



Date: August 9, 2022
To: Board of Directors
From: Nathan Bigbee, Deputy General Counsel
Subject: ERCOT Recommendations to PUC Regarding Project No. 46304, Oversight Proceeding Regarding ERCOT Matters Arising Out of PUC Docket No. 45624 Relating to DC Tie Project Proposed by Southern Cross Transmission, LLC (Southern Cross): Directive 1 – Registration and Market Segment

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: August 16, 2022

Item No.: 10.1

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should vote to accept ERCOT staff's determination that: (1) a new Market Participant type is needed to address the unique attributes of entities that operate Direct Current (DC) Ties; (2) approved Nodal Protocol Revision Request (NPRR) 857, Creation of Direct Current Tie Operator Market Participant Role, and Nodal Operating Guide Revision Request (NOGRR) 177, Related to NPRR857, Creation of Direct Current Tie Operator Market Participant Role, created the role of "Direct Current Tie Operator" (DCTO) and establish new requirements for DCTOs; (3) ERCOT Bylaws should not be revised to enable Southern Cross to join an appropriate market segment because Southern Cross does not wish to proceed with revisions to ERCOT Bylaws that would enable Southern Cross to join an appropriate market segment at this time; and (4) should Southern Cross or any entity associated with the Southern Cross DC Tie wish to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of application will apply.

Background/History:

In PUC Project No. 45624, the PUCT issued an Order that approved the City of Garland's application for a certificate of convenience and necessity (CCN) to build a new 38-mile-long, 345kV transmission line connecting the proposed 2,000 MW Southern Cross DC Tie to ERCOT. In the Order, the PUCT also imposed certain conditions on the interconnection of the Southern Cross DC Tie. The PUCT then opened PUC Project No. 46304, and, on May 23, 2017, it issued a Revised Order in that project that directed ERCOT to complete a number of tasks set forth in 14 different Directives.

The Directives require ERCOT to study various issues related to the new DC Tie and make determinations as to whether any actions need to be taken by ERCOT in order to accommodate the new DC Tie. ERCOT staff has been working with stakeholders and Southern Cross since mid-2017 to complete the tasks set forth in the Directives. Discussions on the Directives have been taking place in the relevant working groups and subcommittees of the Technical Advisory Committee (TAC) to assist ERCOT staff in



reaching resolutions on the discrete issues raised in each Directive, and these discussions are expected to continue until all of the issues raised in the Directives are fully resolved.

For each Directive, ERCOT staff will propose one or more determinations for stakeholder review and comment, along with any NPRRs needed to address the Directive, and will seek stakeholder endorsement of the determination at relevant working groups, subcommittees, TAC, and the Board.

This particular determination concerns Directive 1, which requires that ERCOT:

“...shall (a) determine the appropriate market participation category for Southern Cross Transmission LLC and for any other entity associated with the Southern Cross DC tie for which a new market participant category may be appropriate (creating new ones if necessary), (b) implement the modifications to the standard-form market-participant agreement and its protocols, bylaws, operating guides, and systems required for Southern Cross Transmission’s participation and any other entity’s participation, and (c) determine the appropriate market segment for Southern Cross Transmission and any other entity.

Discussions with stakeholders regarding this issue occurred at the following meetings: ERCOT Workshop 9/7/2017; OWG 2/15/2018 and 4/19/2018; PRS 12/14/2017, 3/8/2018, and 4/12/2018; QMWG 2/13/2018; ROS 1/11/2018, 3/1/2018, 4/5/2018, 5/2/2018, 6/7/2018, and 6/2/2022; WMS 1/10/2018, 2/28/2018, and 6/1/2022; and TAC 5/24/2018, 7/26/2018, 9/27/2018, and 6/27/2022. ERCOT staff prepared a [whitepaper](#) setting forth its determination and considerations relevant to that resolution, which was presented for discussion and endorsement at these meetings.

