
WRITTEN TESTIMONY

Submitted by: Pat Wood III

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Before: Texas House Committee on State Affairs

Topic: Microgrids and Distributed Energy Resources — Evaluating Efficacy, Improving Reliability, Reducing Consumer Costs, and Supporting Grid Resilience

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I. Introduction and Qualifications

Chairman and Members of the Committee, thank you for the invitation to appear before you today. My name is Pat Wood III. I currently serve as Executive Chairman of Hunt Energy Network (HEN), where we develop and operate distributed energy assets deployed across the Texas grid. 31 batteries as of today, and our first diesel peaking generating plant came on line last month. We are also working with data customers on their energy needs. Earlier in my career, I served as Chairman of the Public Utility Commission of Texas from 1995 to 2001, and subsequently as Chairman of the Federal Energy Regulatory Commission from 2001 to 2005. I know this grid. I helped build its regulatory architecture. And I am here today because I believe that architecture needs to be updated — urgently — to account for a dramatically changed energy landscape.

I also serve as Co-Chair of The Pew Charitable Trusts Distributed Energy Resources (DER) Advisory Council. In that role, I contributed to the April 2026 release of “Distributed Energy Can Unleash the Resilient, Affordable Grid of the Future,” a rigorous, evidence-based policy playbook developed with a wide range of practitioners across the energy sector. It outlines a set of actionable policy solutions for state lawmakers and regulators across the nation to unlock the full potential of distributed energy. I will reference its findings where they bear directly on Texas, and I recommend it to this committee as a resource.

I appear today because this committee’s charge — to evaluate DERs and microgrids, assess their efficacy, and make recommendations to improve their availability — is precisely the right question for this moment in Texas energy history. The evidence base is assembled. The technology is proven and commercially available. The question is whether Texas will build the policy framework to deploy it at scale.

II. Why DERs and Microgrids Matter for Texas Right Now

Let me be clear at the outset: DERs are not a replacement for the bulk power grid. They are an essential complement to it — and Texas needs both working together. Texas’s grids face mounting pressure from three directions simultaneously: record-breaking peak demand driven by the attractiveness of Texas’ economy, the ongoing retirements of aging dispatchable thermal generation, and the increasing frequency and severity of weather events that threaten centralized infrastructure. The February 2021 winter storm (Uri) was a watershed moment, but it was not an isolated warning. It was a preview.

The scale of what is coming at the Texas grids is unlike anything ERCOT, SPP or MISO have managed before. ERCOT's peak demand record, set in August 2024, was 85,559 megawatts. In December 2022, ERCOT was tracking roughly 15,000 megawatts of large load interconnection requests — mostly cryptocurrency mining and conventional industrial users. By late 2024, that figure had grown to 63,000 megawatts. By November 2025, it had exploded to 226,000 megawatts, with data centers alone accounting for roughly 73% of requests. ERCOT projects demand growth of 11% this year. To meet even a fraction of this growth through conventional infrastructure, ERCOT estimates it will need a tremendous amount of new generation and thousands of miles of new long-distance transmission lines.

This is where distributed energy resources — and the policy framework enabling them — become a matter of fiscal consequence to every Texan, not just an energy industry debate.

DERs — backup generators, solar systems, battery storage, demand response, vehicle-to-grid systems, and smart inverters — and the microgrids that aggregate and orchestrate them -- are not futuristic concepts. They are working today. They are already deployed at thousands of sites across Texas. Hunt Energy Network operates battery storage assets at multiple locations distributed across the ERCOT grid, and the operational experience we have accumulated confirms what the national data shows: when properly sited, interconnected, and integrated into grid operations, distributed storage provides real, measurable value to grid reliability, particularly during peak stress events. When properly integrated, DERs collectively:

- Lower electricity bills for homes and businesses by enabling customers to produce, store, and sell power back to the grid
- Strengthen grid reliability by providing localized generation and storage that operate when centralized infrastructure is stressed or fails
- Defer costly utility capital expenditures by relieving local congestion and reducing peak demand requirements
- Strengthen community resilience in hospitals, water systems, schools, and emergency services that cannot afford to lose power during extreme weather events
- Provide Texas with energy supply that is domestically controlled, rapidly deployable in months rather than years, and insulated from global fuel price volatility

