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Sierra Club Responds to ERCOT “Impact of Environmental Regulations in the ERCOT Region” Report

The recently released ERCOT report “Impact of Environmental Regulations in the ERCOT Region” is an important preliminary contribution to the discussion of the potential impacts of adopted and proposed EPA regulations on our energy market. There are many good things in the report. It correctly identifies that the pollution problem in Texas comes from a smaller number of older and less efficient coal plants and some older gas units. These are the plants most impacted by modern EPA safeguards. The ERCOT analysis also correctly identifies that going forward, wind power, solar power, and more efficient use of natural gas are the energy sources of the future.

The report indicates that with retirement of older units and more integration of variable renewable generation, transmission challenges and ensuring adequate operating reserves may arise under current ERCOT procedures. For example, ERCOT highlights that, under current rules, generators are only required to provide them with 90 days notice before proposing to mothball or retire a unit. We believe the 90-day notice is inadequate and that generators should be required to provide significantly longer notification to the state, in particular if their retirement decisions are being influenced by environmental rules with compliance dates between 2020 and 2030. We agree that maintaining reliability is critical.

Buried within the report are a few interesting facts about compliance costs that are easy to overlook.

- ERCOT’s modeling of the Cross State Air Pollution Rule (CSAPR) and Regional Haze Rule in Table 20 shows that protecting our air with these rules will, at most, result in cost increases to the typical family bill of less than 1% by 2020 and that there will be actual *cost savings* of 2% by 2029.
- ERCOT’s analysis shows that fuel and emissions allowance costs to comply with these to vital rules (in Table 21) will increase by less than 1 to 2% from 2020 to 2029.

“As EPA predicted when it released these important clean air protections, we can protect our public health and treasured places like the Big Bend National Park without significant impacts to electric rates,” said Dr. Cyrus Reed, Acting Director of the Sierra Club Lone Star Chapter.

By comparison, last year the Public Utility Commission of Texas debated and ultimately implemented a market change that sent more ratepayer money to Texas power companies - a change that ERCOT projected would add from \$4 to \$26 per MWh of electricity.¹ The costs ERCOT predicts in its report on EPA standards for certain Texas generators will be much less, between \$0.20-\$3.25/MWh for natural gas plants and \$2.00-\$9.90/MWh for coal plants.

¹ See p. 4 of

http://www.ercot.com/content/gridinfo/resource/2014/mkttanalysis/White_Paper_Back_Cast_of_Interim_Solution_B+to_Improve_Re.pdf

It is important to note that even without these EPA regulations, current trends indicate an increased use of solar and wind generation and more efficient use of natural gas is already underway. Energy markets are adjusting, current trends are accelerating, and ERCOT indicates in their report that, depending on assumptions, renewables could make up some 22% of the market by 2029.

“Even without EPA standards, ERCOT’s baseline trend indicates that renewable energy is already expected to grow from 10% of the market today to some 17% by 2029, while more efficient gas would grow from 40% to 45%.” said Reed. **“What these EPA regulations do is improve our health and finally force our older power plants built in the 1970s to pay their fair share for the pollution they are creating. They will have a choice – either get cleaner or retire.”**

Criticisms

Disappointingly, ERCOT modeled increasing energy costs that are well out of proportion to what is expected. Essentially, ERCOT assumed a worst-case scenario for implementation of the Clean Power Plan by assuming either a required emission limit for carbon or a carbon tax. Yet the Clean Power Plan requires neither since the flexible rule can be met through increased use of natural gas, improvements in coal plants, build-out of renewable energy, and the use of energy efficiency. Thus, ERCOT is betting that Texas is unable to come up with a cost-effective plan to meet our carbon obligations under the Clean Power Plan.

The report also ignored two legs of a table that are being developed that will help Texas cost-effectively adjust to changes in our energy resources. First, energy efficiency and demand response will help Texas meet demand by lowering our load, and shifting our peak demand when energy prices rise. ERCOT assumed that energy efficiency will meet 5% of energy demand by 2029, whereas EPA’s Clean Power Plan was based on the principle of being smarter about how we use energy and wasting less of it along the way. Using a more robust assumption for energy efficiency greatly reduces the costs and challenges of complying with environmental rules.

In addition, there was essentially no modeling by ERCOT of the use of demand response to meet peak demand by “negawatts” – shifting our use of energy at peak times through market-based mechanisms. New energy storage technologies, such as batteries and Compressed Air Energy Storage (CAES) facilities, will help provide operating reserves and also make wind and solar power dispatchable. The analysis ignores the increasing use of energy storage resources.

In conclusion, the ERCOT report, while useful, is ultimately flawed and incomplete. It omits data and information critical to making informed decisions about Texas’ energy market. It is also pessimistic about the ability of the Texas market to adjust to change, and market participants to develop new solar and wind resources, use natural gas more efficiently, take full advantage of the cost savings from improved energy efficiency, and demand response, and energy storage technology to make the system work. Sierra Club appreciates the information provided in the report, which should help policy makers come up with policies that will help Texas adjust to a cleaner energy future.