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| NPRR Number | [1177](https://www.ercot.com/mktrules/issues/NPRR1177) | NPRR Title | Exceptional Fuel Cost Process |
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| Date | May 22, 2023 |
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| Submitter’s Information |
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| Market Segment |  |
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| **Comments** |

Consumers submit these comments as a compromise position. Rather than accepting that this is a “temporary solution,” it puts the onus on its supporters to ensure that the NPRR is replaced with a permanent solution by requiring it to sunset on January 1, 2027. In addition, these comments create three additional guardrails.  First, it requires Qualified Scheduling Entities (QSEs) to complete an attestation that the forward fuel contract costs are known and actual. Second, it allows ERCOT to prohibit a QSE or Resource from using this functionality if they submit offers that exceed their costs. Third, it directs ERCOT to develop fuel contract language that can be used to support this process and protect consumers and generators from fuel contracts that are designed to target specific cost recovery provisions of the Protocols, such as the difference between fixed and variable costs, or the inability to know the price of fuel prior to burning it. Finally, these comments modify the Exceptional Fuel Cost definition to distinguish it from the Fuel Contract Cost definition and other types of costs.

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| **Market Rules Notes** |

The following NPRR(s) also propose revisions to the following section(s):

* NPRR1172, Fuel Adder Definition, Mitigated Offer Caps, and RUC Clawback

Section 4.4.9.4.1

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| Revised Cover Page Language |

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| NPRR Number | 1177 | NPRR Title | Fuel Contract Costs |
| Nodal Protocol Sections Requiring Revision  | 2.1, Definitions4.4.9.4.1, Mitigated Offer Cap |
| Revision Description | This Nodal Protocol Revision Request (NPRR) enables Generation Resources to file Fuel Contract Costs that include contractual cost and pipeline-mandated costs, and enhances the process for ERCOT and the Independent Market Monitor (IMM) to verify these costs. |
| Business Case | In order to preserve reliability and reduce market costs, Generation Resources need the ability to reflect their costs, including contractual costs, in their Energy Offer Curves without the risk of Real-Time mitigation that will result in unrecoverable financial losses. Currently, while Generation Resources that are mitigated have no mechanism to recover their costs, which can be substantial. ERCOT has acknowledged the need to address this gap and are currently developing a more robust process to recognize, capture, and validate contractual costs. However, ERCOT’s proposed concept of providing Resources the ability to submit a multi-tier marginal fuel curve is still under development and will also require system changes, which would therefore not be operational for years. This NPRR provides a temporary solution (until January 1, 2027) that leverages the existing system functionality for the Exceptional Fuel Cost processes to allow for the inclusion of Fuel Contract Costs. Additionally, this NPRR enhances the verification process for ERCOT and the IMM to validate contractual costs and fuel prices submitted by the QSE.In allowing Generation Resources to reflect their costs, these changes will have an added benefit of reducing Reliability Unit Commitments (RUCs) since QSEs will no longer have to choose whether to risk financial harm by offering their Generation Resources in Real-Time or whether to keep Generation Resources offline and risk the physical strain of the Generation if called for RUC. Reducing RUCs will reduce uplift costs borne by the market. |

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| Proposed Protocol Language Revision |

## 2.1 DEFINITIONS

**Exceptional Fuel Cost**

The hourly volume-weighted price of natural gas, purchased during an Operating Day or after the Day-Ahead nomination deadline of 1300 Central Prevailing Time (CPT) on the prior Operating Day, submitted in accordance with paragraph (1)(f) of Section 4.4.9.4.1, Mitigated Offer Cap. Exceptional costs are not routine or reoccurring and predictable costs.

**Fuel Contract Cost**

A fuel price that includes forward fuel contract costs at High Sustained Limit (HSL).

