



Date: August 10, 2010
To: Board of Directors
From: Dan Woodfin, Director of System Planning
Subject: ERCOT Independent Review of Houston Import Project

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: August 17, 2010

Agenda Item No.: 10

Issue:

Whether the ERCOT Board of Directors (Board) should endorse the Houston Import Project, which ERCOT staff has independently reviewed.

Background/History:

The ERCOT 2008 and 2006 Long-Term System Assessments (LTSAs) both indicated a need for additional future import capacity into Houston. Furthermore, the 2008 LTSA indicated that additional Houston import capacity may be required in order to meet reliability criteria by 2018.

Sharyland Utilities and CenterPoint Energy both submitted project proposals to the ERCOT Regional Planning Group (RPG) to address the need to add more import capacity into the Houston area. Both project proposals received comments that supported the need for additional import capacity for Houston, but differed only in which project should be selected.

ERCOT performed a study of the absolute and relative merits of both project proposals, as well as multiple alternative projects identified by ERCOT and other stakeholders, to provide increased import capacity into the Houston area. This ERCOT Independent Review of the Houston Import Project (ERCOT Review) is included as Attachment A. A total of more than 32 options were studied, but only 22 options are described in the ERCOT Review since the omitted ones were either similar or were reasonably proven to be unfeasible in the CenterPoint Energy project proposal. Of the options studied in the ERCOT Review, Option 3 was identified as the most effective option. The upgrades involved in Option 3 are described as follows:

Option 3:

- Build Fayetteville – Zenith 345 kV double circuit line [approx. 60 miles on a new Right of Way (ROW)] so that each circuit Rate B is approximately 2800 MVA
- Loop Fayette Power Project – Salem 345 kV line into Fayetteville 345 kV substation
- Upgrade the Fayette Power Project – Fayetteville 345 kV double circuit line so that the circuit Rate B of each line is approximately 1900 MVA
- Expand the Fayetteville Substation with four new line terminations and Zenith Substation with two new line terminations
- Upgrade the Bellaire – Brays – H.O. Clarke Plant 138 kV line terminal equipment so that the circuit Rate B for the two 138 kV sections is 893 MVA and 561 MVA, respectively



The total cost estimate (based on CenterPoint Energy, LCRA TSC and ERCOT estimates) is approximately \$175 million for these improvements. The ERCOT independent analysis of the upgrades, involved in Option 3, revealed approximately \$13 million and \$45 million in annual production cost savings and energy revenue savings, respectively for 2014.

It should be noted that the need to add additional import capacity into the Houston area was not considered to be necessary to meet reliability criteria in the timeframe of this analysis (2014) since the load in the area could reliably be served by generation in the Houston area and the existing import capacity. For this reason each of the project alternatives were evaluated on economic criteria based on the ERCOT RPG Planning Charter and Procedures in order to evaluate each project's ability to reliably serve the load at an overall lower cost.

Key Factors Influencing Issue:

1. Additional import capacity into Houston identified in last two LTSAs (that is, 2008 and 2006) with possible reliability need for additional import capacity by 2018.
2. Generation retirements/mothballing in Houston area increased in last year.
3. Projects will relieve congestion into the Houston area prior to 2018.

Alternatives:

1. Endorse the need for the Houston Import Project as recommended by ERCOT staff and supported by the RPG.
2. Remand to ERCOT staff with instructions.

Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board endorse the Houston Import Project.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, staff of Electric Reliability Council of Texas, Inc. (ERCOT) has prepared the ERCOT Independent Review of the Houston Import Project, which is attached hereto as Attachment A, and recommends that the ERCOT Board of Directors (Board) endorse the Houston Import Project; and

WHEREAS, after due consideration of the alternatives, the ERCOT Board deems it desirable and in the best interest of ERCOT to endorse the Houston Import Project;

THEREFORE, BE IT RESOLVED, that the ERCOT Board endorses the Houston Import Project.

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Interim Corporate Secretary of ERCOT, do hereby certify that, at its August 17, 2010 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of August, 2010.

Bill Magness
Interim Corporate Secretary