

To: NEPOOL Markets Committee Members and Alternates

From: Robert B. Burke

Date: April 9, 2015

Subject: Change in the Average Avoided Peak Distribution Loss Factor

The purpose of this memo is to inform you that, effective June 1, 2015, the ISO will begin using a 5.5% average avoided peak distribution loss factor in accordance with Section III.E1.10 of the Tariff. This is a reduction from the 6.5% factor that is presently being used. This change will reduce by 1.0% the energy settlement amounts for Real-Time Demand Response Resources and Real-Time Emergency Generation Resources calculated in accordance with Sections III.13.7.2.5.3 and III.13.7.2.5.4, respectively, and for Real-Time Demand Response Assets participating in the transitional energy market program in accordance with Section III.E1.

It is important to note that this change does not impact the 8.0% average avoided peak transmission and distribution loss factor currently being used in the Forward Capacity Market for Demand Resources.

Since the 2010-2011 Capacity Commitment Period, an 8.0% average avoided peak transmission and distribution loss factor has been used to determine the Installed Capacity Requirement. To conduct energy settlement for demand response resources, however, demand reduction amounts must be adjusted by avoided peak distribution losses alone because the LMP used in energy settlement already incorporates transmission losses. To this end, Section III.E1.10 of the Tariff requires that the avoided peak distribution loss factor used in energy settlement for demand response resources be equal to “the percent average avoided peak transmission and distribution losses used for the associated Capacity Commitment Period in the Forward Capacity Market less the percent average avoided peak transmission system losses.” Given that transmission losses were previously calculated to be 1.5%, a 6.5% average avoided peak distribution loss factor (i.e., $8.0\% - 1.5\% = 6.5\%$) is presently being used in the energy settlement of demand response resources.

More recently, however, transmission studies conducted by the ISO have calculated a 2.5% peak transmission loss factor. To be compliant with Section III.E1.10 of the Tariff, the percent average avoided peak distribution losses used in energy settlement for demand response resources must be reduced to 5.5%, which is the difference between the 8.0% average avoided peak transmission and distribution loss factor used for the current Capacity Commitment Period and the revised average avoided peak transmission system loss factor of 2.5%. The ISO plans to make this change effective June 1, 2015.

Please contact me if you have any questions regarding this change.