



# SIERRA CLUB

## LONE STAR CHAPTER

To: The Honorable Ken King, Chair, Chair, House Committee on State Affairs  
The Honorable Ana Hernandez, Vice-Chair, House Committee on State Affairs  
Members, Committee on State Affairs

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***Microgrids and Distributed Energy Resources:*** *Evaluate existing aggregate distributed energy resource projects and microgrids across the state. Study existing programs, determine their efficacy, and consider how these projects improve reliability, reduce consumer costs, and support overall grid resilience. Make recommendations to improve the availability of these programs.*

The Lone Star Chapter of the Sierra Club is pleased to offer brief written comments on the charge related to microgrids and distributed energy resources. As we have said, demand-side management programs are the cheapest, cleanest and quickest way to meet our energy needs. Whether onsite generation and storage systems, incorporation of demand response, modern building codes or even energy savings and energy waste programs, Texas has the opportunity to make sure consumers and third-parties are bringing new smaller, flexible resources to save money and help make our grid more reliable. With Texas facing an affordability crisis in our electric bills, these smaller resources can help cut costs.

Texas has already made great strides and taken important actions to promote the use of distributed energy resources like onsite solar, storage, energy efficiency and demand response but more can be done to allow third parties and consumers themselves to make our grid more reliable and lower costs. Moreover, recently the State Energy Conservation Office announced it had selected a third-party to begin running a grant program for Texas residential consumers to promote energy savings, including the use of new cleaner technologies through the HOMES and HEARS program. The federal monies are expected to be available in the fall.

In these comments, we will review recent efforts taken by the legislature, the PUCT, ERCOT and utility companies to promote DERs, as well as future actions that could be taken by the Legislature, the PUCT and ERCOT.

Just How Much Distributed Energy Resources are already out there?

ERCOT has begun in recent years attempting to track the amount of distributed generation, demand response and DERs in the ERCOT market. While larger registered DG and “settlement-only” DGs are known quantities, smaller DG resources have only been required to be reported by TDUs and NOIEs in recent year. Still, the volume of these resources shows their promise, especially if they can be incorporated into our energy markets.

Load Zone	2025 ERCOT Unregistered Distributed Generation Installed Capacity in MW (AC)										
	SOLAR		WIND		OTHER RENEWABLE		OTHER NON-RENEWABLE		TOTAL		
	< 50 kW	≥ 50 kW	< 50 kW	≥ 50 kW	< 50 kW	≥ 50 kW	< 50 kW	≥ 50 kW	< 50 kW	≥ 50 kW	Total
Austin	106.16	47.73	-	-	-	-	-	-	106.16	47.73	153.89
CPS	369.54	113.41	0.01	-	19.13	0.79	-	19.81	388.68	134.01	522.68
HOUSTON	489.52	55.25	0.36	-	3.04	0.11	0.05	4.30	492.97	59.66	552.63
LCRA	163.64	50.40	0.45	-	-	0.90	-	0.06	164.09	51.36	215.45
NORTH	1,001.39	66.99	2.06	1.01	2.25	0.24	0.04	5.15	1,005.74	73.38	1,079.13
RAYBN	75.16	8.17	0.27	-	-	-	-	-	75.43	8.17	83.60
SOUTH	381.36	47.17	15.61	0.56	-	-	0.07	0.52	397.04	48.25	445.29
WEST	145.39	13.54	5.08	0.30	0.11	-	0.02	0.34	150.60	14.18	164.78

	2,732.								2,780.		
<b>TOTAL</b>	17	402.66	23.84	1.86	24.52	2.04	0.18	30.17	71	436.74	3,217.45

In addition to this “unregistered” DG, ERCOT reports that there are another 2,500 MWs of registered “settlement-only” Distributed Generation (mainly solar and gas) and registered Distribution Generation Resources (mainly batteries less than 10 MWs).

**Recent Legislative Efforts Supported by the Sierra Club**

88th Legislative Session

**SB 1699** (Johnson, House Sponsor Hunter), Relating to the participation of aggregated distributed energy resources in the ERCOT market. In 2023, following recommendations made by the “Aggregated Distributed Energy Resources” (ADER) task force, the Legislature approved SB 1699 (Johnson, Hunter), which not only clarified that DERs did not have to register as power generating companies, but also allowed TDUs in ERCOT to work more directly with Retail Electric Providers on residential demand response companies. This legislation helped expand the ADER pilot, which is now being overseen by ERCOT for potential expansion to be a larger, more integrated program within ERCOT. How this program - mainly focused on the use of onsite batteries - can be expanded to more seamlessly also incorporate other resources like EV-chargers, demand response and energy efficiency is still ongoing. The part of the bill dealing more with the TDU programs has led now to the two largest utilities - Centerpoint and Oncor Electric - now offering incentives to REPs to help residential consumers reduce demand through Demand Response programs, and AEP Texas has now announced a similar smart thermostat effort.