Market Participant Type

On September 7, 2017, ERCOT held a workshop to discuss the appropriate Market Participant category and requested feedback from stakeholders. Based on this feedback and further internal discussions, ERCOT concluded that no existing Market Participant category was appropriate for entities, like Southern Cross, that own and/or operate DC Ties but that are not eligible to be considered Transmission Service Providers (TSP) under ERCOT or PUCT rules. ERCOT therefore concluded that a new Market Participant type—called “DC Tie Operator” (DCTO)—would be necessary. ERCOT consequently sponsored NPRR857, Creation of Direct Current Tie Operator Market Participant Role, and NOGRR177, Related to NPRR857, Creation of Direct Current Tie Operator Market Participant Role, to establish the DCTO role and describe the rights and duties of this new Market Participant type. NPRR857 and NOGRR177 were approved by the ERCOT Board on October 9, 2018.

As contemplated in the October 2017 memorandum of understanding between ERCOT and Southern Cross,¹ ERCOT will begin development of the software changes needed

¹ The MOU was attached to ERCOT’s Second Status Update to the PUCT, which is available at: http://interchange.puc.texas.gov/Documents/46304_7_965009.PDF.

to create the DCTO role once Southern Cross has provided funding for those changes. Upon implementation of NPRR857 and NOGRR177, Southern Cross will be able to register as a DCTO in ERCOT.

Market Segment

On February 15, 2018, ERCOT published a memorandum² concluding that Southern Cross “does not fit within any of the existing Segments as they are currently defined” and recommending that stakeholders consider modifying either the Investor-Owned Utility or Independent Power Marketer segment definitions to include entities like Southern Cross. Stakeholders discussed this issue at the February 22, 2018 TAC meeting, but did not reach a consensus. On May 11, 2018, Southern Cross submitted comments to TAC requesting that consideration of the market segment issue be deferred until a later date. In its comments, Southern Cross stated that it did not believe that its project development schedule or work on the PUCT’s other directives would be delayed by deferring consideration of the issue.

In May 2022, Southern Cross confirmed to ERCOT that it does not intend to pursue placement in an ERCOT market segment at this time. ERCOT rules do not require that a Market Participant belong to an ERCOT market segment. Based on Southern Cross’s representation, ERCOT sees no reason to pursue modification of ERCOT’s Bylaws to accommodate Southern Cross (or other non-TSP DC Tie owners or operators) in a market segment at this time. Should Southern Cross or any other Entity associated with the Southern Cross DC Tie wish to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of the application will apply.

Key Factors Influencing Issue:

Market Participant Type

- The PUCT’s order in Project No. 46304 requires ERCOT to “determine the appropriate market participation category for Southern Cross Transmission LLC” and to implement any appropriate modifications to ERCOT rules and systems.
- In 2017 ERCOT concluded that no existing Market Participant category was appropriate for entities, like Southern Cross, that own and/or operate DC Ties but that are not eligible to be considered TSPs under ERCOT or PUCT rules.
- NPRR857 and NOGRR177 established the DCTO role and the rights and duties of this new Market Participant type.
- The revisions to ERCOT rules will be formally implemented once Southern Cross has funded the system changes needed to effectuate those revisions, consistent with the PUCT’s order in Docket No. 45624.
- The revisions to ERCOT rules will be formally implemented once Southern Cross has funded the system changes needed to effectuate those revisions, consistent with the PUCT’s order in Docket No. 45624.

Market Segment

² The memorandum is included in the materials for the February 22, 2018 TAC meeting, which are posted at https://www.ercot.com/files/docs/2018/02/27/12._ERCOT_Updates.zip.

