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| VCMRR Number | [034](https://www.ercot.com/mktrules/issues/VCMRR034) | VCMRR Title | Excluding RUC Approved Fuel Costs from Fuel Adders |
| Date of Decision | | August 31, 2023 | |
| Action | | Recommended Approval | |
| Timeline | | Normal | |
| Proposed Effective Date | | November 1, 2023 | |
| 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 | | None | |
| Revision Description | | This Verifiable Cost Manual Revision Request (VCMRR) provides that actual fuel purchases that were used to determine the Reliability Unit Commitment (RUC) Guarantee, as described in Protocol Section 9.14.7, Disputes for RUC Make-Whole Payment for Fuel Costs, shall 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 the determination of Startup and minimum-energy caps, Make-Whole Payments, and the Mitigated Offer Cap (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.  Resources that received a RUC are able to recover their actual fuel cost by filing a dispute per Protocol Section 9.14.7. Given that Resources recover the cost of these fuel purchases via a dispute, it is inappropriate to also include these fuel purchases with Fuel adders. Otherwise, the Resource could recover the cost of the same fuel purchase multiple times via future Make-Whole Payments or clearing prices. | |
| WMS Decision | | On 8/3/22, WMS voted to table VCMRR034 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 VCMRR034. 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.  On 6/7/23, WMS voted to recommend approval of VCRMM034 as submitted. There was one opposing vote from the Independent Generator (Luminant) Market Segment, and three abstentions from the Independent Generator (Constellation), IPM (NG Renewables), and Investor Owned Utility (AEPSC) Market Segments. All Market Segments participated in the vote.  On 7/12/23, WMS voted unanimously to endorse and forward to TAC the 6/7/23 WMS Report and 6/21/22 Impact Analysis for VCMRR034. All Market Segments participated in the vote. | |
| Summary of WMS Discussion | | On 8/3/22, both Staff and participants requested additional discussion, and referred the issue to the WMWG.  On 2/6/23, participants debated recommending approval of VCMRR034 and whether discussion of the issues contemplated in VCMRR034 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, VCMRR034 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.  On 6/7/23, participants discussed initiating a holistic review of verifiable costs, and that VCMRR034 is the least complex of the issues.  On 7/12/23, participants reviewed the 6/21/22 Impact Analysis. | |
| TAC Decision | | On 7/25/23, TAC voted to recommend approval of VCMRR034 as recommended by WMS in the 7/12/23 WMS Report. There was one opposing vote in the Independent Generator (Luminant) Market Segment, and three abstentions in the Independent Generator (Calpine, ENGIE, Jupiter Power) Market Segments. All Market Segments participated in the vote. | |
| Summary of TAC Discussion | | On 7/25/23, TAC reviewed the ERCOT Opinion, ERCOT Market Impact Statement, and Independent Market Monitor (IMM) Opinion for VCMRR034. Some participants expressed concern that VCMRR034 creates difficulty with reconciling which costs are submitted and approved via the process versus fuel adders. | |
| ERCOT Board Decision | | On 8/31/23, the ERCOT Board voted unanimously to recommend approval of VCMRR034 as recommended by TAC in the 7/25/23 TAC Report. | |

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| **Opinions** | |
| Credit Review | Not Applicable |
| Independent Market Monitor Opinion | IMM supports VCMRR034. |
| ERCOT Opinion | ERCOT supports approval of VCMRR034. |
| ERCOT Market Impact Statement | ERCOT Staff has reviewed VCMRR034 and believes the market impact for VCMRR034 is the correct compensation for Resources for actual fuel costs via the dispute process pursuant to Protocol Section 9.14.7. |

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| Phone Number | 512-248-3954 |
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| Market Segment | Not Applicable |

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| **Comments Received** | |
| **Comment Author** | **Comment Summary** |
| Luminant 020823 | Expressed concern for exacerbating the ongoing administrative burden for Generation Resources and ERCOT by both requiring additional Exceptional Fuel Cost submittals, ongoing RUC disputes, and complicating the submission and approval of fuel adders |

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| **Market Rules Notes** |

Please note the baseline Verifiable Cost Manual language in the following section(s) has been updated to reflect the incorporation of the following VCMRR(s) into the manual:

* VCMRR031, Clarification Related to Variable Costs in Fuel Adders (incorporated 8/1/23)
  + Section 3.4

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

* VCMRR037, Related to NPRR1172, Fuel Adder Definition, Mitigated Offer Caps, and RUC Clawback
  + 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 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) Notwithstanding paragraph (2) above, Fuel Adders shall not include actual fuel purchases used in the calculation of the RUC Guarantee as described in Protocol Section 9.14.7, Disputes for RUC Make-Whole Payment for Fuel Costs.

(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 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)