4.4.9.4.1 Mitigated Offer Cap

(1) Energy Offer Curves may be subject to mitigation in Real-Time operations under Section 6.5.7.3, Security Constrained Economic Dispatch, using a Mitigated Offer Cap (MOC). ERCOT shall construct an incremental MOC curve in accordance with Section 6.5.7.3 such that each point on the MOC curve is calculated as follows:

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| ***[NPRR1014: Replace paragraph (1) above with the following upon system implementation:]***(1) Energy Offer Curves and Energy Bid/Offer Curves may be subject to mitigation in Real-Time operations under Section 6.5.7.3, Security Constrained Economic Dispatch, using a Mitigated Offer Cap (MOC). For Generation Resources, ERCOT shall construct an incremental MOC curve in accordance with Section 6.5.7.3 such that each point on the MOC curve is calculated as follows: |

MOC *q, r, h* = Max [GIHR *q, r* \* Max(FIP, WAFP *q, r, h*), (IHR *q, r* \* FPRC *q, r* + OM *q, r*) \* CFMLT *q, r*]

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| ***[NPRR1058: Replace the formula “MOC q, r, h” above with the following upon system implementation:]***MOC *q, r, h* = Max [GIHR *q, r* \* Max(FIP, WAFP *q, r, h*), (IHR *q, r* \* FPRC *q, r* + OM *q, r*)] |

Where,

If a QSE has submitted an Energy Offer Curve on behalf of a Generation Resource and the Generation Resource has approved verifiable costs, then

FPRC *q, r* = Max(WAFP *q, r, h*, FIP + FA *q, r*) \* RTPERFIP *q, r* / 100 + FOP \* RTPERFOP *q, r* / 100

If a QSE has not submitted an Energy Offer Curve on behalf of a Generation Resource and the Generation Resource has approved verifiable costs, then

FPRC *q, r* = Max(WAFP *q, r, h*, FIP + FA *q, r*) \* GASPEROL *q, r* / 100 + FOP \* OILPEROL *q, r* / 100 + (SFP + FA *q, r*) \* SFPEROL *q, r* / 100

The above variables are defined as follows:

| Variable | Unit | Definition |
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| MOC *q, r, h* | $/MWh | *Mitigated Offer Cap per Resource*—The MOC for Resource *r*, for the hour. Where for a Combined Cycle Train, the Resource *r* is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| GIHR *q, r* | MMBtu/MWh | *Generic Incremental Heat Rate*—The generic, single-value, incremental heat rate. For Generation Resources with a Commercial Operations Date on or before January 1, 2004, the generic incremental heat rate shall be set to 10.5. For Generation Resources that have a Commercial Operations Date after January 1, 2004, this value shall be set to 14.5. Where for a Combined Cycle Train, the Resource *r* is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| IHR *q, r* | MMBtu/MWh | *Verifiable Incremental Heat Rate per Resource*—The verifiable incremental heat rate curve for Resource *r,* as approved in the verifiable cost process. Where for a Combined Cycle Train, the Resource *r* is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| FIP | $/MMBtu | *Fuel Index Price*—The natural gas index price as defined in Section 2.1, Definitions. |
| RTPERFIP *q, r* | none | *Fuel Index Price Percentage*—The percentage of natural gas used by Resource *r* to operate above LSL, as submitted with the energy offer curve. |
| FOP | $/MMBtu | *Fuel Oil Price*—The fuel oil index price as defined in Section 2.1. |
| RTPERFOP *q, r* | none | *Fuel Oil Price Percentage*—The percentage of fuel oil used by Resource *r* to operate above LSL, as submitted with the energy offer curve. |
| SFP | $/MMBtu | *Solid Fuel Price—*The solid fuel index price is $1.50.  |
| FPRC *q, r* | $/MMBtu | *Fuel Price Calculated per Resource*—The calculated index price for fuel for the Resource based on the Resources fuel mix. Where for a Combined Cycle Train, the Resource r is a Combined Cycle Generation Resource within the Combined Cycle Train.  |
| GASPEROL *q, r* | none | *Percent of Natural Gas to Operate Above LSL*—The percentage of natural gas used by Resource *r* to operate above LSL, as approved in the verifiable cost process. Where for a Combined Cycle Train, the Resource r is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| OILPEROL *q, r* | none | *Percent of Oil to Operate Above LSL*—The percentage of fuel oil used by Resource *r* to operate above LSL, as approved in the verifiable cost process. Where for a Combined Cycle Train, the Resource r is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| SFPEROL *q, r* | none | *Percent of Solid Fuel to Operate Above LSL*—The percentage of solid fuel used by Resource *r* to operate above LSL, as approved in the verifiable cost process. Where for a Combined Cycle Train, the Resource r is a Combined Cycle Generation Resource within the Combined Cycle Train. |
| FA *q, r* | $/MMBtu | *Fuel Adder*—The fuel adder is the average cost above the index price Resource *r* has paid to obtain fuel. Where for a Combined Cycle Train, the Resource *r* is a Combined Cycle Generation Resource within the Combined Cycle Train. See the Verifiable Cost Manual for additional information. |
| OM *q, r* | $/MWh | *Variable Operations and Maintenance Cost above LSL*—The O&M cost for Resource *r* to operate above LSL, including an adjustment for emissions costs, as approved in the verifiable cost process. Where for a Combined Cycle Train, the Resource r is a Combined Cycle Generation Resource within the Combined Cycle Train. See the Verifiable Cost Manual for additional information. |
| CFMLT *q, r* | none | *Capacity Factor Multiplier*—A multiplier based on the corresponding monthly capacity factor as described in paragraph (1)(d) below.  |
| ***[NPRR1058: Delete the variable “CFMLT q, r” above upon system implementation.]*** |
| WAFP *q, r, h* | $/MMBtu | *Weighted Average Fuel Price*—The volume-weighted average intraday, same-day and spot fuel price, the projected incremental fuel consistent with a fuel supply contract(s), or a combination of these two prices, submitted to ERCOT during the Adjustment Period for a specific Resource and specific hour within the Operating Day, as described in paragraph (1)(f) below.  |
| *q* | none | A QSE. |
| *r* | none | A Generation Resource. |
| *h* | none | The Operating Hour.  |

