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

May 12th, 2024 Interim Hearing on Electric Grid

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Don't Ignore the Consumer: PUCT, ERCOT and Legislature Still have more work to do to fix our grid

In 2021 and again in 2023, the Legislature took real steps to improve our grid through legislation like SB 3, HB 1500, HB 2555, SB 1699 and many other important bills. The PUCT and ERCOT have been hard at work to implement most of these bills and other important initiatives. Yet the Texas Grid - or rather Texas grids - continue to face mounting pressures, from rising electric demand, to changing technology, to climate change that is driving extreme weather causing immediate and real impacts to Texans. Often lost in the discussion are the real and potential rising costs faced by residential and small commercial consumers, and the real trauma faced by millions of Texans. In recent weeks, we have seen how local storms and extreme weather conditions first in the Houston area and then in the Dallas area left millions without power, in these cases related to distribution failures. A heat dome over much of South Texas has shot energy bills through the roof in May. Importantly, a recent report by the National Energy Assistance Directors Association predicted that an average Texan family could spend some $858 in electricity over the hot summer months (June to September), while an average American family would only spend $719. Summer air conditioning bills are piling up after a winter of expensive heating. NEADA's report points out that many low-income families might not be able to afford air conditioning in their homes. Some families have their power cut off because they can't pay the bill, and their homes are too hot to live in. According to the NEADA report, The amount people owe their utilities went up from $17.5 billion in January 2023 to $20.3 billion in

December. According to NEADA, about 16% of American households, or about 21.2 million, are behind on paying their energy bills.

While Texas electric rates are competitive and favorable compared to some (but not all) parts of the country, bills are high due to poor building stock and air conditioning systems, increasing transmission and congestion costs, and our increasingly extremely hot weather.

We expect the trend of higher rates and higher bills to continue if recent announcements are any guide, Texans can expect electric bills to continue to rise. Needed transmission upgrades, identified resiliency plans by utilities, announcements for large and expensive gas build outs, and the cost of new products like DRRS and PCM could put even more strain on consumers. We ask ERCOT, the PUCT and the Legislature to consider these increasing costs when enacting new policies, or implementing existing policies. Again, we believe that certain consumer-friendly solutions to our grid crisis such as energy efficiency, demand response, payment assistance and distributed energy resources have not been considered enough in the mix of solutions to our grid crisis.

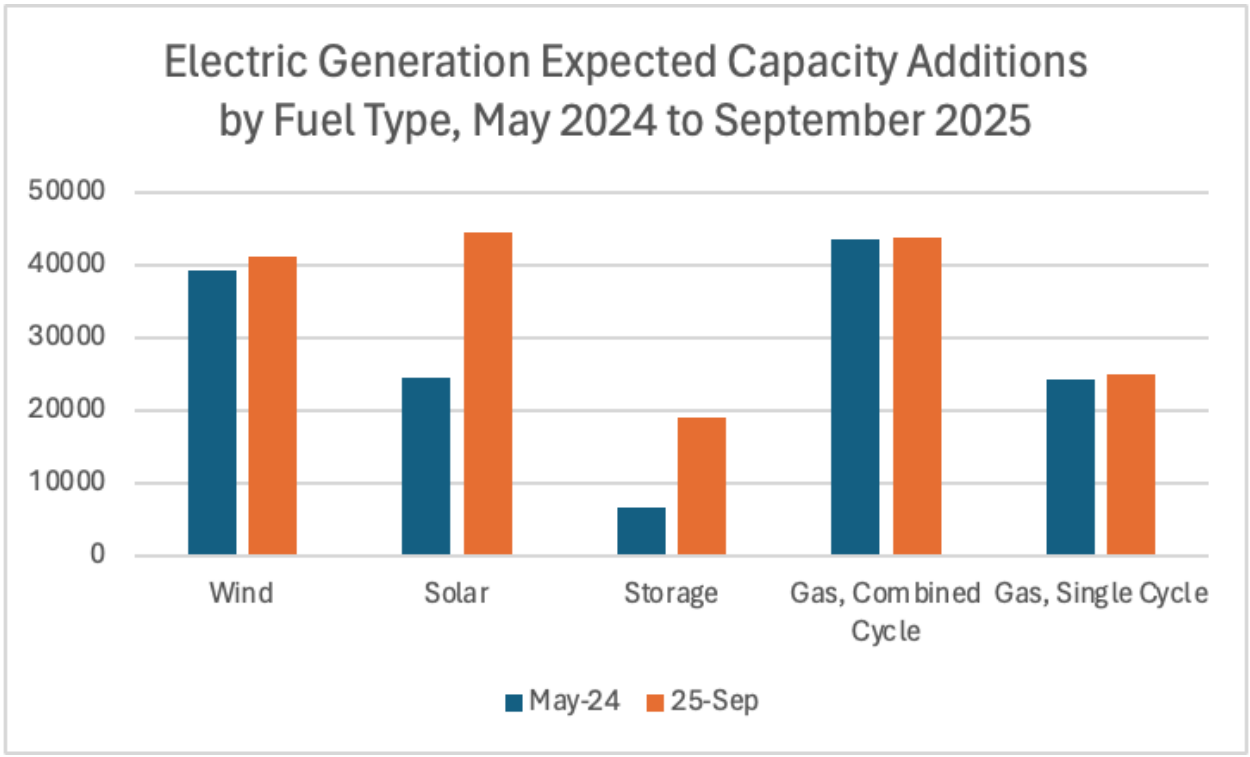
Among the important efforts being enacted include the Reliability Standard, the DRRS, the PCM, Utility Reliability Plans, CONE Study, Aggregation of Distributed Energy Resources and most recently, a review of Energy Efficiency and Demand Response programs.

