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

**TEXAS COMPETITIVE POWER ADVOCATES  
EXCEPTIONS TO THE PFD**

Texas Competitive Power Advocates (TCPA) submits these exceptions to the Proposal for Decision (PFD) issued by the Administrative Law Judges (ALJs) in this docket on September 16, 2019. TCPA appreciate the diligence with which the ALJs examined many contested issues in this proceeding.

**I. DISCUSSION**

TCPA respectfully disagrees with the PFD's conclusions that CenterPoint Energy Houston Electric, LLC's (CenterPoint's) allocation<sup>1</sup> of and rate design<sup>2</sup> for transmission costs should be based on an ERCOT Four Coincident Peak (4CP) method. To be clear, TCPA is not advocating that CenterPoint's proposal to allocate or design rates to recover transmission costs on a 4CP method based on its own system's demand peaks (CEHE 4CP) should prevail. Rather, TCPA maintains that any allocation method or rate design for transmission costs based on a 4CP method is flawed and inconsistent with cost causation principles.

Transmission cost allocation and rate design using the 4CP methodology are of particular concern to TCPA because they result in inequitable cost shifting from one class of electricity customers to another. Because 4CP methods are dislocated from cost causation principles, they do not lower transmission costs in the future but do meaningfully influence the ERCOT wholesale market in a manner that undermines key principles needed for an energy only market to succeed. Moreover, the issues with 4CP will only continue to grow as transmission costs continue to increase in ERCOT.

Of primary concern to TCPA are the PFD's erroneous and factually unsupported conclusions that allocation of and rate design for recovery of transmission system costs using 4CP

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<sup>1</sup> PFD at 346-347 at 443 at Findings of Fact (FOF) 356-361.

<sup>2</sup> PFD at 357-360

methodologies best achieves cost causation.<sup>3</sup> Specifically, the PFD notes that the ALJs find that “consistently matching the allocation of [wholesale transmission] costs with how they are incurred, based on CenterPoint customers’ ERCOT 4CP usage, best achieves cost causation, as compared to CEHE 4CP or an NCP method.”<sup>4</sup> This statement conflates the allocation of transmission costs in ERCOT with the cause of the underlying costs themselves. Additionally, the PFD’s conclusions that 4CP, as a rate design mechanism, does not encourage gaming and can result in the “total avoidance” of transmission costs is unsupported by basic logic.<sup>5</sup> Transmission costs remain fixed regardless of each Distribution Service Provider’s (DSP’s) rate design, are socially allocated, and therefore must be shifted to other customers whether or not they are within an individual DSP’s rate base.

#### **A. ERCOT 4CP Transmission Cost Allocation Is Not Cost Causation**

The ERCOT transmission system is not planned or developed based on serving ERCOT system load during 4CP intervals. Rather, 4CP is a billing mechanism that allows Transmission System Providers (TSP) to allocate their transmission system costs of service to DSPs using the DSP’s proportionate average of the ERCOT coincident peak demands for the months of June, July, August and September. As thoroughly detailed in TCPA’s Initial and Reply Briefs, transmission system costs are incurred for a variety of reasons, none of which are directly connected to the ERCOT system 4CP intervals. The primary drivers of ERCOT transmission system development are: reliability projects based on individual TSP’s non-coincident peak load forecasts of their individual systems, public policy objectives such as Competitive Renewable Energy Zones (CREZ), generation interconnections, and load transfers between ERCOT and other regions.<sup>6</sup> The costs allocated based on the 4CP methodology also include ongoing operations and maintenance expenses to support the transmission system, which are not related to 4CP intervals either. TCPA respectfully requests the Commission recognize the dislocation between cost causation principles and the 4CP methodology.

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<sup>3</sup> See PFD at 346-347 at 443 at FOF 360.

<sup>4</sup> PFD at 347.

<sup>5</sup> *Id.*

<sup>6</sup> See also ERCOT Planning Guides Sections 4 and 6 which require TSPs to provide non-coincident peak forecasts, not 4CP.

