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| VCMRR Number | [031](http://www.ercot.com/mktrules/issues/VCMRR031) | VCMRR Title | Clarification Related to Variable Costs in Fuel Adders |
| Date of Decision | | July 20, 2023 | |
| Action | | Approved | |
| Timeline | | Normal | |
| Proposed Effective Date | | August 1, 2023 | |
| Priority and Rank Assigned | | Not Applicable | |
| Verifiable Cost Manual Sections Requiring Revision | | 1.4, Global Definitions  3.4, Additional Rules for Submitting Fuel Costs  3.5, Minimum Requirements Fee (delete) | |
| Related Documents Requiring Revision/Related Revision Requests | | None | |
| Revision Description | | This Verifiable Cost Manual Revision Request (VCMRR):   * Defines variable costs and clarifies that all cost components used to calculate a Filing Entity’s fuel adder should also be based on variable costs; * Removes the minimum requirements fee cost category from the examples of cost categories that may be included in the fuel adder; and * Changes the review timeline detailed in paragraph (3) of Section 3.4 to give ERCOT the ability to review and follow up on more complex cost submissions. | |
| 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 | | ERCOT has determined that a conflict exists between the Protocols and the Verifiable Cost Manual to the extent the Verifiable Cost Manual allows fixed costs to be used when calculating fuel adders. Paragraph (5)(a) of Protocol Section 5.6.1, Verifiable Costs, states that unit-specific verifiable costs may not include fixed costs, which are defined in that provision as “any cost that is incurred regardless of whether the unit is deployed or not.” Verifiable Cost Manual Sections 3.4 and 3.5 purport to allow minimum requirements fees to be included in the fuel adder. A minimum requirements fee is a fee charged for a certain guaranteed minimum amount of pipeline capacity. The fee is charged whether or not the total pipeline capacity is used and is therefore a fixed cost. Additionally, Section 3.4 includes a list of cost categories used in calculating the actual fuel adder such as storage and transportation fees, but does not clearly state that all costs submitted in those categories must be variable. This VCMRR aligns the Verifiable Cost Manual with the Protocols by removing references to a minimum requirements fee and by clarifying that all costs used to calculate fuel adders must be variable.  Although Protocol Section 5.6.1.1, Verifiable Startup Costs, and Section 5.6.1.2, Verifiable Minimum-Energy Costs, both contemplate that verifiable startup and minimum energy costs may include a “fuel adder that compensates for the transportation and purchasing of spot fuel as described in the Verifiable Cost Manual,” that language does not affect the application of the requirement in Protocol Section 5.6.1 that those costs cannot be fixed. ERCOT therefore reads Protocol Sections 5.6.1.1 and 5.6.1.2 to provide that a fuel adder is permitted, but only if it is limited to recovery of variable costs. | |
| WMS Decision | | On 3/3/21, WMS voted unanimously via roll call to table VCMRR031 and refer the issue to the Resource Cost Working Group (RCWG). All Market Segments were present for the vote.  On 4/5/23, WMS voted to recommend approval of VCMRR031 as submitted. There were 14 abstentions from the Cooperative (4) (LCRA, STEC, PEC, GSEC), Independent Generator (4) (Luminant, Avangrid, RWE, Constellation), Independent Power Marketer (IPM) (NG Renewables), Investor Owned Utility (IOU) (3) (AEPSC, CNP, TNMP) and Municipal (2) (Austin Energy, BTU) Market Segments. All Market Segments participated in the vote.  On 5/3/23, WMS voted to endorse and forward to TAC the 4/5/23 WMS Report and the 8/3/21 Revised Impact Analysis for VCMRR031. There were 12 abstentions from the Cooperative (2) (STEC, PEC), Independent Generator (3) (Luminant, Avangrid, Constellation), IPM (3) (DC Energy, Tenaska, NG Renewables), IOU (3) (AEPSC, CNP, TNMP) and Municipal (Austin Energy) Market Segments. All Market Segments participated in the vote. | |
| Summary of WMS Discussion | | On 3/3/21, there was no discussion.  On 4/5/23, participants noted that the Public Utility Commission of Texas (PUCT) had recently ruled on Filing 51883, Complaint and Request for Emergency Relief by Luminant Energy Company LLC Against The Electric Reliability Council of Texas, Inc.  On 5/3/23, there was no discussion. | |
| TAC Decision | | On 5/23/23, TAC voted to recommend approval of VCMRR031 as recommended by WMS in the 5/3/23 WMS Report. There were two opposing votes from the Independent Generator (Calpine, Luminant) Market Segment, and ten abstentions from the Cooperative (4) (GSEC, LCRA, PEC, STEC), Independent Generator (2) (Jupiter Power, ENGIE), and Municipal (4) (DME, CSP Energy, Austin Energy GP&L) Market Segments. All Market Segments participated in the vote. | |
| Summary of TAC Discussion | | On 5/23/23, participants encouraged interested parties to attend the 5/24/23 Resource Cost Working Group (RCWG) for an initial discussion of a holistic approach to cost recovery. | |
| ERCOT Board Decision | | On 6/20/23, the ERCOT Board voted unanimously to recommend approval of VCMRR031 as recommended by TAC in the 5/23/23 TAC Report. | |
| PUCT Decision | | On 7/20/23, the PUCT approved VCMRR031 and accompanying ERCOT Market Impact Statement as presented in Project No. 54445, Review of Rules Adopted by the Independent Organization. | |

