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PROJECT NO. 58484

EVALUATION OF TRANSMISSION COST RECOVERY	§ §	**PUBLIC UTILITY COMMISSION OF TEXAS**

<u>CPS ENERGY'S RESPONSE TO QUESTIONS FOR COMMENT</u>

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

The City of San Antonio, acting by and through the City Public Service Board (CPS Energy), submits these responses to questions for comment and executive summary to the Public Utility Commission of Texas (Commission) in Project No. 58484. On August 5, 2025, Commission Staff filed a memo in this proceeding inviting comments on a set of questions stemming from the passage of Senate Bill (SB) 6, enacted by the Texas 89th Legislature, Regular Session, which requires the Commission to evaluate whether the existing methodology used to charge wholesale transmission costs to distribution providers, and ultimately to consumers, under Public Utility Regulatory Act (PURA) § 35.004(d) continues to appropriately assign costs for transmission investment. Section 6 of SB 6 requires the Commission to evaluate:

(1) Whether the current four coincident peak (4CP) methodology used to calculate wholesale transmission rates ensures that all loads appropriately contribute to the recovery of a distribution provider's costs to provide access to the transmission system;

(2) Whether alternative methods to calculate wholesale transmission rates would more appropriately assign the cost of providing access to and wholesale service from the transmission system; and

(3) The portion of the costs related to access to and wholesale service from the transmission system that should be nonbypassable, consistent with PURA § 35.004(c-l).

(4) Whether the Commission's retail ratemaking practices ensure that transmission cost recovery appropriately charges the system costs that are caused by each customer class.

Commission Staff seeks responses on the questions listed below by September 9, 2025. Therefore, these comments are timely filed.

I. General Comments

With the passage of SB 6, the Texas Legislature recognized that the transmission service market in Texas has evolved considerably during the last twenty plus years and is currently facing new cost drivers for transmission infrastructure, namely large load customers such as data centers and cryptocurrency miners. This is creating a perceived widening transmission cost allocation problem well known in economic literature. From an economic perspective, the proper allocation of transmission cost of service (TCOS) should be fair and efficient. The cost of transmission infrastructure that benefits most ratepayers and results in strong societal returns, such as producing system-wide efficiencies, reduced transmission congestion, or supporting the transport of renewable energy resources, should be recovered from all ratepayers—CREZ cost recovery is a well-known example of this, including shared cost and benefits, system-wide reliability and market efficiency, and societal returns. However, where the cost of transmission projects only benefits a few customers (such as large load customers like data centers and cryptocurrency miners), the private cost outweighs the social benefits to most ratepayers, and cost recovery should not be allocated across all ratepayers. Failure to allocate such transmission costs to the few entities that benefit from such transmission infrastructure results in cost shifting, free-riding, and rising average cost for ratepayers.[1] In short, the four action items summarized above that Section 6 of SB 6 directed the Commission to accomplish require the fair and efficient allocation of transmission costs to "ensure that a large load customer" interconnected to the ERCOT grid properly "contributes" to TCOS cost recovery.[2]

But this is not the end of the inquiry. As indicated by the first action item above, the Commission must also determine whether the 4CP methodology still "ensures that all loads appropriately contribute" to TCOS cost recovery. The primary purpose of the 4CP methodology is to allocate transmission costs to loads in ERCOT. But the simplicity and predictability of the 4CP cost allocation process has evolved to incentivize demand response, seemingly driven by a desire by large commercial and industrial loads to reduce the amount of transmission costs they are allocated. Today, 4CP demand response is no longer well aligned, or useful, to real-time wholesale energy market outcomes. The periods of highest real-time wholesale energy prices are no longer associated with the periods of highest customer demand for electricity. The 4CP demand response is now serving to shift the allocation of transmission costs to those unwilling or unable to act while providing decreasing benefits via reductions to real-time wholesale energy prices.

