To: The Honorable Todd Hunter, Chair
Members, House Committee on State Affairs
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The Sierra Club generally supports HB 4832 but has a few concerns.

Sierra Club believes that this bill contains both good and less good provisions.

First, we oppose the change in cost allocation contained in (b) (6), which would change cost allocation from all loads, to a complex formula consisting of loads, dispatchable generation and renewable energy generation. This is a fundamental change in our market structure. Currently, loads pay for ancillary and other reliability services and we do not try to "assign" costs to generators - whether renewable or thermal. We also believe the proposed formula - based on the resources's proportion to their contribution to net load variability over the highest 100 hours of net load in the preceding year - is not the correct methodology to assign costs. It is also very unclear how resources like storage would be considered in setting the cost allocation since storage can be both loads and generation. Would storage be 'Netted" out from the load as renewable energy or would it be counted as a resource to meet net load? Are the 100 hours of net load actually the hours when Texas has the greatest operational problems?

That being said, while we do not support the changes in (b) (6), we do support the creation of an a*ncillary services program that requires load serving entities to purchase dispatchable reliability reserve services on a day-ahead basis* to account for market uncertainty. We do want to make sure that the reserve service could allow both generators and loads to participate, but do support the need for an additional ancillary service. In fact we believe that the creation of such a product - sometimes called an "Uncertainty" product or a DRRS would work well with our existing market structure.

Furthermore, while we do not object to the requirement of an annual report on dispatchable versus non-dispatchable power, or calculation of transmission costs, the bill

as written only has the report focused on costs associated with non-dispatchable power, instead of a wider report on transmission costs. It makes no sense to somehow only report on transmission costs as if they can be separated out to only focus on non-dispatchable power since transmission serves loads and all kinds of generation.

In summary, while we are supportive of parts of the bill, overall the bill seems intent on "punishing" non-dispatchable resources, even though they are cleaner and cost-effective. As such the bill could prevent Texans from enjoying continued investment in these clean resources. We would suggest continuing to pay for ancillary and reliability services through our efficient market structure that has served Texas well.

Suggestions on how to improve the bill

The Sierra Club signed up "on" HB 4832. That being said, we are generally supportive of the bill but believe additional constructive changes are needed. The Sierra Club would support the bill if you:

- Eliminate or at least clarify the firming requirement
- Assure that the report required under Section 3 includes costs for both dispatchable and non-dispatchable resources.

We do not favor the firming requirement, but if you do it, put in some guardrails.

We favor keeping the present policy of assigning ancillary and reliability costs to load which has served ERCOT well. We would favor the removal of (b) (6) from the bill completely.

However, if you do want to use cost causation principles to assign some services to loads, dispatchable and non-dispatchable generation, we would ask that you only apply it to the future reliability services and not to all ancillary services. Trying to reprice and reconfigure all ancillary services, reliability services, and ERS will be a convoluted and costly process. Again our ancillary service market functions well, but an argument can be made that because DRRS would be a new type of service to deal with the variability of loads and generation, there is more of a reason to use cost causation for this particular service than for non-spin, spinning or regulation services.

In addition, we are not sure that the present methodology contained in the bill is correct. Instead you should consider basing the cost on times when reserves are low which is when the service would be deployed. This is in fact what ERCOT has recommended in their cost causation suggestions. Basing the cost of the service on comparisons between average and lower production or average and lower use for loads could lead to some strange results that will generally hurt residential consumers in particular. There should at least be some "weather-normalization" since residential consumer consumption often increases exponentially during extremes.

Finally, you might consider adding a provision that allows ERCOT and the PUCT to implement the DRRS without cost causation while it is being developed.

Reporting Should Include the costs of both Dispatchable and Non-Dispatchable Generation and Transmission

While the title of the section under 39.1591 states that it is a REPORT ON DISPATCHABLE AND NON-DISPATCHABLE GENERATION FACILITIES the body only talks about the costs to transmission and firming of non-dispatchable generation facilities. To make the report accurate, it should add the words "dispatchable and" in Section 39.1591 (1) (A) and (1) (B) such that the bill reads "the estimated annual costs incurred by dispatchable and non-dispatchable" and "to facilitate the transmission of dispatchable and non-dispatchable electricity to load."

It makes no sense to only report on firming costs and transmission costs to one type of resources in a report and not compare it to the other resource.