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| VCMRR Number | [022](http://www.ercot.com/mktrules/issues/VCMRR022) | VCMRR Title | Determination of Fuel Adder Price for Coal and Lignite Resources |
| Date of Decision | | July 26, 2018 | |
| Action | | Recommended Approval | |
| Timeline | | Normal | |
| Proposed Effective Date | | Upon system implementation | |
| Priority and Rank Assigned | | Priority – 2018; Rank – 2260 | |
| Verifiable Cost Manual Sections Requiring Revision | | 3.4, Additional Rules for Submitting Fuel Costs  Appendix 11, Procedure for Determining the Fuel Adder for Coal and Lignite Resources with Approved Verifiable Costs (new) | |
| Related Documents Requiring Revision/Related Revision Requests | | None | |
| Revision Description | | This Verifiable Cost Manual Revision Request (VCMRR) directs ERCOT to contract with a fuel vendor to secure a coal index price and includes a methodology for calculating the fuel adder for coal-fired and lignite-fired Resources quarterly based on that index. | |
| Reason for Revision | | Addresses current operational issues.  Meets Strategic goals (tied to the [ERCOT Strategic Plan](http://www.ercot.com/content/news/presentations/2013/ERCOT%20Strat%20Plan%20FINAL%20112213.pdf) or directed by the ERCOT Board).  Market efficiencies or enhancements  Administrative  Regulatory requirements  Other: (explain)  *(please select all that apply)* | |
| Business Case | | With the implementation of Nodal Protocol Revision Request (NPRR) 617, Energy Offer Flexibility, in June 2016, the cost of coal-fired and lignite-fired Generation Resources was determined based on a combination of natural gas (or oil) and generic coal price. A fuel adder of $1.10/MMBtu was recommended by the Resource Cost Working Group (RCWG) until such time when a long-term solution to pricing coal could be implemented. This VCMRR, consistent with RCWG discussions, proposes a long-term solution by directing ERCOT to calculate a coal-fired and lignite-fired Resource fuel adder quarterly, based on the average difference between the Fuel Index Price (FIP) and the coal index price. | |
| WMS Decision | | On 6/6/18, WMS unanimously voted to recommend approval of VCMRR022 as submitted. All Market Segments were present for the vote.  On 7/11/18, WMS unanimously voted to endorse and forward to TAC the 6/6/18 WMS Report and Impact Analysis for VCMRR022 with a recommended priority of 2018 and rank of 2260. All Market Segments were present for the vote. | |
| Summary of WMS Discussion | | On 6/6/18, ERCOT Staff reviewed the mechanics of the long-term solution proposed in VCMRR022.  On 7/11/18, there was no discussion. | |
| TAC Decision | | On 7/26/18, TAC unanimously voted to recommend approval of VCMRR022 as recommended by WMS in the 7/11/18 WMS Report. All Market Segments were present for the vote. | |
| Summary of TAC Discussion | | On 7/26/18, there was no discussion. | |
| ERCOT Opinion | | ERCOT supports approval of VCMRR022. | |

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| Market Segment | Not applicable |

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| **Comments Received** | |
| Comment Author | **Comment Summary** |
| PRS 071918 | Endorsed the WMS recommended priority of 2018 and rank of 2260 |

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| Market Rules Notes |

Please note the baseline Verifiable Cost Manual language in Section 3.4 has been updated to reflect the incorporation of VCMRR020, Delay the Fuel Adder Sunset Related to VCMRR014, Revise Fuel Adder Factor for Coal and Lignite Resources, into the 6/1/18 Verifiable Cost Manual.

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| Proposed Verifiable Cost Manual Language Revision |

**3.4 Additional Rules for Submitting Fuel Costs**

(1) Filing Entities that have been approved for verifiable costs will receive a default fuel adder of $0.50/MMBtu, unless the Filing Entity elects to submit an actual fuel adder ($/MMBtu) for each Resource for verification and approval by ERCOT. For a coal-fired or lignite-fired Resource, the default fuel adder will be set quarterly to the maximum of $0.50/MMBtu or the Coal Fuel Adder (CF)($/MMBtu), where CF is determined by ERCOT quarterly as described in Appendix 11: Procedure for Determining the Fuel Adder for Coal and Lignite Resources with Approved Verifiable Costs. The default fuel adder will remain the default amount specified above until the Filing Entity establishes an actual fuel adder in those verifiable costs and the Filing Entity must continue to provide actual fuel costs as prescribed in paragraph (2) below. The fuel adder is included in the value of X for the Resource (VOXR) as described in Section 14, Appendices, Appendix 6, Calculation and Application of Proxy Heat Rate and the Value of X for the Resource.



