

PUBLIC



Update on Financial Assumptions for ERCOT Economic Planning Criteria

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Background

- PUCT Substantive Rules §25.101(b)(3)(A)(i)
 - Economic project evaluation
 - (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 Sections 3.11.2(5) and 3.11.2(6) require that the financial assumptions used to determine the first-year and the average of the first three years' annual 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.)

A Sample (*)

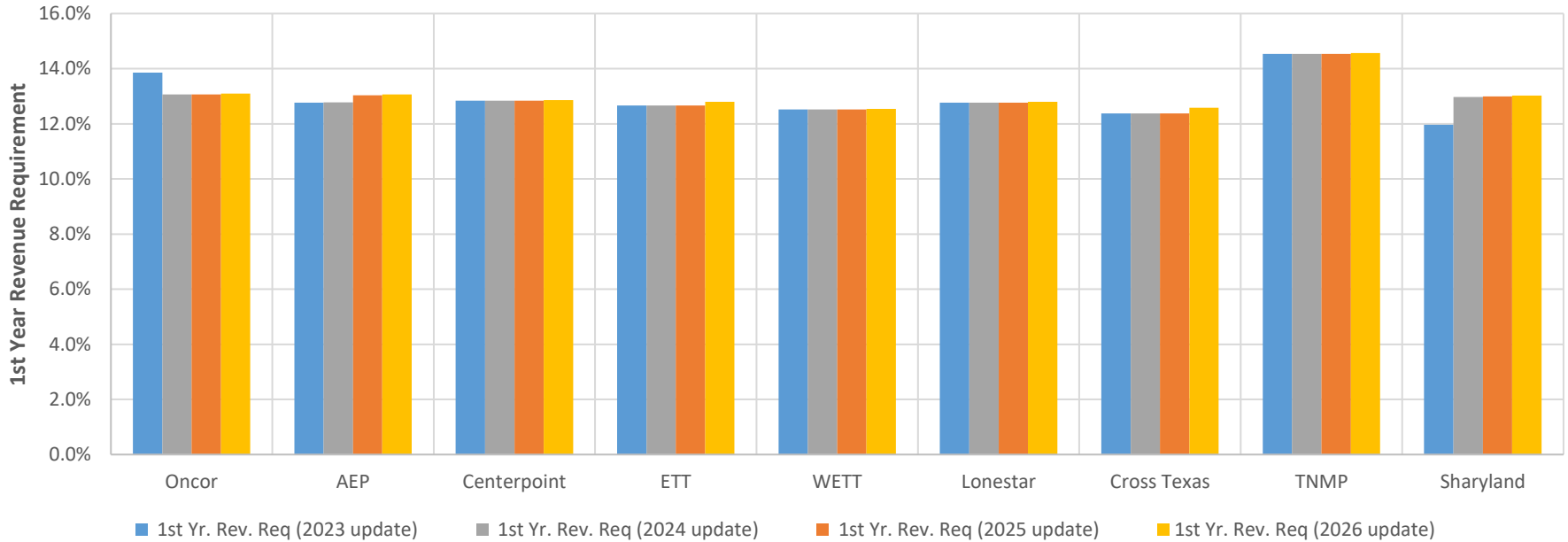
Item Year 1	
Return on Rate Base	\$19,509
Depreciation	\$8,798
Fixed O&M \$ -	
Variable O&M	\$2,601
Ad Valorem Tax	\$2,621
Federal Income Tax	\$1,112
Total Revenue Requirement	\$34,641
Capital Cost	\$250,000
First year's revenue requirement	13.86%

*Majority of these are available via TDSP PUCT rate filings (<https://interchange.puc.texas.gov/>)

