Oppose Section 13 Amendments to SB 3

Imposing New Costs on Existing Generation Assets, Harming Texas Investors and Consumers

May 5, 2021

To: Governor Greg Abbott
Lieutenant Governor Patrick
Speaker of the House Dade Phelan, and
Members of the Texas Legislature

Because of your commitment to Texas' business reputation and to a competitive electricity market that is fair to all participants, the undersigned companies urge you to reject HB 4466, SB 1278, and the ancillary services changes found in SB 3. Our detailed letter follows. We are available as a resource, and we are very appreciative of your attention to these important matters.

8minute Solar Energy
Advanced Power Alliance
AIP El Campo Holdings (US), LP
American Clean Power Association
American Council on Renewable Energy (ACORE)
Apex Clean Energy
Apple
Ardagh Group
Atlassian
Ball Corporation
Best Buy
Brookfield Renewable
Capital Dynamics
Capital Power
Cisco
Clean Share, LLC
Clearway Energy
Conservative Texans for Energy Innovation
Copenhagen Infrastructure Partners
Cox Enterprises
Cypress Creek Renewables
Danone North America
DSM North America
EDF Renewables
Edison Energy
EDP Renewables
Enbridge
Enel Green Power
High Road Clean Energy
Innergex Renewables
Intersect Power
LevelTen Energy, Inc.
Liber Holdings
Lightsource bp
Longroad Energy
Mars Incorporated
Micron Technology
Microsoft
National Grid Renewables
National Hydropower Association
Onward Energy
Ørsted
Pattern Energy
REI Co-op
Renewable Energy Buyers Alliance (REBA)
RES Americas Developments Inc.
Rural Energy Alliance
RWE Renewables
Salesforce
Savion, LLC
Schneider Electric
Texas Advanced Energy Business Alliance
Texas Land and Liberty Coalition
Unilever US
Vesper Energy Development LLC
Vestas-American Wind Technology
VF Corporation

**Dear Governor Abbott, Lieutenant Governor Patrick,
Speaker Phelan, and Members of the Texas Legislature:**

The entities signing this letter include some of the largest corporations in America. We drive the U.S. economy and the Texas economy. We are deeply concerned by electricity market design legislation that will negatively impact renewable energy investments in Texas.

Texas Senate Bill 1278, **House Bill 4466**, and similar language that was inserted by Senate floor amendment into **Senate Bill 3** pose a tremendous threat to the continued operation of renewable energy projects in Texas. Sadly, these bills have nothing to do with the February 2021 extreme weather event and will not prevent a future event from happening again. They are unnecessary attacks on renewable energy.

Disturbingly, these bills impose new and significant costs on existing projects, project investors, and electricity customers. These bills will devalue existing projects and will harm local communities, schools, and Texas landowners who rely on multi-generational income from wind and solar projects. In addition, these bills will harm future projects, making it more difficult and expensive to power the Texas economy with a product Fortune 500 America is demanding.

As you know, the electric grid requires ancillary services to maintain stability and reliability. In our market, generators supply power to ERCOT and it is delivered to customers (load). ERCOT procures the ancillary services needed to maintain the frequency, stability, and reliability of the grid. The aggregate cost of those services is shared across all load. This has been the market approach for over 20 years.

All generators create some need for ancillary services. Variations in load also create the need for ancillary services. Because of their rapidly varying power usage, some large industrial customers stand out for their ancillary services needs. Additionally, ancillary services are procured as a precautionary measure to be available if a large power supplier, like a nuclear power plant, trips off-line. In other words, all resources and load require the deployment of ancillary services.

There is a misconception that the variability of renewable energy creates a substantial ancillary services requirement. While renewables like wind and solar are variable, they are predictable in the near term and ERCOT can forecast and control wind and solar output. **Notably, ancillary services purchases in ERCOT have remained relatively flat, while renewable generation in ERCOT has increased 262% over the last decade.**

The fact is that our existing ancillary services products in ERCOT efficiently and cost-effectively address variability in supply and demand. The ERCOT Independent Market Monitor has found that improvements underway at ERCOT to improve ancillary services will further improve system reliability while delivering substantial reductions in production costs, congestion costs, and energy costs.

While there have been past efforts to assign ancillary services costs to specific market participants, stakeholders have consistently returned to a system that recognizes that these services benefit the entire market and are best shared by all customers. In Texas, this system has been in place for decades.

This long-established structure has enabled more than **$60 billion** of renewable energy investment into the Texas market. At the same time, this has allowed corporate customers to enter into long-term power purchase agreements with pricing based on these long-established market rules. These proposals, with virtually no debate and input from market experts at ERCOT and the Independent Market Monitor, upend established market principles and will harm these parties. In fact, these bills would require wind and solar generators to essentially take over the role of ERCOT to match their net generation output to the variability of energy consumption at all times.

These proposals are inherently discriminatory as they apply to only one form of generation and even proponents are unable to fully calculate their financial impacts on generators or the consumers who rely on these power purchase agreements.

Proponents of these changes claim that these changes will help bring more "dispatchable" generation to the ERCOT market and add to the Texas grid's reliability. This claim is false for several reasons:

- **Imposing additional costs on renewable generation does nothing to address failures related to the winter storm.** ERCOT did not lack enough thermal generation capacity during the winter storms. It lacked enough *operating* thermal generation. These failures had many causes including fuel availability issues, none of which are addressed by imposing additional costs on renewable generation.

- **These proposals undermine a stable market environment for investment by imposing new and significant costs on existing generation assets.** Investors in power generation of any kind will be hesitant to invest in a Texas market where discriminatory and unneeded changes in market rules place **$60 billion** of capital investment at risk. The financial stability and integrity of the ERCOT market have already been severely tested in 2021. Legislative action to target one group of generators, investors, and customers will be counterproductive and further harm the state's business reputation. In fact, investors and power buyers are backing away from projects needed to meet future power demand as you read this letter.

These changes will not benefit Texas consumers, they will not increase reliability, and they will not address any systemic shortcomings identified in our recent crisis. These proposals have been pursued for years to give commercial advantage to one set of generators. They harm existing projects and investors, and they impact the large number of commercial and industrial customers who have purchased the power from these projects.

For More Information, Contact

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