(a) For a Resource contracted by ERCOT under paragraph (4) of Section 6.5.1.1, ERCOT Control Area Authority, ERCOT shall increase the O&M cost such that every point on the MOC curve is greater than the SWCAP in $/MWh.

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| ***[NPRR1008 and NPRR1014: Replace applicable portions of paragraph (a) above with the following upon system implementation of the Real-Time Co-Optimization (RTC) project for NPRR1008; or upon system implementation for NPRR1014:]***(a) For a Resource contracted by ERCOT under paragraph (4) of Section 6.5.1.1, ERCOT Control Area Authority, ERCOT shall increase the O&M cost such that every point on the MOC curve is greater than the effective Value of Lost Load (VOLL) in $/MWh. |

(b) Notwithstanding the MOC calculation described in paragraph (1) above, the MOC for ESRs shall be set at the SWCAP. No later than December 31, 2023, ERCOT and stakeholders shall submit a report to TAC that includes a recommendation to continue the existing approach or a proposal to implement an alternative approach to determine the MOC for ESRs.

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| ***[NPRR1008 and NPRR1014: Replace applicable portions of paragraph (b) above with the following upon the system implementation of the Real-Time Co-Optimization (RTC) project for NPRR1008; or upon system implementation for NPRR1014:]***(b) Notwithstanding the MOC calculation described in paragraph (1) above, the MOC for ESRs shall be set at the RTSWCAP. No later than December 31, 2023, ERCOT and stakeholders shall submit a report to TAC that includes a recommendation to continue the existing approach or a proposal to implement an alternative approach to determine the MOC for ESRs. |

(c) For Quick Start Generation Resources (QSGRs) the MOC shall be adjusted in accordance with Verifiable Cost Manual Appendix 7, Calculation of the Variable O&M Value and Incremental Heat Rate used in Real Time Mitigation for Quick Start Generation Resources (QSGRs).