- The PUCT's order in Project No. 46304 requires ERCOT to "determine the appropriate market segment for Southern Cross Transmission and any other entity."
- In a 2018 memorandum, ERCOT concluded that Southern Cross "does not fit within any of the existing Segments" and recommended that stakeholders consider modifying either the Investor-Owned Utility or Independent Power Marketer segment definitions to include entities like Southern Cross.
- Stakeholders discussed this issue at the February 22, 2018 TAC meeting, but did not reach a consensus.
- In May 2022, Southern Cross confirmed to ERCOT that it does not intend to pursue placement in an ERCOT market segment at this time.
- If Southern Cross or any other Entity associated with the Southern Cross DC Tie wishes to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of the application will apply.

Conclusion/Recommendation:

ERCOT staff recommends that the Board accept ERCOT staff's determination that: (1) a new Market Participant type is needed to address the unique attributes of entities that operate DC Ties; (2) approved NPRR857 and NOGRR177 created the role of "Direct Current Tie Operator" (DCTO) and establish new requirements for DCTOs; (3) ERCOT Bylaws should not be revised to enable Southern Cross to join an appropriate market segment because Southern Cross does not wish to proceed with revisions to ERCOT Bylaws that would enable Southern Cross to join an appropriate market segment at this time; and (4) should Southern Cross or any entity associated with the Southern Cross DC Tie wish to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of application will apply.



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

WHEREAS, the Public Utility Commission of Texas (PUCT) issued a Revised Order (Revised Order) on May 23, 2017, in PUCT Project No. 46304 that contains 14 Directives requiring Electric Reliability Council of Texas, Inc. (ERCOT) to study certain issues related to the proposed Southern Cross Transmission, LLC (Southern Cross) DC Tie and make determinations as to whether certain actions must be taken by ERCOT in order to accommodate the Southern Cross DC Tie;

WHEREAS, Directive 1 of the Revised Order requires that ERCOT determine the appropriate market participation category for Southern Cross Transmission LLC and for any other entity associated with the Southern Cross DC tie for which a new market participant category may be appropriate (creating new ones if necessary), implement the modifications to the standard-form market-participant agreement and its protocols, bylaws, operating guides, and systems required for Southern Cross Transmission's participation and any other entity's participation, and determine the appropriate market segment for Southern Cross Transmission and any other entity;

WHEREAS, Nodal Protocol Revision Request (NPRR) 857, Creation of Direct Current Tie Operator Market Participant Role, and Nodal Operating Guide Revision Request (NOGRR) 177, Related to NPRR857, Creation of Direct Current Tie Operator Market Participant Role, established the DC Tie Operator (DCTO) role and the rights and duties of this new Market Participant type, and upon implementation of these Revision Requests, Southern Cross will be able to register as a DCTO in ERCOT;

WHEREAS, stakeholders discussed but did not reach consensus to modify either the Investor-Owned Utility or Independent Power Marketer segment definitions to include entities like Southern Cross;

WHEREAS, Southern Cross has confirmed to ERCOT that it does not intend to pursue placement in an ERCOT market segment at this time;

WHEREAS, should Southern Cross or any other Entity associated with the Southern Cross DC Tie wish to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of the application will apply; and

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT to accept ERCOT staff's determination;

THEREFORE, BE IT RESOLVED, that the Board hereby accepts ERCOT staff's determination that: (1) a new Market Participant type is needed to address the unique attributes of entities that operate DC Ties; (2) approved NPRR857 and NOGRR177 created the role of "Direct Current Tie Operator" (DCTO) and establish new requirements for DCTOs; (3) ERCOT Bylaws should not be revised to enable Southern Cross to join an appropriate market segment because Southern Cross does not wish to proceed with revisions to ERCOT Bylaws that would enable Southern Cross to join an appropriate



market segment at this time; and (4) should Southern Cross or any entity associated with the Southern Cross DC Tie wish to pursue membership in a Market Segment in the future, the ERCOT Bylaws and Bylaws change process in effect at the time of application will apply.

CORPORATE SECRETARY'S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its August 16, 2022, meeting, the Board passed a motion approving the above Resolution by_____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of August 2022.

Jonathan M. Levine
Assistant Corporate Secretary