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#### PROJECT NO. 55718

# RELIABILITY PLAN FOR THE§PUBLIC UTILITY COMMISSIONPERMIAN BASIN REGION UNDER§PURA § 39.167§OF TEXAS

#### PERMIAN BASIN PETROLEUM ASSOCIATION'S RESPONSE TO QUESTIONS FOR STAKEHOLDER COMMENT RELATED TO ERCOT'S PLAN

The Permian Basin Petroleum Association ("PBPA") and its member companies appreciate this opportunity to respond to Public Utility Commission of Texas ("Commission" or "PUCT") Staff's questions for stakeholder comment related to the Electric Reliability Council of Texas' ("ERCOT") final reliability plan for the Permian Basin. PBPA is the largest regional oil and gas association in the United States, serving as the voice of the Permian Basin oil and gas industry since the association was founded in 1961, and it currently represents the most prolific oil and gas producing region in the world.

The oil and gas industry is a driver of the Texas economy and a major contributor to the country's national security. The industry paid \$26.3 billion in state and local taxes and state royalties in fiscal year 2023 – the highest total in Texas history. As the leading oil and gas producer globally, the United States relies heavily on the Permian Basin, which generates 45% of its oil production and is projected to be 50% by 2026. If the Permian Basin were its own country, it would be the fourth largest oil producing nation in the world. Additionally, 73% of the oil produced in Texas is produced in the Permian Basin. Horizontal drilling and fracking have unlocked enormous undeveloped unconventional resources of 71.5 billion barrels of remaining oil and 289 trillion cubic feet of associated natural gas in the Delaware and Midland Basins,<sup>1</sup> but the region's inadequate transmission infrastructure remains years behind the electrical needs of the industry. Today, many producers are forced to meet their electrical needs for mineral development with localized, off-grid combustion generation due to the lack of transmission capacity in the region and extremely long lead times for the build out of new utility transmission lines.

House Bill 5066 ("HB 5066") was enacted by the Texas legislature to reduce these interconnection times in the Permian Basin, be proactive and get ahead of this long-standing transmission infrastructure problem – a policy initiative that will provide public interest benefits

<sup>&</sup>lt;sup>1</sup> Electrification of the Permian Basin," S&P Global, p. 6 (Dec. 2022).

that reverberate throughout the state and the country. In order for the oil and gas industry to meet the current demand for resources, emissions reduction targets and improve operational efficiencies, as well as support the economic, energy and security of Texas and the country, PBPA strongly encourages the Commission to issue an order that approves a <u>complete</u> reliability plan for the Permian Basin that includes the transmission upgrades (i.e., local transmission projects <u>and</u> all generation import path lines) to serve the 2038 electrical load identified in ERCOT's study.

While PBPA appreciates ERCOT's desire to examine extra high voltage ("EHV") options for the overall ERCOT grid, further study of EHV options should not delay or impede implementation of a complete plan for the Permian Basin. PBPA accordingly opposes bifurcation or phasing of the plan while ERCOT engages in further study of 765-kV solutions for the rest of the ERCOT grid. Bifurcation would contravene HB 5066, which included a stand-alone section in Tex. Util. Code § 39.167(b) that directed the Commission to develop a plan for the Permian Basin that will "address increasing available capacity to meet forecasted load." Bifurcation or phasing of the plan would also exacerbate interconnection delays in the region as ERCOT's study clearly shows that the vast majority of the forecasted load will appear by 2032.

PBPA appreciates the efforts of ERCOT, the Commission, and stakeholders to develop the Permian plan on an accelerated timeline. PBPA supports ERCOT's proposed 2038 345-kV solution because it offers a complete solution to serve the existing load in the Permian Basin, and it can be readily implemented by the transmission utilities to serve the region's transmission needs. As a general matter, PBPA does not oppose adding EHV transmission lines in the Permian Basin in the future, but it believes the Commission can add 765-kV solutions for the region if, after further analysis of EHV matters and approval of the complete 2038 345-kV Permian plan solution, the Commission determines it is necessary.

### **QUESTIONS FOR STAKEHOLDER COMMENT**

### PLAN

1. Should the Commission approve a phased plan for the Permian Basin? In other words, should there be a first phase to be implemented by 2030 and a second phase to be implemented by 2038? Or should the Commission approve a single, complete plan?

