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**PROJECT NO. 53169**

**REVIEW OF TRANSMISSION RATES     §     PUBLIC UTILITY COMMISSION  
FOR EXPORTS FROM ERCOT             §  
   §                             OF TEXAS**

**Southern Cross Transmission LLC's Initial Comments on Proposal for Publication**

Southern Cross Transmission LLC ("SCT") submits these comments concerning the Proposal for Publication approved at the August 4, 2022 open meeting. The proposal for publication indicated that initial comments should be filed by September 1, 2022 so these comments are timely filed. An executive summary is included at the end of this filing.

**I.        SCT's Interest in this Proceeding**

The SCT Project is a proposed ~2,000MW, 500kV high-voltage direct current transmission line and associated converter stations that will asynchronously connect ERCOT and the southeastern United States. The SCT Project will enhance ERCOT system reliability by providing the ability to import power during emergencies and times of extreme demand from a geographically distant region in a distinctly different weather zone with substantial dispatchable generation resources. The SCT Project also benefits ERCOT system reliability by providing an outlet to export power during times of low load and surplus generation. ERCOT's unilateral authority to curtail exports to ensure ERCOT system reliability protects against power being exported when it is needed in ERCOT.

SCT will not charge the export rate since it will not be a Texas utility and will own no transmission facilities in Texas. SCT also will not pay the export rate since it will be a DC Tie Operator, not a Qualified Scheduling Entity (QSE) scheduling transactions across the SCT Tie. As the sponsor of this facility over which exports and imports will flow, SCT's interest in this proceeding is to ensure the Commission's rules are harmonized with the ERCOT market rules to encourage market participant actions that lead to efficient economic outcomes and reliable system operations.

**II.       Background on Current Export Tariff Rule**

The current export rule was adopted before the creation of the modern ERCOT market – before the existence of price signals to drive market participant behavior and before ERCOT

assumed the function of Independent System Operator with clear authority to curtail DC tie exports to preserve system reliability.

The current export rate design imposes an “on peak” rate roughly three times the postage stamp rate during all hours of June through September, *i.e.*, approximately one-third of the hours in the year. This design bears little resemblance to actual peak transmission system usage or to the actual cost of transmission service. In today’s modern ERCOT market, it no longer makes sense to have a tariff that charges a multiplier of the postage stamp rate during these four months, when the system is often awash in generation and would benefit in multiple ways from exporting the excess.

The current export rate creates a significant and unnecessary barrier to trade. Many export transactions which would be economically reasonable but for the administrative multiplier are rendered uneconomic and do not occur. When that happens, no transmission rates are paid, transmission capacity is left idle and underutilized, and competitive market price signals are thwarted. The current export rate rule is outdated and a poor fit for the modern ERCOT market. The proposal for publication would address these concerns. SCT supports adoption of the proposal as drafted.

### **III. The Proposal for Publication is Consistent with PURA**

The proposal for publication would charge the same postage stamp transmission rate to exporting QSEs as is charged to native load for use of the ERCOT transmission system. This aligns with the requirement of PURA § 35.004(d) that all transmission service within ERCOT be based upon the postage stamp pricing methodology.

The proposal for publication is also consistent with PURA § 39.001(d), which requires that regulatory authorities “shall authorize or order competitive rather than regulatory methods to achieve the goals of this chapter to the greatest extent feasible and shall adopt rules and issue orders that are both practical and limited so as to impose the least impact on competition.”<sup>1</sup>

The current export rate rule deviates from the postage stamp requirement by imposing a rate multiplier in thousands of hours each year and deviates from the Legislature’s directive to

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<sup>1</sup> SCT believes that Section 39.001(d) is relevant here, notwithstanding the transmission service exception in 39.001(a). The off-peak rate corresponds to the postage stamp transmission service rate. However, the on-peak rate is not a cost-based transmission service rate but rather is an administrative tool originally designed to discourage exports during a four-month period.

allow the forces of competition to determine market participant behavior by squelching transactions that would be economically rational but for the administratively multiplied transmission charge. The proposal for publication cures both deficiencies of the current export rate rule.

#### **IV. The Proposal for Publication Will Benefit the ERCOT System**

A consistent theme in the Commission's recent efforts to improve the ERCOT wholesale market design is the challenge of harnessing the economic and environmental benefits of inverter-based renewable generation while mitigating some of the effects those same resources have on price formation in the energy-only market and on system operations during periods of high renewable penetration and steep net load ramps. The proposal for publication would better align DC tie flows with ERCOT system needs and proper ERCOT market outcomes.

