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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 |
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| Date | | November 11, 2024 | |
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| Submitter’s Information | | | |
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| Market Segment | | Independent Generator | |
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| **Comments** | | | |

Luminant Generation Company LLC (“Luminant”) appreciates the opportunity to work with other stakeholders to refine its proposal on the calculation of seasonal nitrogen oxide (NOx) and annual sulfur dioxide (SO2) index prices.

The changes to the existing language reflect that the only NOx program that Texas is subject to is the CSAPR NOX Ozone Season Group 2 Trading Program- Subpart EEEEE. SO2 is not subject to the same limitation and should continue to be based on annual index prices.

Upon initial adoption of this VCMRR, ERCOT should continue to calculate the 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. A phased approach, which can be implemented after appropriate system changes, would allow ERCOT to pull daily index prices to update the calculation of Verifiable Startup Emission Costs and Verifiable Minimum-Energy Emission Costs.

Luminant looks forward to discussing these revisions at the upcoming November 15, 2024, Resource Cost Working Group (RCWG) meeting.

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| Revised Cover Page Language |

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| Revision Description | This Verifiable Cost Manual Revision Request (VCMRR) adds the use of seasonal nitrogen oxide (NOX) prices obtained from indices to calculate emission costs from May through September. Annual index prices would continue to be used for SO2 from October through April. |

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| Revised Proposed Verifiable Cost Manual Language |

**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 will be obtained by ERCOT and will be based on annual index prices, applicable to all months of the year. Emission prices for NOX will be obtained by ERCOT based on published seasonal index prices April through August. NOX index prices are applicable only during the Ozone Season, months May through September, as shown in Table A below. ERCOT will select index prices that are generally accepted in the industry and regularly published. ERCOT will calculate monthly indices using the arithmetic average of the prices published during the Business Days for the first 15 days of the month prior to the effective month.

Table A: The reference index prices for the arithmetic average will be as follows:

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| --- | --- | --- |
| **Effective Month** | **SO2**  **Reference Annual**  **Index Price** | **NOx**  **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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| ***[VCMRR 042: Replace paragraph (e) above with the following upon system implementation:]***  (e) Emission prices for SO2 will be obtained by ERCOT and will be based on daily index prices, applicable to all days of the year. Emission prices for NOX will be obtained by ERCOT based on published seasonal daily index prices during months May through September of each year. ERCOT will select index prices that are generally accepted in the industry and regularly published. If an index price is not available, the effective price for the most recent preceding Operating Day shall be used. |

(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 index prices for months of May through September for NOX and annual index prices for SO2

**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 index prices for months of May through

September for NOX and annual index prices for SO2

**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.