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Public Utility Commission of Texas

Memorandum

TO: Interested Persons

FROM: Jessie Horn
Tyler Nicholson

DATE: July 22, 2025

RE: Project No. 58434, *Rulemaking for Firm Fuel Supply Service*
Questions for Public Comment

Public Utility Regulatory Act (PURA) § 39.159(b), added by House Bill (HB) 1500, 87th Legislature, Regular Session, requires, in part, that the commission ensure that the Electric Reliability Council of Texas, Inc. (ERCOT):

- (1) procures ancillary or reliability services on a competitive basis to ensure appropriate reliability during extreme cold weather conditions and during times of low non-dispatchable power production in the power region;
- (2) develops appropriate qualification and performance requirements for providing those services; and
- (3) sizes the services procured to prevent prolonged rotating outages due to net load variability in high demand and low supply scenarios.

PURA § 39.159(c), also added by HB 1500, requires the commission to ensure that winter resource capability qualifications for a service under subsection (b) include on-site fuel storage, dual fuel capability, or fuel supply arrangements to ensure winter performance for several days. Before filing the initial draft of the rule relating to this requirement, commission staff is requesting responses to questions for public comment.

Questions for public comment

Commission staff poses the following questions for public comment. Comments may be filed through the interchange on the Commission's website or by submitting a paper copy to Central Records, Public Utility Commission of Texas, 1701 North Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326. Comments are due by **August 14, 2025**. All comments should reference **Project No. 58434**. Each set of comments should include a standalone executive summary as the last page of the filing. This executive summary must be clearly labeled with the submitting entity's name and should list each substantive recommendation made in the comments.

Commission staff seeks comments in response to the following questions:

- (1) How should Firm Fuel Supply Service (FFSS) be structured in order to best promote competition and provide proper incentives to promote reliability in the fuel supply chain?
 - a. Should the FFSS market maintain a single clearing price (\$/MW) or is a bifurcated market with multiple clearing prices more appropriate?
 - b. How should the price cap(s) be set? Currently, the price cap is set based on a 15 Million British Thermal Units (MMBtu) per megawatt-hour (MWh) heat rate times the price of fuel oil (\$/MMBtu).
 - i. Is the 15 MMBtu/MWh heat rate that is used for fuel oil also appropriate to apply to natural gas resources?
 - ii. Is it appropriate to also apply the price of fuel oil to natural gas resources?
 - iii. If the price cap is tied to a fuel price (e.g., oil, natural gas), should it be based on historical prices, projected prices, a blend of these methods, or another method for determining fuel prices?
 - c. Should penalties, beyond clawbacks, for any failure to provide awarded FFSS be considered?
- (2) How should the FFSS budget, offer caps, and target procurement megawatt (MW) quantities be set and what are the appropriate amounts?
- (3) If a bifurcated market approach is adopted, how should resources be grouped?

Approach A: Generation Resources (GRs) eligible to provide FFSS prior to Nodal Protocol Revision Request (NPRR) 1275 (Group 1) and GRs eligible to provide post NPRR 1275 (Group 2).

Approach B: By fuel type – i.e., fuel oil (Group 1) and natural gas (Group 2).

Approach C: Is there an alternative approach that the commission should consider?
- (4) If a bifurcated market approach is adopted, how should target procurement quantities be set?
 - a. If Approach A is used for market bifurcation, should FFSS be structured in a manner that ensures some minimum amount of capacity is procured from Group 1 resources?
 - b. If Approach A is used for market bifurcation, should FFSS be structured such that some proportion of the total budget is reserved for the procurement of Group 1 resources?

- (5) How can FFSS be structured to most effectively hedge different types of risk?
 - a. Should FFSS MW quantities be based on a proportion of total installed gas generation?
 - b. Should location of FFSS resources be considered in the procurement process so that a more geographically diverse set of resources is procured?
- (6) How should emissions credits or allowances be incorporated into FFSS?
 - a. Should a resource owner or operator of a qualifying generator be required to reserve a minimum number of emissions credit or allowances to cover a specified minimum number of deployments during the FFSS obligation period? Alternatively, should emissions be treated similarly to fuel? I.e., a generator must have sufficient emissions credits or allowances for one deployment at the specified duration with the understanding that additional emissions credits or allowances can subsequently be obtained (or reallocated among resources within a portfolio).
 - b. What options does a resource owner or operator of a qualifying generator have to procure emissions credits or allowances in order to be deployed for FFSS as often as needed by ERCOT during the FFSS obligation period? Is there is a liquid market to timely procure additional emissions credits or allowances during the FFSS obligation period?
 - c. How should a resource owner or operator be compensated for the costs of procuring emissions credits or allowances needed to provide FFSS? Is a process for the resource owner or operator of a qualifying generator to request “restocking” of emissions credits or allowances during the FFSS obligation period appropriate and practicable?
- (7) Is there anything else that the commission should consider as it drafts this rule?