As we make clear in these written comments to the committee, we continue to believe that more emphasis on the demand-side is needed. For example, a recent 2023 ACEEE report – **Energy Efficiency And Demand-Response: Tools To Address Texas' Reliability Challenges –** pointed to an ambitious 10 program plan of six years to reduce peak summer load by 15,000 MWs and peak winter load by 25,000 by 2030 ($1.2 billion), or a more modest plan of $500 million per year. The report is available at https://www.aceee.org/sites/default/files/pdfs/energy_efficiency_and_demand_response_-_tools_to_address_texass_energy_reliability_problems_-_encrypt.pdf

The report found that "*a set of 10 energy efficiency and demand response retrofit programs for residential and commercial buildings and equipment, deployed aggressively under statewide direction over the 2024–2030 period, could serve more than 14 million Texas households and offset almost 15,000 MW of summer peak load and 25,300 MW of winter peak load.*"

ERCOT Market Continues to Change with New Resources

Even as many political leaders highlight recent announcements about new gas investments, the real story in ERCOT continues to be the rise in renewables and battery storage, a trend that is expected to increase. In 2023, wind and solar produced about 30 percent of all electricity, while gas provided the most at 45%. As of January of this year, we had 38,835 MWs of wind installed within ERCOT, as well as 22,258 MWs of solar, and 5,242 MWs of battery storage. According to ERCOT's Resource Capacity Trend Report, wind may add a bit more capacity over the next 16 months, but solar is expected to nearly double, and battery storage capacity could triple. Thus, by September of 2025, we could potentially see more than 40,000 MWs of Wind, and 44,000 MWs of solar along with nearly 19,000 MWs of batteries. Solar power has continued to set records in ERCOT, most recently when it provided 43 percent of all power at a certain time on March 28, 2024. It is not uncommon now for wind and solar to provide the majority of electric needs on certain days of the year.



Yes some gas resources will also be built soon, but beware the costs

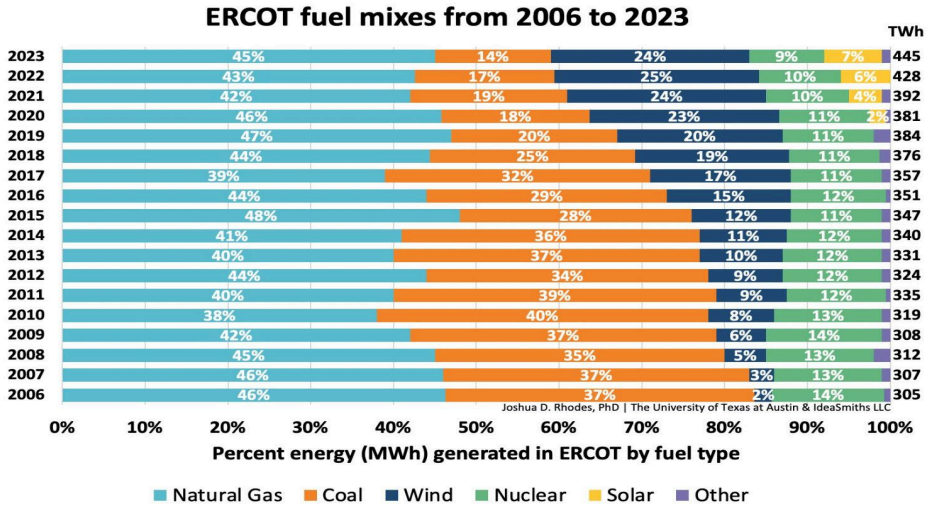
The decision of this legislature to also put taxpayer funds into loans and incentives for dispatchable generation has also led to an unexpected response with nearly 125 Notices-of-Intent for nearly 50,000 MWs of gas-power plant projects filing notices of intent last

month to apply for state funding. The total request is nearly $40 billion dollars so the PUCT will need to identify which plants are ready to be supported with taxpayer funds. In addition, other market participants like LCRA and VISTRA have announced major investment decisions in gas, while Entergy Texas outside of ERCOT also filed a plan to build new gas resources.

While it is very unlikely that most of the 50,000 MWs will be built, and some of the NOIs are clearly speculative, there is real interest by many developers and some public utilities in investing in gas resources spurred by these taxpayer funds and potential market changes. We would note that while gas does obviously play and will play an important role in our electric grid, there is real risk for consumers is the variable cost of gas prices, whether it is properly weatherized, and whether any of the costs could be stranded if market mechanisms don't provide sufficient revenues. There is also real risk in the pollution that occurs from air emissions both upstream and downstream. The Sierra Club will be monitoring the investment decisions, and air permits, particularly those resources planned in major urban areas that could impact ozone formation.

Coal will continue to decline

Coal as a percentage of the ERCOT market continues to decline. With four new recent EPA rules, a relatively high cost of maintenance, and continued growth of other resources, this trend should continue. There are several large coal plants that will need to either make major new investments to meet new EPA rules, or choose to retire. Because there is so much new investments occurring in other types of resources, we do not believe this will lead to any resource adequacy issues, and Sierra Club welcomes the move away from burning coal, which has an outsized role in air pollution, climate change and water use.



Peak Demand continues to rise but is all peak demand equal?

ERCOT has continued to set new demand records in both summer and winter. An extremely hot May led to a record of 77,126 set on May 27th, some 5,000 MWs higher than the previous May record, while just last January 16th, a record winter peak demand of 78,349 MWs was over 12,000 MWs higher than the previous winter peak. Our highest peak ever was set last summer at 85,464 MWs on August 10th, 2023.

Peak Demand Records

Summer	August 10, 2023	85,464 MWs
Winter	January 16, 2024	78,349 MWs
Spring	May 27, 2024	77,126 MWs

ERCOT is predicting much, much higher loads and peaks pointing to the need for further transmission and generation investments. A recent ERCOT presentation on large loads and demand growth led to a prediction of needing to supply power to up to a peak of 162,000 MWs by 2030, nearly a doubling of our current peak demand. Most of this was being driven by indications of large loads, including new refineries and petro-chemical plants, but mainly new loads being driven by Artificial Intelligence, data centers, hydrogen manufacturing and production, and bitcoin operators.

