**Southern Cross Transmission Comments to QMWG Regarding PUCT Directive No. 10**

Southern Cross Transmission (SCT) files these comments as requested by the QSE Managers Working Group (QMWG) regarding Directive No. 10 from the PUCT instructing ERCOT to assess price formation issues associated with DC Tie imports during emergency conditions. Specifically, the PUCT stated in Project No. 46304:

ERCOT shall study price formation issues to determine whether, to avoid flows over the DC Ties adversely affecting price formation in the ERCOT wholesale market or otherwise causing outcomes inconsistent with a properly functioning energy market, any changes to pricing within the ERCOT market during emergencies are necessary. ERCOT shall certify to the Commission when it has completed these actions.

As an initial matter, there are no price formation issues to study during normal system conditions since any reasonably economic QSE transactions over DC Ties should not cause “outcomes inconsistent with a properly functioning energy market.” DC Tie transactions between market participants represent the economic injection or withdrawal of energy from the market. Therefore, it is only when the market fails to provide energy across the DC Ties during emergency conditions and ERCOT decides to take the out-of-market action of procuring emergency energy across the DC Ties that normal price formation is adversely affected.

As the ERCOT stakeholders recognized in NPRR 768, the appropriate methodology for correcting the price formation distortion caused by ERCOT’s out-of-market emergency importation is to include the imported MWs in the calculation of the Real-Time On-Line Reliability Deployment Price Adder pursuant to Protocols Sec. 6.5.7.3.1(1). However, in paragraph (e) of that section, NPRR 768 capped the total Real-Time DC Die import adjustment at 1,250 MW which is simply the total capacity of the existing DC Ties. When the Southern Cross Transmission Project is constructed (increasing the total ERCOT system DC Tie import capacity by 2,000 MW) and ERCOT procures more than 1,250 MW of emergency energy over the DC Ties, then price formation will be adversely impacted by the volume of imported emergency energy not included in the price adder calculation.

The appropriate solution to address Directive No. 10 is to remove the MW cap by amending Protocols Sec. 6.5.7.3.1(1)(e) as follows:

(e) Real-Time DC Tie imports during an EEA ~~where the total adjustment shall not exceed 1250 MW in a single interval~~;

The removal of the cap is consistent with the market design purpose of NPRR 768. The existing cap does not prevent emergency imports over the SCT DC Tie from being included in the Real-Time On-Line Reliability Deployment Price Adder. For example, if ERCOT calls for 1,000 MW of emergency energy and receives it from the SERC region over the SCT DC Tie, those MWs would be included in the price adder calculation. It is only MWs over 1,250, over whatever DC Tie they arrive, that are excluded. In short, the cap is an arbitrary lid on the price adjustment mechanism inconsistent with the market design purpose of adding emergency energy into the price adder calculation.

Removing the cap has no practical implication for the existing ERCOT market. Since there is only 1,250 MW of DC Tie capacity in ERCOT, no more than that can be added to the price adder calculation until more DC Tie capacity is constructed. Therefore, if the cap is removed and no additional DC Tie capacity is ever constructed, there would be no practical effect on the price adder calculation. If additional DC Tie capacity is constructed, any emergency energy imports greater than 1,250 MW would simply be treated like all the other out-of-market MWs for the purpose of calculating the price adder.