## RESPONSE:

The Commission should not approve a phased plan for the Permian Basin. PBPA recommends the Commission approve a single, complete plan that will fully serve the 26,400 MW of load forecasted by 2038. Many transmission projects are needed currently to serve existing loads, and the additional projects will be necessary well before 2038.

Phasing the plan is inappropriate because it will result in unnecessary delays that hinder timely interconnection of the forecasted oil and gas load in the region. This delay would occur because ERCOT's 2030 345-kV study option has three fewer generation import path lines than the 2038 345-kV option, which has five import path lines for a total of 1,340 MW of transfer capability.<sup>2</sup> The region would therefore remain unreasonably constrained if the import path lines are excluded from the plan or delayed. It is significant to note that ERCOT's load study indicates there is only a 2,741 MW estimated load increase between 2030 and 2038, which arises exclusively from increasing oil and gas demand in that period.<sup>3</sup> ERCOT's final study and reports to the Commission leading up to the release of the plan also shows that 90% of the overall 26,400 MW of demand will appear by 2030, and 95% of the demand will appear by 2032.<sup>4</sup> Since the S&P study was released in 2022, some major industry participants have also accelerated electrification efforts.

Based on the above data, the generation import path lines will be necessary by 2032. Major transmission projects in the Permian Basin often can take six to eight years to complete from

<sup>&</sup>lt;sup>2</sup> The reference to five import path lines includes the White River to Long Draw 345-kV double-circuit line.

<sup>&</sup>lt;sup>3</sup> The non-oil and gas load remains flat during that period.

<sup>&</sup>lt;sup>4</sup> See ERCOT Permian Basin Reliability Plan Study – Monthly Update (June 3, 2024) at 3 and ERCOT Permian Basin Reliability Plan Study at 7.

identification of the need to the in-service date of the line.<sup>5</sup> It therefore makes no sense to approve only the local projects or to phase the plan since the import path lines are necessary to supply energy to the region in the early 2030s. If the PUCT waits to approve a second phase for the Permian Basin reliability plan until some later date in the future or only approves local reliability projects, it will only perpetuate interconnection delays in the region.

A phased plan would also contravene the requirements of House Bill 5066 ("HB 5066") and the Commission's order in this project, which directed ERCOT to develop a comprehensive plan for the region that meets the statutory criteria.<sup>6</sup> To satisfy the requirements of HB 5066, the Permian Basin plan that is adopted by the PUCT must have sufficient transmission infrastructure, including import paths, for the generation that is needed to serve the 2038 forecasted load in the Permian Basin. Tex. Util. Code § 39.167(b) requires that "[t]he plan must: (1) address extending transmission service to areas where mineral resources have been found; (2) **address increasing available capacity to meet forecasted load**; and (3) provide available infrastructure to reduce interconnection times in areas without access to transmission service."<sup>7</sup> Given the S&P study load forecast and ERCOT's own data showing the 2038 load is expected to appear before that year, the Commission cannot meet the statutory requirements of Tex. Util. Code § 39.167(b) if the plan adopted does not also include all of the necessary generation import path lines to serve the forecasted 2038 load or if it is limited to the 2030 study case.

2. To expedite the buildout of import paths into the Permian Basin while research and discussion of the optimal use of an Extra High Voltage (EHV) network in ERCOT system is underway in Project No. 55249, should this reliability plan consider a mixture of 345-kV and EHV options?

#### **RESPONSE:**

For the reasons stated in response to Question 1, the Commission should not delay approval of the complete Permian plan while it conducts further research on EHV options. ERCOT's proposed

<sup>&</sup>lt;sup>5</sup> For example, on June 18, 2024, the ERCOT Board of Directors approved the Oncor West Texas 345-kV infrastructure rebuild project, which has an estimated in-service date of summer 2028. The project, proposed by Oncor in November 2023, followed ERCOT's Permian Basin Load Interconnection Study in December 2021 to identify transmission upgrades necessary to serve oil and gas loads in the Permian Basin area.

