

NPRR Comments

NPRR Number	225	NPRR Title	Standard Cost Option in Verifiable Costs
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Market Segment	Independent Generators/Independent Power Marketers

Comments

TCPA is an industry trade group representing electric generation owners, power marketers and associated retail electric providers. TCPA members provide over 70 percent of installed generating capacity to the ERCOT market.

The members of TCPA have been actively engaged in the Verifiable Cost Working Group (VCWG) and related discussions on Standard Cost and worked collaboratively with market participants to resolve issues for over a year and come to a compromise solution which was reflected in the PRS Recommendation of 05/20/10. Although TCPA appreciates the concerns expressed in the Joint Comments of the Consumers – many of these concerns were discussed in the VCWG meetings and subsequently adopted because of the very real concerns related to the complexities of the verifiable cost procedures. For example, the Verifiable Cost Manual is 87 pages and does not resolve fundamental issues. As of the last TAC meeting, ERCOT had only approved 4 simple-cycle unit verifiable cost applications out of over 600 potential applications in ERCOT.

After months of discussion, Market Participants agreed that the election of standard O&M costs relieved the burden of gathering complex O&M cost data that may not be in a retrievable format or has legal complications that prevent Generation Resources from being able to submit verifiable costs in accordance with Section 5.6.1 and in compliance with the Verifiable Cost Manual.

To provide the market more time to see the impacts of submitting verifiable O&M cost and the potential benefits of the standard O&M cost option on ERCOT and market participants, TCPA proposes the following revision in Section 5.6.1, Verifiable Costs, to extend the sunset date for 12 months. TCPA believes that a January 1, 2011 sunset

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date would not provide adequate time to show the benefits of a more rational approach to cost recovery. Therefore, while TCPA believes that no sunset date is required, in the spirit of meeting the concerns of parties who have joined the discussions only recently, TCPA proposes a December 31, 2012 date and requests that WMS continue to monitor the effectiveness of Standard Cost and make a recommendation to TAC and the Board in 2012 regarding the further extension or termination of Standard Costs.

Revised Proposed Protocol Language

5.6.1 *Verifiable Costs*

- (1) The Qualified Scheduling Entity (QSE) is responsible for submitting verifiable costs unless both the QSE and Resource Entity agree that the Resource Entity will have this responsibility, in which case both the QSE and Resource Entity shall submit an affidavit to ERCOT stating this arrangement. Notwithstanding the foregoing, QSEs that submit Power Purchase or Tolling Agreements (PPAs) do not have the option of allowing Resource Entities to file verifiable costs.
- (2) Make-Whole Payments for a Resource are based on the Startup Offers and Minimum-Energy Offers for the Resource, limited by caps. Until ERCOT approves verifiable unit-specific costs for that Resource, the caps are the Resource Category Startup Generic Cap and the Resource Category Minimum-Energy Generic Cap. When ERCOT approves verifiable unit-specific costs for that Resource the caps are those verifiable unit-specific costs. A QSE or Resource Entity may file verifiable unit-specific costs for a Resource at any time, but it must file those costs no later than 30 days after five Reliability Unit Commitment (RUC) events for that Resource in a calendar year. A RUC event begins when a Resource receives a RUC instruction to come or stay On-Line and ends the later of when the Resource shuts down or the end of the Operating Day. The most recent ERCOT-approved verifiable costs must be used going forward.
- (3) These unit-specific verifiable costs may include and are limited to the following average incremental costs:
 - (a) Allocation of maintenance requirements based on number of starts between maintenance events using, at the option of the QSE or Resource Entity, either:
 - (i) Manufacturer-recommended maintenance schedule;
 - (ii) Historical data for the unit and actual maintenance practices; or
 - (iii) Another method approved in advance by ERCOT in writing;
 - (b) Startup fuel calculations based on recorded actual measured flows when the data is available or based on averages of historical flows for similar starts (for example, hot, cold, intermediate) when actual data is not available. Startup fuel will include filing separately the startup fuel required to reach breaker close and

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fuel after breaker close to Low Sustained Limit (LSL). Any fuel required to shutdown a resource will be submitted as the fuel from breaker open to shutdown;

- (c) Operation costs;
- (d) Chemical costs;
- (e) Water costs;
- (f) Emission credits; and
- (g) Nodal ~~Implementation~~ ~~s~~urcharges (NISs).

(4) Standard Operations and Maintenance (O&M) costs pursuant to paragraph (6) below may be used in lieu of the incremental O&M costs set forth in items (3)(a), (c), (d) and (e) above.

(54) These unit-specific verifiable costs may not include:

- (a) Fixed costs, which are any cost that is incurred regardless of whether the unit is deployed or not; and
- (b) Costs for which the QSE or Resource Entity cannot provide sufficient documentation for ERCOT to verify the costs.

