



SIERRA CLUB

LONE STAR CHAPTER

The Honorable Charles Schwertner, Chair

The Honorable Phil King, Vice-Chair

Members of the Senate Committee on Business and Commerce

August 27th, 2024 Interim Hearing on Texas Energy Fund

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Implementation of Texas Energy Fund and SB 2627: Focus on Supply Side alone is not enough

Over the last two sessions, most of the effort through approved new laws like SB 3, HB 1500 and SB 2627 has been on creating requirements to bolster the supply side of the grid, including tax-payer backed incentives such as the Texas Energy Fund, and new adequacy products like the Dispatchable Reliability Reserve Service (DRRS). While Texas has not suffered through another winter storm Uri event that has impacted residents in virtually the entire state due to failures of the entire ERCOT grid, we have instead been beset by millions of Texans losing power in localized areas due to failure on the distribution side of the grid, whether in West Texas, Central Texas or most recently in the Houston area. Thus, even as we implement laws like SB 2627 and HB 1500, we must also focus on distribution solutions and also those at the customer-side of the electric system, including demand side management and energy efficiency programs. We look forward to implementation of SB 1699 in the future which would require new goals for residential demand response, which will be the focus of a future hearing by this committee.

Voters approved Proposition 7 in November of 2023, and they thus approved four programs that are collectively part of the Texas Energy Fund to begin. Two of the programs are more narrowly focused on energy supply and the rules have been written. Thus, companies have already applied to seek state-backed loans for power plants, while the rules for completion bonuses have already been written. This week, we expect the PUCT to announce those applications that will move forward on the next phase. We are still waiting for rulemaking on the other two programs to begin.

Table. Texas TEF Accounts created by SB 2627

Program	Description	Statutory Limit on Spending
Loans for ERCOT Region	3% loans for non-electric storage dispatchable generation of at least 100 MWs	Up to \$7,200,000,000 for first two programs
ERCOT Completion Bonus Grants	Annual incentives to newly constructed available dispatchable generation facilities that meet certain criteria	See above
Grants for Facilities Outside ERCOT Region	Grants to utilities for facility modernization, facility weatherization, reliability and resiliency, vegetation management	\$1,000,000,000
Texas Power Promise: Backup Power Packages	Grants or loans for operation of backup power packages that serve up to 2.5 MWs of load and can be islanded during emergencies	\$1,800,000,000

