



To: The Honorable Todd Hunter, Chair
Members, House Committee on State Affairs

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The Sierra Club generally supports SB 7 but changes needed

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

First, we oppose the change in how we allocate costs 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. While we appreciate work done on the Senate floor to improve the cost allocation to better protect residential consumers, we think the cost allocation continues to be problematic. 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 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 *ancillary 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.

Secondly, while we are not supportive of a PCM in general, we do support the guardrails around the PCM contained in SB 7 under the new proposed reliability service – a PCM-like proposal. However, we would note the language only would allow for dispatchable generation and not loads or storage. Instead, those types of resources should be allowed to serve as long as they meet the requirements since it will increase reliability and lower costs to consumers.

Finally, we support a cost cap of \$500 million and some kind of review or phase out of the PCM. We would suggest a phase out of 2029 or 2031. Since the PUCT under HB 1500 (the sunset bill) will come up again for a limited sunset analysis in 2029, those are relevant dates to look at how well reliability services are working and whether they are needed.

In summary, while we are supportive of parts of the bill, we oppose the section that could “punish” non-dispatchable resources through cost-allocation, 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. As an alternative, allowing the PUCT to determine how to allocate costs versus leaving it up to statute might be a better approach.

In addition, we also would suggest making the reliability service technology neutral to all dispatchable resources.

Suggestions on how to improve the bill

The Sierra Club signed up “on” SB 7. 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/cost-allocation requirement
- Assure that the reliability-PCM is open to all dispatchable resources, including loads, and there is a pause or sunset of the PCM.

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.

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

Finally, please eliminate language that would prevent storage and loads from participating in the reliability program.

(2) credits are available only for dispatchable resources, including generation, excluding load resources and electric energy storage that meet PUCT and ERCOT requirements;