Will this situation further deteriorate by the expected explosion of large load customer growth? Before attempting to answer this question, it is necessary to address how to fix cost allocation under the existing 4CP methodology. To do this, the Commission needs access to ERCOT-wide historical

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[1] Transmission Planning and Benefit-Cost Analyses, The Brattle Group, 2021. Available at: https://www.brattle.com/wp-content/uploads/2021/07/Transmission-Planning-and-Benefit-Cost-Analyses.pdf
[2] PURA § 35.004(c-1).

transmission data to test assumptions, discard misconceptions, and allow the data to reveal how to realign demand response to real-time wholesale energy market prices. Without this analysis, the Commission would be left to guess whether replacing the 4CP methodology with an alternative methodology would meaningfully change cost allocation as large load customers are integrated into the ERCOT market. In this context, CPS Energy suggests the Commission engage in further market analysis to address impacts beyond those covered here before modifying the 4CP methodology.

II. CPS Energy Responses to Questions

1. What are the pros and cons of the existing four coincident peak (4CP) retail cost allocation and rate design? In your response, please address impacts to the following:
   - **a. The wholesale market;**
   - **b. The retail market;**
   - **c. Ratepayers generally; and**
   - **d. Specific customer classes (e.g., residential, small commercial).**

Above all, the 4CP is a cost allocation methodology. The 4CP methodology originated—and its primary purpose is—to allocate transmission cost to loads in ERCOT. Because its methodology is simple, predictable, and long-established, it incentivizes demand response, load management, and investment in flexible technologies such as distributed energy resources (DERs), energy storage resources (i.e., "batteries"), and behind-the-meter onsite generation. It engages all customer types in San Antonio—residential, commercial, and industrial—in reducing peak demand to (i) help balance the grid; (ii) defer transmission capital investment; and (iii) recover costs based on peak drivers while encouraging peak reduction.

The simplicity and predictability of the current 4CP cost allocation methodology have made it an attractive option for demand response, presumably driven by a desire by loads to reduce the amount of transmission costs they are allocated. This 4CP demand response has been measured to be significant and reliable. Unfortunately, 4CP demand response is no longer well aligned, or useful, to real-time wholesale energy market outcomes. That is, the periods of highest real-time wholesale energy prices are no longer associated with the periods of highest customer demand for electricity. In short, 4CP demand response is now serving to shift the allocation of transmission costs to those unwilling or unable to act while providing decreasing benefits via reductions to real-time wholesale energy prices.

Since all transmission costs are socialized[3], transmission projects that serve narrow interests ultimately end up applying to all ratepayers. This shifts costs unfairly to others, resulting in transferring costs unfairly to primarily residential customers who have limited ability to reduce their load during the 4CP intervals. In addition, the 4CP is limited to summer months, missing seasonal variations and other periods of peak demand. The 15-minute window favors load that is capable of briefly reducing their energy demand, resulting in cost avoidance for a few large commercial and industrial customers rather than fostering lasting demand response energy efficiency solutions that would effectively reduce overall energy demand.

This dynamic leads to an overstatement of ERCOT's demand response capability, as only a narrow set of large commercial and industrial customers with flexible loads that can reduce their 4CP annual measurements results in over-counting demand response capabilities within ERCOT. Additionally, the 4CP approach creates operational misalignment with other market instruments such as hedging, congestion revenue rights (CRRs), bi-lateral power purchases, and other instruments that are not offered in 15-minute intervals. In practice, the 4CP methodology allows large loads to avoid costs despite driving transmission needs, creating inefficiencies and unfair cost allocation.

Testing the veracity of these assertions, and if correct, whether their impact is significant, presents an analysis that should be undertaken by the Commission using systemwide data. For instance, how can the 4CP methodology be revised to align the use of demand response during the periods of highest energy demand? Without understanding this dynamic, replacing the 4CP process with an alternative coincident peak methodology may do nothing to avert the use of demand response to shift TCOS costs from large commercial and industrial customer to residential customers.