<sup>&</sup>lt;sup>6</sup> Reliability Plan for the Permian Basin Region Under PURA § 39,167, Project No. 55718, Order Directing ERCOT to Develop a Reliability Plan for the Permian Basin Region (Dec. 14, 2023).

<sup>&</sup>lt;sup>7</sup> Emphasis added.

345-kV plan for 2038 meets the statutory objectives of HB 5066. A 765-kV solution that is readily implementable without any delay could also meet those objectives, but PBPA is concerned that a readily implementable EHV solution was not proposed by ERCOT. The Commission is still exploring an EHV solution for the larger ERCOT grid that could require further study or changes to the EHV lines proposed by ERCOT for the Permian Basin. Delaying the transmission buildout in the Permian Basin is not in the best interests of the state, so PBPA recommends the Commission pursue the complete 2038 345-kV solution its order.

3. What would be the impact to implementation of the plan if the Commission approves the plan for all the common local transmission projects to permit the utilities to expeditiously file CCN applications but delayed the approval of the import paths until after ERCOT completed its EHV Study in 2024? Please address in detail both the benefits and risks of this potential process.

#### **RESPONSE:**

For the reasons stated in response to Question 1, the PUCT should not delay approval of a comprehensive plan that includes all necessary generation import path lines to serve the expected 26,400 MW of load in the Permian Basin. ERCOT's study clearly notes that the Permian Basin lacks local conventional generation compared to the North Central and Coast Weather Zones. Table 2.6 of ERCOT's final reliability plan provides a load and conventional generation capacity comparison that depicts approximately 2,800 MW of conventional generation in the region in comparison to the anticipated load in 2038 of 26,400 MW. The existing lack of generation in the area demonstrates that, even if new generation is built in the region, import paths will need to be built along the same timeline to meet the expected load forecasts. If the PUCT only approves the local transmission projects without approving the generation import path lines, there will be insufficient generation in the region to serve load. The anticipated new load could not timely energize, as a result, and there would be high capital costs from the local transmission projects that cannot be spread over the anticipated amount of new load, which would result in the unintended consequence of higher costs on existing customers. Delay of a complete plan would also have negative economic consequences for the oil and gas industry, which is working to electrify to gain operational efficiencies and meet its operators' sustainability goals.

#### AFFORDABILITY AND COST

4. With the understanding that the cost of these projects will be passed along to all the ratepayers in ERCOT, what considerations should the Commission address to minimize rate impacts? Are there any guardrails the Commission should implement?

## **RESPONSE**:

PBPA does not believe that any new ratemaking mechanisms or guardrails need to be implemented to mitigate rate impacts from the plan. As new transmission becomes available in the Permian Basin, new load will come online to utilize that transmission, and load growth will mitigate the rate impacts. New load will create new billing determinants over which the costs of the transmission investment may be spread. The Commission has long followed principles of cost causation with respect to ratemaking and cost allocation to customer classes. These principles will mitigate rate impacts on the customer classes that are not driving the investment. For example, the proposed system-average rate increase in Oncor's last rate case was 7%. In comparison, customers taking electric service at Primary Substation voltage saw a proposed revenue requirement increase of 89%, and customers taking electric service at Transmission voltage are the rate classes typically utilized by industrial customers such as oil and gas loads and data centers. The large rate increases for the Primary Substation and Transmission classes were driven by cost causation and accordingly impacted to a much greater extent the rates of large industrial loads.

5. Are there specific costs not captured in ERCOT's study, such as reactive compensation devices, auto transformers for EHV if the Commission chooses EHV, and series compensation equipment? If so, what are those costs?

# **RESPONSE:**

It is PBPA's understanding MISO's cost estimator used by ERCOT includes cost estimates for reactive compensation and autotransformers. PBPA does not have an opinion at this time on the accuracy of the cost estimates, but it does have significant concerns with any delay in implementation of a complete plan that would occur due to further necessary study of the costs of EHV.

- 6. In approving this plan, how can the Commission ensure cost effectiveness for the listed projects? Please explain in detail and specifically address risks and offer potential mitigation solutions relating to:
  - a. Load forecast, because this will be the first time the Commission will rely on load forecast methodology based on PURA§ 37.056(c-l).
  - b. **Cost estimates**, because projects will not be vetted through ERCOT's Regional Planning Group, the stakeholder committee that regularly reviews proposed transmission projects.

