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| NPRR Number | [1247](https://www.ercot.com/mktrules/issues/NPRR1247) | NPRR Title | Incorporation of Congestion Cost Savings Test in Economic Evaluation of Transmission Projects |
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| Date | | November 15, 2024 | |
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| Submitter’s Information | | | |
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| Market Segment | | Independent Generator | |

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| Comments |

Luminant Generation Company LLC (Luminant) respectfully submits these comments in response to ERCOT’s November 11, 2024 comments. Luminant appreciates ERCOT’s agreement to highlight the congestion cost savings test white papers in the Revision Description of Nodal Protocol Revision Request (NPRR) 1247, which recognizes stakeholder interest in greater transparency. However, ERCOT’s proposed changes to the Revision Description do not ameliorate the concerns highlighted in Luminant’s comments filed on October 28, 2024, and also indirectly highlights the substantive concern that Luminant reads as underlying in the Joint Commenters’ October 23, 2024 comments (i.e., that the economic test(s) for transmission planning should have some more formal representation in ERCOT Protocols and/or Guides).

First, Luminant reiterates the concern from its prior comments that the expedited manner the NPRR is navigating through the stakeholder process for delivery to the December 3, 2024 ERCOT Board meeting could yield suboptimal outcomes that would prove costly to both consumers and to Resource owners. At the heart of that concern is that congestion costs can be hedged, but transmission costs cannot. That is, consumers generally do not pay Real-Time wholesale energy prices as it is illegal in ERCOT for residential and small commercial customers to do so. Instead, most consumers pay hedged retail rates, oftentimes through fixed price contracts with their Load Serving Entity (LSE). The LSE, in turn, manages the wholesale costs and risks associated with serving the customer, which can include the use of congestion hedging instruments (e.g., Congestion Revenue Rights (CRRs)). Transmission costs, on the other hand, cannot be hedged, and are often (but not always) passed through to customers without markup on “unbundled” retail price contracts. Luminant has concerns that the proposed congestion cost savings test could result in regulated costs accumulating for ratepayers when competitive market solutions could yield an overall more cost-effective solution to the same objective: serving load. The E3 paper ([Congestion Cost Savings Test for Economic Evaluation of ERCOT Transmission Projects](https://www.ercot.com/files/docs/2024/05/23/E3_ERCOT_Congestion_Cost_Savings_Test_for_Economic_Transmission_Report_March_2024.pdf)[)](https://)/) that NPRR1247 is premised upon notably reflects that the Gross Load Cost Test does not perfectly capture the likely impact of congestion costs to ERCOT consumers since it does not account for the impact of hedging congestion costs (or discount the benefits the return of the proceeds of CRR Auctions to loads via the CRR Auction Revenue Distribution (CARD) methodology). E3 recommended incorporating a connection between congestion cost and consumer impact in ERCOT for a future year. Luminant proposes that ERCOT use a factor to discount the benefits calculated by the proposed congestion cost savings test given that the test under-values congestion hedging and provides language to add the factor that would be applied to the calculated system-wide consumer energy cost reduction before it is used to determine the economic benefits of a proposed project under the congestion cost savings test.

Luminant also reiterates that the assumption of a 2% inflation rate in the economic project evaluation is an inappropriate assumption, and, notes that an after-tax weighted average cost of capital would be more appropriate, since that would represent the financing cost that ratepayers would bear and is used to determine revenue requirement in the planning process.  That is, the costs associated with the buildout of economic transmission projects will accrue with the after-tax cost of capital to the utilities (a cost that is more certain to flow through to customers), so the benefits of economic transmission projects should reflect the same discount rate for a more appropriate apples to apples comparison.

At a more fundamental level, Luminant is concerned that the selected consumer benefits test framework goes beyond the congestion savings policy directive from Senate Bill (SB) 1281 and 16 Texas Administrative Code (TAC) § 25.101, Certification Criteria. Comparative total wholesale costs are not a targeted evaluation of congestion costs and as noted above, over-estimates the congestion costs to consumers. This inherent bias in the test selection should warrant consideration in the framework – including how the test’s parameters are chosen. Given the significant cost impacts that the proposed congestion savings test could have, it would be more appropriate to go a step beyond what Joint Commenters recommended (incorporating reference to the white paper in statute) and instead codify some key criteria (such as the discount rate) in Protocols so that stakeholders have the benefit of review, subject to ERCOT Board and Public Utility Commission of Texas (PUCT) approval ultimately.

To be clear, however, Luminant is not opposed to transmission development and recognizes the critical value that the transmission system provides to the reliable operation of the grid. Luminant’s comments are intended to ensure that the accumulation of transmission rate base strikes an appropriate balance, given that it cannot be hedged.

