



We create chemistry

May 6, 2021

Texas House of Representatives Committee on State Affairs
P.O. Box 2910
Austin, Texas 78768-2910

RE: BASF Comments “On” Senate Bill 3

Dear Chairman Paddie and Members of the Committee:

BASF Corporation is generally supportive of the provisions laid out in Senate Bill 3 and appreciates this opportunity to provide comments specifically with respect to Section 13 of the bill. BASF is concerned with the potential impact these provisions would have on the continued investment in and feasibility of the renewable energy market in Texas, which I outline in more detail below.

BASF is a diverse global company that manufactures products and conducts research and development in industries ranging from automotive, electronics, paints and coatings, pharmaceuticals, personal care hygiene, agricultural products, and petrochemicals, among a range of others. In Texas, BASF has manufacturing facilities located in Freeport, Bishop, Pasadena, and Houston, as well as an agriculture production and R&D site in Lubbock, and a large commercial office space in the Energy Corridor in Houston – all located within the ERCOT region. Additionally, we have two large manufacturing sites in Texas located outside of ERCOT: one in Port Arthur and one in Beaumont. In total, BASF employs more than 2,000 Texas workers and a similar number of contractors. In Texas alone, we pay over \$20 million annually in property taxes, and the capital replacement value of our Texas assets amounts to the billions of dollars.

In 2018, BASF announced an aggressive global sustainability initiative, whereby the company aims to reduce our absolute CO₂ emissions by 25 percent by 2030, as well as achieve net zero CO₂ emissions by 2050. As part of our solution to achieving those goals in Texas, two of our manufacturing sites have entered into power purchase agreements (PPA's) that will bring wind and solar power to the production sites, which will ultimately amount to upwards of 90% of the sites' total purchased power.

While BASF understands there are challenges in managing a variable electricity market – such that can occur with added renewable/intermittent energy sources – we believe the approach taken in Section 13 of SB 3 is not the correct solution at this juncture and would ultimately disrupt current and future attempts by large power users to become more sustainable and enter into PPAs to take advantage of renewable energy sources. The current ancillary structure in the ERCOT market incents participation in the ancillary market as well as the response (e.g., turning assets on/off, increasing or decreasing output). While more renewable energy in the market will increase



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the need for response due to variability of renewable energy output, BASF remains skeptical as to how charging ancillary fees to renewable assets will in fact improve responsiveness. Our concern is that this will merely increase costs for reliable generators (coal, nuclear, and natural gas) as price competition pressure will decrease.

Penalizing intermittent/renewable energy resources will not enhance energy availability for the future growth of Texas. Hindering renewable energy will limit a portfolio approach and reduce competitiveness in the electrical market, causing neighboring states such as Louisiana to be viewed more favorably for capital projects and economic development. Creating a system where one classification of energy providers pays and the other receives ancillary funding is merely shifting who benefits. The loser will be the energy consumer in Texas as competitiveness in the market will decrease.

As BASF shifts to having a greater portion of its energy supply come from renewable energy sources, we are not in favor of these kinds of changes in the cost structure. We are bearing the risk of the intermittent production of renewable energy in balance with the greater benefit of renewable energy that we have committed to doing, and therefore, would oppose the current version of Section 13 in SB 3.

As an alternative approach, BASF would be supportive of including language in SB 3 that directs the Public Utility Commission of Texas to undertake a study of ancillary services in the ERCOT market to determine whether those services continue to meet the needs of the ERCOT market, or whether a modification to such services is warranted. We feel that this is an appropriate approach, as the make-up of the Texas energy market continues to change and transition from traditional energy sources to renewable sources and will therefore provide the state with a better understanding of where certain pressure points exist and how to best address them.

BASF appreciates the opportunity to provide comments, and to continue working on language with committee members and other stakeholders to direct PUC to review and best address the ancillary services market in ERCOT. Should you have any questions, please do not hesitate to reach out.

Respectfully,

A handwritten signature in blue ink, appearing to read "Tobias Dratt".

Tobias Dratt
President, North America
BASF Corporation

A handwritten signature in black ink, appearing to read "Christopher P. Witte".

Christopher P. Witte
SVP, Freeport Site General Manager
BASF Corporation