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| ***[NPRR1008 and NPRR1014: Insert applicable portions of paragraph (d) below upon system implementation of the Real-Time Co-Optimization (RTC) project for NPRR1008; or upon system implementation for NPRR1014; and renumber accordingly:]***(d) For On-line hydro Generation Resources not operating in Synchronous Condenser Fast-Response mode, the MOC shall be adjusted in accordance with Verifiable Cost Manual, Appendix 12, Calculation of the Variable O&M Value and Incremental Heat Rate used in Real Time Mitigation for On-Line Hydro Generation Resources not operating in Synchronous Condenser Fast-Response mode. |

(d) The multipliers for the MOC calculation above are as follows:

(i) 1.10 for Resources running at a ≥ 50% capacity factor for the previous 12 months;

(ii) 1.15 for Resources running at a ≥ 30 and < 50% capacity factor for the previous 12 months;

(iii) 1.20 for Resources running at a ≥ 20 and < 30% capacity factor for the previous 12 months;

(iv) 1.25 for Resources running at a ≥ 10 and < 20% capacity factor for the previous 12 months;

(v) 1.30 for Resources running at a ≥ 5 and < 10% capacity factor for the previous 12 months;

(vi) 1.40 for Resources running at a ≥ 1 and < 5% capacity factor for the previous 12 months; and

(vii) 1.50 for Resources running at a less than 1% capacity factor for the previous 12 months.

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| ***[NPRR1058: Delete paragraph (d) above upon system implementation and renumber accordingly.]*** |

(e) The previous 12 months’ capacity factor must be updated by ERCOT by the 20th day of each month using the most recent data for use in the next month. ERCOT shall post to the MIS Secure Area the capacity factor for each Resource before the start of the effective month.

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| ***[NPRR1058: Delete paragraph (e) above upon system implementation and renumber accordingly.]*** |

(f) During the Adjustment Period, a QSE representing a Resource may submit Exceptional Fuel Cost or Fuel Contract Cost as a volume-weighted average fuel price for use in the MOC calculation for that Resource. To qualify, the submission must meet the following conditions:

(i) For all Resources, the weighted average fuel price must exceed FIP for the applicable Operating Day, plus a threshold parameter value of $1/MMBtu, plus the applicable fuel adder. For Resources without approved verifiable costs, the fuel adder will be set to the default value assigned to Resources with approved verifiable costs, as defined in the Verifiable Cost Manual. The threshold parameter value in this paragraph shall be recommended by the Wholesale Market Subcommittee (WMS) and approved by the Technical Advisory Committee (TAC). ERCOT shall update the threshold value on the first day of the month following TAC approval unless otherwise directed by the TAC. ERCOT shall provide a Market Notice prior to implementation of a revised parameter value.

(ii) Fixed cost (fees, penalties and similar non-gas costs) may not be included in the calculation of the weighted average fuel price.

(iii) The weighted average fuel price in paragraph (1) above must be a single value and based on the following fuel price options:

(A) A volume-weighted price considering all intra-day, same day, and spot fuel purchases for the Resource; or

(B) A projected fuel price for a Resource with a fuel supply contract(s) that also has submitted an Energy Offer Curve for the Operating Hour where the Energy Offer Curve is calculated as the incremental heat rate times the incremental fuel price plus Operations and Maintenance (O&M) cost; or

(C) A combination of the above two options.

A weighted average fuel price based on actual fuel purchases must be included in the calculation of the weighted average fuel price in paragraph (1) above. These must account for at least 10% of the total fuel volume burned by the applicable Resource for the hour for which the weighted average fuel price is computed. A projected incremental fuel price must be consistent with the terms of the fuel supply contract(s). A weighted average fuel price based on a combination of these options must meet the requirements described for each of the options. As noted in paragraph (l) below, the methodology used in the allocation of the cost and volume of fuel to the Resource for the hour is subject to validation by ERCOT.

(iv) Weighted average fuel prices must be submitted individually for each Operating Hour for which they are applicable. Values submitted outside of the Adjustment Period will be rejected and not used in the calculation of the MOC for the designated Operating Hour.

(v) A projected volume-weighted average fuel price must be consistent with the Energy Offer Curve for each Operating Hour for which they are applicable, and consistent with the signed and executed fuel supply contract(s) for each Resource.

(vi) A Fuel Contract Cost submitted based on projected fuel prices may not match with the actual volume-weighted average fuel price due to prospective costs and/or contractual costs.