2. **How have congestion and wholesale market prices been impacted by the 4CP retail cost allocation and rate design?**

In ERCOT, load effectively pays for congestion and transmission, creating an incentive to support transmission buildout. The apparent reduction in energy demand associated with the 4CP measurements by large commercial and industrial customers discussed above also signals the alleviation of transmission constraints. Congestion patterns in turn indicate where investment is needed to reliably serve load. Those

[3] PURA § 35.004(d) ("The commission shall price wholesale transmission services within ERCOT based on the postage stamp method of pricing under which a transmission-owning utility's rate is based on the ERCOT utilities' combined annual costs of transmission, other than costs described by Subsections (d-2) [generation interconnection allowance] and (d-3) [any adjustment to the allowance], divided by the total demand placed on the combined transmission systems of all such transmission-owning utilities within a power region.")

needs are not driven by 4CP demand but rather by distance between the generation and load. The 4CP methodology dilutes the actual impact of congestion-specific reductions sending incorrect market signals to undermine investment in transmission infrastructure. This occurs because the 4CP methodology treats all congestion the same, which ignores reductions occurring in critically constrained transmission segments.

Moreover, the 4CP methodology provides minimal wholesale market price signals, aside from direct current (DC) tie impacts. Recent trends show ERCOT congestion costs falling overall ($2.4B in 2023 to $1.9B in 2024) due to lower gas prices and Houston transmission upgrades, though costs rose in West Texas from oil/gas electrification, data centers, and renewable siting issues. The Independent Market Monitor (IMM) noted congestion tied to generic transmission constraints (GTCs) grew 10% in 2024, driven partly by renewable forecast errors. Price reviews during 2024 4CP intervals show slight dips before and spikes after, suggesting 4CP actions do influence real-time prices. Through the efforts of large stakeholders to reduce demand during the four coincident peaks of the summer, the 4CP methodology undermines transmission constraints and provides weak wholesale price signals. Again, these assertions should be tested by the Commission and not taken at face value.

3. How has 4CP price response affected residential and small commercial customers? Is this quantifiable? If so, how?

CPS Energy cannot speak for other market stakeholders. For CPS Energy, as both a municipally owned utility and a load-serving entity, 4CP response has produced measurable outcomes. By accurately forecasting likely 4CP intervals and dispatching demand response and energy efficiency resources, CPS Energy has consistently lowered its transmission cost obligations. These avoided costs flow back to CPS Energy customers, reducing their burden of statewide transmission charges.

CPS Energy's Sustainable Tomorrow Energy Plan (STEP) demand-side management (DSM) portfolio has delivered significant peak demand reductions for customers since its inception in 2015. For Fiscal Year (FY) 2025 (period beginning February 1, 2024 through January 31, 2025), the STEP portfolio consisted of twenty (20) active DSM programs across Residential Weatherization, Residential and Commercial Energy Efficiency, Residential and Commercial Demand Response, and Commercial Renewable sectors. For FY2025, the combined DSM portfolio produced 289,965,792 kWh in net energy savings, including 166,642 kW in net 4CP savings. Contributions to the total 4CP net savings of 166.6 MW came from Weatherization (3.2 MW) Energy Efficiency (44.2 MW), Demand Response (117.3 MW), and Renewable Energy (1.3 MW) programs.[4] CPS Energy's DSM portfolio has not only reduced transmission costs but also deferred new capacity investments, lowered wholesale energy costs to our customers, and improved system resiliency.

Despite these benefits, the effectiveness of the 4CP methodology has declined in recent years. The highest real-time wholesale prices no longer consistently coincide with ERCOT's system peak hours. As a result, 4CP curtailments often reduce transmission charges but do little to lower overall energy costs for customers. As the Commission considers alternatives to the 4CP methodology, it is essential to conduct a thorough market analysis rather than assume 4CP impacts on benefits and burdens. Without such analysis, the Commission would be left to guess whether replacing 4CP with an alternative methodology would meaningfully improve cost allocation, particularly as large load customers are further integrated into the ERCOT market.

