PUBLIC UTILITY COMMISSION OF TEXAS
RECEIVED
JUN 18 2020
BY________
FILING CLERK

SOAH DOCKET NO. 473-19-6862
PUC DOCKET NO. 49737

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR CERTIFICATE OF CONVENIENCE AND NECESSITY AUTHORIZATION AND RELATED RELIEF FOR THE ACQUISITION OF WIND GENERATION FACILITIES	§ § § § § § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REPLY TO EXCEPTIONS TO THE PROPOSAL FOR DECISION OF EAST TEXAS ELECTRIC COOPERATIVE, INC. AND NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.

NOW COMES East Texas Electric Cooperative, Inc. ("ETEC") and Northeast Texas Electric Cooperative, Inc. ("NTEC") and files its Reply to Exceptions to the Proposal for Decision ("PFD").

I. INTRODUCTION

ETEC and NTEC continue to support the PFD's recommendation to deny the application. In particular, the PFD reached reasonable conclusions based on the record evidence concerning the likely costs associated with congestion and losses as well as the gen-tie.[1] Consistent with the PFD's analysis, SWEPCO understates these costs when conducting its economic evaluation.[2] Because these costs are an offset to the projected benefits of the Selected Wind Facilities, such an understatement has the effect of artificially increasing the projected benefits. When more reasonable estimates of these costs are taken into account, as the PFD has done, the estimated economic benefits are insufficient to justify the costs and risks associated with the Selected Wind Facilities. Although SWEPCO excepts to these findings, its arguments fail to overcome the

---

1 PFD at 57-70.

2 PFD at 68-70. *See also, for e.g.*, Direct Testimony of John Chiles, ETEC-NTEC Ex. 2 at Bates 00014-00019 (internal pages 12-17) (discussing additional and more reasonable costs associated with the gen-tie.) ("Chiles Direct").

credible evidence to the contrary.[3] For the reasons discussed below as well as in their initial and reply briefs, ETEC and NTEC support the PFD's recommended denial of the application.

VI. ANALYSIS OF ECONOMICS OF SELECTED WIND FACILITIES (P.O. ISSUE NOS. 2, 3, 5, 6, 19, 23)[4]

C. Economic Modeling

2. Projected Production Cost Savings

e. Congestion and Losses and Gen-tie

The PFD properly considered the evidence and found (1) SWEPCO's analysis includes understated congestion and loss costs, (2) SWEPCO's analysis unreasonably holds congestion and loss costs flat from 2029 to 2051, and (3) the gen-tie may cost more and reduce congestion and losses less than SWEPCO's analysis assumes.[5] Although SWEPCO disagrees with these conclusions, they are firmly supported by the weight of credible evidence.

1. SWEPCO's analysis includes understated congestion and loss costs.

The PFD recognized it was undisputed that PROMOD systematically understates congestion.[6] To account for this, it recommended a 5% adjustment to congestion costs based on a similar adjustment in *Wind Catcher*.[7] This recommendation, coupled with the adjustment below for inflation, helps correct the understated congestion that ETEC and NTEC, among other parties, identified and introduced evidence to demonstrate.

---

3 SWEPCO Exceptions to the PFD at 31-36 (Jun. 11, 2020).

4 Section and subsection numbering will not be sequential because ETEC and NTEC are following and referencing the section numbers used in the PFD, as requested by the Exceptions Memo (May 28, 2020).

5 PFD at 68-70.

6 PFD at 68.

7 PFD at 68.

2. **SWEPCO's analysis unreasonably holds congestion and loss costs flat from 2029 to 2051.**

In its exceptions to the PFD, SWEPCO identifies no evidence or argument that had not been previously considered and rejected in support of holding the cost of congestion and losses constant (in nominal dollars) for a 20+ year period beginning in 2029.[8] As discussed at length in ETEC and NTEC's initial and reply briefs, holding this cost constant ignores the fundamental concept of the time value of money.[9] The Commission recognizes the time value of money when it approves interest rates annually for customer deposits and over- and under-charges, for example.[10] Moreover, in numerous other areas of SWEPCO's analysis, it takes the time value of money into account. For example, the PFD noted that SWEPCO recognized inflation in O&M and in gen-tie costs.[11] The PFD corrected SWEPCO's error by accounting for inflation in the cost of congestion and losses beginning in 2030. This correction increases those costs and correspondingly reduces the estimated benefits of the project.

Relatedly, SWEPCO's continued reliance on SPP advancing transmission solutions is unsupported and not consistent with ETEC's experience and the evidence in this case.[12] This is highlighted when SWEPCO admits that not factoring in the cost a gen-tie as part of its RFP process—and being ready to build it afterwards, presumably—"would have exposed customers to substantial future congestion cost risk."[13] If SWEPCO was reasonably certain that SPP would

---

8 SWEPCO Exceptions to the PFD at 34-35.

9 ETEC/NTEC Initial Brief at 11-14; ETEC/NTEC Reply Brief at 6-7.

10 Summary available at https://www.puc.texas.gov/industry/electric/reports/HRates/HistRates.pdf. The interest rates for each year are approved by the Commission at an open meeting.

