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| VCMRR Number | [040](https://www.ercot.com/mktrules/issues/VCMRR040) | VCMRR Title | Methodology for Calculating Fuel Adders for Coal-Fired Resources |
| Date Posted | April 23, 2024 |
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| Requested Resolution  | Normal  |
| Verifiable Cost Manual Sections Requiring Revision  | 3.4, Additional Rules for Submitting Fuel CostsAppendix 11, Procedure for Determining the Fuel Adder for Coal and Lignite Resources with Approved Verifiable Costs |
| Related Documents Requiring Revision/Related Revision Requests | None |
| Revision Description | This Verifiable Cost Manual Revision Request (VCMRR) removes the necessity for ERCOT to purchase an annual coal price index subscription for use in the calculation of the quarterly manual coal fuel adder and describes a methodology for a Qualified Scheduling Entity (QSE) to submit “Actual Coal Fuel Adders” (ACFA) similar to the current process for natural gas Resources.  |
| 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 | Currently, ERCOT must purchase an annual coal price index subscription in order to calculate the quarterly manual coal fuel adder. This VCMRR eliminates that requirement, resulting in reduced costs to ERCOT. In addition to the cost savings, this VCMRR removes the quarterly manual process of calculating and updating fuel adders for coal-fired Resources. However, all coal-fired Resources with approved “Verifiable Costs” will continue to receive at a minimum the default fuel adder of $0.50/MMBtu. If the default fuel adder is insufficient to cover actual costs incurred, a QSE can submit an ACFA for the Resource as described in this VCMRR, which aligns ACFA submissions with a process similar to fuel adder submissions for natural gas Resources. A Resource with an approved ACFA will receive a fuel adder equal to the maximum of $0.50/MMBtu of the approved ACFA. |

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| Market Segment | Not applicable |

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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 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. An actual fuel adder can be an “Actual Natural Gas Fuel Adder” (ANGFA) for natural gas Resources, or an “Actual Coal Fuel Adder” (ACFA) for coal-fired or lignite-fired Resources. For coal-fired or lignite-fired Resources with ACFAs ($/MMBtu), the applicable methodology to calculate the ACFA is described in Section 14, Appendices, Appendix 11, Procedure for Determining the Actual Coal Fuel Adder (ACFA) for Coal and Lignite Resources with Approved Verifiable Costs. The default fuel adder for all Resources with Verifiable Costs will remain a $0.50/MMBtu default amount until the Filing Entity establishes an ANGFA or ACFA. Once an ANGFA or ACFA has been approved, the Filing Entity must continue to provide actual fuel costs as prescribed in paragraph (2) or (3) below, as applicable; failure to do so will cause the ANGFA or ACFA to be reset to a default $0.50/MMBtu 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 ANGFA 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) Any Filing Entity that submits an ACFA must provide documentation for a rolling six 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 ACFA. Data to support actual costs should include, but are not limited to, accounting ledger entries, invoices or indexes for commodity and transportation costs.

(4) Notwithstanding paragraph (2) above, fuel adders for ANGFAs 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.

(5) Review and approval of an ANGFA or an ACFA 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 ANGFA or ACFA, 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 ACFA ($/MMBtu) for a Resource for verification and approval by ERCOT should utilize the following methodology:

(1) The ACFA submission should include three components: a coal commodity price ($/MMBtu), a coal transportation price ($/MMBtu), and the average Fuel Index Price (FIP) ($/MMBtu).

(2) The coal commodity price can be obtained from one of the following three sources:

(a) Coal fuel index price, derived from regularly published data index source based on the price of Powder River Basin (PRB) 8,800 Btu/lb coal; or

(b) The average weekly price of PRB 8,800 Btu/lb coal during the six months prior to the submission period, as published by the U.S. Energy Information Administration (EIA) under the “Coal Markets” heading; or

(c) A weighted average price of the coal in the coal pile at the time of the submission as 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, subject to approval by ERCOT.

(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:

(a) $/MMBtu = [$/short ton] \* [1 short ton/2,000lb] \* [1lb/8,800 Btu] \* [1,000,000 Btu/MMBtu].

(5) The ACFA for the six month period of review can be calculated as follows:

(a) ACFA ($/MMBtu) = [∑ (weekly average actual price or coal fuel index price + weekly average transportation price – weekly average FIP)] / Number of weeks in the six month period; or

(b) ACFA ($/MMBtu) = [∑ (weekly average price published by the EIA + weekly average transportation price – weekly average FIP)] / Number of weeks in the six month period; or

(c) ACFA ($/MMBtu) = [∑ (monthly average actual price or coal fuel index price + monthly average transportation price – monthly average FIP)] / six months; or

(6) Notwithstanding the calculation of ACFA as described in paragraph (5) (a) – (c) above, the Filing Entity may propose another methodology for calculating ACFA and submit it to ERCOT in advance for approval by ERCOT.

(7) ACFA submissions will follow the timeline shown in the table in paragraph (5) of Section 3.4, Additional Rules for Submitting Fuel Costs.

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