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| NPRR Number | [1179](https://www.ercot.com/mktrules/issues/NPRR1179) | NPRR Title | Fuel Purchase Requirements for Resources Submitting RUC Fuel Costs |
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| Date | | August 25, 2023 | |
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| Submitter’s Information | | | |
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| Company | | ERCOT | |
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| Cell Number | |  | |
| Market Segment | | Not Applicable | |

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| Comments |

ERCOT files these comments on top of the 7/7/23 Constellation comments to make changes to paragraph (1) of Section 9.14.7, Disputes for RUC Make-Whole Payment for Fuel Costs. After the conclusion of the August 14, 2023 Resource Cost Working Group (RCWG) and Wholesale Market Working Group (WMWG) Joint Workshop on Reliability Unit Commitment (RUC) and Verifiable Costs, stakeholders provided examples showing that there might be instances when Generation Resources may not be able to fully recover their fuel costs during a RUC-Committed Interval if the Resource’s heat rate, approved with verifiable costs, does not fully represent the actual fuel burned per MWh during the RUC-Commitment Interval. As a result, ERCOT believes that more discussion with Market Participants is warranted to find an appropriate balance between using the Resource’s approved heat rate and the actual fuel consumption submitted with the RUC fuel dispute; any changes resulting from these discussions should be addressed in a separate NPRR.

In these comments, ERCOT also removes the word “is” from paragraph (2) to ensure the sentence is grammatically correct, and adds a reference to paragraph (3) in Section (4)(a) to better reflect the requirement to procure and nominate fuel for extended RUC instructions. The changes proposed in these comments do not impact the rest of the modifications made to the other sections that address the procurement and nomination of fuel.

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| **Market Rules Notes** |

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

* NPRR1172, Fuel Adder Definition, Mitigated Offer Caps, and RUC Clawback
  + Section 9.14.7

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| Revised Cover Page Language |

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| Revision Description | This Nodal Protocol Revision Request (NPRR) ensures that Qualified Scheduling Entities (QSEs) representing Generation Resources that have an executed and enforceable transportation contract and file a Settlement dispute to recover their actual fuel costs incurred when instructed to operate due to a RUC, procure fuel economically. This NPRR also clarifies that fuel costs may also include penalties for fuel delivery outside of RUC-Committed Intervals in accordance with the ratable delivery obligations and costs as specified in the enforceable transportation agreement. |
| 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 | Section 9.14.7 allows a QSE for a Generation Resource to file a Settlement dispute to recover fuel costs for startup, minimum energy, and operations above the Low Sustained Limit (LSL) of the Generation Resource if the actual fuel price paid for natural gas or fuel oil consumed during RUC-Committed Intervals was greater than the corresponding fuel index price used by ERCOT. Currently, the QSE must provide documentation (invoices) that identifies intra-day, same-day, or spot market costs of natural gas or fuel oil consumed during the RUC-Committed Interval.  Also, Generation Resources with an executed and enforceable transportation contract might be able to withdraw fuel directly from the pipeline company without having to nominate (schedule) the fuel. This could result in fuel being purchased at the highest price(s) as described in the contract, potentially resulting in significantly high fuel costs.  The changes to the Protocols described in Section 9.14.7 require the QSE or Resource Entity representing the Generation Resource to purchase and nominate fuel in order to reduce the overall cost of fuel when applicable. |

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| Revised Proposed Protocol Language |

9.14.7 Disputes for RUC Make-Whole Payment for Fuel Costs

(1) If the actual price paid for delivered natural gas for a specific Resource during a Reliability Unit Commitment (RUC)-Committed Interval is greater than Fuel Index Price (FIP) adjusted by the proxy fuel adder, X, defined in the Verifiable Cost Manual (i.e., FIP \* (1+X)), then the QSE may file a Settlement dispute for that Resource’s RUC Make-Whole Payment. The maximum amount that may be recovered through this dispute process is the difference between the RUC Guarantee based on the actual price paid and the fuel price of FIP \* (1+X).

The QSE must provide documentation (invoices or contracts, as applicable) that identifies intra-day, same-day, or spot market costs of natural gas consumed during the RUC-Committed Interval. Such documentation is necessary to justify recovery of natural gas costs, which is limited to the actual fuel amount (MMBtus) consumed during RUC-Committed Intervals. All documentation submitted by the QSE for natural gas costs incurred intra-day, same-day, or via spot market must show a nexus from the seller or distributor of natural gas products to the QSE, Resource Entity or Generation Entity as the ultimate buyer. The QSE must demonstrate that the seller or distributor has procured natural gas fuel intra-day, same-day, or via spot market. A Power Purchase or Tolling Agreement (PPA) filed as documentation of proof of fuel costs will not be accepted unless the PPA was signed prior to July 16, 2008, and is not between Affiliates, subsidiaries, or partners.

