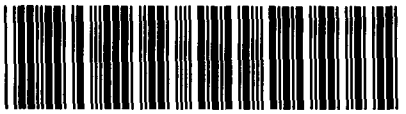

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APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES	§ § § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

TEXAS COMPETITIVE POWER ADVOCATES INITIAL BRIEF

The Texas Competitive Power Advocates (TCPA) files this Initial Brief in the above-referenced proceeding. TCPA addresses a specific set of issues as identified in the Proposed Briefing Outline and shown below.

VII. Cost Allocation [PO Issues 4, 5, 43, 44, 46]

A. Class Allocation of Transmission Costs

1. "CenterPoint 4CP" versus "ERCOT 4CP" Class Allocation (separately for both transmission and for distribution)
2. Transmission and Distribution Demand Allocation Factors (4CP vs NCP class allocation (separately for both transmission and for distribution)
3. 4CP Rate Design versus NCP Rate Design (separately for both transmission and for distribution)
4. Moderating the Update to the 4CP Class Allocation Factor

TCPA supports the allocation of costs on a Non-Coincident Peak (NCP) basis for both transmission and distribution costs. An NCP cost allocation would be preferable to continued allocation pursuant to the Four Coincident Peak (4CP)[1] basis or the "CenterPoint 4CP" proposal advocated by CenterPoint Energy Houston Electric, LLC (CenterPoint). NCP cost allocation more 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.

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

As noted in TCPA's Statement of Position and discussed in the Rebuttal Testimony of Staff witness William Abbott, concerns about the ERCOT 4CP methodology have been raised in many contexts including the 2018 State of the Market Report by the Independent Market Monitor and the academic paper titled *Priorities for the Evolution of an Energy-Only Market Design in ERCOT* filed in PUC Project No. 47199.[2] The IMM Report noted that as much as 1500 MW of load actively pursues reduction during 4CP intervals, distorting energy prices during peak demand periods because the response targets transmission pricing rather than wholesale energy prices on which the energy-only market depends.[3] The paper filed by Dr. Susan Pope, Managing Director of FTI Consulting and Dr. William Hogan, director of the Harvard University Electricity Policy Group, 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 paper 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

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[2] Priorities for the Evolution of an Energy-Only Electricity Market Design in ERCOT by William W. Hogan and Susan L. Pope, May 9, 2017.

[3] IMM 2018 State of the Market Report at 91.

[4] *Id.* At 76.

[5] *Id.* At 76-84.

energy-only market such as ERCOT because the reduction in demand during peak usage is responsive to allocation of sunk transmission costs rather than market energy prices.[6] Transmission costs have increased significantly over the past decade and the total Transmission Cost of Service (TCOS) for 2019 has reached $3.64 billion.[7] As a consequence, the incremental price of transmission for customers is orders of magnitude higher than the energy prices paid to suppliers which creates an inefficiency in the energy-only market by raising the opportunity cost of load reduction above the marginal cost of electricity supply.[8] Importantly, the cost shifting as a result of 4CP provides no transmission cost savings for consumers on a net basis, but rather reallocates costs to other customers who are not (yet) attempting to game the 4CP system.[9]

Opposition to the NCP cost allocation method has primarily been asserted by CenterPoint and Commission Staff. CenterPoint advocates adoption of a CenterPoint 4CP method that is essentially identical to the ERCOT 4CP method but considers only the peak load of the CenterPoint service territory.[10] Staff advocates continued use of the ERCOT 4CP method, though Staff agrees that a NCP method of cost allocation would be appropriate for demand-related distribution costs.[11]

Though Staff does not specifically explain why NCP is appropriate for distribution costs Staff implies that the Commission has previously determined that distribution costs as allocated for retail distribution service are not based on peak load demand and thus should be allocated

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[6] *Id.*

[7] https://interchange.puc.texas.gov/Documents/48928_41_1008152.PDF

[8] *Id.*

[9] *Id.*

[10] *See* Rebuttal Testimony of Matthew A. Troxle at 5-11.

[11] *See* Cross-Rebuttal Testimony of William B. Abbott at 28-44.

based on a customer's highest distribution demand regardless when that demand occurs.[12] TCPA does not inherently disagree with Staff's position on the appropriateness of the NCP method for allocating distribution costs. Rather, TCPA believes that the evidence demonstrates that *transmission* costs are also incurred for reasons almost entirely divorced from 4CP demand. Therefore, an NCP method of allocation is equally as appropriate for transmission costs as distribution costs.

A. PURA and the Commission's Rules do not Require 4CP Allocation to Retail Customers

TCPA and CenterPoint agree that Staff's asserted position that a 4CP allocation method for retail customers is required by PURA and the Commission's Rules is fundamentally incorrect. Staff witness William Abbott testified that the "Commission has determined that [4CP] is the basis by which transmission costs should be allocated to and collected from customers" and that PURA § 35.004(d) and 16 TAC § 192.(b)(1) mandate use of the 4CP method for transmission cost allocation to retail customers.[13] This position was refuted by CenterPoint witness Matt Troxle, who testified:

> "[16 TAC § 192] is the wholesale transmission rule. Wholesale transmission costs, essentially, go into the ERCOT net wholesale payment metrics, and then they get spread out to the other distribution service providers in ERCOT. Whereas when you're talking about allocation to the customer classes, [that's] a retail issue, not a wholesale issue."[14]

Further, Mr. Troxle concluded that use of ERCOT 4CP to allocate transmission costs among the rate classes is not required and that there is no requirement that the wholesale

[12] *See id.* at 30.