Proper transparency of this large integration of large loads is extremely important going forward. While the Legislature passed legislation to allow ERCOT and PUCT to require registration of large loads and other matters, thus far, fairly limited efforts have been taken, most recently with the filing of a modest transparency NPRR *(NPRR 1234 - Interconnection Requirements for Large Loads and Modeling Standards for Loads 25 MW or Greater)* at ERCOT after an initial more rigorous version resulted in pushback from many stakeholders. NPRR 1234 is a very modest proposal and does require some transparency but ultimately not registration, ride-through capability or load shedding.

Ultimately requiring that large loads can be registered, meet certain voltage ride-through standards and importantly be available for load shedding is extremely important to smaller consumers. Otherwise, essentially all loads and consumers could be paying for transmission upgrades and other ancillary service costs that are mainly for more speculative growth such as

bitcoins. As an example, the recent legislation and implementation of a permian basin study and transmission upgrade found that only about half of the growth in demand is likely to be related to oil and gas. Fully a quarter of the expected load growth is being fueled by cryptocurrency and bitcoin mining. Coming up with solutions so that small consumers and the market is not saddled with higher prices for entities that may or may not be around for more than a few years will be important.

Project No. 54584, Reliability Standard for the ERCOT Market

The Sierra Club supports the efforts of ERCOT and the PUCT to establish a reliability standard. On June 6, 2024, Commission Staff proposed a new 16 Texas Administrative Code (TAC) §25.508, which creates a reliability standard for the ERCOT power region. The Sierra Club agrees with the Commission position that the need for a reliability standard for the ERCOT power region is established in Section 18 of SB 3, enacted by the 87th Texas Legislature (R. S.). The proposed rule creates a three-part reliability standard comprising frequency, magnitude, and duration. The proposed rule also establishes a schedule, assumptions, and components of a regular assessment of the reliability standard. *While we read SB 3 and HB 1500 as requiring the Commission to set a reliability standard, and are supportive of the multi-tiered approach based on duration, magnitude and frequency, we believe the responsibility falls on ERCOT and the PUCT to set a standard, and then implement tools to meet it.* We do not view the standard as a specific obligation on each load serving entity and do not believe that one single mechanism - such as the PCM - should be used to meet the standard. The legislature provided the PUCT with flexibility on what standard or standards to establish and how to meet it, but did not create in our view a specific load serving entity obligation like one might have in a capacity market. We look forward to providing comments once the rule is adopted, likely today on June 13th. As we previously commented, the initial values chosen by PUCT may be too conservative and therefore too expensive. As an example the PUCT has chosen a magnitude of MWs with a 0.25 percent exceedance tolerance. Essentially this means that the Commission is beginning with a position of designing a reliability standard that would be exceeded once every 400 years. The Sierra Club believes that given a 0.1 in 10 loss of load event that a more reasonable exceedance would be 0.75 percent or even one percent which would match the 0.1 in 10 loss of load event.

CONE (Cost of New Entry)

The PUCT and ERCOT have not updated the CONE in several years and it is in need of updating. However, ERCOT recently hired Brattle to come up with an initial CONE. CONE Is important as it helps determine if the market is providing sufficient revenue to support new investment and also helps determine how long ERCOT should set the system wide offer cap. Section

25.509(b)(6) establishes both a “low system-wide offer cap (LCAP)” and a “high system-wide offer cap (HCAP).” At the beginning of each new calendar year, the system-wide offer cap is set equal to the present HCAP of $5,000/MWh, but when CONE is earned it reverts to the LCAP of $2,000/MWh. If the CONE is set artificially high it can directly impact consumers. In addition, CONE Is likely to be used as one of the components in setting the PCM boundaries.

The initial CONE determined by Brattle as presented on May 24th, 2024 is extremely high and well above the CONE of other markets. Brattle chose only two technologies - a reference gas technology known as an *Aeroderivative LM6000 plant with 291 MW (at ISO conditions) and an Alternative Technology known as* Solar PV + BESS Hybrid with 200 MW PV + 100 MW 2-hr BESS. Importantly, Brattle chose the gas reference technology as only one type and located it a greenfield site in Harris County, one of the most expensive locations it could have chosen. The alternative technology was chosen in Brazoria County, again in an area with expensive land prices and where the solar resource is not as efficient as in other areas where solar has traditionally been chosen. Not surprisingly, the draft CONE presented by Brattle is about twice the cost of previous CONEs.

As Brattle itself points out, the proposed ERCOT CONE of LM6000 of $293/kW-yr) is much higher than in PJM 2022 study ($190/kW-yr CC and $151/kW-yr Frame CT). Brattle importantly chose a specific technology that is being used by some developers, but not all. They also chose to reference the technology in Harris County at a greenfield site, even though proposed new gas plants in Harris County are often occurring at existing sites, such as NRG’s Green Bayou plant. Again, higher CONE values increase the “3xCONE” PNM threshold where offer caps are lowered, which increases costs for consumers.

CONE also ignores the existence of the Texas Energy Fund (TEF) which is a subsidy for certain new entrants, and ERCOT and the PUCT should not ignore this factor - it is a reality of our market that many new entries will be subsidized by lower interest rates or even direct performance bonuses.

