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**Texas Property Assessed Clean Energy Authority
Response to the
Public Utility Commission of Texas
Project Number 51603 – Review of Distributed Energy Resources**

Submitted June 15, 2022

Like large electric generating units and grid investments, widespread deployment of distributed energy resources requires patient capital as the benefits accrue over a long time horizon. Fortunately in Texas, such a financing mechanism already exists and is available to commercial and industrial property owners for customer side of the meter investments that decrease energy consumption or demand all while using private capital - not taxpayer or ratepayer dollars.

This filing contributes information relevant to the following questions:

3(i): What market signals, if any, should be considered related to DERs aimed at providing grid services?

5(vi): What can reasonably and economically be done within a 5-year time frame?

5(vii): What other issues, if any, should the Commission consider and address while developing rules related to DER's?

Texas PACE Authority (TPA) congratulates Commissioner McAdams and the Public Utility Commission of Texas (PUCT, Commission) for the forward thinking inquiry regarding Distributed Energy Resources (DERs). The survey of information will allow the PUCT to move forward with the information necessary to make well informed, wise policy decisions that will serve Texas by meeting demand with reliable service at the lowest possible cost. These comments narrowly focus on an existing market signal - a unique method for financing private sector DERs that will allow DERs to greatly expand once PUCT implements standard rules.

TX-PACE: Background

The speed with which private sector DERs increase in number and impact will be faster in Texas than the Commission might otherwise forecast because Texas' commercial and industrial businesses have a cash flow positive way to finance them. These comments are narrowly targeted to raise awareness of the financing already available for DER resources through a private/public partnership known as Texas Property Assessed Clean Energy – TX-PACE. In 2013

the 83rd session of the Texas legislature passed the Texas PACE Act, SB 385 (Corona). It was approved on the consent calendar in both houses and made immediately effective when signed by Governor Perry on June 14, 2013. SB 385 created chapter 399 of the Local Government Code.

Texas Property Assessed Clean Energy (TX-PACE) is a proven financial tool that incentivizes Texas' property owners to upgrade facility infrastructure with little or no capital outlay. Approved by the State of Texas and established by local governments, TX-PACE programs enable business and nonprofit property owners to lower their operating costs and use the savings to pay for eligible water conservation, energy efficiency, resiliency, and distributed generation projects.

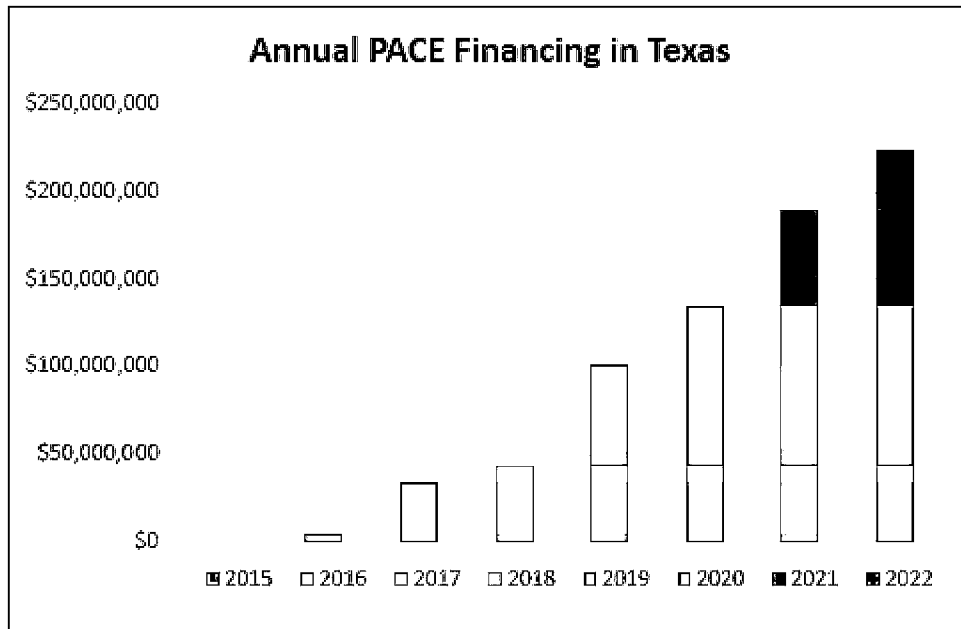
The Texas PACE Act facilitates private sector financing for energy efficiency, water conservation, *“or demand, including a product, device, or interacting group of products or devices on the customer's side of the meter that uses energy technology to generate electricity, provide thermal energy, or regulate temperature (emphasis added).”* Commercial, industrial, and multifamily properties with at least 5 units are eligible. See, Local Government Code Section 399.002.

