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Public Utility Commission of Texas

Memorandum

TO: Chairman Thomas J. Gleeson
Commissioner Kathleen Jackson
Commissioner Courtney K. Hjaltman

FROM: Tyler Nicholson, Market Analysis
Chris Brown, PhD, Market Analysis

DATE: July 3, 2025

RE: **July 10, 2025, Open Meeting – Item No. 33**
Project No. 56000 – *Firm Fuel Supply Service*

OVERVIEW

In this memo, Commission Staff provides its recommendations for Firm Fuel Supply Service (FFSS) program parameters for the 2025-2026 contract period. For reference, the below table provides a summary of the 2023-2024 and 2024-2025 FFSS contract periods.

	23-24	24-25
Total Number of Generation Resources Offered	32	33
Number of QSEs Offering	5	5
Total Number of Generation Resources Procured	32	33
Number of Fuel Oil Resources Procured	31	32
Number of Natural Gas Resources Procured	1	1
Total MWs procured	3319.9	4194.8
Lowest Offered Price (\$/MW)	\$5,000	\$3,008
Highest Offered Price (\$/MW)	\$9,000	\$12,240
Clearing Price (\$/MW)	\$9,000	\$12,240
Standby Cost	\$29,619,237	\$49,689,034
Claw Back	(\$976,818)	(\$7,268,155)
Refuel Cost Before Netting Against Revenues ¹	\$9,941,571	\$0
Net Refueling Cost Uplifted to the Market	\$781,342	\$0
Final Total Cost Uplifted to Load	\$29,423,761	\$42,420,879
FOP Index (\$/MMBtu) ²	12	17
Heat Rate (MMBtu/MWh)	15	15
Obligation Period (Hours)	48	48
Offer Cap (\$/MW)	\$9,000	\$12,240
Total Budget	\$54,000,000	\$54,000,000

¹ Not an input for Final Total Cost Uplifted to Load.

² Fuel oil price is based on the U.S. Gulf Coast Ultra-Low Sulfur No 2 Diesel Spot Price, published by EIA.

STAFF RECOMMENDATIONS

In consultation with the Independent Market Monitor (IMM) and Electric Reliability Council of Texas (ERCOT), Staff recommends the following for the upcoming contract period:

Appropriate Procurement Quantity: No MW limit

In the absence of a well-defined target procurement level and a demand curve, Staff recommends maintaining a cost budget and a fuel oil-based price cap and allowing ERCOT to procure within these limits.

Budget: \$54M cost cap for stand-by payments

Staff recommends keeping the overall budget the same as the first three contract periods. Using a cost cap like the Emergency Response Service program also provides cost certainty to load serving entities.

Offer Cap: \$12,240/MW (based on FOP of \$17/MMBtu and Heat Rate of 15)

Staff recommends maintaining an offer cap based on current fuel oil price and heat rate of 15. An offer cap helps mitigate possible market power abuse that could result in very high prices and gives ERCOT flexibility to procure more MW.

Obligation Period: 48 hours per deployment

Staff recommends keeping the 48 hour-obligation per deployment for the next contract period.

Clearing Price Mechanism: Single clearing price

ERCOT should continue to use a single clearing price and remove offers which are outliers. IMM should also review all offers to assess the competitiveness of the program.

FUTURE RULEMAKING

As discussed during the Commission's April 24th, 2025 open meeting, Staff will initiate a rulemaking to codify the parameters of this program as soon as practicable, subject to Commission priorities. This will allow Staff to gather feedback from stakeholders, ERCOT staff, and the IMM on several important issues and develop rule language for this program ahead of future contract periods. The expected timeline for this initiative will allow the Commission to consider Phase 3 options ahead of the 2026-2027 winter season.

Appendix: Protocol changes since the inception of the program

Below, Staff provides a high-level summary of the Nodal Protocol changes to the FFSS program and notes, for each, whether they have been implemented or are in progress.