CONE Estimate for 291 MW (at ISO cond.) 6x0 LM6000

Overnight Cost	*Nominal $/kW*	$1,764
Capital Charge Rate	*%*	14.0%
Levelized Capital Cost	*Nominal $/kW-yr*	$246
Levelized FOM	*Nominal $/kW-yr"*	$47
Levelized CONE	***Nominal $/kW-yr***	**$293**

CONE Estimate for 200 MW PV w/100 MW 2-hr BESS

Overnight Cost	*Nominal $/kW*	$1,743
Capital Charge Rate	*%*	12.1%
Levelized Capital Cost	*Nominal $/kW-yr*	$210
Levelized FOM	*Nominal $/kW-yr*	$49
Levelized Augmentation	*Nominal $/kW-yr*	$3
Levelized CONE	***Nominal $/kW-yr***	**$263**

The Sierra Club is concerned by the technology chosen and the location of both the reference and alternative technology and urges ERCOT and the PUCT to make adjustments to the draft CONE, which would be extremely expensive to the market and would be used to justify much greater costs on consumers. One new data point is the NOI applications to the Texas Energy Fund itself, which has hard capital costs which are an order of magnitude less than the CONE Brattle study. The PUCT should use the costs presented in the TEF applications to help truth-test the Brattle CONE study. We believe that CONE will be higher than the current CONE but expect it to be in a $160 to $200 per kW-yr range.

Project No. 55000: Performance Credit Mechanism

The Performance Credit Mechanism is a tool in ERCOT's and PUCT's toolbox designed to provide extra payments to dispatchable generation which was adopted by the PUCT as part of its Blueprint several years ago. However, in 2023, the Legislature put guardrails on the program, putting in a hard cap of $1 billion per year and the PUCT has opened up a new project (Docket 55000) designed to implement a PCM. Importantly, the Sierra Club believes that as per the language in HB 1500 adopted in statute, the PUCT must take a number of steps before any limited PCM can be implemented, including development of a new ancillary service known as DRRS, real-time co-optimization and further study of the suite of ancillary and reliability services. In other words, PCM should only be implemented if it is needed to assure the reliability and health of the market. We are appreciative that the PUCT staff recently asked stakeholders a number of questions through Project 55000 and we look forward to providing input by the June 20th deadline.

ERCOT continues to utilize E3 as a consultant to help in the development of a PCM. Sierra Club has serious concerns about some of the assumptions made by E3 in a recent stakeholder meeting held at ERCOT earlier this year, in which E3 stated that the Legislature had decided to move away from an energy-only market, a position that is not supported by the facts. In addition, in its presentation, E3 made a number of assumptions or decisions that would be extremely expensive to consumers, such as:

- assuming that revenues from the PCM could be "averaged" or spread over several years such that even in years when the $1 billion cap was not reached revenues that could have been earned in previous years would be rolled over;
- Creating an energy equilibrium where numbers are derived based on theoretical retirements and the need to provide additional money to the market;
- Basing their analysis as if a new ancillary product (DRRS) will not existing, essentially ignoring a revenue source.

Many stakeholders have seemed to equate the PCM as the principal tool to meet a Reliability Standard, but the Sierra Club does not believe that the PCM is the only tool or the principal one to meet such a standard. Again, consumer costs must be considered in any market design.

DISPATCHABLE RELIABILITY RESERVE SERVICE (DRRS) (Project 55797)

The Lone Star Chapter of the Sierra Club has consistently supported the creation of a Dispatchable Reliability Reserve Service (DRRS) to increase operational reliability in ERCOT. DRRS is a derivative of the "uncertainty product" that was originally proposed by the

Independent Market Monitor (IMM) in market design workshops following the 2021 legislative session. Implementing DRRS as a standalone service meets the requirements of House Bill (HB) 1500 from this past legislative session as well as offering a new means to provide incentives for dispatchable technology. We also believe it can be one tool used to meet any new reliability standard being discussed through a separate docket (54). Sierra Club supports the establishment of reliability standards (or standards) and the need to implement DRRS. We were supportive of the decision as well to not pursue DRRS as a subset of Non-Spin, and instead to proceed with a standalone DRRS through the stakeholder process at ERCOT.

ERCOT has developed a draft NPRR (*1235 -Dispatchable Reliability Reserve Service as a Stand-Alone Ancillary Service*) to implement DRRS in a timely manner and held a workshop on June 3rd earlier this week. While we appreciate ERCOT filing NPPR 1235, which is a good and important first step, we have filed comments expressing our concern that the NPPR is written in a way that is discriminatory as it would only allow certain types of dispatchable generation to participate in the new service. We believe that the intent of both SB 7 - where the language for a DRRS was originally available - and ultimately HB 1500 was to allow any technology that could meet the parameters, whether transmission-level or distributed traditional generation, battery storage, or even controllable loads to participate.

A copy of our initial comments can be found at the following website that details our concern: https://www.ercot.com/mktrules/issues/NPRR1235#keydocs. While we plan to participate fully in the ERCOT process, and potentially to offer comments along with other stakeholders to NPRR 1235, or a separate NPRR, to address our concerns, we wanted to make stakeholders aware of our concerns in the hope of arriving at a compromise solution that allows more flexibility in who can participate in providing DRRS. Ultimately, we want this operational, reliability product to help keep our grid reliable, but also in a cost-effective manner and keeping certain technologies out of providing the service can increase costs to consumers.

Don't Forget the Demand-Side: Energy Efficiency and Demand Response Still Not Major Part of PUCT and ERCOT's focus

As a conservation organization, we have prioritized the need to consider how to better reduce and conserve energy, and focus on the demand side of the electric grid, including energy efficiency, demand response and distributed energy resources to be an area that has been largely neglected over the last several years as the Commission and Legislature have considered different options to improve the reliability and resiliency of the electric grid. For example, as an organization, during both the 2021 and 2023 Legislative Sessions, we were one of the main organizations advocating for legislation related to utility-funded energy efficiency and demand response programs, legislation related to aggregated distributed energy resources, and specific

legislation that aimed to create new goals and requirements to increase demand response programs for residential consumers. While most of those bills did not pass both chambers, one bill signed by the Governor - SB 1699 - includes some important provisions related to both distributed energy resources and residential demand response. Ten months since the bill was signed, it is time for the Commission to finally address this legislative and statutory directive. We do want to recognize some improvements that have been made. The decision to create a new Office of Energy Efficiency and hire several full-time staff, to initiate a study through ERCOT and Texas A & M on demand response potential and the creation of a new more friendly "Save Energy Texas" website are important first steps.