4. **What potential harms to ratepayers might occur if the demand-response signal provided by the status-quo 4CP pricing is diluted?**

The current 4CP methodology enables CPS Energy to reduce its share of ERCOT transmission charges through targeted demand response. Diluting this signal would limit our ability to manage these costs, likely resulting in higher transmission cost allocations for our ratepayers. CPS Energy's STEP portfolio of DSM programs supports several residential and commercial demand response programs structured around the 4CP framework. Weakening the 4CP incentive would likely reduce customer participation, thereby eroding the bill savings these programs currently provide. Additionally, the 4CP methodology has incentivized investment in distributed energy resources (DERs), energy storage, and other DSM technologies also supported by the STEP program. Without this driver, customers and CPS Energy may reduce investment in these flexible, grid-supportive resources, increasing vulnerability to wholesale price volatility. If fewer customers respond to a diluted signal, the resulting transmission cost allocations could disproportionately impact residential customers, who generally have limited ability to adjust consumption during peak intervals. This outcome undermines fairness and affordability for CPS Energy's most vulnerable ratepayers. Therefore, CPS Energy recommends amending the 4CP methodology or replacing it with an alternative TCOS allocation methodology that better aligns the incentive to deploy demand response technologies during intervals of actual peak demand when

[4] Evaluation, Measurement, and Verification of CPS Energy's FY 2025 DSM Portfolio, March 2025, Frontier Energy, Inc. at 19-21. Report available at: https://www.cpsenergy.com/content/dam/corporate/en/Documents/FY2025_STEPEvaluation_Report_ada_71625.pdf.

dispatchable generation resources are tight and wholesale energy prices are highest.

5. **Do the risks of cost-shifting associated with 4CP price response exceed the benefits of cost avoidance or other savings that are associated with 4CP price responses during the months of June, July, August, and September? Please provide all relevant data and analyses.**

The 4CP methodology has historically delivered tangible benefits for CPS Energy ratepayers during the summer months of June through September including transmission cost avoidance, operational and system benefits, and customer incentives and participation. By reducing load during the four annual system peaks, CPS Energy has lowered its allocated share of ERCOT transmission charges. Programs such as BYOT have delivered approximately 44 MW of demand reduction during 4CP intervals, directly translating into avoided costs. Peak load reductions help defer transmission investments and reduce wholesale energy costs. Summer 4CP curtailments also support system reliability during periods of high demand, contributing to resilience. The 4CP price signals encourage customers—particularly those with flexible load or distributed energy resources—to participate in demand response, amplifying the cost-avoidance effects.

While there are clear benefits, there are significant and growing risks associated with 4CP price response. Large commercial and industrial customers with flexible load or storage disproportionately benefit from 4CP, avoiding costs that are then shifted to residential and smaller commercial customers. Residential customers generally lack the means to respond during these brief 15-minute windows, bearing a higher proportion of transmission costs. The hours that drive 4CP allocations no longer consistently coincide with the highest real-time wholesale energy prices. Consequently, 4CP-driven reductions may lower allocated transmission costs without reducing overall system energy costs. The 4CP framework favors short-term curtailments (e.g., batteries or temporary load reduction) rather than permanent demand-side reductions or broader energy efficiency investments. This overstates the utility's demand response capability while providing diminishing system-wide benefits.

Although 4CP price response provides targeted transmission cost avoidance and operational benefits, the associated risks of cost-shifting and inequitable allocation increasingly outweigh these benefits during the summer months. CPS Energy ratepayers—particularly residential customers—are therefore exposed to higher net costs and reduced fairness under the status quo 4CP methodology.

The Commission should balance fair cost recovery with encouraging load flexibility. While 4CP supports innovation, it allows some customers to shift costs onto others, undermining equity. Since all benefit from a robust transmission system, all should contribute fairly. Any alternative to the 4CP methodology should reduce cost shifting without discouraging investment in flexible load.

