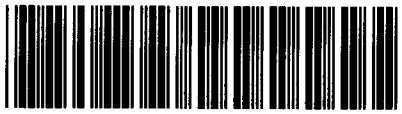

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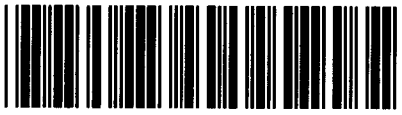

Item Number: 245

Addendum StartPage: 0

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July 11, 2012

Public Utility Commission of Texas
1701 N. Congress Avenue
PO Box 13326
Austin, TX 78711-3326

Subject: Tenaska, Inc.'s Questions and Comments for the Brattle Group, ERCOT, and the Independent Market Monitor (Project No. 40480)

Tenaska Inc.'s Texas roots run deep, back to the company's founding in 1987 and its first power plant constructed in Paris, Texas. Tenaska currently owns and/or operates approximately 3GW of generation serving ERCOT and has been one of the largest developers of generation in ERCOT since 2000. Tenaska also owns a major natural gas gathering system and is one of the largest natural gas suppliers and power marketers in the state with a major presence in Arlington, Texas.

Because of our investment in Texas, Tenaska is keenly interested in ensuring that this Project 40480 yields the following outcomes:

- Determination of the best process or structural framework for determining an appropriate reserve requirement to ensure adequate resources to reliably serve load in ERCOT. We believe this determination should go beyond market mechanisms and reflect on potential socio-economic effects such as the State's growth climate and attractiveness to both citizens and businesses.
- Determination of the policy changes required by the PUCT and ERCOT which are most likely to result in achieving that level of resource adequacy in a predictable and economical fashion.
- Timely execution of such changes.

To help facilitate reaching these outcomes, Tenaska has formulated policy questions for The Brattle Group to address at the workshop as requested by the Commission. Tenaska looks forward to working with the PUCT and ERCOT to continue the development of power generation facilities in Texas, and to maintain for Texans the same level of reliability that has allowed the state to become a leader in economic growth.

Following are Tenaska's policy questions, regarding The Brattle Group's "ERCOT Investment Incentives and Resource Adequacy" report, to help determine the best process or structural framework to determine the appropriate reliability requirement for ERCOT.

1. For over a decade ERCOT's "one load-shed event in 10 years" reliability target has been used as proxy for appropriate resource adequacy. Your report concludes that the scarcity pricing mechanisms currently in use will likely cause resource adequacy to fall short of this target. It does not appear that you have recommended that the PUCT seek an economic analysis of the impact of a declining reserve margin on the state's future economic growth. Wouldn't such an analysis be warranted in evaluating resource adequacy?

246

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2. The American Society of Civil Engineers' ("ASCE") 2011 report[1] "Failure to Act: The Economic Impact of Current Trends in Electric Infrastructure" estimates the projected costs of under-served power infrastructure over the period 2012-20 and thru 2040 across generation, transmission, and distribution infrastructure type. They estimate:
    a. Texas has a $12.3 billion electric generation investment gap through 2020;
    b. This investment gap results in a cost to Texas of $18 billion plus reduced GDP and jobs through 2020 ; and
    c. Texas is the only major U.S. power grid projected to have such exposure in its generation assets and associated reserve margin levels as of 2020

    While we have not evaluated the efficacy of these disturbing findings and irrespective of the precise measure of appropriate reserve margin (absolutely or from a disruption probability standpoint), should the PUCT evaluate this forecast for ERCOT and determine if the costs ($18 billion plus reduced GDP and jobs) resulting from the $12.3 billion investment gap are actually higher than the potential avoided investment?

3. Do you agree that, with very few exceptions, electricity consumers in ERCOT have not had the opportunity to state their preferences for the cost of reliability and that a customer survey may ultimately be needed to determine 'un-served power costs attributable to a shortfall in generation capacity,' given that estimating such outage costs requires assumptions on the degree, duration, advance warning, and other features for the outage? Further, would such variables impact the assessment of the measure of reserve margin and reliability standard to be developed for ERCOT? Please comment on the relative merits of the following assertions:
    a. ERCOT's long-term reliability objectives should be based upon revealed consumer preferences and those preferences can only be revealed through behavior; in the absence of real-time pricing, an acceptable alternative would be a system that facilitates both supply and demand response.
    b. ERCOT's long-term reliability objectives should be based on a demonstrated relationship between infrastructure investment and economic growth and prosperity; that investment incentives for generation supply should err toward increased investments because economic growth, as well as the quality of life for all citizens, benefits directly.
    c. That market participants are best suited to address generation resource or demand response adequacy issues under obligations to serve load.

4. Brattle writes that "Even if a target reliability level is to be determined by market forces rather than an administrative determination, do regulators wish to impose a backstop constraint preventing very low reliability outcomes (Brattle report page 100)"? Under a construct where the reliability level is determined by market forces, given the potential for economic loss and personal hardship that may result from inadequate electricity supply, what alternatives to an administrative backstop does Brattle recommend ensuring the appropriate reliability level is maintained?

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[1] The ASCE Report (http://www.asce.org/Infrastructure/Failure-to-Act/Electricity/) measures interruption costs across residential, commercial, and industrial sectors, and accounts for the higher direct cost of replacement power and the economic loss attributable to reduced power output, including:

a. Lost sales
b. Reduced growth
c. Lost jobs
d. Reduced personal income
e. Cost of replacement goods
f. Higher cost of production
g. Lost production
h. Lost tax revenue base
i. Other costs (e.g., lost time, inconvenience, discomfort)

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Respectfully Submitted,

Greg Kelly
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