

Residual Zone Pricing

Markets and Reliability Committee

Lisa Morelli

December 21, 2011

- Review Proposed Packages
- Prepare for Vote at January MRC Meeting

General agreement has been reached on all aspects of the residual zone pricing business rules, with the exception of the following design criteria.

- Implementation Date
- Opt Out Provision - Allows EDCs to delay implementation of residual zone pricing for their entire zone by providing opt out notification to PJM
- Sunset Date (if opt out provision supported) – Date by which all zones must implement residual zone pricing
- Pricing Point for Demand Response Settlement and Dispatch
- Available ARR Sink Pricing Points

Alternative packages based on the options for these design criteria are being put forth for voting at the January MIC meeting

2013 w/ 2015 Sunset Opt Out – A (Original Package)

- June 2013 implementation date
- Opt out provision with 2015 sunset date
- DR settled and dispatched at applicable load pricing point
- ARRs default to physical zone with option to pick residual zone pricing point

2013 No Opt Out – B

- June 2013 implementation date
- No opt out provision
- DR settled and dispatched at applicable load pricing point
- ARRs sink at the pricing point at which the load is settled

2014 Sunsetting Opt Out - A

- June 2014 implementation date
- Opt out provision with 2015 sunset date
- DR settled and dispatched at applicable load pricing point
- ARRs default to residual zone with option to pick physical zone pricing point

2015 No Opt Out – A

- June 2015 implementation date
- No opt out provision
- DR settled and dispatched at applicable load pricing point
- ARRs default to residual zone with option to pick physical zone pricing point

2015 No Opt Out – B

- June 2015 implementation date
- No opt out provision
- DR settled and dispatched at applicable load pricing point
- ARRs sink at the pricing point at which the load is settled

Voting Schedule

- MIC – January 11
- MRC – January 26
- MC – February 21

Appendix A– Tariff and Operating Agreement Revisions

OATT Attachment K – Appendix / Schedule 1 of OA

- New defined term: Residual Metered Load
- 5.2.3 Target Allocation of Transmission Congestion Credits - Added description of how the Day-ahead Congestion Price of residual metered load is calculated (mirrors language for how the price is calculated for the physical zone)
- 7.4.2 (b) and (d) Auction Revenue Rights - Specified ARR will default to sinking at the physical zone, unless the network customer requests ARRs at an aggregate that more specifically defines its load
 - Language may be updated if package supporting a different ARR option is approved

OATT Part III, Section 31.7

- Updated section to specify that all load in a zone will default to residual zone pricing unless:
 - The EDC opts out on behalf of all non-nodally priced load in the EDC's service territory
or
 - The network customer defines a more specific aggregate for their load
- Minor revisions to existing wording to leverage defined terms
- Language may be further updated if package supporting opt out sunset date or lack of an opt out provision is approved

Appendix B– Remaining Residual Zone Pricing Business Rules

- Zones with nodally priced load shall use residual zone pricing upon implementation unless the EDC opts out on behalf of all non-nodal load in the zone
 - Opt out elections must be provided to PJM annually
 - No later than 5 business days after the EDC notification due date, PJM will transmit this opt out information to members via email
 - EDC's opt out election will apply to all non-nodal load in the zone

* The opt out provision is subject to exclusion depending on package approved by stakeholders.

- EDCs must provide their opt out notification by completing a form and submitting it to PJM by **January 1st** or at least **45** days prior to the start of PJM's annual ARR/FTR allocation process, whichever is later
 - Existing business rules require retail LSEs switching to nodal pricing to notify PJM by January 15th or 30 days prior to the start of the ARR allocation

* The opt out provision is subject to exclusion depending on package approved by stakeholders

- Once an EDC has elected residual zone pricing for load in its territory, physical zone pricing for RT load will no longer be available
 - All non-nodal load in the zone will be priced at the same pricing point
- Effective date for switching load from physical zone pricing to residual zone pricing is June 1 to coincide with the PJM planning period

- Differences between Nodal Customers' eSchedule Load (next day) and Reconciled Load (2 months later) may result in RT load distributions being slightly different than the original distributions.
- An adjusted distribution reconciliation rate will be used to reconcile all load priced at the residual zone, including load with no reconciliation MWh
 - Only impacts load reconciliation for transmission congestion and transmission losses
 - More precise, eliminates leftover billing for EDC / POLR load
- The adjusted distribution reconciliation rate will be posted publicly and reported in MSRS

- **Day-ahead residual zone distribution factors** will default to the final real-time distribution factors for the residual zone at 8:00 a.m. one week prior to the Operating Day
 - i.e., if next Operating Day is Monday, the default distribution is from 8:00 a.m. on Monday of the previous week.
 - Consistent with physical zones, the definition will apply to all hours in the day
- **Preliminary 5 min. real-time residual zone LMPs** will be calculated using same residual metered EDC distribution factors used for the Day-ahead market for the Operating Day
- **Final hourly real-time residual zone distribution factors** will be calculated using eSchedule-submitted nodal load MWh
 - RT residual zone LMPs typically posted two to three days after the market date

Residual Zone Definitions for FTR Credit Target Allocation

- Residual Zone definitions used for ARR/FTR purposes are fixed for the planning period
- Initial Residual Zone distribution for FTRs will be determined based on the contribution of each bus to the total residual load at the time of previous year's PJM annual peak
 - Consistent with the practice used to determine the physical zone distribution used for ARRs/FTRs
- Initial distribution will be adjusted by any new nodal load requests
 - LSEs moving to nodal load settlement are required to submit:
 - Peak load at time of PJM annual peak from the previous year
 - Aggregate definition distribution percentages