6. What are the primary drivers of transmission cost incurrence?

For CPS Energy, transmission cost incurrence is shaped by factors common across ERCOT as well as CPS Energy's specific load and system characteristics. Two primary drivers are load growth and customer mix that include projects required to serve large customers, such as industrial facilities or data centers. These may involve new substations, transmission lines, transmission line upgrades, or other capacity expansions. System expansion and upgrades are projects needed to support overall system growth not tied to large loads, including system upgrades or extensions needed to support new and existing residential or commercial load. These may include new transmission lines or substations, line upgrades, or other capacity expansions.

Transmission cost drivers also include generation interconnection for new or expanded transmission facilities required to directly interconnect generation. This category also covers infrastructure modernization, including replacement of equipment and facilities that have reached the end of their useful life, such as transmission lines, transformers, circuit breakers, or structures to maintain safe, reliable, and efficient operation. Civic improvements encompass projects that are necessary to accommodate road or highway improvements initiated by governmental entities. Market and regulatory factors and compliance include projects undertaken to meet requirements from regulatory entities (e.g., NERC, FERC, PUCT, ERCOT). Projects include new infrastructure and system upgrades needed to maintain and improve reliability & resiliency, emergency restoration efforts on transmission rebuilds and/or repairs required to restore service following significant damage from extreme weather events or other emergencies. Other costs include operations and maintenance that are embedded in each of these categories such as inspections, vegetation management, repairs, and preventive maintenance.

a. Are the costs for transmission network upgrades primarily driven by customer load at the time of the transmission system peak load? If not, what share of transmission network upgrades is primarily driven by peak load?

CPS Energy's transmission network upgrade costs have not historically been primarily driven by customer load at the time of the transmission system peak load; however, moving forward we see a shift toward this end. While customer load during peak periods significantly influences CPS Energy's transmission costs, these costs are also driven by factors like system reliability needs, geographic constraints, and regulatory requirements. Therefore, the share of transmission network upgrades primarily driven by peak load is substantial but not exclusive.

b. What portion of non-interconnection transmission costs are primarily driven by customer non-coincident peak demand, or other measures of demand?

While customer NCP demand significantly influences CPS Energy's transmission costs, these costs are also driven by factors like system reliability needs, geographic constraints, and regulatory requirements. Therefore, the share of transmission network upgrades primarily driven by NCP demand is substantial but not exclusive.

CPS Energy's location within ERCOT (serving San Antonio and surrounding areas) affects its cost allocation. Distance to generation resources, congestion on local transmission lines, and interconnection points influence the portion of costs assigned to CPS Energy. State policies and regulatory requirements can drive transmission upgrades to meet environmental standards or to support economic development initiatives.

c. Quantify the absolute and relative magnitudes associated with the various categories of primary transmission cost drivers, including the amounts of transmission costs incurred by category in recent years.

The table below shows the primary drivers of transmission cost from highest to lowest for capital projects. Historically, infrastructure modernization projects have ranked the highest; however, going forward regulatory driven projects are anticipated to rank the highest relative to other cost drivers. This shift in spending is attributable to load growth internal and external to CPS Energy and a changing generation mix across the system, including generation reaching end of useful life, as well as the need for large regional projects to allow increased power flow into and through the CPS Energy system and across ERCOT.

Primary Driver of Transmission Cost	
Historical Costs (2020-2024)	**Future Costs (2025-2030)**
Infrastructure Modernization	Regulatory
System Growth	System Growth
Regulatory	Infrastructure Modernization
Generation Interconnection	Large Load
Large Load	Generation Interconnection
Civic	Other
Other	Civic

d. **How stable is the relative relationship between the primary transmission cost drivers over time?**

The relative stability of the primary transmission cost drivers for CPS Energy—particularly NCP demand, system reliability, and infrastructure expansion—has been subject to both consistency and change over time. While CPS Energy's primary transmission cost drivers have historically been stable, recent changes in demand patterns, infrastructure challenges, and regulatory landscapes are introducing new dynamics. These factors may necessitate a reevaluation of existing cost allocation methodologies to ensure fairness and efficiency in the evolving energy landscape.

