

Filing Receipt

Received - 2022-07-22 02:51:18 PM Control Number - 53403 ItemNumber - 46

PROJECT NO. 53403

REVIEW OF CHAPTER 25.101§PUBLIC UTILITY COMMISSION§6CERTIFICATION CRITERIA§OF TEXAS

REPLY COMMENTS OF AEP TEXAS INC. AND ELECTRIC TRANSMISSION TEXAS, LLC CONCERNING DISCUSSION DRAFT

AEP Texas Inc. and Electric Transmission Texas, LLC (ETT) present these reply comments concerning the June 15, 2022 Discussion Draft in this Project.

I. <u>Reply Comments Concerning Discussion Draft Questions</u>

Question 1. Consumer Benefits Test: PURA § 37.056(d) directs the commission to adopt criteria for evaluating proposed transmission projects that are not primarily driven by reliability considerations. These projects are classified as economic transmission projects. By statute – and as proposed in this discussion draft – the criteria adopted by the commission must include a consideration of the expected current and future congestion cost savings for consumers of a proposed economic transmission project. This criterion is commonly referred to as a "consumer benefits test." What additional details, if any, should the commission consider with respect to the statutorily-required congestion cost savings consumer benefits test proposed as 16 TAC §25.101(b)(3)(A)(i)(I) below? Why?

A. <u>Overview of Consumer Benefits Test Reply Comments</u>

AEP Texas and ETT respond to comments on the following topics related to the consumer

benefits test and the economic transmission planning process:

- The scope and timeframe of the economic analysis;
- Load forecasts for the economic analysis;
- Future use of the production costs savings test;
- Bifurcation of this rulemaking into Phase I and Phase II; and
- Transmission impact on dispatchable generation.

B. <u>Scope and Timeframe of Economic Analysis</u>

Like AEP Texas and ETT, many initial comments supported a long-term multi-value assessment of costs and benefits over the life of a transmission project rather than using a firstyear revenue requirement for costs or a benefits assessment for a limited number of years. While the initial comments provided little support for use of the first-year revenue requirement as the cost standard, some comments asserted that beyond a short period transmission project benefits become too uncertain and speculative to be included.¹ AEP Texas and ETT disagree because this approach would understate a project's benefits.

There are many benefits in addition to production cost and/or congestion savings associated with transmission development, including reduction of line losses and deferral of reliability projects among others. While the range of project benefits will depend upon many factors that are unknown, it would not make sense to simply assume they are zero beyond a short period because a transmission project's benefits continue and grow throughout the project's life. In light of the ongoing growth of electric demand in Texas, it would be difficult to find an existing bulk transmission facility that hasn't produced benefits beyond what were contemplated or could have been precisely quantified when the project was built. Instead of excluding the long-term benefits of a transmission project, the Commission should direct the development of multiple scenarios that "bracket" a reasonable range of long-term future benefit expectations to arrive at a reasonable expected value for future benefits. This type of analysis can be conservative in application but would be a positive step over treating benefits beyond the near term as zero.

AEP Texas and ETT also disagree with several comments suggesting that the economic benefits test should be formulated through ERCOT processes rather than this rulemaking.² SB 1281 charges the Commission with establishing the criteria for economic analysis of transmission projects and the Commission should take the lead in directing policy that will improve planning and expansion of the transmission system. The transmission planning process needs significant improvement and the legislature has directed the Commission to oversee that process. This project should establish the contours of the economic analysis ERCOT will undertake, including both the scope and timeframe of benefits and costs to be considered.

C. Load Forecasts for the Economic Analysis

AEP Texas and ETT support comments by Oncor, CenterPoint, and TIEC proposing a more forward-looking load forecast than ERCOT's current practice of including large load additions only after they sign an interconnection agreement.³ Transmission providers often receive inquiries to interconnect large loads prior to execution of interconnection agreements. A transmission provider can have multiple inquiries in the same area and a high likelihood of

¹ *E.g.*, TIEC's Initial Comments at 5-6.

² See CenterPoint's Initial Comments at 4; Texas-New Mexico Power Company' Initial Comments at 2.

³ Oncor's Initial Comments at 2-4; CenterPoint's Initial Comments at 4-5; TIEC's Initial Comments at 3, 10.

continuing development in that area. AEP Texas' experience with growth in coastal port areas is a good example of this situation. For areas like these at least, economic analysis should take a broader view of load growth. Looking only at signed interconnection agreements will result in transmission upgrades perpetually lagging behind the need for such facilities.

Transmission in rapidly growing areas of the state should be planned to proactively build "headroom" into the backbone transmission network. This would help prepare those areas to accommodate the 2-year or less interconnection timeframe of large transmission customers and provide additional benefits like area resiliency and relief from the summer transmission outage moratorium that hampers system expansion and maintenance. In Senate Bill 1281, the legislature directed the Commission to consider forecasted load growth and additional load currently seeking interconnection.⁴ This language directs a significant change in approach to load forecasting from relying on signed interconnection agreements to gauge large load additions.