By removing an administrative barrier to trade, the proposal for publication makes it more likely that during periods in which ERCOT is truly awash in renewable power, market participants can create more room for dispatchable resources in the offer stacks for energy and ancillary services by exporting excess energy. Harnessing the beneficial impacts of DC tie flows on both market outcomes and system operations should be directionally aligned with the real world results the Commission is currently considering through other market design changes. The proposal for publication achieves that alignment.

The existing rule's "on peak" rate for June through September is not necessary to discourage exports during scarcity conditions because high market prices will more effectively accomplish that result. In addition, ERCOT has authority to curtail exports and call on imports if needed for reliability reasons.<sup>2</sup> In fact, DC tie exports are the least firm form of load on the ERCOT system, *i.e.*, the first load to be curtailed in ERCOT's Energy Emergency Alert procedures, making the current "on-peak" export rate especially unfair by requiring exporting QSEs to pay premium rates for lesser service.<sup>3</sup> The proposal for publication cures this defect of the current export rate design.

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<sup>2</sup> ERCOT Nodal Protocols §§ 6.5.9.3.4(5) and 6.5.9.4(6).

<sup>3</sup> *Id.*

## **V. The Proposal for Publication will Benefit ERCOT Ratepayers**

Transmission rates are derived from the annual revenue requirement of the transmission service providers (“TSPs”) divided by the load of the ERCOT system. When exporting QSEs pay to use the ERCOT transmission system, they contribute revenue to the TSPs above and beyond that needed to be recovered from native load. 16 TAC § 25.192(f) requires the export charge revenues to be credited to native loads by reducing the TSPs’ cost of service, leading to lower transmission rates than native loads would otherwise pay in the absence of such off-system contributions to the ERCOT system revenue requirement. The same principal holds true with the ERCOT System Administration Fee (“Admin Fee”), which is budgeted based on the ERCOT load forecast such that Admin Fee revenues from exporting QSEs cause ERCOT to over-collect relative to budget, lowering pressure on the Admin Fee in future years. The math is compelling – every dollar received from out-of-state customers for use of the ERCOT transmission system and ERCOT market systems reduces the costs of those systems to Texas ratepayers and consumers.

Southern Cross Transmission appreciates the opportunity to submit comments on the proposal for publication.

Respectfully submitted,

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**ATTORNEYS FOR SOUTHERN CROSS  
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**Executive Summary**  
**Comments of Southern Cross Transmission LLC – Project No. 53169**

A. SCT supports the proposal for publication for several reasons:

1. The current export rate was adopted before the creation of the modern ERCOT market and is obsolete.
  - The rule imposes an “on peak” rate roughly three times the postage stamp rate during approximately one-third of the hours in the year, which bears little resemblance to actual peak transmission system usage or to the actual cost of transmission service.
2. The proposal for publication is consistent with PURA.
  - PURA §35.004(d) requires postage stamp transmission rates for all users of the ERCOT transmission system. The proposal for publication to strike the “on peak” seasonal multiplier is more consistent with PURA than the current rule, which triples the export rate in one-third of each calendar year.
  - PURA §39.001(d) requires the Commission to use competitive rather than regulatory methods where feasible and to impose the least impact on competition. The proposal for publication is more consistent with PURA than the current rule, which unduly inhibits competition and uses regulatory rather than competitive methods.
3. The proposal for publication will benefit the ERCOT system.
  - The proposal for publication will eliminate an administrative barrier to trade, making it economically feasible to export in more hours each year. Those hours typically coincide with periods of high renewable resource penetration. Opening ERCOT’s export valves will create more room for dispatchable resources in the offer stacks for energy and ancillary services.
  - Although market forces will discourage exports and encourage imports during scarcity conditions in ERCOT, ERCOT also has authority to curtail exports and call on imports if needed for reliability purposes.
4. The proposal for publication will benefit ERCOT ratepayers.
  - Transmission rates paid by exporting entities accrue to the benefit of ERCOT ratepayers in accordance with 16 TAC § 25.192(f). The “on peak” seasonal multiplier in the current rule renders many economically rational transactions uneconomic. When such export transactions do not occur, ERCOT ratepayers receive no financial benefit because no transmission charges are collected.
  - The proposal for publication will eliminate an administrative barrier to trade, making it economically feasible to export in significantly more hours each year, which should increase total revenue from the export tariff and, therefore, increase the financial benefit to ERCOT ratepayers.