|  |  |  |  |
| --- | --- | --- | --- |
| NPRR Number | [1179](https://www.ercot.com/mktrules/issues/NPRR1179) | NPRR Title | Fuel Purchase Requirements for Resources Submitting RUC Fuel Costs |
| Date of Decision | | February 27, 2024 | |
| Action | | Recommended Approval | |
| Timeline | | Urgent – to implement these changes to fuel costs in Reliability Unit Commitment (RUC) fuel disputes as soon as possible. | |
| Estimated Impacts | | Cost/Budgetary: None  Project Duration: No project required | |
| Proposed Effective Date | | First of the month following Public Utility Commission of Texas (PUCT) approval | |
| Priority and Rank Assigned | | Not applicable | |
| Nodal Protocol Sections Requiring Revision | | 9.14.7, Disputes for RUC Make-Whole Payment for Fuel Costs | |
| Related Documents Requiring Revision/Related Revision Requests | | None | |
| 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 | | [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  General system and/or process improvement(s)  Regulatory requirements  ERCOT Board and/or 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 | | 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. | |
| PRS Decision | | On 5/10/23, PRS voted unanimously to waive notice for NPRR1179 and to grant NPRR1179 Urgent status. PRS then voted to table NPRR1179 and refer the issue to WMS. There was one abstention from the Investor Owned Utility (IOU) (Lone Star Transmission) Market Segment. All Market Segments participated in the votes.  On 12/15/23, PRS voted unanimously to recommend approval of NPRR1179 as amended by the 11/28/23 ERCOT comments; and to forward to TAC NPRR1179 and the 5/4/23 Impact Analysis. All Market Segments participated in the vote. | |
| Summary of PRS Discussion | | On 5/10/23 ERCOT Staff presented NPRR1179. Participants requested further review by the Resource Cost Working Group (RCWG) to understand parameters that Resources are able to comply with, given contracts with gas suppliers and QSEs.  On 12/15/23, participants reviewed the 11/28/23 ERCOT comments. | |
| TAC Decision | | On 1/24/24, TAC voted unanimously to recommend approval of NPRR1179 as recommended by PRS in the 12/15/23 PRS Report. All Market Segments participated in the vote. | |
| Summary of TAC Discussion | | On 1/24/24, there was no discussion beyond TAC review of the items below. | |
| TAC Review/Justification of Recommendation | | Revision Request ties to Reason for Revision as explained in Justification  Impact Analysis reviewed and impacts are justified as explained in Justification  Opinions were reviewed and discussed  Comments were reviewed and discussed (if applicable)  Other: (explain) | |
| ERCOT Board Decision | | On 2/27/24, the ERCOT Board voted unanimously to recommend approval of NPRR1179 as recommended by TAC in the 1/24/24 TAC Report. | |

|  |  |
| --- | --- |
| **Opinions** | |
| Credit Review | ERCOT Credit Staff and the Credit Finance Sub Group (CFSG) have reviewed NPRR1179 and do not believe that it requires changes to credit monitoring activity or the calculation of liability. |
| Independent Market Monitor Opinion | IMM has no opinion on NPRR1179. |
| ERCOT Opinion | ERCOT supports approval of NPRR1179. |
| ERCOT Market Impact Statement | ERCOT Staff has reviewed NPRR1179 and believes the market impact for NPRR1179 is improved economical fuel purchases by Entities 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. |

|  |  |
| --- | --- |
| Sponsor | |
| Name | Ino Gonzalez / Marcelo Magarinos |
| E-mail Address | [Ino.Gonzalez@ercot.com](mailto:Ino.Gonzalez@ercot.com) / [Marcelo.Magarinos@ercot.com](mailto:Marcelo.Magarinos@ercot.com) |
| Company | ERCOT |
| Phone Number | 512-248-3954 / 512-248-6724 |
| Cell Number |  |
| Market Segment | Not Applicable |

|  |  |
| --- | --- |
| **Market Rules Staff Contact** | |
| **Name** | Brittney Albracht |
| **E-Mail Address** | [Brittney.Albracht@ercot.com](mailto:Brittney.Albracht@ercot.com) |
| **Phone Number** | 512-225-7027 |

|  |  |
| --- | --- |
| **Comments Received** | |
| Comment Author | **Comment Summary** |
| Constellation 060223 | Proposed changes to define when fuel nominations can be reasonably made by Resources; clarified that X relates to the initial RUC instruction and is proposing that the value of X be at least 12 hours; clarified that incremental RUC instructions will require the same fuel nomination criteria |
| Residential Consumer 060623 | Added a requirement that the Resource attest that costs are variable |
| WMS 060823 | Requested PRS continue to table NPRR1179 for further review by RCWG |
| Constellation 070723 | Added attestation language from NPRR1177, Enhance Exceptional Fuel Cost Process; reintroduced language that allows the QSE or Resource the option to use proof that nominating such fuel would have resulted in higher overall fuel costs; and added the defined term Business Hours |
| ERCOT 082523 | Changed paragraph (1) of Section 9.14.7; and noted 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, and that any changes resulting from these discussions should be addressed in a separate NPRR |
| ERCOT 112823 | Changed paragraph (5) whereby a QSE or Resource Entity will make a commercially reasonable effort to sell any fuel that was purchased to comply with a RUC instruction but was not used due to the Resource experiencing a forced outage; and proposed that the RUC Guarantee may be adjusted to reflect the cost difference between the fuel burned and the fuel calculated based on verifiable cost rates |
| WMS 120823 | Endorsed NPRR1179 as amended by the 11/28/23 ERCOT comments |

|  |
| --- |
| **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

|  |
| --- |
| Proposed Protocol Language Revision |

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 RUC Guarantee based on the fuel index price FIP \* (1+X). When calculating the RUC Guarantee based on the actual price paid for Resources with approved verifiable costs, the RUC Guarantee may be adjusted to reflect the cost difference between the fuel burned and the fuel calculated based on verifiable cost rates. This adjustment will allow for the RUC Guarantee to include the fuel cost of the actual fuel burned, as documented by an invoice or equivalent document, up to 120% of the fuel quantity calculated based on verifiable cost data. If due to extraordinary circumstances the fuel burned exceeded 120% of the fuel quantity calculated based on verifiable cost data, the QSE may submit an attestation attesting to the accuracy of the fuel data along with an explanation for the higher fuel quantities. ERCOT may include the cost of this additional fuel in the adjustment to the RUC Guarantee. 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, or Section 5.6.3, Forced Outage of a RUC-Committed Resource, but trips Off-Line, the QSE is eligible to recover associated fuel penalties incurred through the end of the gas day, including the net cost of fuel that was purchased and nominated for the gas delivery day to operate the Resource at LSL for the RUC-Instructed hours, but was not used. A QSE or Resource Entity shall make a commercially reasonable effort to sell the fuel that was not used and shall provide the residual value for any fuel not used or sold.

(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.

|  |
| --- |
| ***[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. |