(2) If the QSE submitting a Settlement dispute under paragraph (1) above, or the Resource Entity for the Resource, has an executed and enforceable transportation contract (together with any associated statement of operating conditions), on an interstate or intrastate pipeline, for the Generation Resource that received the RUC instruction, the QSE must show proof that the QSE or Resource Entity (or another entity acting on behalf of the Resource Entity with respect to fuel procurement) purchased and nominated fuel in sufficient quantities to start and operate the Resource at its Low Sustained Limit (LSL) during the RUC-Committed Intervals.

(3) The QSE or Resource Entity must purchase and nominate fuel as described in paragraph (2) above unless one or more of the conditions below applies:

(a) The Resource received an initial RUC instruction for less than 12 contiguous hours within the same gas delivery day;

(b) The QSE or Resource Entity did not have sufficient time to procure and nominate fuel after receiving the RUC instruction;

(c) The RUC instruction was instructed outside of Business Hours or otherwise at a time when the Resource was unable to procure fuel.

(4) If the QSE or Resource Entity did not or was not able to nominate fuel for the RUC-Committed Intervals, ERCOT may require proof that following a reasonable effort to secure fuel, the QSE or Resource Entity was not able to both purchase and nominate fuel for reasons beyond the QSE’s or Resource Entity’s control, or that nominating such fuel would have resulted in higher overall fuel costs. ERCOT may require an attestation signed by an officer or executive with authority to bind the QSE stating that the information contained in the dispute is accurate and that the costs included are variable based on the dispatch of the Resource, to the best of knowledge and belief.

(a) A QSE or Resource Entity is not required to procure and nominate fuel after the initial RUC instruction for incremental RUC instructed hours unless the extended RUC instruction individually meets the requirements under paragraphs (2) and (3) above.

(5) Notwithstanding the provision in paragraph (1) above, the cost of fuel may also include penalties for fuel delivery outside of RUC-Committed Intervals in accordance with the ratable delivery obligations and costs as specified in the enforceable transportation agreement. In addition, if the QSE or Resource Entity (or another entity acting on behalf of the Resource with respect to fuel procurement) has purchased sufficient fuel quantities to start and operate the Resource at its LSL during the RUC-Committed Intervals and is eligible to receive a Startup Cost, as described in Section 5.6.2, RUC Startup Cost Eligibility, but trips Off-Line, the QSE is eligible to recover associated fuel penalties incurred through the end of the gas day.

(6) If the actual price paid for the delivered fuel oil used to replace oil consumed during a RUC-Committed Interval is greater than Fuel Oil Price (FOP) adjusted by the proxy fuel adder, X, defined in the Verifiable Cost Manual (i.e., FOP \* (1+X)), then the QSE may file a Settlement dispute for the Resource’s RUC Make-Whole Payment. The maximum amount that may be recovered through this dispute process is the difference between the RUC Guarantee based on the actual price paid and the adjusted price, FOP \* (1+X).

(7) If the QSE representing the Generation Resource made a Three-Part Supply Offer into the DAM based on FIP and had to run on fuel oil in a RUC-Committed Hour with an active Three-Part Supply Offer based on the adjusted FIP, the QSE may file a Settlement dispute to recover the difference between the RUC Guarantee based actual price paid for delivered fuel oil and the fuel price of FIP \* (1+X).

(8) When filing a Settlement dispute under paragraph (6) or (7) above, the QSE must provide documentation (invoices) that identifies purchases of fuel oil by the QSE, Resource Entity, or Generation Entity to replace oil consumed for a RUC-Committed Interval. In addition, the QSE must provide proof that the Resource actually consumed fuel oil during the RUC-Committed Interval. Proof of actual consumption may be based on the Resource’s technical specifications or flow meters as appropriate. Documentation of fuel oil purchases must show that these were made no later than seven Business Days after the end of the last consecutive RUC-Committed Interval. Replacement fuel oil costs are limited to the actual gallons/barrels of fuel oil consumed during RUC-Committed Intervals.

(9) ERCOT may, in its sole discretion, consider documentation types other than those specifically listed in paragraphs (1) and (8) above when offered by a QSE in support of its recovery of fuel costs for RUC deployments. For example, ERCOT may require the Resource input-output equation or average heat rate curve that allows for verification of fuel consumption for operation at and above LSL.

(10) When calculating the RUC Guarantee as described in paragraph (1), (6) or (7) above, the Startup Price per start (SUPR) and the Minimum-Energy Price (MEPR), as defined in paragraph (6) of Section 5.7.1.1, RUC Guarantee, will be set to the Startup Cap (SUCAP) and Minimum-Energy Cap (MECAP), respectively, utilizing the actual fuel price paid.

(11) In order to recover fuel costs above LSL for a RUC-Committed Interval, the QSE must also submit proof of the volume-weighted average actual price paid for fuel consumed by the Resource during a RUC-Committed Interval for generation above LSL. ERCOT will adjust the RUC Guarantee (RUCG) to include the additional fuel costs above LSL filed by the QSE.

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| ***[NPRR1140: Replace paragraph (11) above with the following upon system implementation:]***  (11) In order to recover fuel costs above LSL for a RUC-Committed Interval, the QSE must also submit proof of the volume-weighted average actual price paid for fuel consumed by the Resource during a RUC-Committed Interval for generation above LSL. |