D. <u>Use of the Production Cost Savings Test</u>

There were a variety of comments concerning what to do with the existing production cost savings test, ranging from abolishing it as a separate test⁵ to requiring that a transmission project pass both the consumer benefits and production cost savings tests⁶ to retaining the current test.⁷ AEP Texas and ETT agree that the test should be retained along with addition of the new consumer benefits test, but disagree with the other comments.

Neither abolishing the separate production cost savings test nor requiring that a project pass both that test and the consumer benefits test would be consistent with legislative intent. Representative Darby's letter shows the legislature intended that the test remain in the rule, hopefully with improvements, and provides Statements of Legislative Intent for confirmation.⁸ TIEC suggests that retaining the production cost savings test is inconsistent with amended PURA § 37.056(d), but that subsection describes what must be included in the economic test rather than precluding additional standards like the production cost savings test.

⁴ PURA § 37.056(c-1).

⁵ TIEC's Initial Comments at 9.

⁶ Calpine's Initial Comments at 7.

⁷ LCRA's Initial Comments at 2; OPUC's Initial Comments at 4; Letter from Representative Darby; Solar Power Association's Initial Comments at 2.

⁸ Letter from Representative Darby at 1-2 and attachment.

Calpine's suggestion that a project should be required to pass both the consumer benefits test and the production cost savings test⁹ should also be rejected. The legislature's intent that SB 1281 would improve economic transmission planning is clear and understandable in light of the ERCOT grid's high congestion costs, extensive Generic Transmission Constraints, extended outage moratorium and other issues discussed in AEP Texas's and ETT's Initial Comments.¹⁰ Yet Calpine's proposal would make economic transmission planning even more difficult by requiring that a project pass both tests to be approved, effectively adding another hurdle to the existing ineffective standard. The Discussion Draft correctly retains the production cost savings test while adding the consumer benefits test, although the timeframe and scope of both tests should be improved as discussed extensively in parties' comments. Such improvements should include, but not be limited to, replacing the first-year revenue requirement standard with levelized cost over the life of the transmission project and specification of minimum benefits that should be included in the analysis.

D. Bifurcation of Rulemaking into Phases I and II

Several comments suggest bifurcating the consumer benefits/economic test rulemaking into two phases so that the previous Generator Revenue Reduction (GRR) approach to the test could be quickly restored while improvements to that approach could be implemented in the second phase.¹¹ AEP Texas and ETT understand the desire to restart economic transmission planning as soon as possible but urge the Commission to adopt the appropriate consumer benefits test in this project rather than reinstating the flawed GRR approach with the risk that the second phase of the rulemaking is not completed and the GRR approach remains in effect for the long term. Because it does not fully value transmission benefits, reinstatement of the GRR test would not achieve important transmission goals, such as relief of the summer transmission outage moratorium, and may not support resolution of the Generic Transmission Constraints on the system. In their Initial Comments, AEP Texas and ETT discussed the shortcomings of the GRR approach and why a metric based on reduction in consumer demand payments should be adopted instead.¹² In the event the Commission does reinstate the GRR test while considering

⁹ Calpine's Initial Comments at 7.

¹⁰ See AEP Texas's and ETT's Initial Comments at 2-4.

¹¹ See TIEC's Initial Comments at 3-5, Oncor's Initial Comments at 4-5.

¹² AEP Texas's and ETT's Initial Comments at 6-7.

improvements in a Phase II rulemaking, it should still require that the GRR be compared to levelized project costs rather than the first-year revenue requirement.

Several comments also suggest that the Critical for Reliability and Resiliency issues be deferred to a follow-up rulemaking where those issues can be examined in more detail. AEP Texas and ETT support this approach while focusing this project on establishing an effective and appropriate economic benefits test.

E. Impact on Dispatchable Generation

AEP Texas and ETT disagree with comments suggesting that transmission planning should consider the impact of a project on dispatchable generation.¹³ Although Calpine warns against transmission projects "dampening price signals,"¹⁴ the real issue is relieving constraints that cause high prices in load pockets. Pitting transmission against generation is not sustainable and would perpetuate the constraints and high congestion costs currently existing on the ERCOT grid. A reliable, resilient, robust bulk power system needs both adequate transmission to allow power to flow and generation from a suite of resource types and abilities. Transmission should be planned and built in an economically rational way to facilitate the reliable and efficient transfer of power from where it is generated to where it is consumed. Consideration of how the market signals generators and values different types of generation properly belongs in the Commission's ongoing market reform efforts, not this project. This project should continue to focus on appropriately evaluating the need for transmission projects.

Question 3. Resiliency: Transmission projects are currently categorized as either reliability projects, which are required to reliably serve load under NERC standards and the ERCOT Nodal Protocols, or economic projects, which are evaluated based on effectiveness and estimated cost. Should the commission establish a third category of transmission projects based on resiliency? Alternatively, should resiliency be considered when evaluating reliability projects?

a. What would resiliency criteria look like? What types of projects would be categorized as resiliency projects?

b. Should the commission adopt a definition of resiliency? If so, how should resiliency be defined?

c. What is the relationship between resiliency and reliability? What role does redundancy play in evaluating resiliency and reliability?

¹³ See Calpine's Initial Comments and TEC's Initial Comments.

