BILL ANALYSIS

Senate Research Center
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C.S.S.B. 2232
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Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The competitive Electric Reliability Council of Texas (ERCOT) wholesale electricity market is unique among organized electricity markets in that generators must rely entirely upon the market price for energy to support their financial viability (compared to other markets that add a "capacity" payment). While this market construct drives efficiency that helps to keep electricity prices affordable, it also makes the ERCOT market particularly sensitive to the impact of out-of-market actions and policies that do not align with the normal forces of competition. In particular, subsidies designed to enhance the economics of renewable power can significantly affect the market.

Because energy technologies that harness renewable resources typically do not incur any meaningful variable or fuel costs of energy production, they are distinct in that they tend to offer into the market at zero or sometimes negative prices—and that incentive is exacerbated by certain subsidies, particularly the federal Production Tax Credit (PTC). The PTC provides a tax credit to wind energy that is paid based on the amount of energy produced, regardless of whether or not the market signals a need for that energy or the generation capacity that produces that energy. While the PTC is beginning to be phased out, it can have a lasting effect on the market because it persists for 10 years after the qualifying generating capacity is put into operation. Additionally, because renewable energy resources tend to be located farther away from load centers, the renewable energy can also drive additional transmission costs, which are socialized across the ERCOT market and ultimately paid by Texas retail electricity customers.

S.B. 2232 would direct the Public Utility Commission of Texas (PUC) to study and identify the effects that renewable energy subsidies have on the ERCOT market, and specifies certain critical market components that must be evaluated as a part of that study. S.B. 2232 also directs the PUC to identify a range of potential actions to eliminate the identified effects of renewable energy subsidies through policies that can mitigate or offset the subsidy impacts. The bill requires the PUC to include in its biennial report to the Texas legislature the results of its study. (Original Author's/Sponsor's Statement of Intent)

C.S.S.B. 2232 amends current law relating to a study of the elimination of the effects of renewable energy subsidies.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter D, Chapter 39, Utilities Code, by adding Section 39.159, as follows:

> Sec. 39.159. ELIMINATING EFFECTS OF RENEWABLE ENERGY SUBSIDIES. (a) Requires the Public Utility Commission of Texas (PUC) to require the ERCOT independent system operator to identify and study the ongoing effects that federal renewable energy subsidies have on the pricing, reliability, and efficiency of the electric power market in the ERCOT power region. Requires the PUC to request comments from

interested parties and the independent organization certified for ERCOT as part of the study.

(b) Requires that the scope of the study under this section include peak price formation, negative pricing, ancillary services, congestion, reserve margins, and transmission and distribution costs.

(c) Requires the PUC to include in a report required by Section 31.003 (Report on Scope of Competition) the results of the study and a description of any proposed rules to address the findings of the study.

SECTION 2. Effective date: September 1, 2019.