Residual Zone Pricing

Markets and Reliability Committee

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- Residual zone price more accurately reflects the composition of non-nodal priced load in the zone

  - More precise load pricing

- Physical and residual zone prices may become more disparate with the introduction of more nodal load

  - Ease transition impacts

  - Avoid potential resettlements in the future

- Creates parity for all non-nodal load in the zone

Packages voted on at the MIC focused on 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

Remainder of the residual zone pricing business rules are the same across all packages (see Appendix)

	2015 No Opt Out - B	2015 No Opt Out – A	2013 No Opt Out – B	2014 Sunsetting Opt Out	2013 w/ 2015 Sunset Opt Out
Implementation Date	June 1, 2015	June 1, 2015	June 1, 2014	June 1, 2014	June 1, 2013
Opt Out Provision	No	No	No	Yes, 2015 Sunset	Yes, 2015 Sunset
DR Dispatch and Settlement	At the applicable load pricing point	At the applicable load pricing point	At the applicable load pricing point	At the applicable load pricing point	At the applicable load pricing point
ARR Sink Pricing Point	Residual Zone	Defaults to Resid. Zone with option to pick Phys. Zone	Residual Zone	Defaults to Resid. Zone with option to pick Phys. Zone	Defaults to Phys. Zone with option to pick Resid. Zone
In Favor	67%	49%	42%	27%	22%

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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

OATT Attachment K – Appendix / Schedule 1 of OA

- <u>New defined term:</u> Residual Metered Load

- <u>5.2.3 Target Allocation of Transmission Congestion Credits</u> - 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)

- <u>7.4.2 (b) and (d) Auction Revenue Rights</u> - No substantive changes
    - Sink pricing point on ARRs still follows the pricing point at which the load is settled
    - Clean up revision to reference "Energy Settlement Area" of a Network Service User instead of "aggregate load buses" when referencing eligible sink pricing points.

OATT Part III, Section 31.7

• Updated section to specify that all load in a zone will default to residual zone pricing unless the network customer defines a more specific aggregate for their load

• Minor revisions to existing wording to leverage defined terms

Manuals

• Manual revisions will be brought to a future MRC meeting for approval

Appendix – Remaining Residual Zone Pricing Business Rules

- Once an residual zone pricing is implemented, physical zone pricing for <u>RT load</u> will no longer be available

  – All non-nodal load in the zone will be priced at the same pricing point

  – Nodal load will continue to be priced at the applicable nodal pricing point

- 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

Residual Zone Aggregate Definitions

- **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 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