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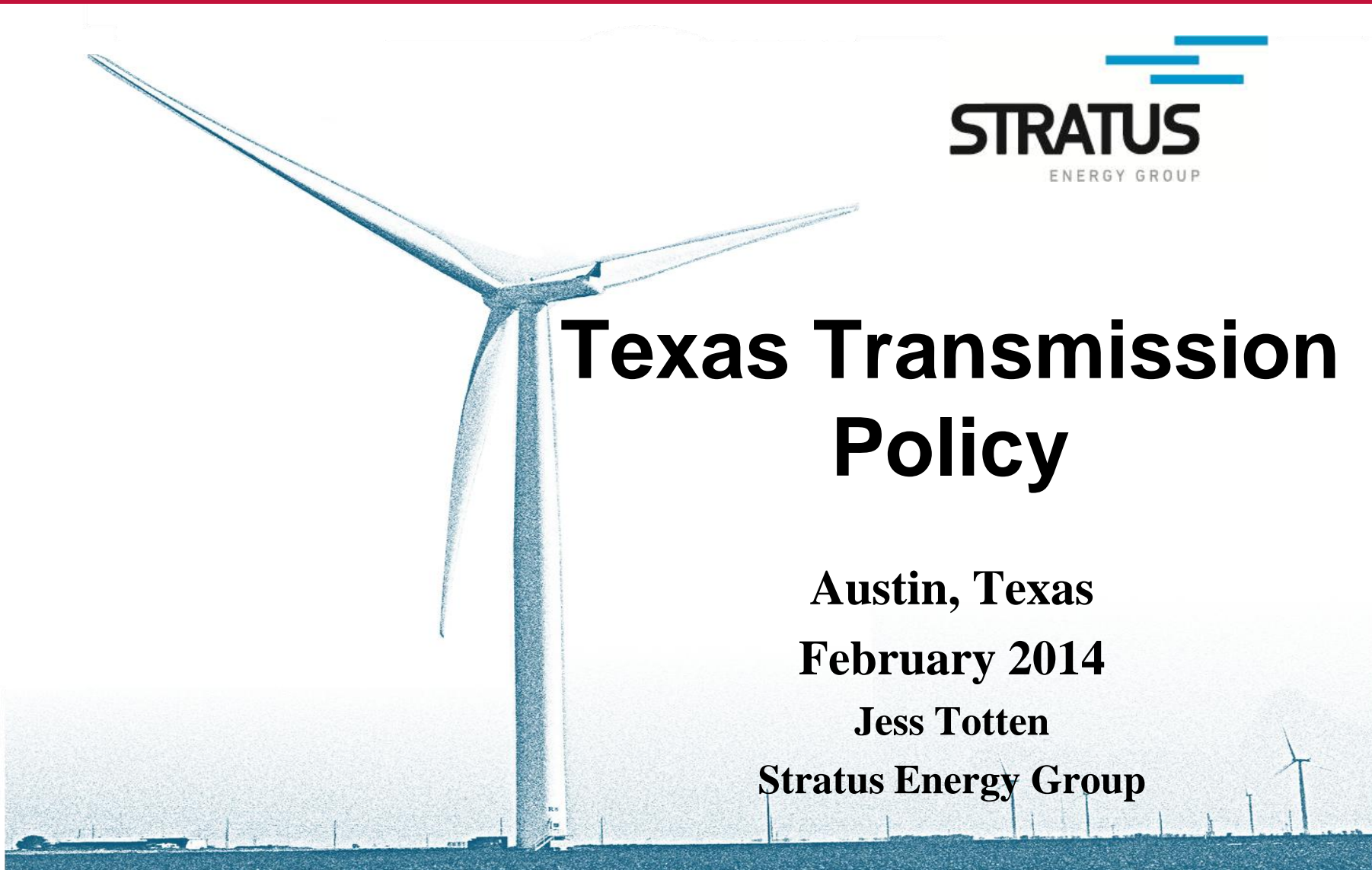
Texas Transmission Policy

Austin, Texas

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ERCOT Transmission Costs

- Costs recovered from customers
 - Transmission companies charge distribution companies
 - Distribution companies charge retail providers
 - Retail providers charge customers
- Generators not required to pay for transmission line to interconnect or system facilities
 - Generators pay for generator substation, including transformer and protective devices



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Generators

- Generators have right to interconnect to system
 - Transmission utility obligated to build transmission to interconnect generators
 - Interconnection does not guarantee unobstructed pathway to particular customers
 - Congestion managed by nodal pricing and congestion revenue rights



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Transmission Rates

- Costs recovered by transmission companies through demand charges
 - Distance between generator and customers is not a factor in rates
 - Loads bear cost of system losses and congestion
- PUC establishes transmission rates, based on rate of return regulation
 - Annual expedited proceedings adjust rates for investment in transmission and changes in demand



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Consequences of Texas Scheme

- Generator market entry and location decisions not affected by transmission costs
 - Transmission congestion and timing of completion may be risks for generator
- Rules foster competitive market entry
- Rules support renewable development
- Rules not necessarily consistent with least cost resource planning



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CREZ

- Transmission planning and construction process did not support large-scale wind development
- Law directed PUC to develop transmission plan for larger-scale wind development
- State committed to develop transmission to wind areas before wind generation projects were completed
- PUC also included new transmission companies in CREZ plan



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Performance

- PUC has not adopted performance standards or performance-based rates for transmission
- PUC has applied penalties to distribution companies based on SAIDI and SAIFI scores and repeated poor performance at the feeder level
 - System Average Interruption Duration Index
 - System Average Interruption Frequency Index



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Policy Change over Time

- Mid-1990s: initial policies on open access and cost recovery adopted to foster wholesale competition
- About 2000: generator's right to interconnect without investing in transmission clarified to foster investment in new generating resources
- 2005: CREZ process initiated; important motivating factors were desire to incorporate clean resource and high natural gas prices