Project No. 56517 (Review of Energy Efficiency Planning)

Recently, the Commission did open up a new project (56517) which we believe is an important first step. The Commission asked stakeholders to provide answers and perspectives on seven important questions related to SB 1699 by Senator Nathan Johnson and utility energy efficiency programs. SB 1699 by Nathan Johnson requires the PUCT to establish some new statewide goals for residential demand response, and also encourage utilities to establish new residential demand response programs, as well as some consumer protection and provisions related to Distributed Energy Resources. Some 20 stakeholders filed comments with the majority favoring expansion of programs, though the utilities themselves sought only modest changes and did not favor increases in goals or programs. The PUCT has yet to begin rulemaking on either the utility programs or the residential demand response goals, though the questions are important progress.

Sierra Club filed extensive comments. As we pointed out in our comments, we noted that the original "Blueprint" approved by the three commissioners included three components related to the demand side. With the exception of the pilot project related to the Aggregated Distributed Energy Resources, which has and is being implemented, we are still waiting for implementation of the other two adopted policies - improvements of the utility-funded energy efficiency programs and implementation of nodal pricing for demand response.

A number of studies have shown the real impact that investments in energy efficiency and demand response could make in Texas, but also the relatively modest investments that have been made. As an example, the ACEEE (American Council on Energy Efficient Economy) annually publishes a scorecard that rates efforts by states to build energy efficiency programs. While Texas was the first state in the nation to adopt an Energy Efficiency Resource Standard, today according to ACEEE, we are last among the states that have such a standard, saving on an annual basis only about 0.2% of energy use through those ratepayer funded programs, and well below the average of 1.2% percent.[1]

[1] ACEEE, State Energy Efficiency Scorecard, 15th Edition, https://www.aceee.org/state-policy/scorecard, December 2022.

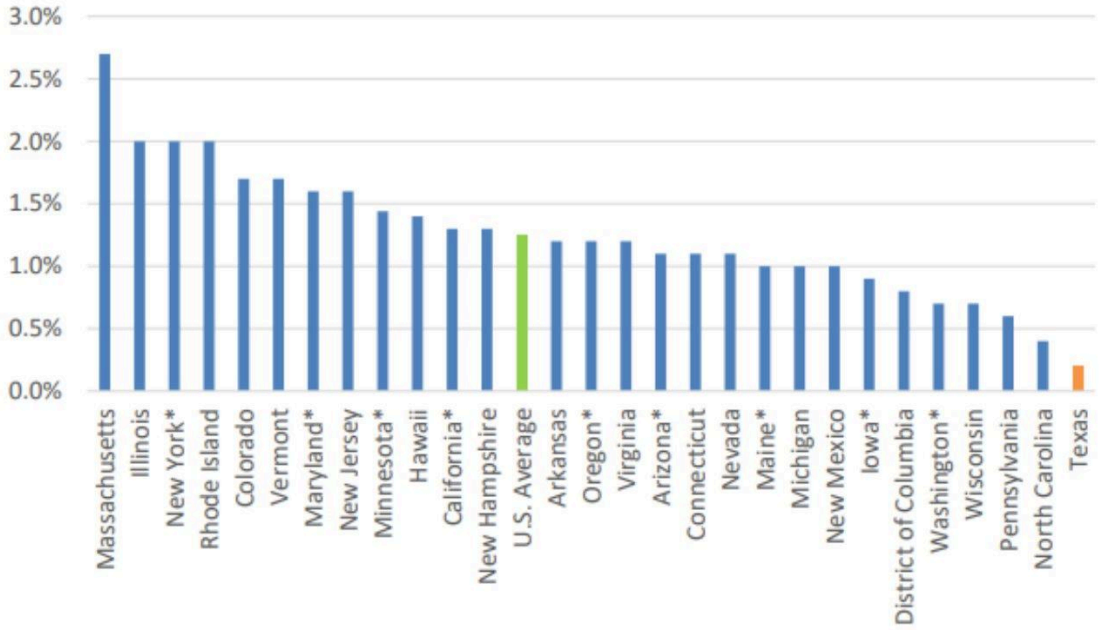
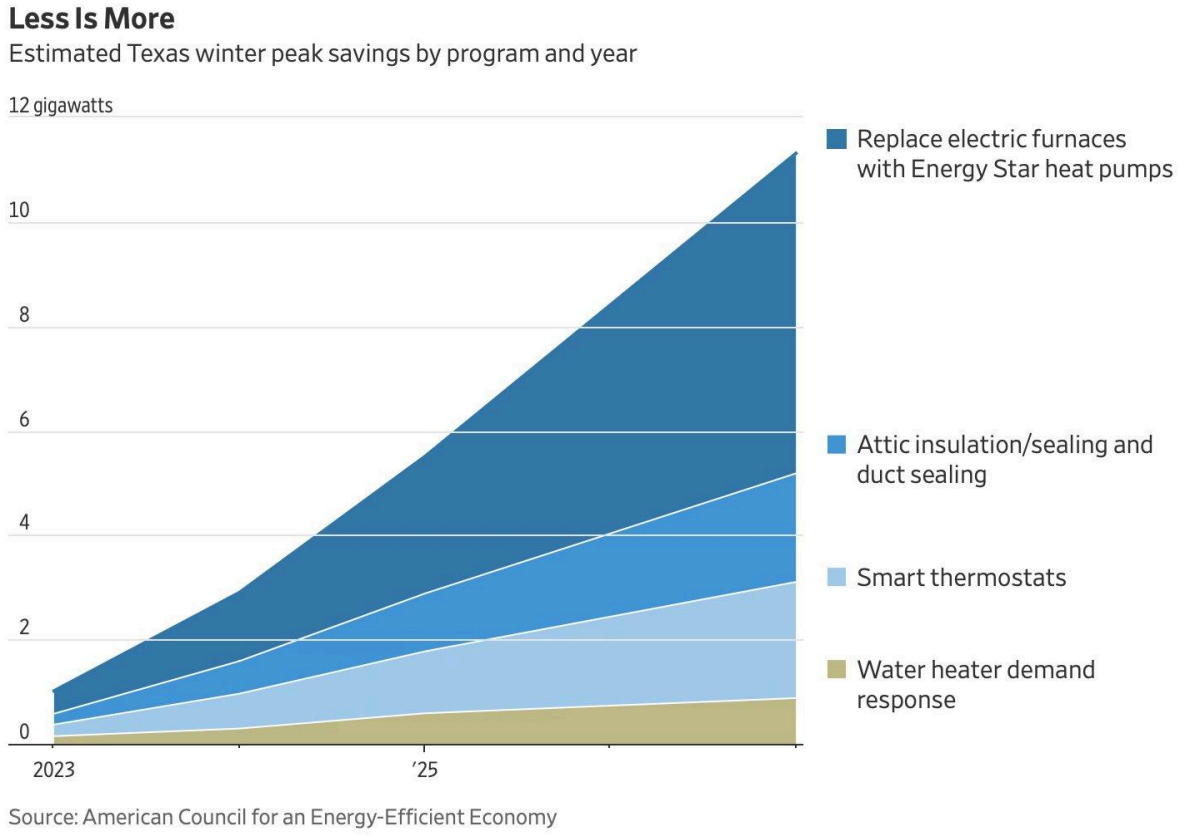


