



Update on Financial Assumptions for ERCOT Economic Planning Criteria

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Background

- PUCT Substantive Rules §25.101(b)(3)(A)(i)
 - Economic projects. Except as otherwise stated in this subparagraph, the following must be met for a transmission line in the ERCOT region. The applicant must present an economic cost-benefit study that analyzes the transmission project under a congestion cost savings test and a production cost savings test. The commission will give great weight to such a study if it is conducted by the ERCOT independent system operator. Adequately quantifiable and ongoing direct and indirect costs and benefits to the transmission system attributable to the project may be included in the cost benefit study.
 - (I)(-a-) **The congestion cost savings test** must include an analysis of whether the levelized ERCOT-wide annual congestion cost savings attributable to the proposed project are equal to or greater than **the average of the first three years annual revenue requirement** of the proposed project of which the transmission line is a part.
 - (II) **The production cost savings test** must include an analysis of whether the levelized ERCOT-wide annual production cost savings attributable to the proposed project are equal to or greater than **the first-year annual revenue requirement** of the proposed project of which the transmission line is a part.
- Nodal Protocol Section 3.11.2(5) requires that the financial assumptions used to determine first-year revenue requirement be reviewed annually.

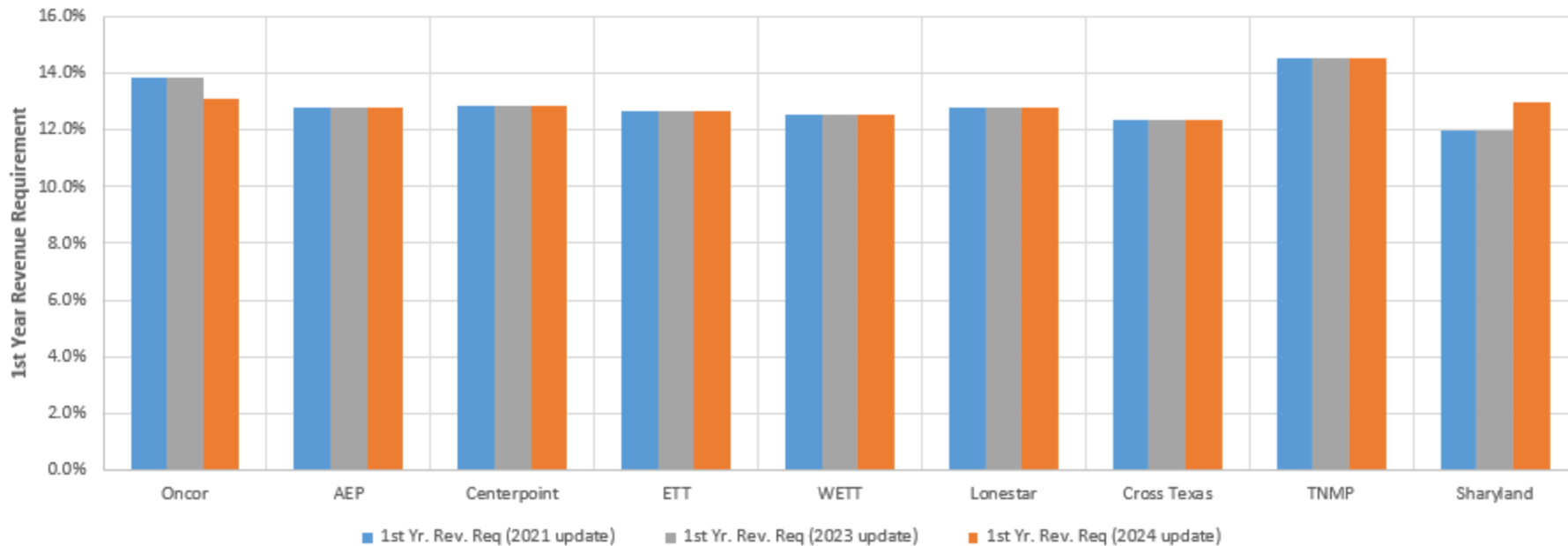
Revenue Requirement

- Items typically included in a revenue requirement of a regulated rate-based transmission asset
 - Return on rate base
 - Cost of equity and debt
 - Debt to equity ratio
 - Depreciation
 - O&M fixed and variable
 - Taxes (Federal Income Tax, Property Tax etc.)
- Majority of these are available via TDSP PUCT rate filings (<https://interchange.puc.texas.gov/>)

