PUC DOCKET NO. 49421

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APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES	§ § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

FILING CLERK

TEXAS COMPETITIVE POWER ADVOCATES
STATEMENT OF POSITION

The Texas Competitive Power Advocates (TCPA) files this Statement of Position in the above-referenced proceeding.

TCPA supports the adoption of the methodology advocated by H-E-B, L.P. (HEB) in the direct testimony of George W. Presses for allocation of transmission and distribution costs. Specifically, TCPA agrees that allocation of costs on a Non-Coincident Peak (NCP) basis would be preferable to continued allocation pursuant to the ERCOT Four Coincident Peak (4CP)[1] basis or the "CenterPoint 4CP" proposal raised by CenterPoint Energy Houston Electric, LLC (CenterPoint) in errata filed to its Application in this case. NCP cost allocation equitably allocates costs among the users of the electric grid and better aligns with the market principles of the ERCOT energy-only market, which TCPA strongly supports.

Problems with use of the 4CP methodology for transmission cost allocation have been raised in many contexts including the 2018 State of the Market Report by the ERCOT Independent Market Monitor, which noted that as much as 1,500 MW of load actively pursues reduction during 4CP intervals, distorting prices during peak demand period because the response targets demand for transmission cost management purposes rather than wholesale

[1] Calculated on the basis of load contribution in the highest 15-minute system demand during the months of June through September each year.

energy prices on which the energy-only market depends.[2] The report filed in Project No. 47199[3] also analyzed numerous shortcomings with the use of the 4CP methodology, noting:

> "Transmission costs are sunk because, unlike variable costs, they do not change depending on energy demand in an interval. A general principle of market design is to allocate sunk costs to minimize impacts on real-time markets, since allocating sunk costs based on real-time supply or demand can impact the efficiency of the real-time market. ERCOT does not conform to this principle; rather, the transmission costs charged to the largest customers are determined based on their demand in four peak summer intervals using the Four Coincident Peak (4CP) transmission cost allocation methodology."[4]

The report observed that 4CP transmission cost allocation operates as an out-of-market effect that suppresses peak and near-peak energy scarcity prices.[5] This is a problem for an energy-only market such as ERCOT because the reduction in demand during peak prices is responsive to allocation of sunk transmission costs rather than market energy prices.[6] As a consequence, the incremental consumption price for 4CP customers is orders of magnitude higher than the energy prices paid to suppliers, which is distortive to an energy-only market because it raises the opportunity cost of load reduction above the marginal cost of electricity supply.[7] This provides no cost savings to the market on a net basis, but rather reallocates costs to other customers who are not (yet) attempting to game the 4CP system.[8]

TCPA intends to continue participation in this docket to address issues related to transmission cost allocation and other issues that may have significant impact on the competitive

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[2] IMM 2018 State of the Market Report at 91.
[3] Priorities for the Evolution of an Energy-Only Electricity Market Design in ERCOT by William W. Hogan and Susan L. Pope, May 9, 2017.
[4] *Id.* At 76.
[5] *Id.* At 76-84.
[6] *Id.*
[7] *Id.*
[8] *Id.*

ERCOT electricity market. TCPA respectfully reserves the right to supplement this Statement of Position, to participate in the hearing, and provide post-hearing briefing to address these and other issues raised prior to the resolution of this case.

Respectfully submitted,

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ATTORNEYS FOR TEXAS COMPETITIVE POWER ADVOCATES

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing instrument has been served via facsimile or first-class mail to all parties of record in this proceeding on this 12th day of June, 2019.

Andres Medrano