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| VCMRR Number | [042](https://www.ercot.com/mktrules/issues/VCMRR042) | VCMRR Title | SO2 and NOx Emission Index Prices Used in Verifiable Cost Calculations |
| Date Posted | July 23, 2024 |
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| Requested Resolution  | Normal  |
| Verifiable Cost Manual Sections Requiring Revision  | 2.6, Additional Rules for Submitting Emission CostsAppendix 5, Specification of Relevant Equations |
| Related Documents Requiring Revision/Related Revision Requests | Nodal Protocol Revision Request (NPRR) 1242, Related to VCMRR042, SO2 and NOx Emission Index Prices Used in Verifiable Cost Calculations |
| Revision Description | This Verifiable Cost Manual Revision Request (VCMRR) adds the use of seasonal sulfur dioxide (SO2) and nitrogen oxide (NOX) prices obtained from indices to calculate emission costs from May through September. Annual prices would continue to be used from October through April. |
| 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 | This VCMRR is needed to ensure ERCOT has access to seasonal emissions data due to volatility in index prices as a result of reductions in allowances and reliance on the market to meet compliance obligations. The swings in index prices are particularly impactful on Verifiable Startup Emission Costs and Verifiable Minimum-Energy Emission Costs, outlined in Appendix 5, Specification of Relevant Equations, and need to be taken into account in Generation Resources’ offer curves.While there has been attention on the Environmental Protection Agency (EPA) rules and a recent Supreme Court ruling on the Good Neighbor Rule, this does not eliminate seasonal index prices.  Further, it seems appropriate for ERCOT to maintain access to the vendor data needed to include seasonal index prices as EPA is expected to reinstate prior Cross-State Air Pollution Rule (CSAPR) obligations while the legal challenge to the Good Neighbor Rule continues to be litigated.  Although trading has temporarily been suspended, obligations to hold and obtain sufficient allowances consistent with CSAPR obligations are expected to be clarified with relative speed.  Eliminating the need to engage in a new vendor selection process allows ERCOT to quickly respond to the changes in the emissions allowances and resulting prices.Further, the inventory of allowances is reflected in terms of opportunity costs. They can be used by Luminant to meet compliance obligations or sold if there are potential excess allowances. Therefore, there is a value attached to them even absent trading. |

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| Market Rules Notes |

Please note that the following VCMRR(s) also propose revisions to the following section(s):

* VCMRR041, SO2 and NOX Emission Prices Used in Verifiable Cost Calculations
	+ Section 2.6
	+ Appendix 5

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| Proposed Verifiable Cost Manual Language Revision |

**2.6** **Additional Rules for Submitting Emission Costs**

(1) Verifiable cost data may include the cost of purchasing emission credits but only to the extent necessary to meet environmental regulations associated with the operation of the specific Resource. ERCOT will not approve emission costs of any type unless they are sufficiently documented. When submitting emission costs the following procedures apply:

(a) Filing Entities submitting emission costs per-start must do so for each start type, cold, hot and intermediate. ERCOT will calculate Verifiable Startup Emission Costs ($/start) for a Resource by using Equation 4 described in Section 14, Appendices, Appendix 5, Specification of Relevant Equations.

(b) Emission costs incurred while operating the Resource at the Minimum-Energy level or above Low Sustained Limit (LSL) are calculated on a $/MWh basis. ERCOT will calculate Verifiable emission costs ($/MWh) at LSL by using Equation 5 described in Section 14, Appendices, Appendix 5.

(c) Resources may include the cost of NOx, and SO2 emissions requirements as part of the verifiable cost for:

(i) Non-attainment Area for NOx in Houston-Galveston-Brazoria

(ii) The Cross-State Air Pollution Rule (CASPR) or other federal regulations for NOx and SO2, using Equations 4 and 5 as described in Section 14, Appendices, Appendix 5.

(d) For verifying the emission rates, the Filing Entity may submit the historic calendar annual average for the unit-specific emission rates reported to Texas Commission on Environmental Quality (TCEQ) and or Environmental Protection Agency (EPA) by April 30 of the applicable year, if deemed necessary by the Filing Entity.