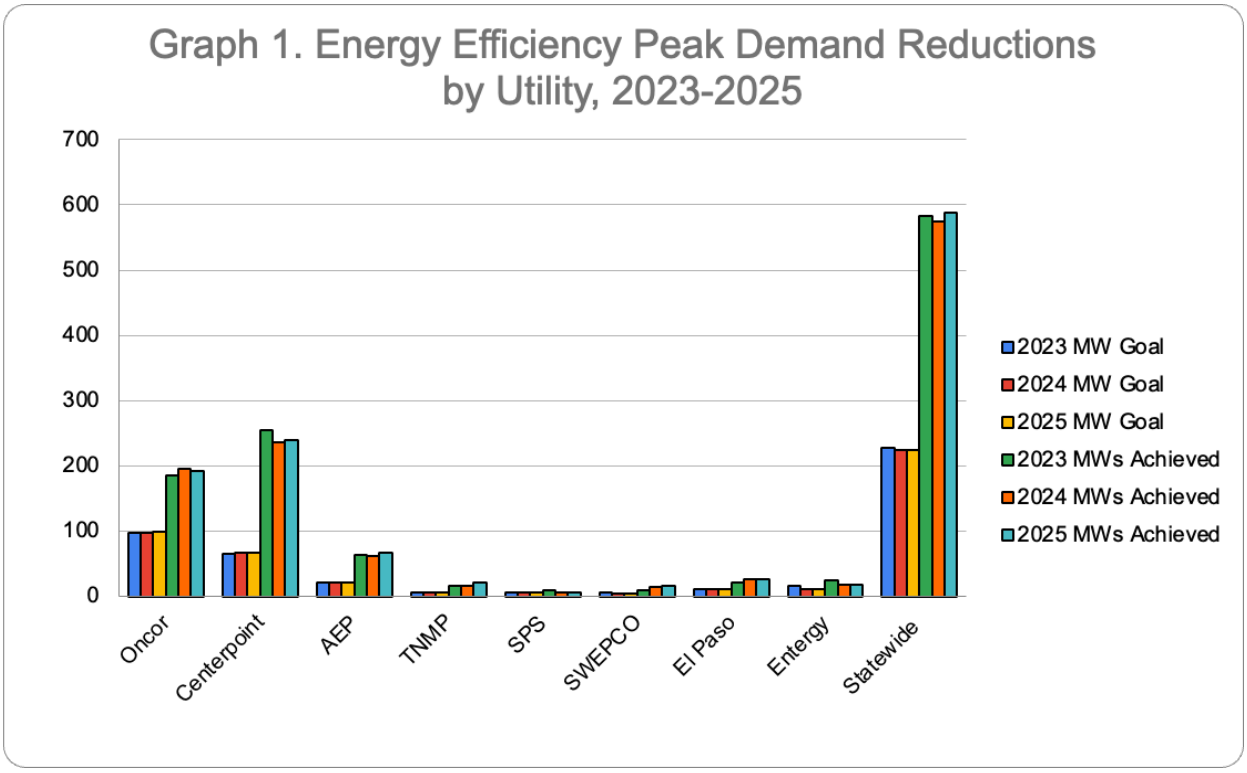
Figure 2. Annual electricity savings as a percent of state energy MWh sales per state EERS policies. For the purpose of comparison, ACEEE estimated an average annual savings target by calculating each state's EERS savings over the years specified in the EERS policy. *State savings are reported on a gross basis; a net adjustment was applied to compare with states' reporting net savings.

