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| VCMRR Number | [039](https://www.ercot.com/mktrules/issues/VCMRR039) | VCMRR Title | Related to NPRR1216, Implementation of Emergency Pricing Program |
| Date Posted | January 23, 2024 |
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| Requested Resolution  | Normal |
| 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) 1216, Implementation of Emergency Pricing ProgramOther Binding Document Revision Request (OBDRR) 051, Related to NPRR1216, Implementation of Emergency Pricing Program |
| Revision Description | This Verifiable Cost Manual Revision Request (VCMRR) provides that actual fuel purchases that were used to determine the Operating Losses Payment Amount, as described in Protocol Section 6.8.2, Recovery of Operating Losses During an LCAP or ECAP Effective Period, shall not also be included when calculating fuel adders.  |
| Reason for Revision |  [Strategic Plan](https://www.ercot.com/files/docs/2023/08/25/ERCOT-Strategic-Plan-2024-2028.pdf) Objective 1 – Be an industry leader for grid reliability and resilience [Strategic Plan](https://www.ercot.com/files/docs/2023/08/25/ERCOT-Strategic-Plan-2024-2028.pdf) Objective 2 - Enhance the ERCOT region’s economic competitiveness with respect to trends in wholesale power rates and retail electricity prices to consumers [Strategic Plan](https://www.ercot.com/files/docs/2023/08/25/ERCOT-Strategic-Plan-2024-2028.pdf) Objective 3 - Advance ERCOT, Inc. as an independent leading industry expert and an employer of choice by fostering innovation, investing in our people, and emphasizing the importance of our mission Administrative Regulatory requirements ERCOT Board/PUCT Directive*(please select ONLY ONE – if more than one apply, please select the ONE that is most relevant)* |
| Justification of Reason for Revision and Market Impacts | 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 incurred operating losses during a LCAP or ECAP Effective Period are able to recover their actual marginal costs, including fuel costs, by filing a dispute per Protocol Sections 6.8, Settlement for Operating Losses During an LCAP or ECAP Effective Period, and 9.14, Settlement and Billing Dispute Process. 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.  |

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| Sponsor |
| Name | Ino Gonzalez |
| E-mail Address | Ino.Gonzalez@ercot.com  |
| Company | ERCOT |
| Phone Number | 512-248-3954 |
| Cell Number |  |
| Market Segment | Not applicable |

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| **Market Rules Staff Contact** |
| **Name** | Cory Phillips |
| **E-Mail Address** | cory.phillips@ercot.com |
| **Phone Number** | 512-248-6464 |

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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, or in the calculation of the Operating Losses Payment Amount as described in Protocol Section 6.8.2, Recovery of Operating Losses During an LCAP or ECAP Effective Period.

(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)