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| NPRR Number | [1177](https://www.ercot.com/mktrules/issues/NPRR1177) | NPRR Title |  Enhance Exceptional Fuel Cost Process |
| Date of Decision | June 5, 2023 |
| Action | Recommended Approval |
| Timeline  | Urgent – to ensure Qualified Scheduling Entities (QSEs) have a process to reflect their costs in their Energy Offer Curves in Real-Time without the risk of mitigation and uneconomic dispatch resulting in unrecoverable financial losses that if left unchecked would speed up Generation Resource retirements and increase market costs. |
| Proposed Effective Date | June 30, 2023 until January 1, 2025 |
| Priority and Rank Assigned | Not Applicable |
| Nodal Protocol Sections Requiring Revision  | 2.1, Definitions4.4.9.4.1, Mitigated Offer Cap |
| Related Documents Requiring Revision/Related Revision Requests | None |
| Revision Description | This Nodal Protocol Revision Request (NPRR) enables Generation Resources to file Exceptional Fuel 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. |
| Reason for Revision |  Addresses current operational issues. Meets Strategic goals (tied to the [ERCOT Strategic Plan](https://www.ercot.com/files/docs/2018/12/13/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 | 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, 2025 or as extended by an NPRR) that leverages the existing Exceptional Fuel Cost processes to include the ability to include contractual costs. Additionally, this NPRR gives ERCOT the discretion to reject any ineligible costs submitted by the QSE.In allowing Generation Resources to reflect their costs, this enhancement to the Exceptional Fuel Cost process 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. |
| PRS Decision | On 5/10/23, PRS voted unanimously to grant NPRR1177 Urgent status. PRS then voted to recommend approval of NPR1177 as revised by PRS and to forward to TAC NPRR1177. There was one opposing vote from the Consumer (Occidental) Market Segment, and three abstentions from the Consumer (Residential) and Independent Retail Electric Provider (IREP) (2) ( Reliant, Chariot Energy) Market Segments. All Market Segments participated in the votes. |
| Summary of PRS Discussion | On 5/10/23, participants debated whether NPRR1177 should be tabled and referred to WMS for consideration along with other Revision Requests addressing Exceptional Fuel Costs and to consider RUCs holistically. Participants expressed concern for the immediate ongoing risk of Entities unable to recover costs for lack of a mechanism in the Protocols. Some participants expressed concern that the mechanism proposed in NPRR1177 would become permanent, and that guardrails should be developed. ERCOT Staff requested time to observe the results of NPRR1177 prior to proposing a permanent solution, and offered a clarification to the proposed language.  |
| TAC Decision | On 5/23/23, TAC voted to table NPRR1177. There was one abstention from the Independent Generator (Luminant) Market Segment. All Market Segments participated in the vote.On 6/5/23, TAC voted unanimously to recommend approval of NPRR1177 as recommended by PRS in the 5/10/23 PRS Report, as amended by the 6/1/23 Constellation comments, and the 5/16/23 Impact Analysis; with a recommended effective date of the day after Public Utility Commission of Texas (PUCT) approval and a recommended sunset date of January 1, 2025. All Market Segments participated in the vote.  |
| Summary of TAC Discussion | On 5/23/23, TAC reviewed the ERCOT Opinion, ERCOT Market Impact Statement, and Independent Market Monitor (IMM) Opinion for NPRR1177. Participants reviewed the 5/22/23 Consumers comments and potential desktop edits to NPRR1177 as submitted. Participants discussed Consumers preference for a holistic approach to cost recovery; that certain parties are suffering unrecoverably losses; that additional time is needed to review the 5/22/23 Consumer comments; and that a temporary solution with a sunset date might be preferable to waiting for a long-term solution. Participants requested additional time to review comments, and encouraged interested parties to file additional comments ahead of a Special TAC meeting dedicated to NPRR1177.On 6/5/23, participants reviewed the 5/31/23 Consumers comments and the 6/1/23 Constellation comments, and discussed an effective date and sunset date for NPRR1177 language. The issue of standard language for firm fuel supply contracts was referred to WMS.  |

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| **Opinions** |
| Credit Review | ERCOT Credit Staff and the Credit Finance Sub Group (CFSG) have reviewed NPRR1177 and do not believe that it requires changes to credit monitoring activity or the calculation of liability. |
| Independent Market Monitor Opinion | The IMM does not oppose NPRR1177 as a temporary solution, and therefore supports the TAC-recommended version that contains a sunset date. |
| ERCOT Opinion | ERCOT supports approval of NPRR1177. |
| ERCOT Market Impact Statement | ERCOT Staff has reviewed NPRR1177 and believes the market impact for NPRR1177 will be to preserve reliability and reduce market costs by providing a temporary mechanism leveraging the Exceptional Fuel Cost processes to recognize, capture, and validate contractual costs, allowing Generation Resources to reflect costs in their Energy Offer Curves without the risk of Real-Time mitigation that will result in unrecoverable financial losses. |

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| **Comments Received** |
| Comment Author | **Comment Summary** |
| Consumers 052223 | Proposed additional language to require QSEs to complete an attestation that the forward fuel contract costs are known and actual; to allow ERCOT to prohibit a QSE or Resource from using this functionality if they submit offers that exceed their costs; to direct 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; to modify the Exceptional Fuel Cost definition to distinguish it from the Fuel Contract Cost definition and other types of costs; and suggested a sunset date of January 1, 2027 for NPRR1177 |
| Consumers 053123 | Allowed ERCOT to determine if any costs are ineligible; clarified that Exceptional Fuel Costs are distinct from fuel adders; codified some of the language in the Exceptional Fuel Cost attestation; and suggested a sunset date of January 1, 2025 for NPRR1177 |
| Constellation 060123 | Accepted a shorter sunset timeline for the development of a long-term solution or extension of the sunset date; clarified that an attestation for Exceptional Fuel Costs are accurate and variable, based on the dispatch of the Resource |

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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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| 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. Starting January 1, 2024, fuel adders shall not include any fuel purchases included in the submission of Exceptional Fuel Costs as described in paragraph (1)(f) of Section 4.4.9.4.1, Mitigated Offer Cap.

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 as a volume-weighted average fuel price for use in the MOC calculation for that Resource. To qualify as Exceptional Fuel Cost, 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) An Exceptional Fuel 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.

(h) No later than five Business Days after an Operating Day for which an Exceptional Fuel 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 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 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 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 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 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. An attestation for Exceptional Fuel Costs must state that the costs are accurate and variable, based on the dispatch of the Resource.

(l) ERCOT will use the supporting documentation to validate the Exceptional Fuel 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. ERCOT may, at any time, notify the QSE of any cost identified in the contract that is ineligible for inclusion in any Exceptional Fuel Cost submission. Upon receiving such notification, the QSE shall ensure that such cost is not included in any Exceptional Fuel Cost submission or in any Energy Offer Curve submission for any hours for which Exceptional Fuel Costs are submitted. The absence of any such notification shall not imply that such cost is eligible for inclusion in any Exceptional Fuel Cost submission or in any Energy Offer Curve submission.