The Pew DER policy playbook, released in April 2026 with my participation as Co-Chair of Pew's DER Advisory Council, underscores these DER benefits and identifies the policy actions that unlock it. The playbook documents that virtual power plants (VPPs) — networked collections of distributed resources coordinated as a single grid asset — can deliver peak power at 40% to 60% of the cost of conventional resources. It projects that the U.S. will add 217,000 megawatts of new DER capacity between 2024 and 2028, nearly equal to all existing U.S. coal-fired generation. Texas's share of that buildout will be substantial. The question is not whether DERs will be deployed in Texas — market forces are already driving that. The question is whether we will build the regulatory infrastructure to ensure that deployment is coordinated, fairly-compensated, and fully integrated into how ERCOT, SPP and MISO operate the grid.

The evidence base is strong. The question before this committee is not whether DERs work — they demonstrably do. The question is whether Texas will create the policy conditions for them to work at scale.

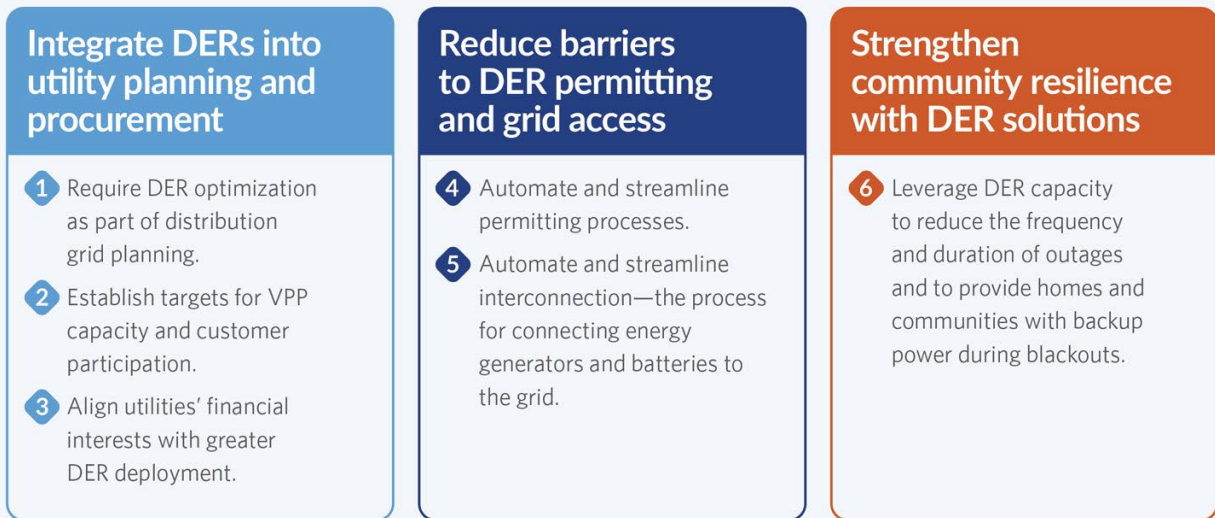
III. Policy Gaps Holding Texas Back

The Pew DER policy playbook identifies three core goals for bringing DERs to scale: integrating DERs into utility planning and procurement, reducing permitting and interconnection barriers, and strengthening community resilience through DER deployment. In each area, Texas has taken the right steps forward, but there is still a meaningful gap between where policy is today and where it needs to be.

Figure 6

At-a-Glance Policy Recommendations to Bring DERs to Scale

3 key DER goals and strategies to meet them



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Gap 1: DERs Are Not Treated as Grid Resources in Utility Planning

Texas distribution utilities today are not required to evaluate DERs as alternatives to traditional infrastructure investments before proposing capital expenditures to the PUCT. Distribution planning in Texas is largely opaque and utility-driven. In response to the Legislature's 2021's grid resiliency plan requirement, the Commission ordered and approved distribution plans for the major utilities. To support a resilient system, HEN advocated for a robust inclusion of competitively-supplied DER solutions alongside utility infrastructure investments. We wanted DERs to be treated as legitimate components of utility planning and resiliency, not just afterthoughts. We were not successful. There is no requirement to quantify where DERs could relieve congestion more cost-effectively than new wire solutions, no mandate to model DER deployment scenarios, and no obligation to publish hosting capacity data that would help DER developers identify where their resources provide the most value.

