



**VIA CFTC Portal**

13 July 2015

Mr. Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mr. Kirkpatrick:

LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC regulation §40.6(a), clearing of new PJM zonal contracts traded on the Nodal Exchange. LCH.Clearnet will commence clearing of these new PJM zonal contracts on or after 28 July 2015.

**Part I: Explanation and Analysis**

The current PJM zonal electricity contracts traded at the Nodal Exchange are based on PJM physical zone pricing methodology. As PJM has updated its methodology for the price calculation, Nodal Exchange intends to launch new zonal contracts to reflect the update. The LCH.Clearnet risk management framework will also reflect this change.

Historically, PJM has determined the price at the zonal level through a weighted average price of all demand load buses within the zone. As an exception to this method, PJM has allowed certain entities within each zone to use their specific local price rather than the averaged zonal price when purchasing power. But in an effort to provide more accurate prices for market participants to settle transactions, PJM has now updated its methodology by excluding those loads that have been designated to be priced using their local nodal price. This new price is called "Residual Aggregate Zone price" to differentiate from the "Physical Zone price" that was previously used. Nodal Exchange trades futures contracts that settle using the Physical Zone price, but will now have to offer new contracts to reflect the new Residual Aggregate price, as all physical transactions will be conducted using the new price. The currency in scope for the initial proposal is USD as per existing contracts. The list of affected zones is as follows:

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LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet LLC | LCH.Clearnet SA

Existing Zone	Corresponding Residual Aggregate
AECO Zone	AECO Resid Agg
APS Zone	APS Resid Agg
BGE Zone	BGE Resid Agg
Comed Zone	Comed Resid Agg
Dayton Zone	Dayton Resid Agg
DEOK Zone	DEOK Resid Agg
Dom Zone	Dom Resid Agg
DPL Zone	DPL Resid Agg
DUQ Zone	DUQ Resid Agg
JCPL Zone	JCPL Resid Agg
Meted Zone	Meted Resid Agg
PECO Zone	PECO Resid Agg
Penelec Zone	Penelec Resid Agg
PPL Zone	PPL Resid Agg
PSEG Zone	PSEG Resid Agg
RECO Zone	RECO Resid Agg

To mirror the specifications of existing zonal contract, for these contract locations Nodal Exchange will be launching the following contracts:

- Day Ahead Power and Energy
- Congestion contracts for peak and off-peak versions, with the term structure being,
  - 69 monthly expiries for Day Ahead Power contracts
  - 49 monthly expiries for Energy and Congestion

The project does not introduce material change or new risk factors in terms of new nodes, in any aspect of the CCP risk management.

In an effort to aid the adjustment and adoption of the new methodology by participants, PJM has back-calculated daily prices for all the zones using the new methodology back to November 2011. This data has been used by Nodal to calculate synthetic futures prices for all new contracts using their standard synthetic price methodology. These prices have then been used both by Nodal and LCH.Clearnet for our risk analysis and margin impact calculations.

A Member Circular will be published prior to the launch date, and will be available at <http://www.lchclearnet.com/news-events/members-updates/general-information>

### **Part II: Description of Rule Changes**

This submission does not require any changes to the LCH.Clearnet Rulebook.

### **Part III: Core Principle Compliance**

LCH.Clearnet has concluded that compliance with the Core Principles will not be adversely impacted by this change, and in particular complies with Core Principle C.



**Part IV: Public Information**

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of this submission on the LCH.Clearnet website at <http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>.

**Part V: Opposing Views**

There were no opposing views expressed to LCH.Clearnet by governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into this change.

**Certification**

LCH.Clearnet hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions regarding this submission please contact me at [julian.oliver@lchclearnet.com](mailto:julian.oliver@lchclearnet.com)

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julian Oliver', written over a blue circular stamp or seal.

Julian Oliver, Chief Compliance Officer  
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