#### **RESPONSE:**

The Commission does not need to change existing procedures to ensure the cost effectiveness of identified projects in the plan. The Commission has the authority granted to it by statute, and it can ensure the cost effectiveness of the plan by following its existing statutory CCN authority set forth in PURA § 37.056(c) and 37.056(c-1); the legislature's directives to develop the plan in PURA § 39.167, and traditional cost-of-service ratemaking principles under Chapter 36, which allow the Commission to examine the prudence of utility investment in general rate proceedings.

While the prudence of utility investment is deferred to rate proceedings, CCN applications routinely examine the need and cost of the line. PURA § 37.056(c), for example, provides that the Commission shall grant each certificate on a non-discriminatory basis after considering:

- 1. The adequacy of existing service;
- 2. The need for additional service;
- 3. The effect of granting the certificate on the recipient of the certificate and any electric utility serving the proximate area; and
- 4. Other factors such as:
  - a. community values;
  - b. recreational and park areas;
  - c. historical and aesthetic values;
  - d. environmental integrity; and
  - e. the probable improvement of service or lowering of cost to consumers in the area if the certificate is granted, including any potential economic or

reliability benefits associated with dual fuel and fuel storage capabilities in areas outside the ERCOT power region; and

- f. the need for extending transmission service where existing or projected electrical loads will be underserved, including where:
  - i. the existing transmission service is unreasonably remote;
  - the available capacity is unreasonably limited at transmission or distribution voltage level; or
  - iii. the electrical load cannot be interconnected in a timely manner.

Subsection (c-1) also expressly states the Commission should consider forecasted load. it specifies:

In considering the need for additional service under Subsection (c)(2) for a reliability transmission project that serves the ERCOT power region or under Subsection (c)(4)(F), the commission must consider the historical load, forecasted load growth, and additional load currently seeking interconnection, including load for which the electric utility has yet to sign an interconnection agreement, as determined by the electric utility with the responsibility for serving the load.

Finally, PURA § 39.167 also provides that the plan should extend transmission service to areas where mineral resources have been found. As directed by HB 5066, ERCOT's study examined:

- load levels forecasted by the 2022 S&P Global Permian Basin study;
- load currently served by on-site generation not accounted for in the S&P study; and
- additional load seeking to interconnect as determined by the electric utility with the responsibility to serve the load.

PBPA agrees that ERCOT's forecasts meet the statutory criteria. Notwithstanding the ability to rely on forecasted load, utilities will continue to be required to demonstrate need in CCN proceedings and prudence of capital investment in a rate case under Chapter 36 of PURA. These existing mechanisms are sufficient to ensure the projects are cost effective, and no further review by RPG is necessary or appropriate given the statutory directive in PURA § 39.167.

# CCN PROCESS

7. How should the Commission address any project in the plan in which more than one Transmission Service Provider can claim the legal right to build it?

# **RESPONSE**:

Which utility has a right to build a project is a matter of law that can be decided by the Commission in an order after preliminary briefing and, if necessary, an agreed statement of facts. PBPA requests that any such proceeding be expedited so as not to unnecessarily delay implementation of the plan.

8. Should the Commission consider any procedural changes to its traditional CCN process to account for the complexity and magnitude of the CCN cases?

# **RESPONSE**:

No.

# FINAL ORDER

9. What, if any, specific items should the Commission's final order include to provide clear and consistent directions for the implementation of the plan to the TSPs, ERCOT, and Staff

# **<u>RESPONSE</u>**:

PBPA recommends the Commission's final order include the following:

- Direction that the utilities have the authority to move forward to file CCN applications for the complete 2038 345-kV plan, including all necessary local transmission projects and the generation import path lines.
- Direction to Staff to open a proceeding to address any disputed issues regarding which TSP has a right to build a particular line and direction that the proceeding be processed on an expedited basis.

# **OPEN QUESTIONS**

10. What unintended impacts or risks might arise out of approving or implementing ERCOT's proposed plan? How could they be avoided or mitigated? Are there any lessons from the

Competitive Renewable Energy Zones implementation that the Commission should consider?

