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| NPRR Number | [1275](https://www.ercot.com/mktrules/issues/NPRR1275) | NPRR Title | Expansion of Qualifying Pipeline Definition for Firm Fuel Supply Service in Phase 3 |
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| Date | | April 9, 2025 | |
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| Submitter’s Information | | | |
| Name | | Jeff McDonald | |
| E-mail Address | | [JMcDonald@PotomacEconomics.com](mailto:JMcDonald@PotomacEconomics.com) | |
| Company | | Potomac Economics | |
| Phone Number | | (603) 481-6390 | |
| Cell Number | |  | |
| Market Segment | | Not applicable | |

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| Comments |

It is contemplated that natural gas resources be included in the Firm Fuel Supply Service (FFSS) program provided they meet certain qualifying conditions for reliable fuel delivery in order to increase competition and potentially reduce cost. We note that the FFSS program is an out-of-market measure to address reliability. A better approach is to evaluate the extent to which, and why, the spot market including shortage pricing during periods where FFSS is expected to be deployed does not provide sufficient revenue for existing Resources to undertake preparations to provide energy and operating reserves to capture higher prices during these periods. Out-of-market solutions distort market signals and can be self-defeating.

These comments focus on the inclusion of natural gas Resources in the FFSS program. In summary, we oppose including in the FFSS program natural gas resources that meet the qualifying conditions. Should this effort proceed, we suggest allowing participants to reflect their expected reliability (from on-site oil or qualifying natural gas units) through a risk premium.

Natural gas fired Resources that already have arrangements in place to meet the qualifying conditions are already positioned to leverage that increased reliability. Either by nature of their original fuel arrangements or through subsequent assessment, the increased reliability of the firm uninterruptable fuel arrangement is part of their business model in the ERCOT market. The increased reliability stemming from this arrangement positions these resources to capitalize on the higher energy and reserve prices that are expected during the tight system conditions under which the FFSS is expected to be deployed. These Resources will not incur additional cost to qualify or provide under the FFSS compared to normal market participation. Further, they would be expected to self-commit and provide under the same conditions as when they would be deployed for FFSS. In other words, whatever they were paid in FFSS would not produce additional reliability. These Resources may in fact displace on-site oil assets in the FFSS procurement process that may not find conditions sufficient to purchase and store on-site oil absent the FFSS payments which reduces reliability. Including natural gas units may (a) increase cost with no additional reliability and (b) reduce reliability by displacing oil units that otherwise would have been awarded FFSS with a qualified natural gas unit that would have run without the FFSS program. Given the lack of competition in the existing FFSS framework and prior auction activity, we suggest revisiting the offer cap to ensure it adequately addresses the potential exercise of market power.

Should the effort to include qualified natural gas Resources continue, we proposed a risk premium based method to address the potential that qualified natural gas Resources and on-site oil Resources do not present the same level of reliability under tight system conditions in the winter.

Resource operators are in the best position to understand the risk of non-performance, whether on-site oil or qualified natural gas. The offers should include a risk premium that reflects the financial exposure of non-performance. FFSS Resources (FFSSRs) that fail to perform when deployed will be subject to a penalty that is based on the replacement value of the energy they failed to provide, valued at the Settlement price from the Real-Time Market (RTM). This allows participants, who are best positioned, to express their expected risk of non-compliance with deployment and delivery. The result of this process will best determine the appropriate mix of on-site oil and qualified natural gas Resources by way of monetizing risk of non-compliance in addition to the incremental cost of participating in the program (fuel arrangements).

The risk-premium approach also resolves the mis-perception of two products. ERCOT is procuring a single product from FFSS Resources … delivery of energy and/or operating reserves during tight system conditions during the winter. Bifurcating price based on the technology, fuel type / arrangement, or other production factors introduces an element of discrimination since, in this case, both types of fuel arrangements are offering to provide the same service.

There are three factors that need further consideration with the risk-premium approach. First, an applicable competitive offer cap should evaluation of competitiveness including qualified natural gas Resources indicate the FFSS is not sufficiently competitive. Second, a rule that provides a stop trigger for procurement based on increasing marginal cost of procurement. And third, a minimum procurement rule that is used along with the procurement stop.

Regarding the second two matters, ERCOT can procure up to the FFSS budget. However, provided the risk-adjusted offers produce at least 4 GW and procuring additional FFSS beyond (for example) 6 GW results in a sharp increase in marginal cost, ERCOT can choose to optimize procurement by procuring up to the 6 GW point and no further.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None