The Pew DER policy playbook is direct: DER deployment will only be effective if utilities are required to treat DERs commensurate with utility-scale projects in their planning processes. This is not happening in Texas today, and the result is a planning framework systematically biased toward capital-intensive conventional infrastructure — infrastructure that Texas customers will fund through rates for decades. The stakes are not small. A 2025 study — 'The Value of Integrating Distributed

Energy Resources in Texas' Oncor Territory,' commissioned by the Texas Advanced Energy Business Alliance — found that properly integrated DERs could save Oncor customers alone \$8.5 billion over the next decade, or approximately \$279 per year per customer, primarily by avoiding unnecessary grid expansion.

There is a structural financial issue here: under current rate structures, distribution utilities have limited financial incentive to facilitate DER deployment. The traditional utility business model rewards direct capital investment by the utility. DERs, when they defer or displace that capital investment, can reduce utility earnings. I am not surprised that utilities are reluctant participants in DER integration when the regulatory framework has not aligned their financial interests with the outcome we want. Pew's DER policy playbook recommends aligning utility financial incentives with DER deployment. This can be accomplished through either regulatory or Legislative action. These incentives could include performance incentive mechanisms, allowing utilities to share in the cost savings generated by DERs, or return on investment enhancements.

Gap 2: Interconnection at the Distribution Level Remains Non-Standard and Unpredictable

Of all the barriers to DER deployment in Texas, none is more immediately solvable — or more damaging to leave unsolved — than the absence of standardized interconnection requirements at the distribution level.

At the transmission level, ERCOT's generation interconnection framework is well-established and remains the national model. At the distribution level, where DERs actually connect, Texas utilities each operate their own process. A battery storage developer connecting to Oncor faces different application requirements, technical screens, timelines, and contract terms than one connecting to AEP Texas, CPS Energy, or Entergy Texas. Hunt Energy Network has navigated these processes firsthand. The lack of standardization is not a minor inconvenience. It is a material cost and timeline risk that is priced into every DER project in Texas — and reflected in which projects get built and which do not.¹

The Public Utility Commission of Texas recognized this problem under prior leadership and began work on standardizing DER interconnection requirements. Staff and stakeholders invested considerable time, negotiating draft rules in good faith. That rulemaking has not been completed. The unfinished interconnection standardization work is among the clearest opportunities available to the Legislature: direct the Commission to finish what it started, with a defined, robust scope and timeline.

The Pew DER policy playbook's recommendation is specific: automate and streamline interconnection, publish hosting capacity maps so developers can identify optimal connection points, and establish uniform timelines and technical screens by system size class. These are not novel ideas — leading state implementations and ERCOT's own evolving Aggregate Distributed Energy

¹ This is not abstract policy for HEN. For the past six years, we have been active parties in PUCT rate proceedings — and we have direct, recent experience with exactly this problem across multiple Texas utility territories. The underlying problem is consistent seen across utilities: the demand charges and distribution service charges assessed against our battery storage assets were designed for passive load customers — industrial and commercial users that draw power from the grid and put nothing back. Our assets are fundamentally different. A distributed battery storage system that charges during off-peak hours and discharges at peak actively reduces the maximum demand registered on the meter — lowering the very system stress that demand charges are supposed to reflect. Applying a full demand charge to a battery asset that is actively reducing peak demand is like charging a fire station the same insurance premium as a building with no sprinklers. The tariff structure is one of the principal reasons that savings potential sits unrealized. Until the PUCT establishes tariff standards that recognize the difference between a passive load customer and an active grid asset — and the Legislature directs it to do so — every DER developer in Texas is subsidizing a rate structure that works against the very grid services they provide.

Resources (ADER) framework provide proven models. Texas should benchmark against the best of them.