## **B. 4CP Does Not Result in “Total Avoidance of Costs” But Does Enable Gaming**

Transmission cost shifting and gaming is enabled by the 4CP methodology in multiple ways. The 4CP methodology incentivizes certain customers to reduce consumption or operate backup generation during anticipated 4CP intervals to lower their share of transmission costs. At its most extreme, a sophisticated customer who responded during the 4CP intervals could temporarily reduce their use of the transmission system to escape all charges for the transmission service even though that customer actually uses the transmission system during the remaining 99.98% of the year. This activity shifts costs onto other customers both within the DSP and ultimately to other DSPs to pay for their use of the system. And since ERCOT transmission system costs are not directly caused by electricity consumption during 4CP intervals, all of this activity does nothing to actually avoid costs. It merely results in a transfer of transmission costs from one group of customers to others.

TCPA recognizes that transmission cost allocation using a methodology other than 4CP, such as NCP, is a policy change that may be better suited for a project or rulemaking. TCPA supports a review of transmission cost allocation methodologies in ERCOT that comport with PURA but also limit cost shifting and interference with ERCOT wholesale market while keeping TSPs whole for prudently incurred investments.

## **C. Recommended Revisions to PFD**

Consistent with the discussion above, TCPA respectfully recommends the following changes to the PFD’s findings of fact (FOF) relating to 4CP allocation for and rate design for recovery of transmission costs. Even though TCPA believes that 4CP should ultimately be eliminated as methodology that enables customers within a rate class to shift costs to others, TCPA does not recommend any such rate design changes at this time.

### **Cost Allocation**

#### **Transmission Costs**

356. CenterPoint incurs transmission costs in its role as a DSP in accordance with 16 TAC § 25.192, which mandates that those costs be incurred based on CenterPoint's retail customers' demand usage in proportion to ERCOT 4CP.

357. ERCOT 4CP is a cost allocation factor based on the four coincident peaks of demand for the 15-minute interval in which the ERCOT system peaks in the months of June, July, August, and September.

358. The Commission has consistently approved the use of ERCOT 4CP as the allocation factor for TDUs to allocate transmission costs among retail customer classes.

359. CenterPoint proposes to allocate transmission costs among its retail customer classes using CEHE 4CP, which is a cost allocation factor based on the four coincident peaks of demand for the 15-minute interval in which CenterPoint's system peaks in the months of June, July, August, and September.

360. HEB and TCPA advocated that transmission costs be allocated to customer classes based on an NCP method on the basis that such method would more accurately reflect cost causation, better align with market principles of the ERCOT energy-only market, and makes it more difficult for customers to shift costs to other customers.

361. The NCP method for allocating transmission costs to retail customer classes is reasonable and aligns with cost-causation principles.

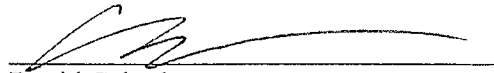
~~360. The ERCOT 4CP method for allocating transmission costs to retail customer classes is reasonable, consistent with Commission precedent, and aligns with cost causation principles.~~

361. CenterPoint should use an NCP method ~~the ERCOT 4CP method~~ to allocate transmission costs to its retail customer classes.

## **II. Conclusion**

TCPA appreciates the opportunity to submit these exceptions to the PFD. In the event the Commission determines it is appropriate to open a project or rulemaking to more fully address 4CP issues, TCPA looks forward to working with stakeholders in that process.

Respectfully submitted,

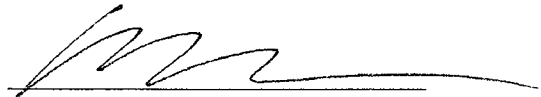


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**ATTORNEYS FOR TEXAS  
COMPETITIVE POWER ADVOCATES**

## **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 10<sup>th</sup> day of October, 2019.



Andres Medrano