7. **What alternative methods to 4CP should the commission consider? In your response, please distinguish between 4CP for wholesale cost recovery and 4CP for retail cost recovery.**

The Commission should model alternative rate design methodologies to ensure all users fairly contribute to shared transmission infrastructure while avoiding overly complex cost allocation or stifling innovation. CPS Energy recommends evaluating load ratio share impacts from multiple cost allocation methods, ensuring large load commercial and industrial customers pay for dedicated transmission assets, and maintaining consistency between wholesale and retail cost recovery based on cost causation principles. Some alternatives the Commission should consider in its evaluation:

- A **netload method** (total demand less solar and wind generation) allocates costs based on how a customer's energy use affects the remaining demand on the grid after accounting for renewable generation from wind and solar. This approach may be the most appropriate method of measuring peak, as the highest stress on the grid often occurs during net peaks (i.e., in the early evening when solar production drops but demand is still high). This method shifts costs to evening hours when commercial loads are lower, potentially increasing load ratio share for data centers. The Commission should consider modeling this method in conjunction with other alternatives, such as the three listed below. This method would increase predictability and complexity, given the additional factors of renewable generation of wind and solar to be considered, in addition to the total demand.
- The **4CP method** is a simple, well understood, direct means of cost allocation; however, its narrow focus on just four intervals creates strong incentive for sophisticated customers to strategically curtail load, shifting significant costs to less flexible loads, such as residential customers. Restricting 4CP to **weekdays** would help prevent cost shifting from commercial and

industrial to residential customers, aligning with the Independent System Operator – New England (ISO-New England) and New York Independent System Operator (NYISO) practices and protecting low-income residential bill impacts. A related approach is utilized by the Pennsylvania - New Jersey – Maryland Interconnection (PJM) which uses a 5CP methodology consisting of the five highest hours from the five highest peak days across the entire ISO area averaged for the year, non-holiday weekdays only and typically, June-September.

- Utilizing an **8CP method** is a more balanced approach that captures the peaks in both summer and winter months, providing incentive for demand response across a broader timeframe than 4CP, while being less susceptible to manipulation than the 4CP methodology. This approach would be like the one adopted by the Midcontinental Independent System Operator (MISO) which uses historical data and predictive models to determine the coincident peak during peak load seasons.
- A **12CP method** is a relatively simple and widely used method that includes peaks across seasons and times of day, supporting year-round demand response but potentially introducing customer fatigue and cost shifts between residential, commercial, and industrial classes. This approach would be consistent with California Independent System Operator (CAISO), which administers a 12CP methodology consisting of the highest 15-minute interval of system-wide load usage during peak hours of a given month.
- An **energy basis (MWh) method** is one of the most simple and equal ways to allocate costs. If large loads are driving system growth and have risk of cost shifting to residential and incumbent ratepayers, then a MWh basis method both aligns with the cost driver—high energy usage actors—and removes any incentive to game and shift costs. However, while a MWh basis method may produce general incentives for energy efficiency, the acute flexibility incentives from 4CP and other peak methods disappear. The Commission should consider the tradeoffs between the different allocation methods and their strengths and weaknesses.

When considering alternative methodologies, it is important to recognize the different functions of a TCOS allocation method, namely: cost recovery following cost causation principles, and the incentive function and wholesale market outcomes that come from actors responding to the allocation method. Cost causation may be best measured through energy usage (MWh) or peak load (MW), while reliability and incentive functions may be better supported by linking cost recovery to periods of net load, when prices are highest, and the system is tightest. When these objectives diverge, acknowledging the tradeoff between them is essential. A weighting or guidance towards preferences by the Commission would help guide stakeholders in evaluating options and provide transparency in the design process.

8. At what times is the transmission system most congested, excluding discretionary outages (i.e. planned outages)?

CPS Energy's transmission system experiences its most significant congestion during the summer months, particularly in June, July, and August, aligning with ERCOT's peak demand periods. This congestion is primarily due to increased electricity consumption, aging infrastructure, and the growing demand from large-scale data centers.