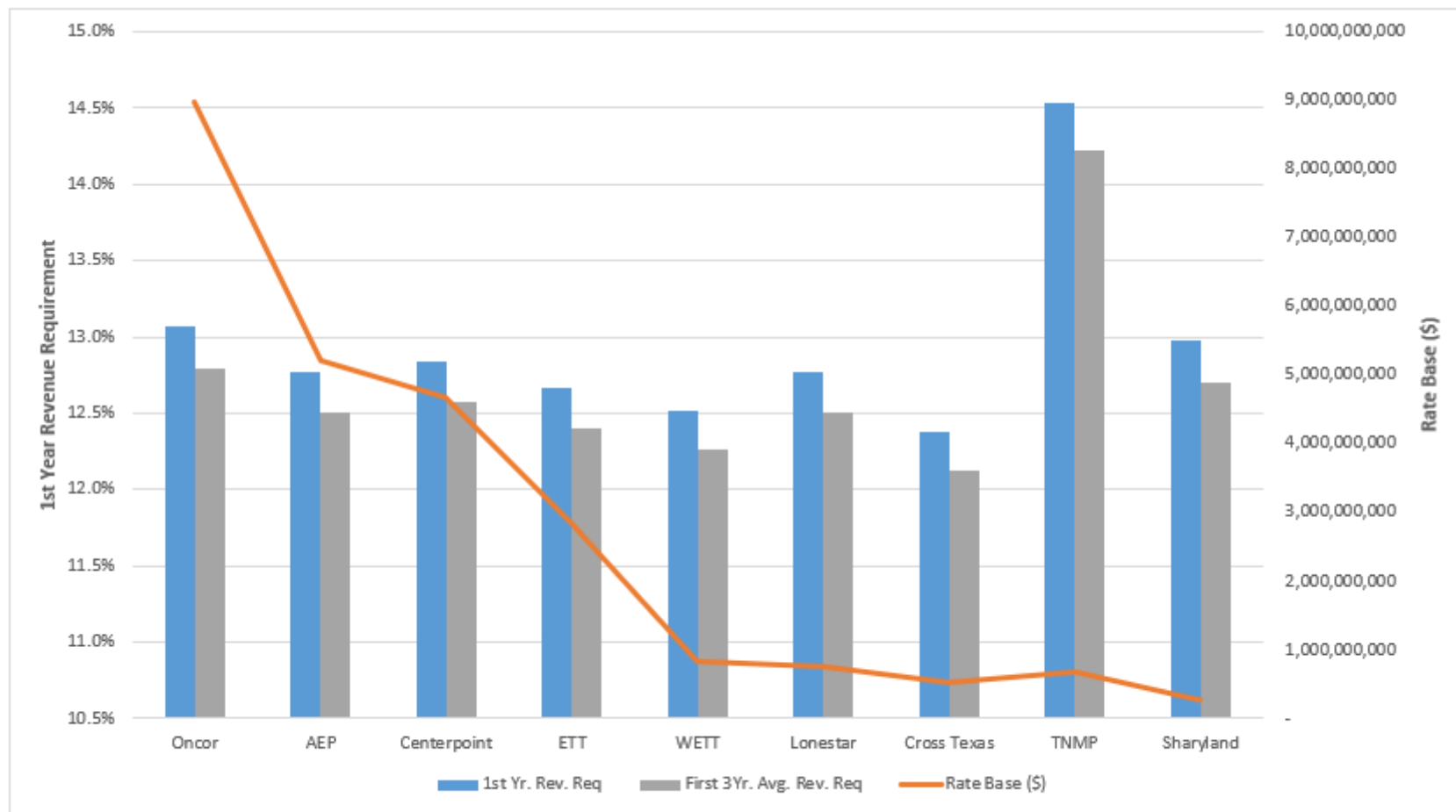
Current Methodology

- Determine 1st year and first 3-year averaged revenue requirement for each TSP assuming a generic project
- Utilize the [schedule-based methodology](#) to update financial assumptions considering updated PUCT filings related to wholesale transmission rates

1st Year Revenue Requirement (Unweighted)



1st Year and First 3-year Average Revenue Requirement (Unweighted)



Updated Results

	2024 Update	2023 Update
Weighted Average 1st Year Annual Revenue Requirement (Schedule-Based Methodology)	12.9%	13.2%
Weighted Average First 3 Years Annual Revenue Requirement (Schedule-Based Methodology)	12.6%	12.9%

- Effective on Feb. 1st, 2024, for the economic project evaluation, the first-year annual revenue requirement and the average of the first three years annual revenue requirement are 12.9% and 12.6%, respectively.

Questions and Comments

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