Owners gain access to private, affordable, long-term (typically 10-20 years) financing that is not available through traditional funding avenues. TX-PACE is already financing DER projects.

TX-PACE: Widespread and Growing

Since 2015, 79 local governments reaching 73% of the Texas population have established TX-PACE programs administered by Texas PACE Authority, a 501(c)(3) nonprofit organization established for the purpose of administering programs as a public service and at no cost to local governments. As access to the PACE program continues to expand, so does awareness and use. No tax dollars are required and there is no increase in the local government's staff size. The program is entirely voluntary for all stakeholders and is a financing mechanism that will aid the creation of DER's equally in urban and rural areas throughout Texas.

PACE programs are available in locations from Amarillo to Brownsville and from Texarkana to El Paso. TPA has committed to serve all of Texas and will continue to work to expand availability in rural, border, and underserved areas and to provide the education and collaborative outreach necessary to ensure that the commercial and industrial sector – energy, chemical and manufacturing – are aware of the financing available for DER's and resource conservation investments. These DER projects are improving safety, resiliency, and cash flow for Texas businesses and they could be doing much more for their communities, too.



Thus, the potential for growth and impact is enormous once the market identifies TX-PACE as a mechanism for financing private sector DERs.

As PACE financing experiences greater use nationally, it is also mainstreaming in the financing sector. Within the last twenty four months, TIAA/Nuveen purchased Greenworks Lending (now Nuveen Green Capital), which has closed the most projects in Texas. Petros PACE Finance, LLC, the only national lender located in Texas, which has loaned the 2nd largest dollar volume in Texas, was recently purchased by Apollo. Two Texas banks have financed local PACE projects.

TX-PACE: Standardization Is One Key to Success

The statute allows cities and counties, if they so choose, to establish TX-PACE programs. Because the program is a voluntary local adoption model without state funding, it was unlikely that TX-PACE could reach statewide availability to all 254 counties or almost 1,200 cities without a uniform model framework of best practices being made available at no cost to local governments. A group of 130 stakeholder volunteers broke into 5 working groups led by Texas leaders in their fields to create a model program called “PACE in a Box.” The Underwriting, Technical Standards, Financial Platform, Design, and Marketing and Education Working Groups met for a year to create an alternative to state regulation. The Working Groups continue to meet as necessary to review and update the program.

The original PACE in a Box document, the new Technical Standards (Version 4) and workbook, and updated guidance can be found in the Keeping PACE in Texas document Library. The growing success of TX-PACE derives from the model program’s rigor of quality control and free market flexibility given to property owners who choose their projects, and the people with whom they want to do business. In other words, this Texas public/private partnership includes

an ongoing, inclusive collaboration of divergent stakeholders who continue to share best practices and expertise. This dialogue among state and local government representatives, contractors, senior lenders, PACE lenders, architects and engineers continues to support a trusted, thriving, uniform, scalable model program designed for long term success and public service contributions to communities across Texas.

