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SB 3: A good start but don't forget the demand side!

The Lone Star Chapter of the Sierra Club appreciates the leadership of the Senate and Senator Schwertner in filing SB 3.

We believe it is a good start to needed reforms in our electric system and we are generally supportive of the bill. In particular, we are very supportive of the creation of an alert system through the efforts of TDEM and TxDOT and of the requirements that all aspects of the electric and gas supply system be weatherized. ***We do have some specific suggestion on language to make sure that TCEQ is part of the agencies consulted in the alert system*** as there are often pollution consequences to rolling outages, brown-outs and black-outs.

We are also supportive of requiring further information of distributed generation resources and requiring much more detailed information on outages and opportunities for consumers to participate in programs to prevent outages. ***We would suggest as is contained as a section in a separate bill by Senator Schwertner (SB 2109) that wires companies be required to file an annual transmission outage plan, with a***

public component. Many members of the public had no idea what to expect when ERCOT announced rolling outages, and clearly most companies lacked a well-established plan.

What we disagree with in the bill

While we appreciate the need to assure reliability in the Texas market, we disagree with the need to require that renewable energy companies meet specific load requirements. Most renewable energy providers do have to meet requirement based on their contracts with loads, but those are essentially private contracts and not a state mandate. We do believe there may be some reporting and other functions to improve reliability but we are concerned in an energy-only competitive market structure, requiring one set of generators to meet added requirements that others are not subject to. We believe there may be ways again to assure more transparency and commitments, but think this section should be eliminated or changed.

While we agree that wholesale variable rates such as those that were offered by Griddy should not be authorized, we are concerned by the broad language in the prohibition in the bill. We want to assure that time-of-use rates (with protections for consumers) and unique pilot programs that encourage the use of electric vehicle charging and local solar are not impacted by the prohibition.

While we are in agreement that the state should establish maximum caps on energy prices, we disagree that a one-hour limit is appropriate in an energy-only market. Scarcity prices are needed to give generators incentives to generate and demand response and loads to react to prices by shifting energy use. We would suggest a longer period of time such as eight or 12 hours at which the cap can be maintained. Alternatively, we could

direct the PUC to come up with an appropriate number but also assure that prices can not rise to the cap when capacity is not available due to an outage issue where generators can not produce energy. Having the price go to the cap for several days made no sense in February when generators could not physically provide energy to the system.

What's Missing in the Bill? Local Energy Solutions

While much of the focus of the recent winter storm was on supply side issues, and SB 3 does a good job on addressing those issues through an alert system and required weatherization among other provisions, the bill lacks any needed reforms on the demand side of the equation. The fact is that Texas as a state has failed to keep up with policies to encourage distributed energy solutions, demand response and energy efficiency. As a state, we only require our Transmission and Distribution Utilities to meet 0.4 percent of average summer and winter peak demand through demand response and energy efficiency program. The Sierra Club is supportive of a separate bill - SB 243 - that would finally raise our energy efficiency goal to one percent of sales which could spur thousands of homes and businesses to be weatherized.

In addition, we believe that as is contained in SB 2109, retail electric providers (and potentially others) should be directed to develop and offer residential demand response programs. While we should not dictate the type of programs and those programs must be voluntarily, making sure customers have options and REPs reach some modest goals would help our future electricity grid.

Finally, Texas should open up our rules and allow registered smaller generation resources - known as Distributed Energy

Resources - to compete and provide both wholesale energy and ancillary services. Again, while a separate bill has been introduced by Senator Nathan Johnson (SB 1479), we believe it would make sense to direct the PUC to develop rules so those local energy resources can compete and offer reliable power in our market.