



# Luminant

**Date:** April 4, 2014

**To:** ERCOT Board Members

**From:** Amanda Frazier, on behalf of Luminant Energy Company LLC

**Subject:** Comments on the Houston Import Project

Luminant Energy does not typically provide input on matters pending before the Board except by providing feedback and input to our segment representative. However, on the matter of the Houston Import Project, Luminant Energy feels the need to provide a balanced viewpoint, as we have become concerned that the opposition to the project will be viewed as representative of the opinions of all generators in the market.

Luminant *strongly supports approval* of ERCOT's recommendation of the Houston Import Project to address imminent reliability needs for transmission into the Houston area. Luminant Energy is also confident that ERCOT's independent review adequately assessed the need for expanded imports into Houston, in accordance with the Planning Guides and stakeholder feedback. The study evidence that the Houston Import Project is needed is overwhelming:

- Planning Reliability: A must have upgrade – critical to reliability by 2018
  - *"Reliability need... is an imminent issue irrespective of the assumptions used in the 2018 study base case" ERCOT Independent Review of Houston Import RPG Project, p. 9.*
- System Maintenance: An essential project for grid flexibility
  - *"Increasing dependence on the power import through the above import paths is also expected to cause significant challenges in scheduling a planned outage with a sufficient duration on any of the 345 kV lines. As the load continues to grow in Houston, it is expected that these outages (forced or planned) will cause significant reliability issues and become increasingly costly" Id. p. 1.*
- Market Efficiency: removing barriers to competition
  - *"Furthermore, a new import path into the Houston area may open the market for new, more efficient generation sources to construct outside of the area and sell power by*

*importing into Houston which will introduce additional competition for the legacy generation resources in the area” Id. p. 28.*

The Houston Import Project is a reliability project. While it is true that building the Houston Import Project will have economic benefits by reducing energy costs for Houston customers, and providing those customers access to more efficient generation that exists or is built outside of the Houston area, it is not true that rejecting the Houston Import Project will improve resource adequacy by guaranteeing that generation is built inside of Houston. ERCOT’s study showed that even large additions of new generation would only delay the reliability need for the project by one year. Given the environmental and siting limitations in Houston, it is unlikely that generation growth could keep up with the increased load growth in Houston over time, even if the additional congestion-driven revenues collected by generators located in Houston provided the financial case for investment. Generation developers cannot justify large investment based on higher revenues that will disappear as soon as their plant comes online and resolves the congestion.

Moreover, when considering the effect of transmission build on resource adequacy, both sides of the constraint should be examined. There is historical evidence that congestion into the Houston zone and South zone in 2008 and 2009 depressed North and West zone prices relative to Houston and South, contributing to more mothballing and retirements in the North and West zones. During the time period of 2009 and 2010, there were approximately 7,381 MW of generation that suspended operation. Over 80% of this capacity – 6,019 MW – was located in the North and West zones, likely related to the expectation of continued North to Houston and North to South congestion. Driving generation retirements on the export side of the constraint would exacerbate the resource adequacy issue, not improve it. Luminant agrees that more generation is needed in ERCOT, but failing to approve transmission import expansion projects that are critical to reliability and continuity of service is not a viable solution.

In recommending the Houston Import Project, ERCOT followed the correct process, and performed its analysis robustly and accurately. Planning Guides are developed and routinely updated by transmission experts and are approved by the ERCOT Board after following a process that is open to all segments of ERCOT stakeholders. The Regional Planning Group (RPG) is the venue where market participant feedback and preliminary ERCOT project findings are discussed. Within the RPG process, ERCOT considered and addressed all stakeholder concerns that were brought forward, including non-coincident peak load scaling, use of the Steady State Working Group (SSWG) system load forecast, and the inclusion or exclusion of resources yet to reach commercial operation.

In response to the criticism that the study’s load scaling was not reasonable, ERCOT performed a sensitivity analysis to consider whether the load scaling issue was driving the need for the Houston Import Project. In the sensitivity using no load scaling, ERCOT found that the Singleton-Zenith 345kV line would still be overloaded between 122-137% and that seven other 345kV lines would be overloaded up to 110%.

ERCOT was also correct to use the SSWG load forecast for certain weather zones in its analysis. The SSWG load forecast data is provided by transmission and distribution providers, which have the best visibility into current and changing topology and load growth patterns on a granular level. Transmission planning has to use extreme weather load forecasts, because there is no reserve margin planned for transmission capacity.

With respect to which resources were included or excluded in ERCOT's independent study, ERCOT followed the methodology established by PGRR 18. ERCOT must use a reasonable standard to differentiate which new resources are likely to be built, given the 55GW of current interconnection requests. Moreover, even if there are other potential new resources that could have been reasonably included in the analysis, there would have to be approximately 1,800 MW of new capacity in the Coastal weather zone combined with zero retirements of existing capacity before it would have delayed the reliability need for the Houston Import Project by even one year, from 2018 to 2019.

Luminant Energy also identified and illustrated in its comments to TAC that there are at least three additional considerations that could have been included in ERCOT's study that would further support the need for the Houston Import Project, including ancillary services assumptions, wide-area generation unavailability, and use of dynamic line ratings. Luminant Energy's own analysis showed that the combined effect of these three additional stressors could result in significantly more severe overloads than ERCOT's study produced, meaning that the Houston Import Project is sorely needed, and soon.

For all of these reasons, Luminant Energy urges the Board to approve ERCOT's Houston Import Project recommendation.

Please let me know if there are any questions that I can help answer. I will be available at the April 8, 2014 Board meeting, or you may contact me at [amanda.frazier@luminant.com](mailto:amanda.frazier@luminant.com) or by phone at 512-349-6442.