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| **Opinions** | |
| **Credit Review** | Not Applicable |
| **Independent Market Monitor Opinion** | IMM supports VCMRR031. |
| **ERCOT Opinion** | ERCOT supports approval of VCMRR031. |
| **ERCOT Market Impact Statement** | ERCOT Staff has reviewed VCMRR031 and believes the market impact for VCMRR031 will align the Verifiable Cost Manual with the Protocols by removing references to a minimum requirements fee and by clarifying that all costs used to calculate fuel adders must be variable. |

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

* VCMRR033, Excluding Exceptional Fuel Costs from Fuel Adders
  + Section 3.4
* VCMRR034, Excluding RUC Approved Fuel Costs from Fuel Adder
  + Section 3.4
* VCRMM037, Related to NPRR1172, Fuel Adder Definition, Mitigated Offer Caps, and RUC Clawback
  + Section 3.4
  + Section 3.5

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| Proposed Verifiable Cost Manual Language Revision |

**1.4 Global Definitions**

(1) Where this Manual uses the generic phrase “Verifiable Costs,” it is intended to refer to the sum of any applicable, Verified Operating and Maintenance Costs and any appropriate, Verified Fuel Costs. ERCOT itself calculates Fuel Costs, but does so using Fuel Consumption data that have been submitted and verified. Thus, the Fuel Cost component implied by the term “Verifiable Costs” should be interpreted to mean whichever of the following is contextually appropriate:

(a) Fuel Consumption per-start (MMBtu/start)

(b) Fuel Consumption per-hour at LSL (MMBtu/hr)

(c) Fuel Consumption as determined from submitted heat rate (a measure of generator efficiency) data

(2) The following are several abbreviations that are used throughout this Manual and the intended meaning of each:

(a) “AHR Curve” denotes Average Heat Rate Curve

(b) “CCP” denotes Combined Cycle Plant

(c) “FIP” denotes Fuel Index Price

(d) “FOP” denotes Fuel Oil Price

(e) “IHR Curve” denotes Incremental Heat Rate Curve.

(f) “I/O Curve” denotes Input-Output Curve

(g) “LSL” denotes Low Sustained Limit

(h) “HSL” denotes High Sustained Limit

(i) “Manual” refers to this document, ERCOT’s Verifiable Cost Manual

(j) “MMBtu” denotes one-million British Thermal Units

(k) “O&M costs” denotes Operations and Maintenance costs.

(l) “QSE” denotes Qualifying Scheduling Entity

(m) “RUC” denotes the Reliability Unit Commitment

(n) “SGR” denotes Split Generation Resource

(o) “VOM" denotes Variable O&M

(p) “VCMS” denotes Verifiable Cost Management System

(q) “lb” denotes Pounds-Mass

(r) “WMS” Wholesale Market Subcommittee

(s) “LEL” denotes Low Emergency Limit

(t) “HEL” denotes High Emergency Limit

(u) “PPA” denotes Power Purchase and Tolling Agreements

(v) “Filing Entity” denotes the Entity which files Verifiable Cost data with ERCOT, whether a Qualified Scheduling Entity or a Resource Entity.

(w) “BC” denotes breaker close

(x) “VC” denotes Verifiable Costs

(y) “Shutdown Costs” denotes those fuel costs (Including auxiliary boiler fuel and auxiliary-equipment fuel or electrical power requirements but excluding normal plant heating) which are incurred within three hours after Breaker Open.

(z) “Variable costs” are costs that are not fixed costs as defined in paragraph (5) of Protocol Section 5.6, RUC Cost Eligibility.

**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 variable costs for fuel, transportation, spot fuel, storage, 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 only variable 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 variable costs associated with, but not limited to, the following categories: transportation, commodity, deliveries, storage, injection, withdrawal, and imbalance fees. Other variable costs not described herein may be included if 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 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** | **ERCOT Review Period[[1]](#footnote-1)** |
| March of previous year  to  February of current year | April | May-June |
| September of previous year  to  August of current year | October | November-December |

1. ERCOT will approve fuel adders during the Review Period unless it determines additional time is needed. [↑](#footnote-ref-1)