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

BEFORE THE
 PUBLIC UTILITY COMMISSION
 FILING CLERK

PUBLIC UTILITY COMMISSION

OF TEXAS

**REPLY OF SOUTHERN CROSS TRANSMISSION LLC
 TO TIEC'S MOTION FOR REHEARING**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Southern Cross Transmission LLC (SCT), pursuant to the Administrative Procedure Act, Tex. Gov't Code §§ 2001.146(b) and PUCT Proc. Rule 22.264, timely files this, its Reply to TIEC's Motion for Rehearing of the Commission's Order dated September 8, 2016. In support of its Reply, SCT respectfully shows as follows:

- A. The Commission should reject TIEC's recommendation that the Commission find that the costs assignments to SCT are premised on a lack of benefits to ERCOT customers.**

Texas Industrial Energy Consumers (TIEC) urges the Commission to add a specific finding that SCT failed to show that its DC Tie will provide meaningful benefits to ERCOT customers. The evidence does not support such a finding. First, SCT submitted the comprehensive results of *two* studies demonstrating substantial ERCOT customer benefits from interconnecting with the SCT DC Tie. Second, as a matter of procedure the party recommending a condition has the burden of proof as well as the burden of persuasion. TIEC failed to provide any economic study of its own or present any economic analysis that demonstrated the SCT Project would not produce substantial benefits to ERCOT customers.

Even though SCT did not have the burden to prove anything, it submitted into evidence an economic analysis of the SCT DC Tie using ERCOT's 2020 transmission grid topology and assumptions. The study was performed by Ellen Wolfe, a highly-respected system modeler, who in 2004 led ERCOT's study of the benefits of a nodal market. Her study showed that under expected study-year market conditions, the SCT Project will reduce annual production costs in ERCOT by \$175 million, result in annual consumer benefits of \$162 million, and generate

annual export charges of \$65 million to offset transmission revenue and ERCOT Settlement Charges requirements that would otherwise be charged to ERCOT loads.

As part of her analysis, Ms. Wolfe updated her 2010 study of the SCT Project based on ERCOT's then 2015 transmission grid topology along with assumptions and inputs from the ERCOT Regional Planning Group. That study found \$79 million in annual production cost savings and \$700 million in annual consumer energy benefits. The difference in costs savings between the two studies reflects the large difference in natural gas prices and levels of wind thermal and other generation as well as changes in system topography from one study-year to the other, all of which affected estimated flows across the SCT DC Tie. The point, however, is that the only economic analysis in evidence shows significant customer benefits under two radically different sets of market conditions—one with high wind, low gas price conditions, the other with low reserve margins and high gas price conditions.

By contrast, TIEC produced no studies or economic analysis to rebut Ms. Wolfe's conclusion that the SCT DC Tie would provide substantial benefits to ERCOT customers.¹ Neither TIEC nor any other party specifically challenged benefits such as the substantial revenues from the ERCOT export charges, additional emergency power supply to improve ERCOT system reliability, and boosts to the local economies in East Texas, West Texas, and the Panhandle. In light of the magnitude of the economic benefits shown in Ms. Wolfe's studies and the complete lack of any economic analysis to support the conclusory statements of TIEC's witness, there is no substantial evidence in the record to support TIEC's proposed finding. TIEC's proposed finding is in fact contradicted by the record evidence. (A more complete discussion of Ms. Wolfe's study can be found in SCT's Exceptions to the Proposal for Decision, Exception No. 8 at 23-28.)

Finally, revising Finding of Fact 113A as suggested by TIEC would be contrary to SCT's FERC order. In issuing its Order, FERC determined the interconnection was in the public interest

¹ TIEC's criticisms were based on uncertainty as to the Point of Delivery in Mississippi, a difference in modeling assumptions used for the ties to Mexico from those currently used by ERCOT and TIEC's unreasonable and unmanageable discovery request for over 1 billion hourly data records for about 70,000 nodes in ERCOT and the southeast which were not maintained by the UPLAN computer simulation. While the uncertainty of the Eastern endpoint and the assumptions used to model the ties to Mexico might change the level of benefits, they do not at all call into question that the interconnection of the SCT DC Tie would create significant benefits. The only thing the hourly data records would have shown was that the UPLAN program could do math correctly.

and specifically found that the requested interconnection and transmission service would not impair the reliability of the affected electric systems.

B. The Commission should reject TIEC's ill-conceived suggestion that it not follow its own rules, which embody the current policy that "load pays" for transmission upgrades, ancillary services, and other system costs.

TIEC urges the Commission to delete the phrase "unless otherwise required by Commission rules" in Finding of Fact 119B and substitute the phrase "unless the Commission subsequently amends its rules to provide otherwise." By making this change, TIEC would have the Commission include a finding of fact that is on its face contrary to the Commission's obligation to follow its own rules. See *Flores v. Employees Retirement System*, 74 S.W. 3d 532, 542 (Tex. App.—Austin 2002, pet. denied).