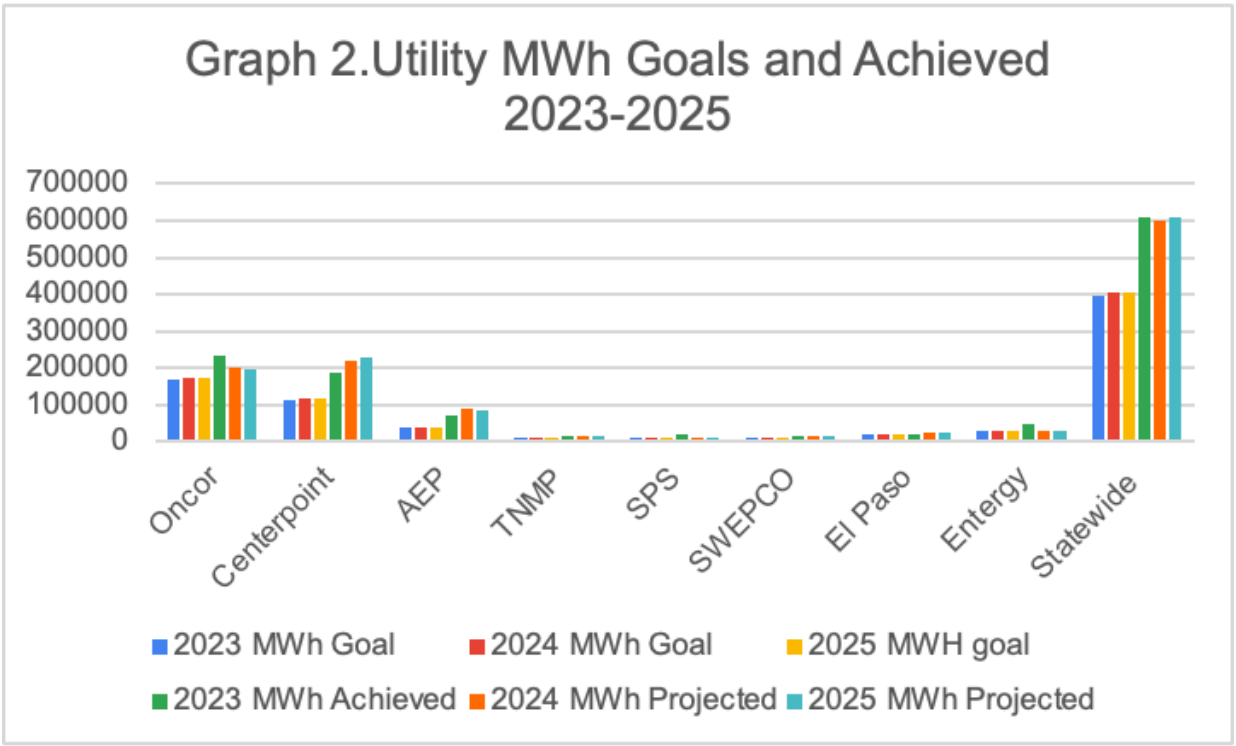
ACEEE itself recently found that a targeted, but well-funded effort to fund some 10 energy efficiency and demand response programs in Texas could reduce both summer and winter peak demand by literally thousands of MWs and save thousands of MWhs. According to study, "a set of 10 energy efficiency and demand response retrofit programs for residential and commercial buildings and equipment, deployed aggressively under statewide direction over the 2024–2030 period, could serve more than 14 million Texas households and offset almost 15,000 MW of summer peak load and 25,300 MW of winter peak load." While the study did not make specific recommendations in terms of what new goals should be set, the study indicates the large potential to save consumers money and make our grid more reliable with targeted investments. As an example, just four measures - replacing electric furnaces with energy star heat pumps, attic insulation and duct sealing, smart thermostats, and water heater demand response could reduce winter peaks by some 11 GWs by 2027 with a four year investment.[2]

[2] ACEEE, Energy Efficiency and Demand Response: Tools to Address Texas' Reliability Challenges, October 2023, https://www.aceee.org/white-paper/2023/08/energy-efficiency-and-demand-response-tools-address-texas-reliability.



In addition to our activities at the legislature and in filing the rulemaking petition, we have also been active in EEIP meetings, in filing comments related to the utility annual plans, and in certain cases, have entered as parties into EECRF proceedings, where individual utilities put forward their proposed tariffs to pay for the energy efficiency and demand response programs they plan in the coming year. In fact, last year we reached settlements with both Oncor Electric and AEP Texas and have been involved in some initial conversations about how to increase their offerings. Despite our efforts, and some small improvements - such as the announcement by the largest ERCOT TDU, Oncor Electric, to begin a new pilot program using smart thermostats to encourage more residential demand response, we have been disappointed by the failure of both the Commission and the utilities in general to increase the funding and achievements in energy efficiency and peak demand reduction. Our analysis of the 2024 Energy Efficiency Plans submitted recently by all 8 Investor-Owned Utilities reveals that their plans continue to be relatively static.





Source: Various utilities, Energy Efficiency Plans submitted April 1, 2024. Note that 2025 numbers are initial estimates.

One major concern that Sierra Club expressed in our comments is the timing of any proposed rulemaking to increase the “efficiency” of energy efficiency programs and implement provisions of SB 1699. The 8 investor-owned utilities have already filed their 2024 Energy Plans on April 1, 2024, and on June 1 they filed their proposed EECRFs for the 2025 Calendar Year. Some EECRFs have the potential to be approved by mid-summer. We would ask the commission to consider delaying approval of the 2025 EECRFs until later in the year to give time for a rulemaking to occur, or alternatively, allowing for an amended plan and EECRF to be submitted after rulemaking. Otherwise, the Commission could be left with no choice but to approve the 2025 EECRFs relatively soon, and have no opportunity to change any EE or DR goals or programs in 2025.

