁴ *Id.* at 17:11-24; Staff Ex. 3.

⁴⁵ Staff Ex. 11.

Texas Industrial Energy Consumers' Exceptions to the Proposal for Decision at 3 (Aug. 4, 2016) ("TIEC Exceptions").

producers," with the express recognition that interconnection of the SCT Project would have "a significant impact on price formation [and] resource dispatch practices," among other issues.⁴⁷ Accordingly, the Legislature determined it was necessary to amend PURA for the specific purpose of allowing the Commission to fully assess the impacts posed by this Project, thereby "[e]xtending the CCN process" in order to "give the PUC a way of examining these issues" of grid reliability, wholesale market prices, and costs to operate the grid in order "to determine the impacts on consumers and producers." TIEC's constrained view of the "public interest" is at odds with this clear legislative directive.

Importantly, one of the primary impacts that the SCT Project is likely to have on producers in ERCOT (i.e., generators) is the suppression of prices during Energy Emergency Alert (EEA) conditions if ERCOT takes the out-of-market action of either directing imports or curtailing exports over the SCT DC Tie.⁴⁹ From a public interest perspective, the suppression of prices during the precise time that scarcity price signals are critical for the proper operation of—and long-term investment decisions in—the ERCOT energy-only market is an issue that the Commission has previously recognized requires correction.⁵⁰ The same important policy direction from the Commission that led to the adoption of Nodal Protocol Revisions Request (NPRR) 626 is needed here, to address a fundamentally similar issue. Thus, the Commission should decline TIEC's invitation to reject outright any proposal to address this important public interest issue in connection with its adoption of reasonable conditions in this case.

Moreover, TIEC's critique of Luminant's proposal to mitigate price suppression as an attempt to "artificially increase prices" does not withstand scrutiny.⁵¹ As TIEC's cross-examination of Dr. Siddiqi revealed, Luminant's requested condition for ERCOT to mitigate price reversal under the circumstances described is designed to correct price distortion from *ERCOT's* intervening in the market—"intervention that needs to be priced into the system."⁵²

See supra note 8 (emphasis added).

See House Research Organization, Bill Analysis, S.B. 933, 84th Leg., R.S. (May 25, 2015) (emphasis added).

⁴⁹ Luminant Ex. 1 at 8:4-8.

⁵⁰ *Id.* at 9:3-19.

TIEC Exceptions at 10, 12.

Tr. at 251:5-14, 252:13-21 (Siddiqi Cross) (June 1, 2016).

And the price adjustment would only occur for the duration of the ERCOT out-of-market reliability action, not for all market-driven imports and exports that are an integral part of normal market activity.⁵³ While TIEC strains to characterize this proposal as unfair and asymmetrical, the record evidence does not support its claims.

The Commission should provide specific guidance in this case that price reversal and suppression resulting from ERCOT-directed imports and curtailment of exports over DC ties during an EEA are contrary to the public interest, and ERCOT should be ordered to mitigate such price reversal and suppression as a condition to the interconnection and energization of the SCT Project.

III. RESPONSE TO EXCEPTIONS OF ERCOT

A. Timing Considerations

In its limited exceptions to the PFD, ERCOT seeks clarification to ensure that the ordering paragraphs are not read to require ERCOT to complete actions in time to accommodate SCT's preferred timelines.⁵⁴ For the reasons discussed in Section I.B above, Luminant supports ERCOT's request that the Commission explicitly clarify that it is not imposing deadlines by which ERCOT or the ERCOT stakeholder process must develop and implement solutions to the issues addressed in the ordering paragraphs.

B. FERC Jurisdiction

As discussed in further detail in Section I.B above, electric utilities that own the facilities comprising ERCOT are not subject to the FERC's plenary jurisdiction, and the FERC does not have plenary jurisdiction over wholesale transmission service or power sales within ERCOT. Accordingly, Luminant supports ERCOT's suggested revisions to the PFD to clarify this jurisdictional distinction.

C. Managing Congestion

In response to ERCOT's exception to Ordering Paragraph 24, Luminant reiterates its argument that the evidence supports ordering ERCOT to develop and implement an appropriate

Luminant Ex. 1 at 9:16-19; Tr. at 254:6-16 (Siddiqi Cross) (June 1, 2016).

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

CMP (potentially including an SPS) that functions to control (directly or indirectly) the generation and transmission elements in the area of the SCT Project, including the tie itself. However, in the event the Commission instead adopts ERCOT's proposed ordering language, Luminant urges the following modification:

Before it may allow the interconnection of the Southern Cross DC tie, ERCOT must determine <u>and fully implement</u> an appropriate means of managing congestion that may arise from the interconnection of the Southern Cross DC tie.

IV. CONCLUSION AND PRAYER

Luminant respectfully requests that the Commission deny the exceptions of Southern Cross and TIEC, as discussed herein. Luminant further prays that the Commission grant its exceptions and include the following ordering language in its Final Order:

- 1. As a condition of the interconnection of the Southern Cross DC Tie, ERCOT shall mitigate price reversal and suppression resulting from ERCOT-directed imports and curtailment of exports over DC ties during an Energy Emergency Alert (EEA).
- 2. As a condition of the interconnection of the Southern Cross DC Tie, ERCOT shall develop and implement an appropriate congestion management plan, potentially including a Special Protection System, that functions to control (directly or indirectly) the generation and transmission elements in the area of the Southern Cross DC Tie, including the tie itself.
- 3. ERCOT shall develop a method to specifically identify congestion that is caused by imports and exports across the SCT Project and determine how to address such congestion in ERCOT's transmission planning process.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified that a copy of the foregoing has been served on all parties of record on this, 9th day of August, 2016, in accordance with SOAH Order No. 3 issued in this docket.