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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 19, 2024 | |
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| Submitter’s Information | | | |
| Name | | Ping Yan; Matthew Arth | |
| E-mail Address | | [ping.yan@ercot.com](mailto:ping.yan@ercot.com); [matthew.arth@ercot.com](mailto:matthew.arth@ercot.com) | |
| Company | | Electric Reliability Council of Texas, Inc. (ERCOT) | |
| Phone Number | | 512-248-4153 (Ping); 512-275-7435 (Matthew) | |
| Cell Number | |  | |
| Market Segment | | Not Applicable | |

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| Comments |

ERCOT submits these comments in response to the 11/15/24 Luminant comments and for the Technical Advisory Committee’s (TAC’s) consideration.

As Luminant’s comments note, the E3 report [*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) acknowledged that the “System-Wide Gross Load Cost Test”, which is the congestion cost savings test incorporated in Nodal Protocol Revision Request (NPRR) 1247, may not fully capture the impact of partial hedging of congestion cost by load consumers. The E3 report addressed this concern in its Section 4.4.2.4, System-Wide GLC Test vs. GRR Test, and highlighted some of the associated challenges, which include:

* “ERCOT currently does not have sufficient data to isolate the impact of CRR payouts that accrues to load customers only (versus to other entities participating in the auction) so it would be challenging to estimate the total portion of CRR revenue to attribute to consumers. This challenge is particularly acute when applied to a future evaluation year because different entities could bid on different congestion rights in those years causing revenue to be allocated differently than in a historical period.”
* “Even though a portion of this congestion is returned to loads through auction revenue or through CRRs that they purchase, the impact of congestion (and the payout of any CRRs they hold) likely affects individual load entities differently and therefore represents an increase to price risk for those entities. Even under a counterfactual scenario in which all congestion cost was returned to loads customers as a whole and loads as a whole were neutral to congestion costs, the risk to individual load serving entities likely means that it would be better for loads to exist in a system with lower congestion cost, as well as lower congestion revenue returned to them. Therefore, the Gross Load Cost Test appears to be the most useful test for ERCOT among the options identified in other regions and considered in this study.”
* While E3 suggested that “it may be useful for ERCOT to continue to review available data that may be useful for estimating the aggregated impact of congestion,” E3 also recommended that to the extent such additional data becomes available ERCOT could consider congestion hedging, “provided that this refinement does not introduce excessive noise or uncertainty to study results and does not materially slow down the study process.”

Based on E3’s review of the data available, they concluded that there is not sufficient data available to feasibly incorporate consideration of congestion hedging. As a result, “E3 recommends the System-Wide Gross Load Cost (GLC) Test as the best option to fit with the rules and structure of the ERCOT market.”

Because there is insufficient data available to accurately inform a methodology to consider congestion hedging, the impact of applying a discount factor of 0.25 to the congestion cost savings test as proposed by Luminant is unknown and may undermine the benefit of economic transmission project development to consumers. Until sufficient data is available to determine the impact of congestion hedging on consumer costs, ERCOT does not support the inclusion of such discount factor in the congestion cost savings test.

In regard to the value for the inflation rate memorialized in the *Congestion Cost Savings Test Evaluation Guideline* white paper, it is important to note that the inflation rate applied to economic project evaluation is solely used to capture the time value of money when the economic benefits are calculated. As outlined in Section 3.11.2, Planning Criteria, the economic benefit of a project is compared with the revenue requirement of the project. The revenue requirement calculation takes into account the factors that Luminant’s comments raise, including return on rate base, taxes, depreciation, and fixed and variable operations and maintenance cost.  Detailed information on the revenue requirement calculation can be found in the ERCOT presentation titled [*Financial Assumptions for ERCOT Economic Planning Criteria*](https://www.ercot.com/files/docs/2018/09/12/FinancialAssumptions_EconomicCriteria.pdf) posted to the ERCOT website. Given that these factors are already accounted for in the revenue requirement calculation, the calculation of the benefits of a project should not be further discounted. If any stakeholder has concerns with a 2% inflation rate for the time value of money, ERCOT welcomes stakeholder feedback to revise the current inflation value.

For these reasons, ERCOT urges TAC to recommend approval of NPRR1247 with the language as proposed in the 11/11/24 ERCOT comments.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None