The Sierra Club reiterates the changes we sought in our petition for rulemaking in 2022. We continue to support the following changes through future rulemaking. Again, the Sierra Club suggests as we did in 2022, that eight to 10 changes are needed through a rulemaking, including

- Establishing a new peak demand goal of between 0.7 percent and 1 percent, implemented over several years;
- Requiring that utilities meet both winter and summer peak by offering programs that can reduce both winter and summer peak;
- Replacing the load factor energy saving targets with a specific energy savings target of one percent, phased in over several years;
- Authorizing an increase in the cost cap for residential consumers to at least $3.00 for an average customer of 1,000 kWh/month, and an equivalent increase in the commercial classes that would allow for a doubling of cost caps within a few years.
- Requiring utilities to increase their spending on hard-to-reach and low-income programs from 10 percent in 2023 to 15 percent in 2024 to 20 percent in 2025;
- Changing the performance bonus from a maximum of 10 percent of avoided costs to 15 percent of program costs;
- Allowing utilities to also submit information on the avoided cost of distribution and transmission investments in determining the cost-effectiveness of their programs;
- Changing the definition of EECRF "portfolio of cost-effective energy efficiency programs" to "cost-effective portfolio of energy efficiency programs."

Finally, of course, some provisions of SB 1699 should be adopted soon, including those related to utility-funded DR programs, and the Commission should begin gathering information or even requiring reporting on DR programs.

There is still a need for a Texas Energy Efficiency Council

HB 4811 (Energy Efficiency Council) by Anchia passed this house but did not pass the Senate. Sierra Club has held meetings with PUCT Chair and Executive Director, TDHCA and SECO about the need to coordinate energy efficiency federal funding on local solar and energy efficiency with utility programs. We have also been supporting TDHCA and SECO applications to DOE and EPA for federal monies. We believe much of the work can be done informally through a

legislative directive - a statute would still be helpful. We were pleased by the recent decision of SECO to apply for some $690 in federal funds known as HOMES that could directly benefit residential Texans in making their homes and businesses more energy efficient.

We still need better building codes to reduce energy use but also to help with extreme weather and lower insurance bills

SB 2453 by Menendez and sponsored in the House by Ana Hernandez passed both chambers, but was vetoed by the Governor, preventing movement by SECO to adopt the latest energy codes statewide, even though many cities have already moved forward. We will likely need similar legislation and related legislation related to resilient codes for fires, floods and energy and water use. Resilient codes are good for the state, for consumers, and also opens up federal funding from DOE and FEMA, and ultimately can help reduce rising insurance rates.

Utility Energy Efficiency Goals still should be raised, but other approaches should also be explored. SB 258 (Raising Utility Efficiency Goals) by Eckhardt passed the Senate but the house version sponsored by Rep Anchia did not pass out of the committee. We are hopeful that the recent PUCT project could lead to rulemaking to raise goals and programs. Sierra Club signed a settlement with Oncor Electric and AEP Texas on their 2024 plans to begin a series of meetings to potentially add new residential programs in late 2024 and 2025. While ONCOR has moved forward with a new smart thermostat residential demand response programs, other utilities have been slower to move forward.

While we continue to support SB 258 approach, we want to begin discussions with utilities and stakeholders and REPs and others about other ways to grow EE and DER and DR in the state, including the creation of more of a trading market-based program. We also believe there is room to significantly grow DR and EE in NOIEs (Electric Cooperatives and Municipal Utilities), especially using federal monies and a more aggressive reporting requirement and encouragement could be warranted. NOIEs have not fully embraced energy efficiency either.

Customer Assistance and Weatherization. Texas ended its state-funded payment assistance and weatherization program many years ago when the Legislature ended the System Benefit Fund. While there has been a recent increase in federal funding through programs like WAP and LIHEAP administered by the Texas Department of Housing and Community Affairs, and some retail electric providers have important programs to assist working Texans afford utility bills, many Texas families are struggling. Utilities through their required energy efficiency programs also are required to spend at least 10 percent of their budget on low-income and hard-to-reach programs but it is a limited pot of money.

The Legislature should consider some sort of state-based income-based weatherization and payment assistance program to supplement other federal and utility-based programs.

Non-ERCOT Utilities - Time for Integrated Resource Planning?

The Sierra Club has been involved in a number of rate cases for non-ERCOT utilities where these utilities propose major generation investments, retirements or other capital investments. Recently, as an example, Entergy Texas just filed a new plan known as STEP Ahead to invest in two new gas resources, having just recently made a similar plan to invest in a new gas plant in Orange, Texas. The Legislature and the PUCT should consider establishing an Integrated Resource Planning process similar to other states. Sierra Club, industrial customers and others are consistently having to engage in one-off investment decisions by non-ERCOT utilities, rather than participate in a more transparent and inclusive resource planning process. Having non-ERCOT utilities be required to engage in resource planning on all types of investments, and all types of demand-side solutions would benefit ratepayers and ultimately the utilities themselves. Virtually all other jurisdictions with vertically-integrated utilities have an Integrated Resource Planning Process.

Conclusions

Sierra Club appreciates the hard work of ERCOT, OPUC and the PUCT in implementing HB 1500 and other importante bills. We continue to have real concerns about the potential cost of many of the “solutions” and by some initial studies conducted by ERCOT, including the CONE, a PCM proposal from E3, and by a decision by ERCOT to initially exclude battery storage from providing DRRS. We are hopeful these issues will be resolved through the stakeholder process. We are also concerned that major utilities continue to oppose real solutions like raising energy efficiency goals, even as they consider major investments in other solutions that will raise bills.

We continue to believe that demand-side solutions that will help residential and small commercial consumers the most have not received adequate attention. We are appreciative of some recent action by the Commission such as the creation of a new Office of Energy Efficiency and the opening of a new project to review energy efficiency rules and plans and hopefully open up rulemaking to implement SB 1699. Outside of ERCOT, we believe it is time to implement Integrated Resource Planning so that all generation, demand-side and transmission investments can be considered holistically.

We look forward to working with the PUCT and ERCOT and the Legislature to explore a variety of programs and initiatives that will center the needs of Texas electric consumers in an atmosphere of growing demand and a changing climate.