Gap 3: No Regulatory Framework for Microgrids

Microgrids — localized energy systems capable of islanding from the main grid during emergencies — represent the highest-value application of distributed energy for community resilience. A properly designed community microgrid can keep a neighborhood’s critical facilities operating for days during a grid emergency. For hospitals, water utilities, emergency services, and the most vulnerable Texans, this is not an amenity. It is a life-safety necessity.

Texas has no clear statutory definition of a microgrid, no standardized permitting pathway for microgrid projects, and no established regulatory process for authorizing islanded operation. This ambiguity has stalled promising projects and deterred investment. The Pew DER policy playbook recommends that states leverage DER capacity specifically to reduce outage frequency and duration and to provide backup power during blackouts. Texas cannot act on this recommendation without first building the regulatory foundation that makes microgrid deployment predictable and bankable.

IV. Specific Legislative Recommendations

To directly address the committee’s charge — evaluate existing programs, assess their efficacy, and make recommendations to improve availability — I offer six specific recommendations grounded in both the Pew DER policy playbook’s evidence base and our operational experience as a DER developer and operator active in Texas. None of what follows requires creating entirely new programs from scratch. It requires finishing and improving the structure that determines whether existing and future resources can be deployed efficiently and at scale.

1. Direct the PUCT to Complete Standardized DER Interconnection Rulemaking

The Legislature should direct the PUCT to complete, within 12 months, its rulemakings establishing standardized DER interconnection requirements applicable to all Texas distribution utilities, both in and outside ERCOT. The standard should include a uniform application process, technical screens with defined timelines by system size class, a common interconnection agreement template, transparent queue management rules, costs, publicly available and regularly updated hosting capacity maps, and clear dispute resolution mechanisms. The PUCT should benchmark against leading state implementations and ERCOT’s own ADER framework, which provides an existing Texas-specific foundation for standardization at the distribution interconnection level. This recommendation completes work the Commission already began — work that does not require starting over, only finishing. Critically, it replaces the fragmented, project-by-project approach that currently governs DER interconnection in Texas — an approach that creates uncertainty for developers, inflates costs, and slows deployment of resources the grid urgently needs.

2. Require DER Evaluation in Utility Distribution Planning

The Legislature should direct the PUCT to require all Texas distribution utilities to update their approved distribution resiliency plans with transparent processes that evaluate DERs as an alternative to traditional infrastructure investments before proposing capital expenditures. Plans should quantify system needs at the distribution transformer level, model multiple DER deployment scenarios, identify where DER procurement would be more cost-effective than wire solutions, and be subject to formal stakeholder review. Utilities that propose conventional infrastructure without demonstrating DER alternatives were evaluated and found inferior should bear that burden of

justification before the Commission. As both ERCOT and non-ERCOT utilities face multiple billions in projected infrastructure investment needs, this requirement could make a material difference in favor of affordability.

3. Align Utility Financial Incentives with DER Deployment

The Legislature should direct the PUCT to develop performance-based ratemaking mechanisms that create financial upside for utilities when they facilitate DER deployment effectively. Metrics should include DER interconnection processing timelines, customer satisfaction with DER-related utility processes, and system reliability outcomes attributable to DER integration. Utilities that perform well earn more; those that fall short face accountability. The existing capex-centric regulatory model creates no financial reason for a distribution utility to be a strong DER partner. This recommendation changes that calculus.

4. Establish a Formal Microgrid Regulatory Framework

The Legislature should provide the PUCT with clear statutory authority to establish a microgrid regulatory framework including: a clear statutory definition of microgrids and their operating modes; a standardized permitting and authorization process with defined timelines and technical standards; authorization for community microgrids serving multiple customers without triggering full utility regulation of the microgrid operator; priority deployment pathways for critical facilities such as hospitals, emergency services, water utilities, and schools; and state matching or incentive mechanisms for community microgrids serving low-income populations with elevated vulnerability to outages. Absent this framework, microgrid deployment in Texas will remain project-by-project, slow, and expensive.

5. Establish a Statewide DER Registry and Set VPP Capacity Targets

This committee's charge includes evaluating the efficacy of existing programs. That evaluation is not currently possible on a comprehensive basis, because Texas lacks a statewide registry of DER installations and microgrid systems, standardized performance reporting requirements, and consistent program metrics. The Legislature should direct ERCOT, and utilities outside ERCOT, in coordination with the PUCT, to establish and maintain a comprehensive DER registry with standardized reporting.