(6) At their election, QSEs or Resource Entities may elect to receive standard O&M costs for both startup and minimum energy until January 1 December 31, 2012. This election may be made by when submitting verifiable costs by submitting an election form to ERCOT. If a QSE or Resource has received final previously been approved approval for actual verifiable O&M costs under the verifiable cost process, it may not elect to receive standard O&M costs. Standard O&M costs are defined as follows:

<u>Resource Category</u> <u>Start Year = 2009</u>	<u>Cold Startup</u> <u>(\$/start)</u>	<u>Intermediate</u> <u>Startup</u> <u>(\$/start)</u>	<u>Hot Startup</u> <u>(\$/start)</u>	<u>Variable O&M</u> <u>(\$/MWh)</u>
Advanced Aero <u>Derivative simple cycle commissioned after 1996</u>	<u>1,000.00</u>	<u>1,000.00</u>	<u>1,000.00</u>	<u>3.94</u>
Diesel <u>Reciprocating Engine</u>	<u>487.00</u>	<u>487.00</u>	<u>487.00</u>	<u>5.09</u>
<u>Simple cycle commissioned before 1996 < 90 MW</u>	<u>2,300.00</u>	<u>2,300.00</u>	<u>2,300.00</u>	<u>3.94</u>
<u>Simple cycle commissioned before 1996 >= 90 MW</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>3.94</u>
<u>Combined cycle: for each configuration physical Resource in a of a Combined-Cycle Configuration Resource, train the Startup Costs for that configuration is the sum of the Startup Costs for each unit within that configuration is started in the combined train as follows:</u>	6,810.00	5,107.50	2,553.75	<u>3.19</u>

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<u>Combustion turbine < 90MW</u>	<u>2,300.00</u>	<u>2,300.00</u>	<u>2,300.00</u>	
<u>Combustion turbine \Rightarrow 90 MW</u>	<u>5,000.00</u>	<u>5000.00</u>	<u>5000.00</u>	
<u>Steam turbine</u>	<u>3,000.00</u>	<u>2,250.00</u>	<u>1,250.00</u>	
<u>Gas-steam non-reheat boiler</u>	<u>2,310.00</u>	<u>1,732.50</u>	<u>866.25</u>	<u>7.08</u>
<u>Gas-steam reheat boiler</u>	<u>3,000.00</u>	<u>2,250.00</u>	<u>1,125.00</u>	<u>7.08</u>
<u>Gas-steam supercritical boiler</u>	<u>4,800.00</u>	<u>3,600.00</u>	<u>1,800.00</u>	<u>7.08</u>
<u>Nuclear, coal, lignite and hydro</u>	<u>7,200.00</u>	<u>5,400.00</u>	<u>2,700.00</u>	<u>5.02</u>
<u>Renewable</u>	<u>Not Applicable</u>	<u>Not Applicable</u>	<u>Not Applicable</u>	<u>5.50</u>

(a) If the QSE or Resource Entity chooses to utilize the standard O&M costs for O&M, standard O&M costs will be used by ERCOT going forward until either:

(i) Verifiable variable O&M costs are filed; or

(ii) ERCOT notifies the QSE or Resource Entity to update its verifiable costs as set forth in either paragraph (9104) or (10112) below. If a Resource is receiving standard O&M costs, it may reelect standard O&M costs when resubmitting verifiable costs.

~~(b) — ERCOT shall modify the standard O&M costs above using the Handy-Whitman Index of Public Utility Construction Costs on an annual basis within five Business Days of receiving the Handy-Whitman Index. ERCOT shall post the current applicable and historic standard O&M costs on the Market Information System (MIS) Public Area within one Business Day after ERCOT updates standard O&M costs.~~

~~(c) — The Sstandard O&M Ccost Ttable will be re-evaluated five years after the Texas Nodal Market Implementation Date by a subgroup established by TAC approved subcommittee WMS with the intent to verify the accuracy of Sstandard O&M costs.~~

~~(7) — When submitting Vverifiable Ccosts for Ccombined Ccycle Resources, the QSE or Resource Entity must elect standard O&M costs for all Combined-Cycle eConfigurations or Vverifiable Ccosts for all Combined Cycle eConfigurations within the Ccombined Ccycle train.~~

~~(8) — A Qualified Scheduling Entity (QSE) or Resource Entity whothat has submitted verifiable costs prior to the approval of this NPRRthe Texas Nodal Market Implementation Date may elect to resubmit its verifiable costs choosing either actual O&M or standard O&M costs on or before the Texas Nodal Market Implementation Date within 90 days after the approval of this NPRR by the ERCOT Board. (This paragraph 5.6.1.8 will be removed after the 90 day period following approval.)~~

(5798) QSEs submitting PPAs as Resource-specific verifiable costs documentation are subject to the guidelines detailed below and in the Verifiable Cost Manual.