(e) Emission prices for SO2 and NOx will be obtained by ERCOT and will be based on annual index prices for all months and May through September will include seasonal index prices. selected by ERCOT that are generally accepted in the industry and regularly published. ERCOT will calculate monthly indices using the arithmetic average of the annual index prices published during business days for the first 15 days of the month prior to the effective month. For the seasonal index prices, ERCOT will use a fixed price of $850/short ton until that price is reduced or exceeded by 10%. Once the threshold is reached, the new price will be used for the remainder of the season.

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| *[VCMRR 042: Replace paragraph (e) above with the following upon system implementation of phase II of this VCMRR:]*(e) Emission prices for SO2 and NOx will be obtained by ERCOT and will be based on annual index prices for all months and May through September will include seasonal index prices selected by ERCOT that are generally accepted in the industry and regularly published. ERCOT will calculate monthly indices using the arithmetic average of the prices published during business days for the first 15 days of the month prior to the effective month.  The reference index prices for the arithmetic average will be as follows:

|  |  |  |
| --- | --- | --- |
| **Effective Month** | **Reference Annual****Index Price** | **Reference Seasonal Index Price** |
| January  | December  | N/A  |
| February  | January  | N/A  |
| March  | February  | N/A  |
| April  | March  | N/A  |
| May  | April  | April  |
| June  | May  | May  |
| July  | June  | June  |
| August  | July  | July  |
| September  | August  | August  |
| October  | September  | N/A  |
| November  | October  | N/A  |
| December  | November  | N/A  |

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(f) ERCOT will disclose to Market Participants the source of its selected price indices, along with descriptions of the nature and derivation of the indices as available from the publishers of those indices. In the event that an ERCOT selected index becomes unavailable or unsuitable for the intended purpose, ERCOT will select a substitute index source. ERCOT will notify Market Participants of any change in the index, along with a description of the nature and derivation of the substitute index and a summary of the reasons for the change, 60 days prior to the beginning of its use. However, in the event that 60 days notice cannot be given for any reason, ERCOT will notify Market Participants as far prior to use as practical.

(g) On a monthly basis, ERCOT will recalculate each Resource’s emission costs for SO2 and NOx utilizing the emission prices taken from the indices described in paragraph 1(e) above. The new emission costs will replace the emission costs in the previously approved Operations & Maintenance (O&M) Verifiable Costs totals.

(h) ERCOT emission cost calculations for each Resource will be completed by and the new approved O&M Verifiable Costs will be made available to Filing Entities eight days prior to the first day of each effective month. The effective period for use of these new emission costs will be the first day of each calendar month through the end of the same month.

(i) As a trading market develops pertaining to emissions limits at a state and or regional level, the costs associated with complying with emission restrictions may be eligible to be recovered and be part of the verifiable cost methodology. At the appropriate time, any market participant may propose a methodology to the Resource Cost Working Group (RCWG) to recuperate the emission costs in the applicable non-attainment area, which will be addressed in the Verifiable Cost Manual.

**Appendix 5: Specification of Relevant Equations**

**Equation 1: Verifiable Startup Offer Cap ($/Start)**

Verifiable Startup Offer Cap ($/Start) = DAFCRS (MMBtu/Start) \* [(GASPERSU\*FIP + OILPERSU\*FOP)/100] + VOMS

Where: DAFCRS = Total Fuel \* (1+VOXR)

 Total Fuel = [FuelStartup-BC + FuelBC-LSL + FuelBO-Shutdown]

The bill determinants utilized above are defined as:

DAFCRS = the adjusted verified fuel consumption for the start type (MMBtu/Start)

 GASPERSU = Percentage of natural gas used for a start

 FIP = Fuel Index Price ($/MMBtu)

 OILPERSU = Percentage of oil used for a start

 FOP = Fuel Oil Price ($/MMBtu)

VOMS = the verified O&M cost for a hot start ($/Start)

VOXR= Value of X for the Resource

FuelStartup-BC= Fuel quantity required to bring Resource from Startup to Breaker Close (MMBtu)

FuelBC-LSL= Fuel quantity required to bring Resource from Breaker Close to Minimum Energy at LSL (MMBtu)

FuelBO-Shutdown= Fuel quantity required to take Resource from Breaker Open to Shutdown (MMBtu)

Note 1: GASPERSU and OILPERSU are decimal percentages in the Settlements equations and will be multiplied by 100 during the Integration process.