As SCT explained in its Motion for Rehearing, the assignment of costs to SCT is inconsistent with PURA, the Commission's current rules, and the longstanding practice in ERCOT. The phrase "unless otherwise required by Commission rules" is therefore necessary so that Finding of Fact 119B will at least be consistent with the current rules. TIEC's revised phrase is based on the incorrect assumption that the Commission would have to amend its rules in order to assign costs to ERCOT ratepayers—ignoring the fact that they already bear those costs under current rules.

TIEC's self-serving suggestion that the Commission revise Finding of Fact 119B to require a rulemaking before the Commission can assign costs to ERCOT customers should be rejected. It is understandable that TIEC would like to help its members avoid the Commission's current rules and shed or avoid costs. But in this instance, TIEC is asking the Commission to assign costs in a manner contrary to current rules.

C. TIEC's proposal to change Finding of Fact 112 highlights the problems with the Commission's treatment of the most severe single contingency (MSSC) and should be rejected.

TIEC proposes that the Commission modify Finding of Fact 112 to remove any suggestion that SCT will become the MSSC when it is exporting. Plainly, TIEC is concerned that a consistent application of the Commission's assignment of ancillary services costs to SCT as the largest single load could likewise make a TIEC member responsible for such costs. Indeed, a TIEC member—perhaps a petrochemical plant or an LNG facility—is probably already the

largest single load and, under the Commission's ruling, should be assigned incremental ancillary services costs.

In several ways, TIEC's proposal to modify Finding of Fact 112 highlights the serious flaws in the Commission's decision. As discussed in SCT's motion for rehearing, the direct assignment of ancillary services costs to SCT and users of its tie is discriminatory and inconsistent with PURA and Commission rules.² As the ALJs pointed out, the appropriate venue to assess technical issues relating to the MSSC is ERCOT, and the Commission should therefore reconsider its decision as SCT has urged.

TIEC members are not alone in wanting to avoid being assigned incremental ancillary services costs as the MSSC. Luminant also opposed the imposition of ancillary services costs on the MSSC,³ presumably because such a practice could deter construction of large generation facilities. Like a TIEC member on the load side, a large new generator could become the largest single resource and responsible for incremental ancillary services costs under the Commission's new approach. The concerns of TIEC and Luminant thus highlight the potential consequences of breaking with the longstanding policy in ERCOT of allocating ancillary services costs based on customers' load-ratio shares.

The Commission has never previously assigned ancillary services costs directly to the MSSC, and there is no lawful basis for singling out SCT for such treatment. Since the Commission is expected to consistently implement its orders and policies, large industrial customers and large generators alike have good cause to be concerned about the Commission's direct assignment of costs to the MSSC in this case. Assignment of ancillary services costs to SCT, but not to other MSSCs, would be discriminatory on its face. Finding of Fact 112 should be deleted, not modified.

D. TIEC's recommendation to use consistent wording in assigning costs to SCT and entities using the SCT DC Tie would not cure the underlying flaws in the Commission's order.

The purpose of TIEC recommendation that the Commission use consistent wording in assigning costs is not to improve the Commission's draftsmanship, but rather is a self-interested

² Southern Cross's Motion for Rehearing at Points of Error 1, 2, 10 and 12.

³ Luminant Ex. 1, Direct Testimony of Amanda J. Frazier at 10.

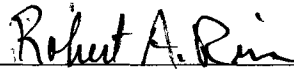
attempt to ensure that there are other entities responsible for costs before TIEC members would have any responsibility.

The real problem is not in the wording of the finding of fact, but in the Commission's cost assignment away from load. Assigning costs to SCT and entities using the SCT DG Tie is unprecedented. As discussed in SCT's motion for rehearing, the Commission does not have the authority to assign costs to SCT. And even if the Legislature had granted the Commission such authority—which it has not—there is no evidence in this case supporting such an assignment of costs. The proposed assignment of costs is contrary to PURA and the Commission Rules, as explained in SCT's motion for rehearing.⁴

CONCLUSION

SCT respectfully requests that the Commission reject TIEC's recommendations, deny TIEC's Motion for Rehearing, and grant SCT such other and further relief to which it may be entitled.

Respectfully submitted,



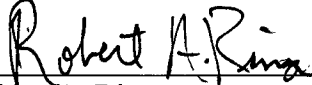
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⁴ See Motion for Rehearing of Southern Cross Transmission LLC, Points of Error Nos. 1-4, 7-13 and 19.

CERTIFICATE OF SERVICE

I certify that on October 18, 2016, a true and correct copy of this document was served on all parties via the Public Utility Commission of Texas Interchange website.



Robert A. Rima *ln w/penner*