Summer Peak Demand: The transmission system faces substantial congestion during the summer months, especially between June and August, when electricity consumption is at its highest due to increased air conditioning use. This period coincides with ERCOT's peak demand times, amplifying the strain on the grid.[5]

Aging Infrastructure: Aging transmission lines and substations in the San Antonio area contribute to bottlenecks. For instance, CPS Energy is investing in the San Antonio South Reliability Project, which includes constructing a new 24.5-mile, 345-kilovolt double-circuit transmission line to alleviate strain on existing infrastructure and prevent potential blackouts. This project is expected to be operational by June 2027.[6]

The rapid expansion of data centers in San Antonio is significantly increasing electricity demand. Currently, 2 gigawatts of large-scale energy loads are confirmed, with an additional 18.3 gigawatts under consideration. This surge in demand is outpacing the utility's existing infrastructure, leading to increased congestion.[7]

To mitigate congestion, ERCOT has directed CPS Energy to implement temporary solutions such as deploying mobile generators at a cost of $100 million. These generators are expected to be operational

[5] San Antonio Express News, *ERCOT Hustling to Prepare Texas Electric Grid for Record Power Demand*, Sara DiNatale, June 25, 2025. Article available at: https://www.expressnews.com/business/article/ercot-cps-energy-texas-summer-record-power-demand-20391763.php.
[6] San Antonio Express News, *CPS Energy Approves $175M Transmission Project to Strengthen State's Grid*, Julianna Duennes Russ, July 31, 2025. Article available at: https://www.expressnews.com/business/article/cps-energy-san-antonio-texas-grid-power-line-20792045.php.
[7] San Antonio Express News, *Why CPS Energy Says Power Likely to Surge in San Antonio*, Sara DiNatale, June 17, 2025. Article available at: https://www.expressnews.com/business/article/san-antonio-cps-energy-data-centers-power-demand-20380864.php.

by the summer 2025 to alleviate congestion during peak times.[8]

9. **Section 6(a)(3) of SB 6 requires the commission to evaluate the portion of the costs related to access to and wholesale service from the transmission system that should be nonbypassable, consistent with Section 35.004(c-1). Does the language regarding "nonbypassable" costs in section 6(a)(3) of SB 6 refer to costs other than the interconnection costs described by new PURA §35.004 (c-1)?**

The legislation directs the Commission to implement rule requirements that ensure large loads, such as data centers and cryptocurrency miners, pay their fair and equitable share of TCOS costs. One way to ensure such large load customers are unable to shift transmission costs to other ratepayers under the 4CP methodology or an alternative coincident peak methodology is to assess a "nonbypassable" transmission access fee based on their annual energy use.

10. **What data can transmission and distribution service providers (TDSPs) (or other stakeholders) provide to aid the commission in evaluating the appropriateness of the existing transmission cost recovery methods and alternative transmission cost recovery methods?**

CPS Energy has no response to this question at this time.

11. **How have other areas of the country (i.e., other Regional Transmission Operators and Independent System Operators) addressed wholesale transmission cost recovery? Are there lessons to be learned from these other areas?**

See response to Q#7.

III. Conclusion

CPS Energy appreciates this opportunity to provide feedback to the Commission on this set of questions related to consideration of a new transmission cost recovery methodology, and we look forward to working with the Commission, Commission Staff, and stakeholders in the coming months on this important proceeding.

[8] San Antonio Express News, *ERCOT Approves $100M Plan to Shut CPS Plants, Use Mobile Generators Instead*, Sara DiNatale, Feb. 26, 2025. Article available at: https://www.expressnews.com/business/article/ercot-generators-cps-energy-braunig-texas-grid-20187546.php.