11 PFD at 70.

12 *See, e.g.*, Chiles Direct at Bates 00023 (internal page 21) ("Based on the Cooperatives' experience with their participation in the Grant Wind Farm in Oklahoma and the load being embedded within the AEPW system, having firm transmission service did not alleviate the congestion exposure.")

13 SWEPCO Exceptions to the PFD at 35. ("Nor does the PFD suggest that the Company should have selected bids without any consideration of controlling future congestion costs through construction of a gen-tie. Such an approach would have exposed customers to substantial future congestion cost risk, when that risk could effectively be mitigated by choosing highly ranked bids in locations that presented a gen-tie option as valuable protection against the risk of higher-than-projected congestion costs.")

advance transmission solutions to keep congestion costs at a \$9-10/MWh threshold, such substantial cost risk would not be present.

3. The gen-tie may cost more and reduce congestion and losses less than SWEPCO's analysis assumes.

The PFD finds that the cost of the gen-tie should be considered in the economic analysis of the proposed facilities and that SWEPCO's cost estimate for the gen-tie should be considered a "low end."[14] ETEC and NTEC agree and presented credible evidence supporting this conclusion.[15]

SWEPCO discounts potential gen-tie cost increases identified by ETEC and NTEC by stating NERC standards will not apply to the gen-tie. As SWEPCO notes, NERC standards apply to integrated transmission systems. However, SWEPCO has not made any commitment not to integrate the gen-tie. In fact, the gen-tie may be integrated upon its completion depending on the then-current transmission configuration. Thus, there is a reasonable basis to conclude that NERC standards may apply to the gen-tie. Even if they do not apply, however, reliable transmission planning may require the additional costs (or an offset for outages) that ETEC and NTEC identified.[16]

Moreover, the costs of the gen-tie are extended beyond the useful life of the Selected Wind Facilities. SWEPCO makes arguments relying on repowering the wind facilities, but this is an assertion without citation to the record evidence. Plans to repower the wind facilities did not appear to be part of SWEPCO's economic analysis. By requiring the cost of the gen-tie to be recovered over 30 years rather than 60 years, the cost impact of the gen-tie is significantly increased. The PFD properly recognizes this effect.

SWEPCO reiterates its agreement to seek PUC approval prior to constructing the gen-tie. As discussed in ETEC and NTEC's initial and reply briefs, however, once the Selected Wind

---

14 PFD at 70.

15 *See, e.g.*, Chiles Direct at Bates 00014-00019 (internal pages 12-17); ETEC/NTEC Initial Brief at 11-14; ETEC/NTEC Reply Brief at 6-7.

16 *See, e.g.*, Chiles Direct at Bates 00014-00019 (internal pages 12-17).

Facilities are approved, the Commission will lose a valuable opportunity to consider the gen-tie holistically with the Selected Wind Facilities.[17]

Even with a gen-tie, however, the PFD acknowledged there is insufficient evidence to conclude that congestion would be reduced to zero. Moreover, there is reasonable certainty that line losses would continue to be present and increase—perhaps at the rate of inflation—with a gen-tie, as line losses are a function of physics and cannot be eliminated by dedicated transmission.

XV. CONCLUSION

As discussed above and in its Exceptions to the PFD, ETEC and NTEC respectfully request the Commission adopt the PFD's recommendation and find that SWEPCO has not met its burden of proof in this proceeding. ETEC and NTEC also recommend the Commission revise Conclusion of Law No. 1 to include PURA § 14.101 as an applicable statutory authority for the reasons discussed in its Exceptions to the PFD.

[17] ETEC/NTEC Initial Brief at 14-15. SWEPCO's decision to understate congestion costs allows SWEPCO to show artificially high benefits and avoid having to justify a gen-tie—which will likely be needed—until after the Selected Wind Facilities are a sunk cost. *See* Chiles Direct at Bates 00023.

Respectfully submitted,

/s/ Jacob Lawler

Mark C. Davis
State Bar No. 05525050
Adrianne M. Waddell
State Bar No. 24098556
Jacob J. Lawler
State Bar No. 24076502
HOLLAND & KNIGHT, LLP
111 Congress Avenue, Suite 540
Austin, Texas 78701
(512) 472-1081 OFFICE
(512) 472-7473 FAX

William H. Burchette
DC Bar No. 957308
W. Patrick Burchette
DC Bar No. 1010944
F. Alvin Taylor
DC Bar No. 468545
HOLLAND & KNIGHT, LLP
800-17th Street, N.W., Suite 1100
Washington, DC 20006
(202) 955-3000 OFFICE
(202) 955-5564 FAX

**ATTORNEYS FOR EAST TEXAS ELECTRIC COOPERATIVE, INC.
AND
NORTHEAST TEXAS ELECTRIC COOPERATIVE, INC.**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was hand-delivered, electronically mailed and/or mailed by First Class, U.S. Mail, postage pre-paid this 18th day of June, 2020 to all parties of record.

/s/ Jacob Lawler
Jacob J. Lawler