Nodal Protocol Revision Request (NPRR) 1154: *Include Alternate Resource in the Availability Plan for the Firm Fuel Supply Service (Approved 01/26/2023; effective 10/06/2023)*

Clarifies language to allow for the Availability Plan of a qualified alternate Resource to be considered in the event the FFSSR is unavailable. Additionally, adding the Firm Fuel Supply Service Award Amount billing determinant will provide QSEs information necessary to validate the results.

NPRR 1167: *Improvements to Firm Fuel Supply Based on Lessons Learned (Approved 06/29/2023; effective 07/01/2023)*

Improves several processes related to FFSS, including testing, qualification, procurement, communication during and following deployment, and reporting by ERCOT. These changes reflect aspects of the service that were previously captured solely in the RFP, provide clarity regarding existing Protocol provisions, and address areas for improvement that have been identified by stakeholders or ERCOT since the introduction of FFSS.

NPRR 1169: *Expansion of Generation Resources Qualified to Provide Firm Fuel Supply Service in Phase 2 of the Service (Approved 06/29/2023; effective 07/01/2023)*

Expands the potential pool of FFSS capable resources by adding additional avenues through which a resource may qualify for FFSS. These include possessing good title sufficient natural gas in an offsite storage facility; having a firm gas storage agreement for the offered generation resource; having entered into a firm transportation agreement on an FFSS qualifying pipeline; and satisfying a number of ongoing compliance obligations.

NPRR 1228: *Continued One-Winter Procurements for Firm Fuel Supply Service (FFSS) (Approved 07/25/2024; effective 08/01/2024)*

Decreases the number of FFSS obligation periods awarded in an FFSS procurement from two to one.

NPRR 1231: *FFSS Program Communication Improvements and Additional Clarifications (Approved 09/26/2024; effective 11/15/2024)*

Modifies the procedure for the fuel restocking process and the method by which a QSE notifies ERCOT of an approved alternate Generation Resource replacing a Firm Fuel Supply Resource (FFSSR) during the FFSS obligation period. It increases the deadline for the ERCOT-required FFSS deployment report to TAC from 30 days to 45 days. It also includes some updated language for when a resource is considered available for settlement purposes and the decertification process.

NPRR 1241: *Firm Fuel Supply Service (FFSS) Availability and Hourly Standby Fee (Approved 05/15/2025; effective 06/01/2025)*

Provides equity and clarity surrounding the hourly standby fee claw backs for FFSS during a Watch for winter weather using a linear curve approach.

NPRR 1251: *Updated FFSS Fuel Replacement Costs Recovery Process (Approved 03/13/2025; effective 04/01/2025)*

Implements several improvements to the FFSS fuel cost recovery process. It clarifies that QSEs can restock fuel using either existing inventories or new purchases. When restocking from existing inventories, the replacement cost may be based on new purchases made within 30 days of ERCOT's approval or the Fuel Oil Index Price (FOP) on the approval day, with an added \$0.05/gallon for transportation. These changes aim to streamline and accelerate the fuel restocking process.

NPRR 1275: *Expansion of Qualifying Pipeline Definition for Firm Fuel Supply Service in Phase 3 (Tabled at Wholesale Market Subcommittee (WMS))*

Replaces the definition for FFSS Qualifying Pipeline with the definition recommended by the Technical Advisory Committee (TAC) in NPRR1169, Expansion of Generation Resources Qualified to Provide Firm Fuel Supply Service in Phase 2 of the Service.

NPRR 1281: *Improvements to Alternate FFSS Resource Designation (Protocol Revision Subcommittee (PRS) endorsed 06/11/2025, at Technical Advisory Committee (TAC))*

Strengthens the relationship between the Settlement of FFSS and operations by clarifying the FFSS Hourly Rolling Equivalent Availability Factor language to ensure the accurate calculation of the Firm Fuel Supply Service Standby Fee.