[13] Tr. At 903, ln. 5-8 and Rebuttal Testimony of William Abbott at 32 (Bates 33).

[14] Tr. At 997 ln. 19-25.

allocation and retail allocations match.[15] Thus an NCP allocation method or the CenterPoint 4CP method would both be permissible pursuant to PURA and the Commission's Rules.[16]

B. The 4CP Allocation Method does not Accurately Reflect Cost Causation

The 4CP method of allocation was developed at the start of the competitive ERCOT market on the assumption that the transmission system would be predominately designed to meet peak load.[17] That assumption has been proven incorrect in the eighteen years since market competition began. Quite simply, if summer peak demand on the transmission system as measured by 4CP were the true driver of transmission costs, transmission costs should have decreased over time in response to customer behavior to avoid incurring costs at times of peak load. Instead, the opposite has happened and, as acknowledged by Staff, transmission costs have spiraled ever upwards in the ERCOT market both as an overall cost of investment in the system and as a proportion of retail customers' bills. For comparison, ERCOT recently reported that 4CP response by customers increased by nearly 100% from 2014 to 2018.[18] However, transmission costs increased by 35% or $924 million over that same period demonstrating the lack of cost causation related to the 4CP transmission cost allocation mechanism.[19]

Whether or not the 4CP method ever accurately measured the drivers of transmission costs, it certainly does not do so at the present time as illustrated by the manner in which transmission planning is conducted at ERCOT. Through the Regional Planning Group (RPG)

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[15] Tr. At 998 ln. 5-18.

[16] Tr. At 999 ln. 5-9.

[17] *See* Docket No. 22344 Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and Public Utility Commission Subst. R. 25.344 (2000).

[18] http://www.ercot.com/content/wcm/key_documents_lists/172869/DSWG_2019_4CP___Retail_DR_Analysis_Raish.pptx (slide 8)

[19] PUCT Docket 42062 (Application to Set 2014 Wholesale Transmission Charges) and PUCT Docket 47777 (Application to Set 2018 Wholesale Transmission Charges)

process, each Transmission Service Provider (TSP) assesses the reliability of its transmission system based on criteria established by ERCOT. This criteria assesses the need for transmission by utilizing the individual *TSP's system* peak, regardless of when this peak occurs relative to ERCOT's system peak. Thus, the determination of need for additional transmission system development is entirely disconnected from the ERCOT 4CP method. The 4CP method does not represent accurate cost causation.

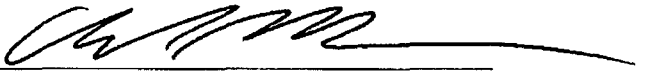
Distribution system build has no relation to summer peak load as it is based instead on economic development and population growth. Simply put, newly constructed or expanding business and residential development requires additional distribution infrastructure. This is true for the transmission system as well. Increasingly, transmission build is dictated by load that does not conform to peak demand as measured by the 4CP method. This non-conforming load includes the massive growth of oil and gas load in Texas due to new methods of accessing shale resources, renewable interconnections that often require long transmission lines to allow wind and solar resources reach load because of both geography and congestion issues, and the load required by liquid natural gas (LNG) facilities along the gulf coast.

The CREZ transmission projects alone imposed a transmission cost expenditure of almost $7 billion. None of that cost was related in any way to 4CP summer peak demand, yet all of that cost is currently allocated to customers on a 4CP basis. For the past decade, the ERCOT planning process has been based on the NCP for each TSP rather than 4CP. There is no basis for continuing to allocate wholesale or retail transmission costs on a 4CP basis when transmission construction and development is not evaluated or approved on that basis.

C. Conclusion

Adoption of an NCP method for allocation of transmission and distribution costs to retail customers would better reflect the manner in which transmission costs are incurred on ERCOT customers and far more accurately follow cost causation principles than the currently used 4CP method. 4CP was instituted at a time when the competitive energy market was being planned and many of the assumptions that supported adoption of the 4CP method have been proven to be inaccurate over time. No party disputes that transmission costs have risen dramatically as a proportion of consumers' bills over the past decade. This increase has been driven primarily by projects designed to interconnect renewable generation, oil and gas development, and other non-peak-conforming load. Continuing reliance on the 4CP method of cost allocation is not required by statute or the Commission's rules and is an ineffective and market-distorting artifact that is long past its usefulness. TCPA respectfully requests that CenterPoint be directed to allocate retail transmission and distribution costs utilizing the NCP method.

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 9th day of July, 2019.

Andres Medrano