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ATTORNEYS FOR CPS ENERGY

EXECUTIVE SUMMARY OF CPS ENERGY RESPONSES

In this proceeding, the Commission is responding to the legislative mandate in SB 6 to fairly and efficiently allocate transmission costs to ensure that large load customers, such as data centers and cryptocurrency miners, interconnected to the ERCOT grid properly contribute to TCOS recovery. The Commission is to do this by evaluating whether the current 4CP methodology continues to properly allocate TCOS to all customer classes and potential alternatives to the 4CP methodology, as well as determine the nonbypassable TCOS for large load customers. CPS Energy observes that the simplicity and predictability of the 4CP cost allocation methodology has evolved to incentivize the use of demand response by large commercial and industrial customers with flexible loads to reduce the amount of transmission costs they are allocated, effectively shifting costs to those unwilling or unable to shift their loads—primarily residential customers. As a result, today, 4CP demand response is no longer well aligned with the periods of highest real-time wholesale energy prices. Accordingly, CPS Energy recommends that the Commission use ERCOT-wide historical transmission data to test assumptions, discard misconceptions, and allow the data to reveal how to better realign demand response to real-time wholesale energy market prices. Without conducting this analysis, it will be difficult to evaluate whether replacing the 4CP methodology with an alternative coincident peak methodology would meaningfully change cost allocation as large load customers are integrated into the ERCOT market, short of allocating transmission cost on an annual energy use basis.

More specifically, in response to Commission questions, CPS Energy comments:

1. The primary pros of the 4CP methodology are its simplicity and predictability. These are also its drawbacks because these characteristics have led large commercial and industrial customers with flexible loads to use 4CP demand response to shift TCOS costs to other customers with the inability or unwillingness to shift costs—primarily residential customers.

2. The 4CP methodology dilutes the actual impact of congestion-specific reductions, sending incorrect market signals to undermine investment in transmission infrastructure. This occurs because the 4CP methodology treats all congestion the same, which ignores reductions occurring in critically constrained transmission segments.

3. For CPS Energy, as both a municipally owned utility and a load-serving entity, 4CP response has produced measurable outcomes. By accurately forecasting likely 4CP intervals and dispatching

demand response and energy efficiency resources, CPS Energy has consistently lowered its load share, passing the value to its retail customers. Despite these benefits, the effectiveness of the 4CP methodology has declined in recent years. The highest real-time wholesale prices no longer consistently coincide with ERCOT's system peak hours. As a result, 4CP curtailments often reduce transmission charges but do little to lower overall energy costs for customers.

4. The current 4CP methodology enables CPS Energy to reduce its share of ERCOT transmission charges through targeted demand response. Diluting this signal would limit our ability to manage these costs, likely resulting in higher transmission cost allocations for our ratepayers. Therefore, CPS Energy recommends amending the 4CP methodology or replacing it with an alternative TCOS allocation methodology that better aligns the incentive to deploy demand response technologies during intervals of actual peak demand when dispatchable generation resources are tight and wholesale energy prices are highest.

5. Although 4CP price response provides targeted transmission cost avoidance and operational benefits, the associated risks of cost-shifting and inequitable allocation increasingly outweigh these benefits during the summer months. CPS Energy ratepayers—particularly residential customers—are therefore exposed to higher net costs and reduced fairness under the status quo 4CP methodology.

6. CPS Energy's transmission cost drivers are as follows, from largest to smallest in terms of cost:

Primary Driver of Transmission Cost	
Historical Costs (2020-2024)	**Future Costs (2025-2030)**
Infrastructure Modernization	Regulatory
System Growth	System Growth
Regulatory	Infrastructure Modernization
Generation Interconnection	Large Load
Large Load	Generation Interconnection
Civic	Other
Other	Civic

7. The Commission should consider the following coincident peak methodologies: (i) 4CP; (ii) 8CP; (iii) 12CP; (iv) netload method in conjunction with one of the coincident peak methods; and (v) energy basis (MWh) method.

8. CPS Energy's transmission system experiences its most significant congestion during the summer months, particularly in June, July, and August, aligning with ERCOT's peak demand periods.
9. One way to ensure large load customers, such as data centers and cryptocurrency miners, are unable to shift transmission costs to other ratepayers under the 4CP methodology or an alternative coincident peak methodology is to assess a “nonbypassable” transmission access fee based on their annual energy use.
10. CPS Energy did not respond to this question.
11. See responses to Q#7.