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| VCMRR Number | [035](https://www.ercot.com/mktrules/issues/VCMRR035) | VCMRR Title | Allow Verified Contractual Costs in Fuel Adder Calculation |
| Date of Decision | | July 12, 2023 | |
| Action | | Rejected | |
| Timeline | | Normal | |
| Proposed Effective Date | | Not Applicable | |
| Priority and Rank Assigned | | Not Applicable | |
| Verifiable Cost Manual Sections Requiring Revision | | 3.4, Additional Rules for Submitting Fuel Costs | |
| Related Documents Requiring Revision/Related Revision Requests | | Nodal Protocol Revision Request (NPRR) 1140, Recovering Fuel Costs for Generation Above LSL During RUC-Committed Hours | |
| Revision Description | | This Verifiable Cost Manual Revision Request (VCMRR) enables generators to include pipeline-mandated costs and penalties in the fuel adder of the verified cost filings. | |
| 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 | | The current verifiable cost process requires generators to calculate gas adders based on historical data and costs, but it does not allow generators to include prospective costs based on underlying transportation contracts. Accordingly, a generator who is forced to enter into a new contract with significantly higher gas costs cannot actually reflect those new costs in the fuel adder because the verifiable cost manual requires that the adder be based on historical operations (and not the new contract).  If generators could reflect their verified actual contractual costs in the gas adder, then these costs would programmatically flow through to various Settlement processes, including the Reliability Unit Commitment (RUC) Guarantee, mitigated offer curves, and the recovery of fuel costs above Low Sustained Limit (LSL) during RUC-Committed hours. Unless and until generators can reflect their current fuel costs in the verifiable cost process (by incorporating contractually required adders), the Protocols will continue to be inadequate in addressing these cost-based dispatch and make-whole payment issues (which are not limited merely to RUC situations). | |
| WMS Decision | | On 8/3/22, WMS voted to table VCMRR035 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 7/12/23, WMS voted unanimously to reject VCMRR035. All Market Segments participated in the vote. | |
| Summary of WMS Discussion | | On 8/3/22, participants discussed that the current process of justifying fuel adders via historical data does not reflect recent market conditions; that cost recovery is based on variable rather than fixed costs; and that as currently proposed, VCMRR035 does not clarify what variable costs should be included. Participants noted that VCMRR035 removes language but proposes no replacement language, and proposed that VCMRR035 be taken up at WMWG after allowing time for interested stakeholders to file comments.  On 7/12/23, participants discussed that the purpose of VCMRR035 was addressed in recently-implemented NPRR1177, Enhance Exceptional Fuel Cost Process, and that the sponsor of VCMRR035 does not oppose its rejection. | |

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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
* VCMRR033, Excluding Exceptional Fuel Costs from Fuel Adders
  + Section 3.4
* VCMRR034, Excluding RUC Approved Fuel Costs from Fuel Adders
  + 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. 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.