¹⁴ Calpine's Initial Comments at 3.

Several comments supported or opposed using N-1-1 planning criteria to improve transmission system resiliency. AEP Texas and ETT disagree with comments that use of N-1-1 criteria may result in costly overbuild with little benefit to customers.¹⁵ Implementation of the N-1-1 criteria will have many benefits including:

- It will more closely align the planning process with how the system is actually operated. The transmission system is always operated in an N-1 secure state. After a single contingency occurs operators pre-emptively adjust the system, up to and including load shed if necessary, to ensure there will be no violations if the next contingency were to occur. At any given time there are *hundreds* of outages on the system that are considered in system operation, but the existing planning process does not study it that way. The system should be planned the way it is actually operated.
- It will provide additional redundancy in the system, possibly allowing the summer outage moratorium to be eliminated, and will also help to meet the quick in-service dates large customers are requesting.
- It will improve resiliency as there will be additional transmission paths in the event of a major weather event.
- The additional transmission capacity provided by mitigating N-1-1 violations may also provide economic benefits by relieving flows on congested facilities.

While some comments suggested that imposing separate resiliency criteria will increase ratepayer costs for narrowly beneficial projects,¹⁶ recent experience demonstrates otherwise. At the ERCOT regional planning group meeting on July 19th, ERCOT recommended a project with a cost of \$400M instead of the less expensive \$229M option because the system cannot take the outages necessary to build the less expensive option.¹⁷ That difference is \$171M, which will be borne by ratepayers, and by itself would cover the addition of other new transmission projects to the system if the system was able to sustain the scheduled outages. If the system had been built to a more resilient criterion, ratepayers either would pay the lesser cost of \$229M or get at least two transmission lines for the \$400M price tag. This situation is not unique and is one AEP Texas and ETT have encountered on their own projects. Ratepayers are already bearing the increased costs of a lack of system redundancy.

¹⁵ TIEC's Initial Comments at 2, 6; Calpine's Initial Comments at 5.

¹⁶ OPUC's Initial Comments at 6.

¹⁷ "LCRA TSC Hays Energy – Kendall Corridor Transmission Line Rehabilitation Projects – ERCOT Independent Review Final Update," ERCOT Regional Planning Group, July 19, 2022.

II. <u>Conclusion</u>

AEP Texas and ETT appreciate the opportunity to submit these reply comments on the Discussion Draft.

Respectfully submitted,

/s/ Kerry McGrath

Melissa Gage Leila Melhem AEP Service Corporation 400 W. 15th Street, Suite 1520 Austin, Texas 78701 (512) 481-3320 (Telephone) (512) 481-4591 (Facsimile) AEPAUSTINTX@aep.com

Kerry McGrath Duggins Wren Mann & Romero, LLP 600 Congress Avenue, Suite 1900 Austin, Texas 78701 (512) 744-9300 (Telephone) (512) 744-9399 (Facsimile) kmcgrath@dwmrlaw.com

ATTORNEYS FOR AEP TEXAS INC. AND ELECTRIC TRANSMISSION TEXAS, LLC

Project No. 53403 Executive Summary – Reply Comments of AEP Texas Inc. and Electric Transmission Texas, LLC Concerning Discussion Draft

Question 1 - Consumer Benefits Test

- Scope and timeframe of economic analysis
 - The economic analysis should compare a range of known transmission project benefits against project costs on a levelized basis over the life of the project.
 - Although longer-term project benefits cannot be precisely forecast, the Commission should direct the development of multiple scenarios that "bracket" a reasonable range of long-term benefits.
 - The Commission should provide direction concerning the economic analysis in this rulemaking rather than deferring the issue to ERCOT processes.
- Load forecasts for the economic analysis
 - SB 1281 directs a move away from using signed interconnection agreements to gauge large load additions, a standard that results in transmission in high growth areas perpetually lagging behind the need for such facilities.
 - Transmission in rapidly growing areas of the state should be planned to proactively build "headroom" into the backbone transmission network.
- Use of the production cost savings test
 - An improved production cost savings test should be retained along with the new consumer benefits test.
 - Requiring that a transmission project pass both the production cost savings and consumer benefits tests would make economic transmission planning even less effective, contrary to the intent of SB 1281.
- Bifurcation of this rulemaking
 - The Commission should adopt a meaningful and effective consumer benefits test in this rulemaking rather than readopting the generator revenue reduction (GRR) approach with the intent to improve the test in a follow-up rulemaking.
 - If the Commission does readopt the GRR approach, it should require the use of levelized project costs rather than the first-year revenue requirement.
- Impact on dispatchable generation: How the market signals and values different types of generation should be addressed in the Commission's ongoing market reform process, rather than distorting economic analysis of transmission projects to perpetuate high costs in constrained load pockets.

Question 3 – Resiliency

• Use of N-1-1 planning criteria would not result in overbuild but would instead have many benefits, including aligning the planning process with how the system is operated, providing additional system redundancy to alleviate the summer outage moratorium and help meet large customer interconnection needs, improving resiliency in extreme weather events, and providing economic benefits by relieving flows on congested facilities.