**SB 2627 (Schwertner, House Sponsor Hunter)** Relating to funding mechanisms to support the construction, maintenance, and modernization of dispatchable electric generating facilities. While the Texas Energy Fund is most well-known as the loan and grant program for dispatchable generation - ie gas plants - providing up to \$7.2 billion - one of its four programs is actually designed to provide funding for microgrids, and backup power packages. The legislature has appropriated up to \$1.8 billion for this purpose through the budget process (and a constitutional amendment approved by voters), and the legislation authorized both a study and advisory committee. This year, PUCT began a rulemaking process under [Project Number 59024](#).

On April 30th, 2026, the Commission staff recommended an order to adopt the rules for those grants, and the Commission is expected to adopt the final rule on

May 7th. While the Sierra Club supports this rule adoption, we will note that the present rule has excluded consideration of grants for Electric School Bus Batteries. ***We believe that the PUCT should and must consider this, as ESBs were specifically named in the legislation creating the Texas Backup Power Packages.*** The commission did announce they anticipate issuing a separate proposal for publication to address ESB participation in TBPP program and related requirements, with the intent of adopting amendments to the TBPP rule in a subsequent proceeding.

### **89th Legislative Session (2025)**

**HB 5323 (King, Hancock).** The Texas Energy Waste Advisory Committee, established by [House Bill 5323](#) effective September 1, 2025, is a cross-agency initiative designed to improve ERCOT grid reliability and reduce electricity demand. It brings together leaders from the PUCT, Comptroller, TDHCA, TDLR, TCEQ, and ERCOT to reduce energy waste, promote efficiency, and expand demand response programs, specifically to manage grid stress during high-risk periods. Under the legislation - supported by the SIerra Club- the new advisory committee must submit recommendations to the legislature by December 1st, 2025. The Sierra Club was able to view the first meeting of the committee, and believes given the multiple programs and efforts overseen by the PUCT, ERCOT, the Comptroller and others, coordinating this effort is important and will hopefully lead to improved reliability in the state.

**SB 783 (Menendez, House Sponsor Ana Hernandez).** This bill allows the State Energy Conservation Office to move forward - after adequate study, analysis and stakeholder input - on potential adoption of commercial and residential energy building codes, known as the International Energy Conservation Codes, as well as separate high performance codes for state-funded and public university buildings. Modern building codes better incorporate more efficient building materials and new technologies like smart thermostats, heat pumps and onsite renewables energy systems, and incorporation of EVs. Currently, SECO is incorporating stakeholder input and also awaiting a third-party analysis from the Energy Systems Laboratory before considering rulemaking on code adoption.

**SB 1036 (Zaffarini, House Sponsor: Darby).** Relating to the regulation of residential solar retail transactions. Required TDLR to better regulate the installers of solar retail equipment and the resulting transactions. Should help assure that consumers are better informed and protected should they choose to install solar devices on their homes. The bill prevails over all municipal ordinances relating to the topic

- Requires the Texas Department of Licensing and Regulation (TDLR) to adopt rules prohibiting deceptive residential solar retail tactics
- Requires solar retailers/salespeople to provide disclosures and educational materials when selling
- TDLR must regulate the format of a solar sales agreement and establish insurance requirements for solar retailers
  - Permitted to collect administrative fees
- TDLR must develop educational materials informing consumers of their rights and may require solar retailers to provide customers with these

**SB 1202 (King, Phil; House Sponsor: Jay Dean)** *Relating to third-party review of property development documents and inspections of improvements related to those documents, including home backup power installations.* Senate Bill 1202 (SB 1202), effective September 1, 2025, streamlines residential solar and battery storage installation in Texas by allowing licensed third-party professionals to handle plan reviews and inspections, bypassing slow municipal processes, *while assuring that utilities can still require interconnection standards and safety checks.* This law aims to accelerate adoption, enhance grid resilience, and reduce installation costs for systems under 600 volts, including rooftop solar and battery energy storage systems (BESS) *This bill should help create a faster process for incorporation of distributed energy resources throughout Texas.*

**SB 1252 (Schwertner, House Sponsor Ken King):** Relates to the regulation of residential energy backup systems. This important bill prohibits municipalities from adopting, enforcing, or amending National Electrical Code regulations that would hinder the installation or inspection of small onsite residential battery systems (less than 50 KWs), while still allowing municipal utilities to properly inspect and regulate such systems.

