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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: April 17, 2025

RE: **April 24, 2025, Open Meeting – Item No. 36**
Project No. 56000 – *Firm Fuel Supply Service*

Ahead of the April 3, 2025 open meeting, Staff filed a memo that described ongoing developments around Firm Fuel Supply Service (FFSS) and sought Commission guidance on questions related to the expansion of the pool of resources eligible to provide this service.¹ Discussion at that open meeting primarily centered around the possible inclusion of new off-site natural gas resources as contemplated by NPRR 1275², the level of reliability provided by these resources relative to the present pool of eligible resources, and whether there is a preference for maintaining some number of MWs (or some proportion of the budget) from existing resources (i.e., those eligible pre-NPRR 1275). At the April 3, 2025 open meeting, Staff committed to bringing a road map for possible paths forward.

PATH FORWARD

Based on discussions at that open meeting, at ERCOT stakeholder meetings, and with ERCOT and the IMM, Staff suggests there are two viable paths forward.

OPTION 1: If the Commission chooses to expand the pool of eligible resources as soon as practicable, there is likely sufficient time to implement this change in advance of the Winter 2025-2026 FFSS contract period. Because ERCOT is required to issue the FFSS Request for Proposal (RFP) by August 1, 2025, this path is contingent upon NPRR 1275 meeting the protocol revision approval timeline outlined in the following table. Any deviation from this timeline would mean that this expansion could not be implemented for the Winter 2025-2026 FFSS period.

¹ Project No. 56000, AIS Item No. 8 (March 27, 2025).

² On February 25, 2025, ERCOT filed NPRR 1275, which is currently under consideration in the ERCOT stakeholder process. NPRR 1275 was recently discussed at a meeting of the Protocol Revision Subcommittee (PRS) and valuable input has been provided in comments filed by Vistra and the IMM.

| Meeting Date | |
|---------------------|--------------------------------------|
| May 7, 2025 | Wholesale Market Subcommittee (WMS) |
| May 14, 2025 | Protocol Revision Subcommittee (PRS) |
| May 28, 2025 | Technical Advisory Committee (TAC) |
| June 24, 2025 | ERCOT Board of Directors |
| July 31, 2025 | PUCT open meeting |

OPTION 2: If the determination is that there are still too many unknowns, too much uncertainty around integrating these additional resources, or that the timeline described in Option 1 is too aggressive, the Commission may prefer to delay the expansion of the pool of eligible FFSS resources until a future procurement period. Delaying these decisions to a future date would allow for additional time to discuss the best and most reliable way to expand FFSS for future periods. In this case, NPRR 1275 could continue through the stakeholder process but with the goal of implementing this expansion of the pool of eligible resources for subsequent periods. If this path is chosen, Staff recommends the Commission approve the same budget and methodology to determine offer caps used in previous periods for the Winter 2025-2026 FFSS procurement.

STAFF RECOMMENDATION: Due to the compressed timeline to implement these changes ahead of the 2025-2026 Winter period and a lack of clarity or consensus on several important aspects of this service, Staff recommends Option 2—to delay the expansion of the pool of resources eligible to provide FFSS until a later season. This will provide the time necessary for additional discussion and help ensure that this change is implemented correctly.

FUTURE RULEMAKING

Regardless of the path chosen, Staff recommends a rulemaking project be initiated to codify the parameters of this program in the rules for transparency and regulatory certainty. This will also allow Staff to gather feedback from stakeholders, ERCOT staff, and the IMM on several important issues. The following decision point list provides examples of topics that Staff believes will need to be addressed at a future date.

DECISION POINT LIST:

- How should the FFSS budget, offer caps, and target procurement quantities be set?
- How should FFSS be structured in order to best promote competition and provide proper incentives to promote reliability in the natural gas supply chain?
 - Should the FFSS market maintain a single clearing price or is a bifurcated market with multiple clearing prices more appropriate?
 - How should the clearing price be set? Currently the price is set based on a 15 Million British Thermal Units (MMBtu) heat rate times the price of fuel oil. Is the 15 MMBtu heat rate appropriate to also apply to natural gas resources? If the clearing price is tied to a fuel price, should it be based on historical or projected prices?
 - Should penalties, beyond claw backs, for any failure to provide be considered?

- If a bifurcated market approach is adopted, how should resources be grouped?
 - Approach 1: Generation Resources (GRs) eligible to provide FFSS prior to NPRR 1275 (Group 1) and GRs eligible to provide post NPRR 1275 (Group 2).
 - Approach 2: By fuel type—i.e., fuel oil (Group 1) and natural gas (Group 2).
- If a bifurcated approach is adopted, how should target procurement quantities be set?
 - Should FFSS be structured in a manner that ensures some minimum amount of capacity is procured from Group 1 resources?
 - Should FFSS be structured such that some proportion of the total budget is reserved for the procurement of Group 1 resources?
- How can FFSS be structured to most effectively hedge different types of risk?
 - Should FFSS quantities be based on a proportion of total installed gas generation?
 - Should location of FFSS resources be considered in the procurement process so that a more geographically diverse set of resources is procured?