### RESPONSE:

A potential risk of any large transmission buildout is that the estimated costs are less than actual costs, and that the load that drives the need may not materialize. Regarding costs, PBPA appreciates ERCOT's conservative cost estimates which – based on lessons learned in the past – include adders for length of right-of-way and generally include the highest cost estimates from the transmission service providers.

Regarding load estimates, PBPA anticipates the estimated demand for 2038 will materialize by 2032. Accordingly, it is imperative that the Commission adopt a complete plan to mitigate the risk of utility interconnection delays and lack of generation capacity. If the Commission were to delay approval of the generation import path lines, it could unnecessarily drive-up rate impacts of the plan because large loads that are clamoring to come online in the Permian Basin will be further delayed due to a lack of available generation import. Accordingly, PBPA recommends the Commission adopt a plan that will fully serve the expected 26,400 MW of demand.

11. Are there any other aspects of ERCOT's proposed plan the Commission should consider?

# **RESPONSE:**

PBPA does not oppose EHV options in ERCOT, but it does oppose any unnecessary delay to building the necessary transmission infrastructure needed to timely interconnect oil and gas loads in the Permian Basin. Because further study of the costs and routing of 765-kV lines in the Permian region appears necessary, PBPA does not believe the 765-kV solution is in the interests of the region at this time. Oil and gas producers in the region have suffered from a lack of adequate transmission infrastructure for more than the past decade.

Texas' oil and gas industry is a driver of the state and U.S. economy, and the Permian Basin will continue to be a viable source of resources for years to come. Since 2019, most major Permian Basin operators have made public commitments to emission reductions targets. Electrification is

a critical part of meeting these targets and the current demand for resources. Further delay while ERCOT and the Commission study EHV options will have negative economic consequences on the region and the state, and the Commission should therefore approve the complete 2038 345-kV plan this fall.

Respectfully submitted,

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### PROJECT NO. 55718

#### RELIABILITY PLAN FOR THE PERMIAN BASIN REGION UNDER PURA § 39.167

# § PUBLIC UTILITY COMMISSION § OF TEXAS §

#### PERMIAN BASIN PETROLEUM ASSOCIATION EXECUTIVE SUMMARY

<u>Summary</u>: PBPA supports ERCOT's proposed 2038 345-kV solution because it offers a complete solution to serve existing load in the Permian Basin, and it can be readily implemented by the transmission utilities to serve the region's growing transmission needs. PBPA does not oppose adding EHV transmission lines in the Permian in the future, but it believes the Commission can add 765-kV lines if, after further analysis of EHV matters and implementation of the <u>complete</u> 2038 345-kV Permian plan solution, the Commission determines it is necessary.

Q1: The plan should not be phased. Many of the transmission projects are needed currently to serve existing oil and gas loads, and all of the additional projects will be needed by 2032, not 2038.

Q2: The reliability plan should be based on the complete 2038 345-kV solution; it is the most readily-implementable plan on a timely basis.

Q3: If the Commission only approves local transmission projects, interconnection delays in the region will be exacerbated. There will not be sufficient generation import path lines to serve the demand, and the forecasted amount of load will not be able to interconnect.

Q4: New ratemaking mechanisms or guardrails are not necessary to mitigate rate impacts.

Q5: PBPA understands MISO's cost estimator includes estimates for compensation and autotransformers, but it does not have an opinion at this time on the accuracy of those estimates.

Q6: The Commission does not need to change existing CCN and rate-making procedures to ensure cost effectiveness of the plan.

Q7: Which utility has a right to build is a matter of law that can be decided by the Commission on an expedited basis in a separate proceeding.

Q8: The Commission should not consider any procedural changes to its traditional CCN process.

Q9: The order should (1) direct the utilities to move forward with CCN applications for the complete 2038 345-kV plan (2) direct Staff to open an expedited proceeding to address TSP issues.

Q10: If the load that is forecasted does not materialize, the plan will have rate impacts higher than it otherwise would on existing loads. The way to mitigate that risk is to build the complete plan.

Q11: Texas' oil and gas industry is a driver of the state and U.S. economy. Electrification is critical to meeting operational efficiencies and sustainability goals of the industry.