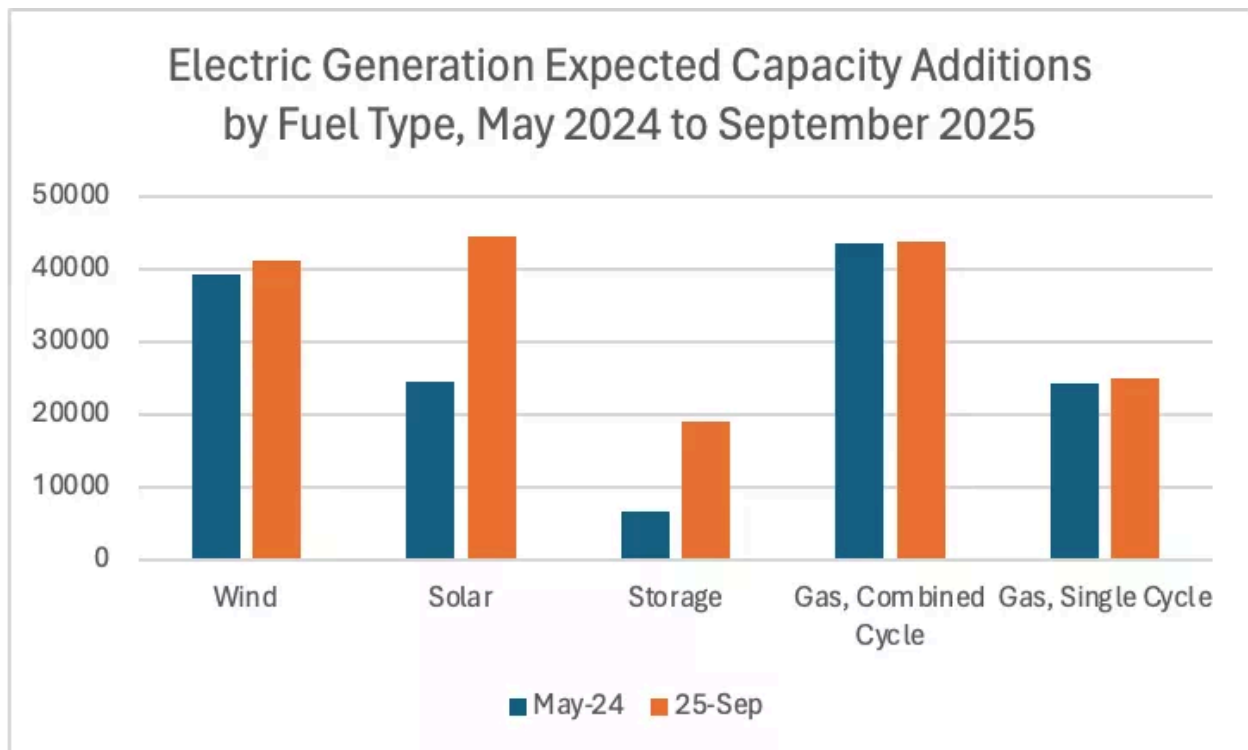
Source: Information from SB 2627

In-ERCOT Generation Loan Program

The interest from private investors in gas technology has been impressive. To be clear, Sierra Club does not believe this investment is needed because other technologies like solar and storage, and newer technologies like geothermal power are increasing without the need for taxpayer-backed incentives. Still, the PUCT has done their job, approving rules with significant stakeholder input and has received 72 applications for loans through the Texas Energy Fund’s In-ERCOT Generation Loan Program. In total, the applications request \$24.41 billion to finance 38,379 megawatts of proposed dispatchable power generation projects in the Electric Reliability Council of Texas (ERCOT) region. This week, the PUCT is expected to make some decisions about which projects to move forward in August, since thus far \$5 billion of taxpayer funds was appropriated for the purpose. Still, it is somewhat unclear how the public could provide input

on any of the applications. At the very least, we hope PUCT will provide transparency in which projects move forward and how to access information about the projects and provide input. While to their credit, the PUCT has created a separate website found here - <https://www.txenergyfund.texas.gov/> - public input opportunities are not apparent. We would suggest the Legislature could encourage the PUCT to open a portal or way for Texans to provide input on proposed projects, and also list the basic information about the projects that are moving forward.

Again, it is important to note that gas generation is not the only investment occurring. Indeed, the largest increases in generation capacity is likely to be in solar and storage investments.



The charts show that the projects that already have interconnection agreements with local transmission companies that are most likely to be built in the next 18 months are solar and battery storage with only a handful of new gas plants likely to be added. However, the passage of Proposition 7, along with the potential addition of DRRS and potentially a PCM in future years make it likely that more gas plants – especially gas turbines – are likely to be built.

Two other programs have yet to move forward with rulemaking

However, the other two programs approved by SB 2627 and endorsed by voters are intended to help on reliability and resiliency but thus far the rules have not been finalized, and additional monies still must be appropriated by the Legislature to implement them.

First, the Outside ERCOT Grant Program is intended to fund up to \$1 billion for transmission and distribution infrastructure or electric generating facilities in Texas outside of the ERCOT power region. Under this program, the PUCT will award grants for the modernization of infrastructure, weatherization, reliability and resiliency enhancements, and vegetation management. Several entities including Entergy Texas have publicly announced their desire to access part of this money. We believe the Legislature should and must appropriate money for this program since many voters live outside of ERCOT and the PUCT must finalize rules. We think given the need for resilience and protection of residents from extremes that spending money on making the distribution system more resilient would be a good use of taxpayer dollars.

Second, TEF will provide grants and loans to qualifying entities to design, procure, or install backup power packages at facilities necessary to support community health, safety, and well-being. A backup power package is a stand-alone, behind-the-meter, multiday backup power source. Again, while an advisory committee led by Senator Johnson has been named and held several meetings, rules have not been approved for these taxpayer-backed backup power packages. The Committee is tasked to recommend criteria to the PUCT for backup power package grants. The Backup Power Package Advisory Committee will submit a recommendation report to the PUCT by October 1, 2024. Again the intent was to appropriate up to \$1.8 billion for this program and again the Legislature should appropriate money and finalize rules for this program.

Political leaders have announced that the Legislature intends to appropriate the other \$5 billion for the TEF. They have focused narrowly only on the supply side issue - more gas plants. The Sierra Club hopes that rather than dedicating these funds to new gas plants, we instead invest in programs for resiliency which ultimately will benefit customers more. Our grid does not have a major supply issue, it has an issue with getting power where it is needed and keeping the lights on when climate extremes occur. Taxpayer funds are better served helping customers, not gas generation investors. At the very least, the Legislature should stick to the statutory requirements approved by voters of \$7.2 billion for supply, \$1 billion for resilience outside of ERCOT and \$1.8 billion for customer back-up power.

The Sierra Club looks forward to working on future rulemaking related to the two non-generation programs, and also working with the PUCT to assure transparency on how taxpayer funds are spent.