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- (a) Only QSEs offering Three-Part Supply Offers for a specific Resource may submit a PPA as verifiable costs documentation.
- (b) A QSE submitting a PPA as verifiable costs documentation must represent 100% of the Resource's capacity.
- (c) Only PPAs:
 - (i) Signed prior to July 16, 2008; and
 - (ii) Not between Affiliates, subsidiaries or partners will be accepted as verifiable cost documentation.
- (d) Verifiable costs for PPAs shall be capped at the level of the highest comparable Resource (referred to as the reference Resource) specific verifiable costs approved by ERCOT without a PPA. The ERCOT approved verifiable costs for a PPA shall be equal to the lesser of:
 - (i) The cap as described in paragraph (d) above; and
 - (ii) The costs from the PPA.
- (e) ERCOT shall use the Resource actual fuel costs submitted by the QSE for startup and operation at minimum—energy level (LSL), and shall use the Resource Category Startup Offer Generic Costs as the cap for the ~~operations and maintenance (O&M)~~ portion of the ~~s~~Startup ~~e~~Costs until ERCOT receives and approves comparable Resource specific verifiable costs.
- (f) PPAs will no longer be accepted as verifiable cost documentation after the primary term of the contract expires.
- (g) ERCOT shall produce a report each April that provides the percentage of RUC ~~m~~Make-whole ~~p~~Payments for Resources with PPAs during the 12 months of the previous calendar year. The report shall be based on the ~~F~~final Settlements and include the total number of Resources that used a PPA for their most recent verifiable cost submission that was approved by ERCOT. ERCOT shall present the results of this study to the appropriate Technical Advisory Committee (TAC) subcommittee.
- (h) Notwithstanding anything to the contrary in this Section 5.6.1, QSEs representing PPAs may, at any time, submit data from a Resource as verifiable costs documentation and such documentation will be accepted for consideration by ERCOT. A QSE submitting verifiable costs documentation pursuant to this paragraph shall not be required to submit a PPA to ERCOT for consideration for verifiable cost recovery.
- (68109) The process for determining the verifiable actual costs must be developed by ERCOT, approved by the appropriate TAC subcommittee, and posted to the ~~Market~~

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~~Information System (MIS)~~ Secure Area within one Business Day after initial approval and after each approved change.

(~~79104~~) ERCOT shall notify a QSE to update verifiable cost data of a Resource when the Resource has received more than 50 RUC instructions meeting the criteria in Section 5.6.2, RUC Startup Cost Eligibility, in a year, but ERCOT may not request an update more frequently than annually.

(~~810112~~) ERCOT shall notify a QSE to update verifiable cost data of a Resource if at least five years have passed since ERCOT previously approved verifiable cost data for that Resource.

(~~911123~~) Within 30 days after receiving an update notice from ERCOT under any of item paragraphs (6)(b), (78101), or item (98112) above, a QSE or Resource Entity must submit verifiable cost data for the Resource. Despite the provisions in item paragraph (2) above, if the QSE or Resource Entity does not submit verifiable cost data within 30 days after receiving an update notice, then, until updated verifiable costs are approved, ERCOT shall determine payment using the lower of:

- (a) Resource Category Startup Generic and Resource Category Minimum-Energy Generic Caps; and
- (b) Current ERCOT-approved verifiable startup and minimum-energy costs.

5.6.1.1 Verifiable Startup Costs

The unit-specific verifiable costs for starting a Resource for each cold, intermediate, and hot start condition, as determined using the data submitted under Section 5.6.1, Verifiable Costs, above and the Resource Parameters for the Resource are:

- (a) Actual fuel consumption rate per start (MMBtu/start) multiplied by a resource category generic fuel price (Fuel Index Price (FIP) * 1.X, Fuel Oil Price (FOP), or \$1.50 per MMBtu, as applicable), where X = \$0.50/fuel price. A new X is effective the first and third Tuesday of each month. The fuel price is equal to FIP from the Tuesday prior to the effective date;
- (b) Unit-specific verifiable operation and maintenance or standard O&M expenses; and
- (c) Nodal Implementation Surcharge NIS to operate the Resource from breaker close to its LSL, as described in the Verifiable Cost Manual.

5.6.1.2 Verifiable Minimum-Energy Costs

(1) The unit-specific verifiable minimum-energy costs for a Resource are:

- (a) Actual fuel cost to operate the unit at its LSL; plus+

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- | (b) ~~Verifiable or standard v~~Variable ~~operation and maintenance or standard~~ O&M expenses; plus
 - | (c) ~~Nodal implementation surcharges~~NIS to operate the unit at its LSL.
- (2) The QSE must submit the Resource's cost information by season if the Resource's costs vary by season. For gas-fired units, the actual fuel costs must be calculated using the actual seasonal heat rate (which must be supplied to ERCOT with seasonal heat-rate test data) multiplied by the FIP * 1.X, where X = \$0.50/fuel price. A new X is effective the first and third Tuesday of each month. The fuel price is equal to FIP from the Tuesday prior to the effective date. For coal- and lignite-fired units, the actual fuel costs must be calculated using the actual seasonal heat rate multiplied by a deemed fuel price of \$1.50 per MMBtu. For fuel oil-fired operations, the number of gallons burned must be multiplied by the FOP.