The Legislature should also direct the PUCT to establish targets for VPP capacity and customer participation. Nationally, more than 80% of installed DER capacity is not enrolled in any VPP program. Texas has installed capacity today that is severely underutilized for grid services. ERCOT's ADER pilot program — now in Phase 3 — provides the right concept, and participation has grown quickly enough that ERCOT raised the registered capacity cap from 200 MW to 500 MW effective March 2026. That growth validates the model. But a 500 MW pilot cap is still a fraction of what Texas needs at gigawatt scale, and it remains a capped pilot program rather than a permanent market structure with clear compensation rules. The Legislature should direct the PUCT and ERCOT to transition the ADER framework into a permanent, uncapped program so that DERs are fairly compensated for the full value they deliver to the grid. It should also expand this concept to all Texas customers, not just those who live within the ERCOT footprint.

6. Streamline Permitting for DER Installations Statewide

The Pew DER policy playbook specifically identifies permitting friction as a material barrier to DER deployment. One of the key things that standardization of Texas **transmission** interconnection did a generation ago was cut the cost of entry by removing obstacles. Last Session, the Legislature took

important steps by passing SB 1252, which preempted municipalities from imposing inconsistent local regulations on residential energy backup systems, and SB 1202, which streamlined permitting for distributed energy resources — including home battery storage and backup power systems — requiring permits to be issued within two business days and allowing automated online permitting systems like SolarAPP+ to be used by authorized inspectors. Together, these two bills established a clear principle: state policy should remove friction for DER deployment, not add it. The Legislature reinforced that principle by allocating \$1.8 billion through the Texas Backup Power Package Program to help critical facilities like nursing homes and water treatment plants install solar and storage.

And through SB 6, it directed the PUCT to create standardized interconnection processes for large loads — but not yet for DERs at the distribution level. Hence the job is not done. Residential and commercial DER permitting remains inconsistent across municipalities, the Legislature stopped short of requiring all cities to use automated permitting tools, and distribution-level interconnection standardization for DERs remains unfinished. This session should complete that work — extending the same principle that drove SB 1252 and SB 1202 to the commercial scale and to the interconnection framework that developers, aggregators, and microgrid operators depend on. Several Texas communities have already modernized their processes; a consistent Legislative framework would extend those efficiencies statewide, reducing a key barrier to entry.

V. Conclusion

A principal goal of our power industry restructuring was for reliable, cheap, clean power be the foundation of our economic development boom. The distributed energy resources that improve reliability — backup generation, local storage, solar installations, demand response, microgrids — are also the resources that reduce peak costs, defer capital-intensive infrastructure spending, and put money back in ratepayers' pockets. The Pew DER policy playbook documents, with case studies from Texas, Virginia, Puerto Rico, New York, the United Kingdom, and Australia, that these are not competing objectives. They are the same objective pursued through distributed means.

ERCOT is tracking 226,000 megawatts of large load interconnection requests. It needs thousands of miles of new transmission. Retail regulated rates are rising. The National Electric Reliability Council has flagged Texas as a region of elevated reliability risk. The February 2021 storm killed hundreds of Texans and cost the state economy an estimated \$200 billion. These are not arguments for incremental adjustment. They are arguments for a decisive policy update.

The PUCT began the interconnection standardization work that is most urgently needed, but it remains unfinished. HEN recommends the Legislature direct the PUCT to finish, and to build upon that foundation with the distribution planning requirements, microgrid regulatory framework, utility incentive alignment, and data infrastructure that will make Texas a national leader in distributed energy rather than a cautionary example of policy gaps that left resources stranded on a grid that needed them.

At Hunt Energy Network, we are building the distributed energy assets that this grid needs. We are doing so under a regulatory framework that makes the work harder and slower than it should be. We are here asking this committee to help fix that — not for our benefit alone, but for every Texan who depends on a reliable, affordable, resilient grid.

I welcome any questions the committee may have.

Respectfully submitted,

Pat Wood III

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