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| VCMRR Number |  | VCMRR Title | Fuel Adder Methodology for Coal-Fired Resources to Minimize ERCOT Cost while Maintaining Resource Fuel Cost Recovery |
| Date Posted | | **DRAFT for RCWG** | |
|  | |  | |
| Requested Resolution | | Normal | |
| Verifiable Cost Manual Sections Requiring Revision | |  | |
| Related Documents Requiring Revision/Related Revision Requests | | n/a | |
| Revision Description | | Describe the basic function of the Revision Request. | |
| 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 | | Provide justification of the Reason for Revision selected above; including qualitative and quantitative market impacts (data transparency, benefit calculations, etc.), impacts to market segments and other information relating to the impacts or benefits of the Revision Request | |

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| Sponsor | |
| Name | Ino Gonzalez, Josh McGuire |
| E-mail Address | [Ino.gonzalez@ercot.com](mailto:Ino.gonzalez@ercot.com), joshua.mcguire@ercot.com |
| Company | ERCOT |
| Phone Number | (512) 632-7927, (512) 248-3971 |
| Cell Number |  |
| Market Segment |  |

|  |  |
| --- | --- |
| **Market Rules Staff Contact** | |
| **Name** |  |
| **E-Mail Address** |  |
| **Phone Number** |  |

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| Proposed Verifiable Cost Manual Language Revision |

**3.4 Additional Rules for Submitting Fuel Costs**

(1) All Resources that have been approved for Verifiable Costs (VC) 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 coal-fired or lignite-fired Resources with actual coal fuel adders (ACFA) ($/MMBtu), the applicable methodology to calculate the ACFA is described in Section 14, Appendices, Appendix 11, Procedure for Determining the Actual Coal Fuel Adder for Coal and Lignite Resources with Approved Verifiable Costs. The default fuel adder for all Resources with VC will remain the default amount specified above until the Filing Entity establishes an actual fuel adder or an actual coal fuel adder. Once an actual fuel adder or actual coal fuel adder has been approved, the Filing Entity must continue to provide actual fuel costs as prescribed in paragraph (2) below; failure to do so will cause the actual fuel adder or actual coal fuel adder to be reset to the default fuel adder value. 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 for a natural gas Resource 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) Any Filing Entity that submits an actual coal fuel adder must provide documentation for a rolling 6-month period to support the actual costs or index prices used to value the commodity and any included variable transportation costs used in the calculation of the actual coal fuel adder. Data to support actual costs should include, but are not limited to, accounting ledger entries and invoices.

(5) Review and approval of a fuel adder or an actualcoal fuel adder 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 or actual coal fuel adder, please see the table below. The fuel adder for the next period will be implemented the first day of the month after fuel costs have been approved or as soon as practicable if the ERCOT Review Period has passed.



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| **Submission Period** | **Submitted Months (Natural Gas)** | **Submitted Months (Coal/Lignite)** | **ERCOT Review Period1** |
| April | March of previous year  to  February of current year | September of previous year to  February of current year | May-June |
| October | September of previous year to  August of current year | March of current year  to  August of current year | November-December |

**Appendix 11: Procedure for Determining the Actual Coal Fuel Adder (ACFA) for Coal and Lignite Resources with Approved Verifiable Costs**

The Fuel Adder for coal and lignite Resources will be determined as follows:

Fuel Adder for next period ($/MMBtu) = Max ($0.50, ACFA)

Where,

ACFA ($/MMbtu) = Actual Coal Fuel Adder

Filing Entities that elect to submit an Actual Coal Fuel Adder ($/MMBtu) for a Resource for verification and approval by ERCOT should utilize the following methodology:

1. The ACFA should include three components, a coal commodity price ($/MMBtu), a coal transportation price ($/MMbtu) and the average Fuel Index Price (FIP) ($/MMBtu) as variables.
2. The coal commodity price can be obtained from one of the following three sources:
   1. Coal Fuel Index Price (commodity), derived from regularly published data index source based on the price of Powder River Basin (PRB) 8,800 Btu/lb coal, or
   2. The average weekly price of coal during the 6 months prior to the submission period[[1]](#footnote-2) as published by the U.S. Energy Information Administration (As of Feb 2024, prices are located at <https://www.eia.gov/coal/markets/>), under the heading Power River Basin 8,800 Btu, or
   3. A weighted average price of the coal on the coal pile at the time of the submissionas determined by the Filing Entity. Filing Entities must provide a detailed description and supporting documentation of how the weighted average price of the coal was determined under this approach.
3. The transportation price can be calculated by the Filing Entity and based on the actual coal transportation average cost or an applicable index price, in $/MMbtu, to transport coal via rail/truck or barge to the plant. Transportation costs must be based on the average cost during the last six months prior to the submission period.
4. The coal commodity and transportation prices in $/short ton must be converted to $/MMBtu as:
   1. $/MMBtu = [$/short ton] \* [1 short ton/2,000lb]\* [1 lb/8,800 Btu] \* [1,000,000 Btu/MMBtu].
5. The ACFA for the 6-month period of review can be calculated as follows:
   1. ACFA ($/MMBtu) = [∑ (weekly average Coal Fuel Index Price + weekly average transportation price – weekly average Fuel Index Price (FIP))] / Number of weeks in the 6 month period, or
   2. ACFA ($/MMBtu) = [∑ (weekly average price published by the U.S. Energy Information Administration (EIA) + weekly average transportation price – weekly average Fuel Index Price (FIP))] / Number of weeks in the 6 months period, or
   3. ACFA ($/MMBtu) = [∑ (monthly average Coal Fuel Index Price + monthly average transportation price – monthly average Fuel Index Price (FIP))] / 6 months, or
   4. ACFA ($/MMBtu) = A methodology developed by the Filing Entity and submitted to ERCOT in advance of filing an actual coal fuel adder, subject to approval by ERCOT.
6. ACFA submissions will follow the timeline shown in the table in Section 3.4(4).

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1. ERCOT will approve fuel adders during the Review Period unless it determines additional time is needed. [↑](#footnote-ref-2)