(2) Any Filing Entity that submits an actual fuel adder must provide documentation that establishes the historical costs for fuel, including transportation, spot fuel, and any additional verifiable cost associated with fuel contracts that can be easily differentiated from the standard commodity cost of fuel and clearly attributable to the Resource for the period. The fuel adder for a rolling 12-month period is the difference between the Filing Entity’s average fuel price paid (including all fees) during the period and the fuel price utilized by ERCOT for the corresponding Resource. The Filing Entity shall provide rolling 12-month supporting data to verify total fuel price for all purchased volumes to support the actual Resource fuel consumption. Data to support these costs should include, but are not limited to, accounting ledger entries, invoices, and copies of fuel contracts. In addition, the actual costs used to calculate the fuel adder may include, but are not limited to, the following categories: transportation, deliveries, storage, injection, withdrawal, imbalance, and minimum requirements fees. Other costs not described herein may be included and approved by ERCOT.

(3) Review and approval of fuel costs follows the same timeline as verifiable costs; however, ERCOT may require additional time to verify the fuel costs based on the complexity of the submission. In such case, ERCOT will notify the Filing Entity within 15 Business Days of submission if additional time is needed. For clarification on the submission timeline for the fuel adder, please see the table below. The fuel adder will be implemented the first day of the month after fuel costs have been approved.

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| **Submission Months** | **Submission Period** | **Review and Approval Period** |
| March of previous year  to  February of current year | April | May-June |
| September of previous year  to  August of current year | October | November-December |

**Appendix 11: Procedure for Determining the Fuel Adder for Coal and Lignite Resources with Approved Verifiable Costs**

ERCOT shall calculate the Fuel Adder for coal and lignite Resources quarterly as indicated in Table 1 below, utilizing the following methodology:

Fuel Adder for next period ($/MMBtu) = Max ($0.50, CF)

Where,

Coal Fuel Adder (CF) ($/MMBtu) = [∑ (weekly CFIP – average Fuel Index Price (FIP) for week)] / Number of weeks in period

Coal Fuel Index Price (CFIP) ($/MMBtu) = the price of Powder River Basin (PRB) 8,800 Btu/lb coal delivered to ERCOT or the Gulf Coast area, as derived from regularly published data selected by ERCOT. The CFIP for the current week shall be based on the most recent price data received by ERCOT from the publisher for PRB 8800 coal (i.e. prompt quarterly or monthly settled price) and the cost of rail transportation from the PRB.

* ERCOT shall issue a Market Notice disclosing the name of the ERCOT-selected publication(s) or source(s) used to determine the CFIP. In the event that the ERCOT-selected index (or indices) becomes unavailable, or ERCOT determines that the index (or indices) has become unsuitable for the intended purpose, ERCOT may select a substitute index or indices. Otherwise, ERCOT may use a proxy price “T”, in terms of $/MMBtu, as approved by the Technical Advisory Committee (TAC) until such time that a suitable index is obtained. ERCOT shall issue a Market Notice disclosing its intent to use a substitute index source, the name of the substitute index source, or a proxy price at least 60 days prior to the beginning of its use, or as soon as practicable.
* Any index or indices utilized hereunder that are in units of [$/short ton] shall be converted to [$/MMBtu] as follows: [$/MMBtu] = [$/short ton] \* [1 short ton/2,000lb]\* [1 lb/8,800 Btu] \* [1,000,000 Btu/MMBtu].

Table 1:

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| **Months of Review** | **Month of Calculation** | **Effective Period** |
| January-March | April | May 1- July 31 |
| April-June | July | August 1- October 31 |
| July-September | October | November 1- January 31 |
| October-December | January | February 1- April 30 |