**SB 1697 (Zaffarini, House Sponsor: VanDeaver).** Relating to a customer guide to home solar energy devices. Requires the Public Utilities Commission of Texas (PUC) to develop a guide of best practices, resources, and guidelines for prospective solar owners. With some unscrupulous companies out there, it is important for consumers to be well equipped and for utilities to provide information and guidance to Texans. The PUCT is also assuring that utilities provide links on their websites so consumers are aware of this guidance.

### **What Additional Policies Could Better Incorporate DERs into our grid**

While Texas has made strides to better incorporate and promote demand-side and distributed resources, more remains to be done. First, ERCOT is still assessing how to expand ADER from a limited pilot to a larger resource in our market to provide both energy, ancillary services and reliability benefits. We look to future action to

specifically incorporate demand response into this pilot. Second, ERCOT is also looking at how to grow residential demand response program and has put forth one approach (NPRR 1296), though many concerns remain about this particular approach.

Third, several important bills on better incorporation of Electric Vehicle-to-Grid standards and the widespread adoption of modern heat pumps to replace resistance heating made progress but did not reach the finish line. Specifically, Sierra Club was supportive of four bills carried by Chairman Anchia last session:

- HB 3511 (Relating to the interconnection of electric vehicles to the ERCOT power grid);
- HB 4016 (Relating to prohibiting the use of electric resistance as a primary heat source in certain residential buildings); and
- HB 5200 (Relating to the use of grid enhancing technologies and high-performance conductors in the ERCOT power region.); and
- SB 2994/HB 5479 (Relating to energy efficiency goals and programs).

This committee should consider whether these bills are worthy of further consideration, whether in whole or in part but all could lead to more incorporation of distributed energy resources and technologies to make our grid more resilient, reliable and affordable.

It is important to note that the PUCT and ERCOT can accomplish some policy improvements without the need for legislation. For example, the PUCT recently made some improvements to the TDU required energy efficiency programs and is continuing to invite stakeholder feedback for potential rulemaking. In addition, one of the most important issues that the PUCT could address would be standardize interconnection standards for distributed energy resources across utility types. We are hopeful that the PUCT will issue proposed rulemaking under [Project 54233](#) (Technical Requirements and Interconnection Standards for Distributed Energy Resources). With four grids, multiple TDUs, and both municipal utilities and electric cooperatives, it is extremely difficult for Texas consumers and third parties to know the rules for connecting these resources, but establishing some common requirements could be extremely helpful. We are hopeful the Commission will implement such a rule, but in a way that will not make it difficult for consumers that simply want to interconnect smaller systems without much red tape or cost.

## **Other Potential Issues to Address on DERs**

### **“Non-Wire Alternatives”**

The Legislature could consider opening up the distribution grid to more competition. Currently, municipal, electric cooperative and TDUs are expected to serve customers with a good, functioning distribution system, and the PUCT oversees the efficacy and cost through rates, but the Legislature could consider requiring utilities to through a competitive RFP process look at demand response, energy efficiency, DERs and other technologies as an alternative to more expensive “wires” and build-out. Third-parties, or even customers could then be paid to provide a reliability service, and the utilities could recover part of the cost through rates. The legislature did already authorize such an approach during the 2021 Legislative Session for contracted energy storage by TDUs though the approach was capped at 100 MWs.

### **Fair Market Rates for Excess Onsite Generation**

It is probably not possible to pass a one-size fits-all approach on customers who generate additional kilowatts on-site beyond their own use and want to sell those to the market. However, the Legislature could consider updating statutes to require a fair price for that generation, rather than leaving it up to each individual REP or utility. The legislature could consider studying the implementation of a “Value-of-Solar” rate for example and consider a state study as a first step.

### **Balcony Solar**

In recent years, both red and blue states have embraced laws that make it easy for customers to purchase and install plug-and-play “balcony” solar systems, and Texas could consider doing the same.

### **Creating a distributed energy or demand reduction market through a tradeable Credit program**

While the state has passed a goal for reducing demand through energy efficiency programs run by the eight private TDUs, which are recovered through rates and overseen by the PUCT, SB 1699 did create a goal for demand reduction through demand response programs run by REPs. The legislature could consider adopting a statewide goal for energy reduction (or onsite generation), and then allowing load-serving entities to meet the goal through a credit trading program. Just as the legislature previously created a REC (Renewable Energy Credit) program to help meet goals for renewable energy, the Legislature could create a similar program for distributed energy and demand response programs. The program could be mandatory or even voluntary, but by creating a market for credits it could lead to a wider adoption of distributed energy resources.

The Sierra Club looks forward to working with the Committee to consider these and other policies to modernize Texas's electric grids and allow more customers to produce their own energy and contribute to a more affordable, resilient grid.