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| VCMRR Number | [033](https://www.ercot.com/mktrules/issues/VCMRR033) | VCMRR Title | Excluding Exceptional Fuel Costs from Fuel Adders |
| Date of Decision | | February 6, 2023 | |
| Action | | Tabled | |
| Timeline | | Normal | |
| Proposed Effective Date | | To be determined | |
| Priority and Rank Assigned | | To be determined | |
| Verifiable Cost Manual Sections Requiring Revision | | 3.4, Additional Rules for Submitting Fuel Costs | |
| Related Documents Requiring Revision/Related Revision Requests | | None | |
| Revision Description | | This Verifiable Cost Manual Revision Request (VCMRR) provides that the actual fuel purchases used in Exceptional Fuel Costs that were already included in the Mitigated Offer Cap (MOC), as described in paragraph (1)(f) of Protocol Section 4.4.9.4, Mitigated Offer Cap and Mitigated Offer Floor, will not also be included when calculating fuel adders. | |
| Reason for Revision | | Addresses current operational issues.  Meets Strategic goals (tied to the [ERCOT Strategic Plan](http://www.ercot.com/content/wcm/lists/144926/ERCOT_Strategic_Plan_2019-2023.pdf) or directed by the ERCOT Board).  Market efficiencies or enhancements  Administrative  Regulatory requirements  Other: (explain)  *(please select all that apply)* | |
| Business Case | | Pursuant to Section 3.4, a Filing Entity may file a fuel adder for a specific Resource. Fuel adders are used by ERCOT in various calculations, including in the determination of Startup and minimum-energy caps, Make-Whole Payments, and the MOC. The purpose of fuel adders is to compensate the Resource for the incremental cost of transporting, storing, and purchasing fuel that is not covered by the index fuel price used by ERCOT.  Exceptional Fuel Costs were introduced with NPRR847, Exceptional Fuel Cost Included in the Mitigated Offer Cap. The purpose of Exceptional Fuel Costs was to allow Qualified Scheduling Entities (QSEs) to include weighted average fuel costs in the MOC in Real-Time. Hence, Exceptional Fuel Costs allow QSEs to recover their fuel costs via Real-Time clearing prices in case of mitigation. However, if Exceptional Fuel Costs are included with fuel adders, then a QSE might recover the same Exceptional Fuel Costs through Real-Time prices as well as Make-Whole Payments over a 12-month period. Exceptional Fuel Costs were included in the Protocols to be recovered by the Resource for a specific hour and Operating Day. Allowing Exceptional Fuel Costs in fuel adders potentially results in recovering the same costs multiple times over an extended period. | |
| WMS Decision | | On 8/3/22, WMS voted to table VCMRR033 and refer the issue to the Wholesale Market Working Group (WMWG). There were two abstentions from the Independent Generator (Luminant) and Independent Retail Electric Provider (IREP) (Gexa Energy) Market Segments. All Market Segments participated in the vote.  On 2/6/23, WMS voted to table VCMRR033. There were five opposing votes from the Consumer (3) (Residential, CMC Steel, City of Eastland) and the Municipal (2) (CPS Energy, GP&L) Market Segments, and five abstentions from the Consumer (Dow), Cooperative (PEC), Independent Power Marketer (IPM) (SENA), and Municipal (2) (Austin Energy, BTU) Market Segments. All Market Segments participated in the vote. | |
| Summary of WMS Discussion | | On 8/3/22, ERCOT Staff presented VCMRR033 and noted the effort to add clarity to the Verifiable Cost Manual whether exceptional fuel costs should or should not be included in the calculation of fuel adders. Both Staff and participants requested additional discussion, and referred the issue to the WMWG.  On 2/6/23, participants debated recommending approval of VCMRR033 and whether discussion of the issues contemplated in VCMRR033 should be moved to TAC. Some participants noted that the language had been available for some time with no comment, that consumers continue to face risks associated with fuel costs, that additional changes to fuel adders can be taken up in the future as needed. Other participants requested additional time to develop language to mitigate risks, particularly to avoid impacts to Resources during heightened conservative operations, and opined that as written, VCMRR033 incorrectly addresses fuel adder costs. ERCOT Staff noted recent implementation of Nodal Protocol Revision Request (NPRR) 1124, Recovering Actual Fuel Costs through RUC Guarantee, and NPRR1140, Recovering Fuel Costs for Generation Above LSL During RUC-Committed Hours. | |

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| **Opinions** | |
| Credit Review | Not Applicable |
| Independent Market Monitor Opinion | To be determined |
| ERCOT Opinion | To be determined |
| ERCOT Market Impact Statement | To be determined |

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| Market Segment | Not Applicable |

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| **Comments Received** | |
| **Comment Author** | **Comment Summary** |
| None |  |

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| **Market Rules Notes** |

Please note that the following VCMRR(s) also propose revisions to the following section(s):

* VCMRR031, Clarification Related to Variable Costs in Fuel Adders
  + Section 3.4
* VCMRR034, Excluding RUC Approved Fuel Costs from Fuel Adders
  + Section 3.4
* VCMRR035, Allow Verified Contractual Costs in Fuel Adder Calculation
  + Section 3.4

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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 Section 14, Appendices, 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, 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) Notwithstanding paragraph (2) above, Fuel Adders shall not include any fuel purchases included in the submission of Exceptional Fuel Costs as described in paragraph (1)(f) of Protocol Section 4.4.9.4, Mitigated Offer Cap and Mitigated Offer Floor.

(4) 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 |