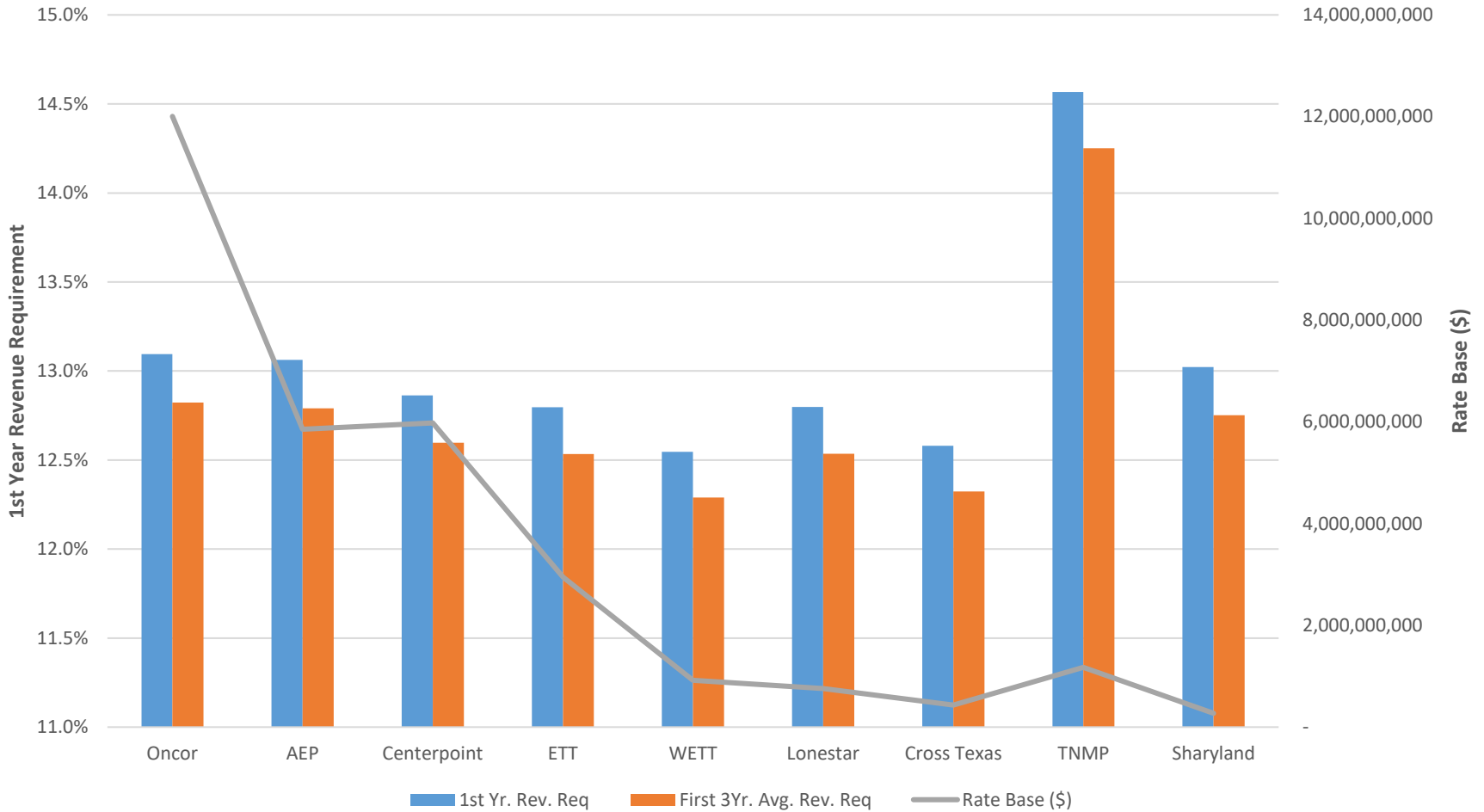
Current Methodology

- Determine Revenue Requirement for each TSP
 - 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
 - Calculate weighted average of annual revenue requirement based on the rate base

1st Year Revenue Requirement (Unweighted)



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



Updated Results

	2026 Update	2025 Update
Weighted 1st Year Annual Revenue Requirement (Schedule-Based Methodology)	13.0%	13.0%
Weighted Average First 3 Years Annual Revenue Requirement (Schedule-Based Methodology)	12.8%	12.7%

Effective on Feb. 1st, 2026, for the economic project evaluation, the first-year annual revenue requirement and the average of the first three years annual revenue requirement are 13.0% and 12.8%, respectively.

Questions/Comments?

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