

# Market Renewal FACT SHEET

## Pricing for Loads

#16

The single schedule market (SSM) is one initiative in the Market Renewal's Energy work stream. As part of the move from a two schedule market to a SSM, a review of the framework for determining prices paid by load is required.

### What is it?

In a single schedule market, generating resources are paid the LMPs at their location but the structure of market prices paid by load can vary. There are three key design considerations regarding how load pricing is determined.

#### Consideration 1. Location of Price Determination

Whether load prices are developed using the LMPs at the supplier nodes or at the load nodes.

Load prices can be developed using LMPs at the supplier nodes, or at the load nodes. Load prices based on LMPs at the point of supplier injections into the system include the average cost of transmission losses and congestion. Prices based on LMPs at the location of consumption<sup>1</sup> would apply the marginal cost of transmission losses and congestion. In either case, it is important to ensure that load is not being overcharged or undercharged for congestion. There may be a need for uplift payments to ensure that charges are fair.

#### Consideration 2. Level of Aggregation for Price Determination

Whether a nodal, zonal, or uniform price is charged.

- The current policy is for load to pay a single uniform price across the province.
- Zonal prices are aggregated based on the zonal average of load LMP prices at multiple locations within the province.<sup>2</sup>

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<sup>1</sup> This would also result in a settlement residual due to the difference in losses and congestion payments recovered from consumers vs what is paid to generators known as "congestion rents" which must be allocated back to the consumers via some mechanism, for example Financial Transmission Rights for transmission congestion and make whole and uplift payments for losses.

<sup>2</sup> A zone is a region of the power system that incorporates many individual nodes.

- Nodal prices are based on the LMP for a specific load location. In this scenario, loads would pay the LMP at their specific location.

The level of price aggregation for load presents a trade-off between policy goals and market efficiency. The more load prices are aggregated, the greater the disconnect grows between prices that load is paying and the cost of supplying energy to that point on the system. Market efficiencies relevant to the load area are therefore lost or reduced when aggregated.

Zonal pricing is used by some jurisdictions as a compromise between nodal LMP pricing and a single uniform price. The relative efficiency of uniform vs. zonal pricing is dependent on how the zones are defined and how much price variation exists within the zones. Typically, zones are defined by historical congestion patterns so that LMP nodes are grouped to minimize variance within the zone.

### **Consideration 3: Determining Pricing for Dispatchable and Non-Dispatchable Loads**

Whether dispatchable and non-dispatchable loads are charged the same price or different prices.

Dispatchable loads and non-dispatchable loads could both have nodal, zonal, or uniform pricing, or there could be a variation between the two. For example, dispatchable loads could be charged the nodal LMP or zonal price to incent efficient consumption decisions while non-dispatchable loads could be charged the uniform provincial price. The pricing structure design must address trade-offs between market incentives and policy goals.

### **Why is it important?**

Sending price signals to load that appropriately represent the cost of service and delivery is critically important to influencing efficient consumption. Hence, the load pricing approaches need to be carefully considered with respect to the price signals they send, how they fit into the province's policy framework, and whether they provide the appropriate incentives.

### **More information**

For more information, please see the Market Renewal Fact Sheets on Supplier Pricing (#6), Financial Transmission Rights (#17) and Uplift Recovery (#19).