(g) ERCOT may notify the Independent Market Monitor (IMM) if a QSE submits an Exceptional Fuel Cost or Fuel Contract Cost.

(h) No later than five Business Days after an Operating Day for which an Exceptional Fuel Cost or Fuel Contract Cost is submitted, ERCOT shall issue a Market Notice indicating the affected Operating Hours and the number of Resources for which a QSE submitted Exceptional Fuel Cost or Fuel Contract Cost for a particular Operating Day.

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| ***[NPRR1121: Replace paragraph (h) above with the following upon system implementation:]***(h) The day following an Operating Day for which an Exceptional Fuel Cost or Fuel Contract Cost is submitted, ERCOT shall post a report on the ERCOT website indicating the affected Operating Hours and the number of Resources for which a QSE submitted Exceptional Fuel Cost for a particular Operating Day. |

(i) No later than 1700 Central Prevailing Time (CPT) on the 15th day following an Exceptional Fuel Cost or Fuel Contract Cost submission, the submitting QSE shall provide ERCOT with the calculation of the weighted average fuel price, intraday or same-day fuel purchases, if applicable, and any available supporting documentation. Such information may include, but is not limited to, documents of the following nature: relevant contracts between the QSE or Resource Entity and fuel supplier, trade logs, transportation, storage, balancing and distribution agreements, calculation of the weighted average fuel price, or any other documentation necessary to support the Exceptional Fuel Cost or Fuel Contract Cost price and volume for the applicable period(s).

(j) No later than 1700 Central Prevailing Time (CPT) on the 60th day following an Exceptional Fuel Cost submission, the submitting QSE shall provide ERCOT with all supporting documentation not previously provided to ERCOT. No supporting documentation will be accepted after the 60th day.

(k) The accuracy of submitted Exceptional Fuel Cost and Fuel Contract Cost and the need for purchasing intraday or same-day gas must be attested to by a duly authorized officer or agent of the QSE representing the Resource. The attestation must be provided in a standardized format acceptable to ERCOT and submitted with the other documentation described in paragraph (i) above. The attestation for Exceptional Fuel Costs must state that the costs are not routine costs. An attestation for Fuel Contract Costs must state that the costs are known and actual fuel costs.

(l) ERCOT will use the supporting documentation to validate the Exceptional Fuel Cost or Fuel Contract Cost for the applicable period. Validation will include, but not be limited to, the cost and the quantity of purchased fuel, Resource-specific heat rates, and the methodology used in the allocation of the cost and volume of purchased fuel if applicable, to the Resource for the applicable hour used in the weighted average fuel price calculation. In connection with the validation process ERCOT may request additional documentation or clarification of previously submitted documentation. Such requests must be honored within ten Business Days.

(m) At ERCOT’s sole discretion, submission and follow-up information deadlines may be extended on a case-by-case basis.

(n) The documentation described in paragraphs (i) through (l) above is only required for the hours for which Exceptional Fuel Costs were submitted and the Resource was subject to mitigation.

(o) For Resources submitting Exceptional Fuel Costs based on projected incremental fuel prices based on a contract(s) the QSE must submit to ERCOT all applicable fuel supply contracts at least ten Business Days in advance of submitting Exceptional Fuel Costs.

(p) In its sole discretion, ERCOT may reject the use of a fuel contract used for Fuel Contract Costs that it believes are not known actual fuel costs. By May 1, 2024, ERCOT must develop a standardized fuel contract format or structure that reflects known and actual costs. At minimum, this contract format or structure must guarantee that the Resource knows the full cost of fuel and associated costs before it submits an Energy Offer Curve. A Resource is not required to use the suggested contract format or structure, but a contract that does not use it may be determined by ERCOT to not reflect known and actual fuel costs.

(q) If ERCOT determines that a Resource submitted Exceptional Fuel Costs or Fuel Contract Costs that exceeded their actual fuel and verified O&M costs, ERCOT may, in its sole discretion, prohibit the Resource or its QSE from using the Exceptional Fuel Cost process or Fuel Contract Cost process until the issues that led to the exceedance have been addressed to ERCOT’s satisfaction.