Note 2: ERCOT will use the solid fuel price and percentages to create Startup offers when no offer is submitted by the QSE for solid fuel Resources.

Note 3: This equation does not include any adjustments made to the final calculation of the Startup Offer cap, as described in Protocol Section 4.4.9.2.1, Startup Offer and Minimum-Energy Offer Criteria*.*

**Equation 2: Verifiable Minimum-Energy Offer Cap ($/MWh)**

Verifiable Minimum-Energy Offer Cap ($/MWh) = AHR\*[(GASPERME\*FIP + OILPERME\*FOP)/100] + VOMLSL

Where: AHR(1)= Fuel Rate (MMBtu/Hour) divided by LSL (MW)

 GASPERME = Percentage of natural gas used at LSL

 FIP = Fuel Index Price ($/MMBtu)

 OILPERME = Percentage of oil used at LSL

 FOP = Fuel Oil Price ($/MMBtu)

VOMLSL = the verified O&M cost at Minimum-Energy ($/MWh)

(1) Adjusted by VOXR

And: AHR= (verified fuel consumption/LSL)\*(1+VOXR)

Note 1: GASPERME and OILPERME are decimal percentages in the Settlements equations and will be multiplied by 100 during the Integration process.

Note 2: ERCOT will use the solid fuel price and percentages to create Startup offers when no offer is submitted by the QSE for solid fuel Resources.

Note 3: This equation does not include any adjustments made to the final calculation of the Minimum-Energy Offer cap, as described in Protocol Section 4.4.9.2.1, Startup Offer and Minimum-Energy Offer Criteria*.*

**Equation 3: Calculation of Composite Unit Parameters using Alternate Unit Specifications**

Composite Unit Parameter = [Alt\_Unit\_Par\*Alt\_Unit\_HSL + Non\_Alt\_Unit\_Par\* Non\_Alt\_Unit\_HSL] / [Alt\_Unit\_HSL + Non\_Alt\_Unit\_HSL]

Where: Alt\_Unit\_Par = Relevant parameter of Alternate Unit

Alt\_Unit\_HSL = High Sustained Limit of Alternate Unit

Non\_Alt\_Unit\_Par = Relevant parameter of non-Alternate Unit

Non\_Alt\_Unit\_HSL = High Sustained Limit of non-Alternate Unit

This calculation would be executed for all relevant parameters of the alternate and non-alternate units. This would include for example Startup Cost data, Minimum-Energy Cost data and heat rate data.

**Equation 4: Equation for Calculation of Verifiable Startup Emission Costs**

Verifiable Startup Emission Cost ($/Start) = RAFCRS \* ∑Emission Rate i \* Emission Cost Index im

Where RAFCRS **=** Quantity of approved startup fuel consumed by Resource (including fuel used to shutdown Resource (MMBtu/Start)

 Emission Rate i = Quantity of emission i emitted by resource (lbs/MMBtu)

Emission Cost Indexim **=** Published cost index of emission im ($/lb)

Im = Index for each emittent approved for inclusion in Startup Cost

m = Determinant for the use of seasonal prices for months of May through September or annual index prices for October through April

**Equation 5: Equation for Calculation of Verifiable Minimum-Energy Emission Costs**

Verifiable Minimum-Energy Emission Costs ($/MWh) =

 [AHR] \* ∑Emission Rate i \* Emission Cost Index im

Where AHR = Average heat rate at Minimum Energy (MMBtu/Hr)

 Emission Rate i = Quantity of emission i emitted by resource (lbs/MMBtu)

 Emission Cost Index im = Published cost index of emission im

 Im = Index of each emittent approved for inclusion in Minimum-Energy Cost

 m = Determinant for the use of seasonal prices for months of May through

 September or annual index prices for October through April

**Equation 6: Verifiable Startup Costs (VERISU) ($/Start)**

A) For RUC Settlements, the Verifiable Startup Costs are calculated as follows:

VERISU = AFCRS + VOMS

Where AFCRS = [Total Fuel - PHR \* AVGEN + Total Fuel\*VOXR] \* [FIP\*GASPERSU(%) + FOP\*OILPERSU(%) + SFP\*SFPERSU(%)]

Total Fuel = [FuelStartup-BC + FuelBC-LSL + FuelBO-Shutdown]

VOMS = IO&MStart-LSL +IO&MBO-Shutdown + Verifiable Startup Emission Costs

B) For DAM Make-Whole Payments, the Verifiable Startup Costs are calculated as follows:

VERISU = DAFCRS + VOMS

Where DAFCRS = [Total Fuel + Total Fuel\*VOXR] \* [FIP\*GASPERSU(%) + FOP\*OILPERSU(%) + SFP\*SFPERSU(%)]

Total Fuel = [FuelStartup-BC + FuelBC-LSL + FuelBO-Shutdown]

VOMS = IO&MStart-LSL +IO&MBO-Shutdown + Verifiable Startup Emission Costs

The bill determinants utilized above are defined as:

VERISU = Verifiable Startup Costs ($/Start)

AFCRS = Verifiable Startup Fuel Costs adjusted by VOXR and PHR ($/Start)

DAFCRS = the adjusted verified fuel consumption rate for the start type (MMBtu/Start)

VOMS = Verifiable Operations and Maintenance Costs ($/Start)

FuelStartup-BC = Fuel Quantity required to bring Resource from Startup to Breaker Close (MMBtu)

FuelBC-LSL = Fuel Quantity required to bring Resource from Breaker Close to Minimum Energy at LSL (MMBtu)

FuelBO-Shutdown = Fuel Quantity required to take Resource from Breaker Open to Shutdown (MMBtu)

PHR = Proxy Heat Rate (MMBtu/MWh)

AVGEN = Average Generation between Breaker Close and LSL (MWh)

VOXR = Value of X for the Resource

FIP = Fuel Price Index for gas ($/MMBtu)

FOP = Fuel Price Index for oil ($/MMBtu)

SFP = Fuel Price Index for solid fuel = $1.50/MMBtu

GASPERSU = Percent of gas used during startup

OILPERSU = Percent of oil used during startup

SFPERSU = Percent of solid fuel used during startup

IO&MStart-LSL = Incremental O&M costs incurred to bring Resource from Start to LSL ($/Start)

IO&MBO-Shutdown = Incremental O&M costs incurred to take Resource from Breaker Open to Shutdown ($/Start)

Verifiable Startup Emission Costs = The allowable costs of acquiring emission credits required to start up Resource and defined in Equation 4 above.

**Equation 7: The Equation for calculating Verifiable Minimum Energy Costs ($/MWh)**

VERIME = FCLSL + VOMLSL

Where VERIME = Verifiable Minimum Energy Costs

 FCLSL = Verifiable Fuel Costs at Minimum Energy

 VOMLSL = Verifiable variable O&M costs at Minimum Energy

FCLSL = [(AHR)] \* [FIP\*GASPERME(%) + FOP\*OILPERME(%) + SFP\*SFPERME(%)]

Where AHR = Adjusted average heat rate at Minimum Energy (MMBtu/Hr)

 FIP = Fuel Price Index for gas ($/MMBtu)

 FOP = Fuel Price Index for oil ($/MMBtu)

 SFP = Fuel Price Index for solid fuel = $1.50/MMBtu

 GASPERME = Percent of gas used at minimum energy

 OILPERME = Percent of oil used at minimum energy

 SFPERME = Percent of solid fuel used at minimum energy

VOMLSL = IO&MLSL + Verifiable Emission Costs at Minimum Energy

Where IO&MLSL = Incremental O&M costs at minimum energy

Verifiable Emission Costs at Minimum Energy = The allowable costs of acquiring emission credits required to operate Resource at minimum energy and defined in Equation 5 above.