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| Revised Proposed Protocol Language |

3.11.2 Planning Criteria

(1) ERCOT and Transmission Service Providers (TSPs) shall evaluate the need for transmission system improvements and shall evaluate the relative value of alternative improvements based on established technical and economic criteria.

(2) The technical reliability criteria are established by the Planning Guide, Operating Guides, and the North American Electric Reliability Corporation (NERC) Reliability Standards. ERCOT and TSPs shall strongly endeavor to meet these criteria, identify current and future violations thereof and initiate solutions necessary to ensure continual compliance.

(3) ERCOT shall attempt to meet these reliability criteria as economically as possible and shall actively study the need for economic projects to meet this goal.

(4) For economic projects, the net economic benefit of a proposed project, or set of projects, will be assessed over the project’s life based on the net benefit that is reasonably expected to accrue from the project as demonstrated through the production cost savings test or the congestion cost savings test.

The current set of financial assumptions upon which the revenue requirement calculations for these tests are based will be reviewed annually, updated as necessary by ERCOT, and posted on the Market Information System (MIS) Secure Area. The expected economic benefits are based on chronological simulations of the security-constrained unit commitment and economic dispatch of the generators connected to the ERCOT Transmission Grid to serve the expected ERCOT System Load over the planning horizon, comparing simulations with and without the project. These market simulations are intended to provide a reasonable representation of how the ERCOT System is expected to be operated over the simulated time period. From a practical standpoint, it is not feasible to perform these simulations for the entire 30 to 40 year expected life of the project. Therefore, the economic benefits are projected over the period for which simulations are feasible, which is the planning horizon established in Planning Guide Section 3.1.1.2, Regional Transmission Plan, and a qualitative assessment is made of whether the factors driving the economic benefits due to the project can reasonably be expected to continue.

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| ***[NPRR1183: Replace paragraph (4) above with the following upon system implementation:]***  (4) For economic projects, the net economic benefit of a proposed project, or set of projects, will be assessed over the project’s life based on the net benefit that is reasonably expected to accrue from the project as demonstrated through the production cost savings test or the congestion cost savings test. The current set of financial assumptions upon which the revenue requirement calculations for these tests are based will be reviewed annually, updated as necessary by ERCOT, and posted on the ERCOT website. The expected economic benefits are based on chronological simulations of the security-constrained unit commitment and economic dispatch of the generators connected to the ERCOT Transmission Grid to serve the expected ERCOT System Load over the planning horizon, comparing simulations with and without the project. These market simulations are intended to provide a reasonable representation of how the ERCOT System is expected to be operated over the simulated time period. From a practical standpoint, it is not feasible to perform these simulations for the entire 30 to 40 year expected life of the project. Therefore, the economic benefits are projected over the period for which simulations are feasible, which is the planning horizon established in Planning Guide Section 3.1.1.2, Regional Transmission Plan, and a qualitative assessment is made of whether the factors driving the economic benefits due to the project can reasonably be expected to continue. |

(5) To determine the economic benefits of a proposed project under the production cost savings test, the revenue requirement of the capital cost of the project is compared to the expected savings in system production costs resulting from the project over the expected life of the project. Outputs from the market simulations described in paragraph (4) above will be used to provide an estimate of the expected reduction in total system-wide production cost due to the project. Other adequately quantifiable and ongoing direct and indirect costs and benefits to the transmission system attributable to the project may be considered as appropriate. If the levelized ERCOT-wide annual production cost savings equals or exceeds the first-year annual revenue requirement of the transmission project, the project will be deemed to demonstrate sufficient economic benefit and will be recommended. ERCOT will publish requested non-confidential modeling inputs, assumptions, and outputs utilized in the production cost savings test if that information can be feasibly provided.

(6) To determine the economic benefits of a proposed project under the congestion cost savings test, the revenue requirement of the capital cost of the project is compared to the expected system-wide consumer energy cost reduction resulting from the project over the expected life of the project multiplied by a discount factor of 0.25. The discount factor takes into account the limitation of the system-wide consumer cost to account for the benefit of hedging congestion costs on the consumer cost. Outputs from the market simulations described in paragraph (4) above will be used to provide an estimate of the expected reduction in total system-wide consumer energy cost due to the project. In the market simulations, system-wide consumer energy cost will be calculated using hourly load in MWh multiplied by hourly load nodal energy prices in $/MWh. Other adequately quantifiable and ongoing direct and indirect costs and benefits to the transmission system attributable to the project may be considered as appropriate. If the levelized system-wide consumer energy cost reduction equals or exceeds the average of the first three years’ annual revenue requirement for the project, the project will be deemed to demonstrate sufficient economic benefit and will be recommended. ERCOT will publish requested non-confidential modeling inputs, assumptions, and outputs utilized in the congestion cost savings test if that information can be feasibly provided.