Projects in rural and border communities, as well as towns and urban areas demonstrate the value of TX-PACE economically and environmentally for small businesses and nonprofits as well as large developments as TX-PACE financing supports restoration and revitalization in towns and cities throughout all of Texas. It will also be used to create additional DER resources in rural, border, and urban areas. Once PUCT finalizes its standardized DER rules, TPA anticipates even greater growth in distributed generation using TX-PACE financing.

One Example: Elgin General Store, Bastrop County

With zero cash down and zero impact to cash flow, the Elgin General Store in Bastrop County used \$120,000 in TX-PACE financing to install photovoltaic (PV) solar panels.

Frontier Bank, a local community bank, made the ten-year PACE loan. No public funds were used for this Bastrop County sponsored program. An independent third-party engineer reviewer certified in 2018 that the Elgin General Store would avoid 91,081 kWh annually in energy purchased from the grid. This reduction represents 26% of the business' average annual usage. The savings would more than pay off the PACE loan over its ten-year term, and then go straight to the bottom line since the PV solar panels will continue to perform much longer.

For more details, please visit TPA's website where a summary of this project will be found in [English](#) and [Spanish](#).

If one business can install PV solar panels using TX-PACE financing and reduce its demand for power from the grid by 26% annually, the potential of DER statewide is tremendous. TPA applauds PUCT's actions to further empower consumers to actively participate in the market to reduce local congestion and improve grid reliability.

Conclusion:

Rapid growth in private sector investment in DERs is more likely than might otherwise be forecast because TX-PACE, a relatively new, yet proven, financing mechanism, already exists for DER investment in Texas. The increase in the number of counties and cities establishing TX-PACE programs and the corresponding increase in the use of the TX-PACE program by businesses and nonprofits in Texas provides a hint of the potential.

Texas PACE answers the question, "How are we going to pay for it?" TX-PACE is transforming how developers, owners, and contractors look at DER projects, proving that there is a clear path forward for distributed generation, resiliency, energy efficiency, and water use reduction projects on business and nonprofit property. The DER market will take advantage of Texas' PACE

program to finance DER installations. Texas PACE Authority will continue to work with local governments to expand the program's availability.

Respectfully Submitted,
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Texas PACE Authority was established in 2015 as a nonprofit 501(c)(3) to administer PACE programs as a public service at the lowest possible cost for all Texas communities. www.TexasPACEAuthority.org



EXECUTIVE SUMMARY

**Respectfully submitted on June 15, 2022, to the Public Utility Commission of Texas
By the Texas Property Assessed Clean Energy Authority
(Texas PACE Authority)
In Project Number 51603 – Review of Distributed Energy Resources**

Texas are thinking through how they can use DER systems to their advantage, and PUCT is considering how to standardize DER's integration into our grid.

Texas Property Assessed Clean Energy (TX-PACE) answers the question, "How are we going to pay for it?" TX-PACE is already transforming how developers, property owners, and contractors look at DER projects, proving that there is a clear path forward for distributed generation, resiliency, energy efficiency, and water use reduction projects on commercial, industrial, and nonprofit property. The DER market will continue to take advantage of Texas' PACE program to finance DER installations. Therefore, TX-PACE is an important market signal that is happening now.

The Texas PACE Act, [chapter 399 of the Local Government Code](#) enables businesses and nonprofits to obtain long term, cash flow positive financing for DER's. To date -

- 79 local governments reaching 73% of the Texas population have established TX-PACE programs.
- \$223 million in TX-PACE investments have been made throughout Texas, using a model program of best practices with projects ranging from \$70,000 to \$27 million.
- 17% of Texas PACE projects involve potential DER's.

Rapid growth in private sector investment in DERs is more likely than might otherwise be forecast because TX-PACE, a relatively new, yet proven, financing mechanism, already exists for DER investment in Texas. The increase in the number of counties and cities establishing TX-PACE programs and the corresponding increase in the use of the TX-PACE program by businesses and nonprofits in Texas provides a hint of the potential.

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