

17-2

Discussion Paper
ISSUE 17: APPLICATION OF SETTLEMENT ADJUSTMENTS –
2 - ADJUSTMENT PERIOD ALLOCATION

SUMMARY from Discussion Paper 17-1:

The adjustment period allocation is an allocation method that uses the energy withdrawn during the adjustment period rather than the latest month's energy withdrawn used in the current period adjustment.

The following is a mathematical expression describing the calculation of the offsetting charge for each market participant:

$$A_{MP_j} = \frac{\text{Energy Withdrawn For Period of Adjustment by } MP_j}{\sum_{k=1}^n \text{Energy Withdrawn For Period of Adjustment by } MP_k} * A$$

A = Total Adjustment Amount in Dollars

A_{MP_j} = Adjustment Amount in Dollars for Market Participant "j"

n = total number of market participants present at the time of the adjustment period

ADVANTAGES/DISADVANTAGES:

One of the benefits of this method is that it allocates charges in a manner that better reflects what the financial impacts (payments or charges) to an "other" participant would have been if the error had not existed. It does not charge market participants who did not exist at the time of the error.

However, a market participant (active during the error event) leaving the market after the error but before the allocation of the adjustment, raises a liability issue that would need to be addressed.

ADDRESSING THE LIABILITY ISSUE

With the adjustment period allocation method there is a potential liability issue for participants that leave the market if they remain liable for settlement adjustments for an undetermined period after ceasing to be a market participant. Outstanding liabilities of this nature have been an issue in other electricity markets and are avoided when using the current period adjustment method.

Under the adjustment period allocation method discussed here, there would be some residual uncollected or undistributed adjustment amount associated with participants that have left the market that must somehow be taken into account to maintain settlement neutrality. How this is to be addressed would need to be determined, however a similar process to that used for Default Levy may be appropriate.

LIST OF SETTLEMENT ADJUSTMENTS

Figure 1 is a plot of each of the settlement adjustment amounts (shown as uplift rates to the market) on a monthly basis, since the beginning of the market. The values used are provided in Table 1.

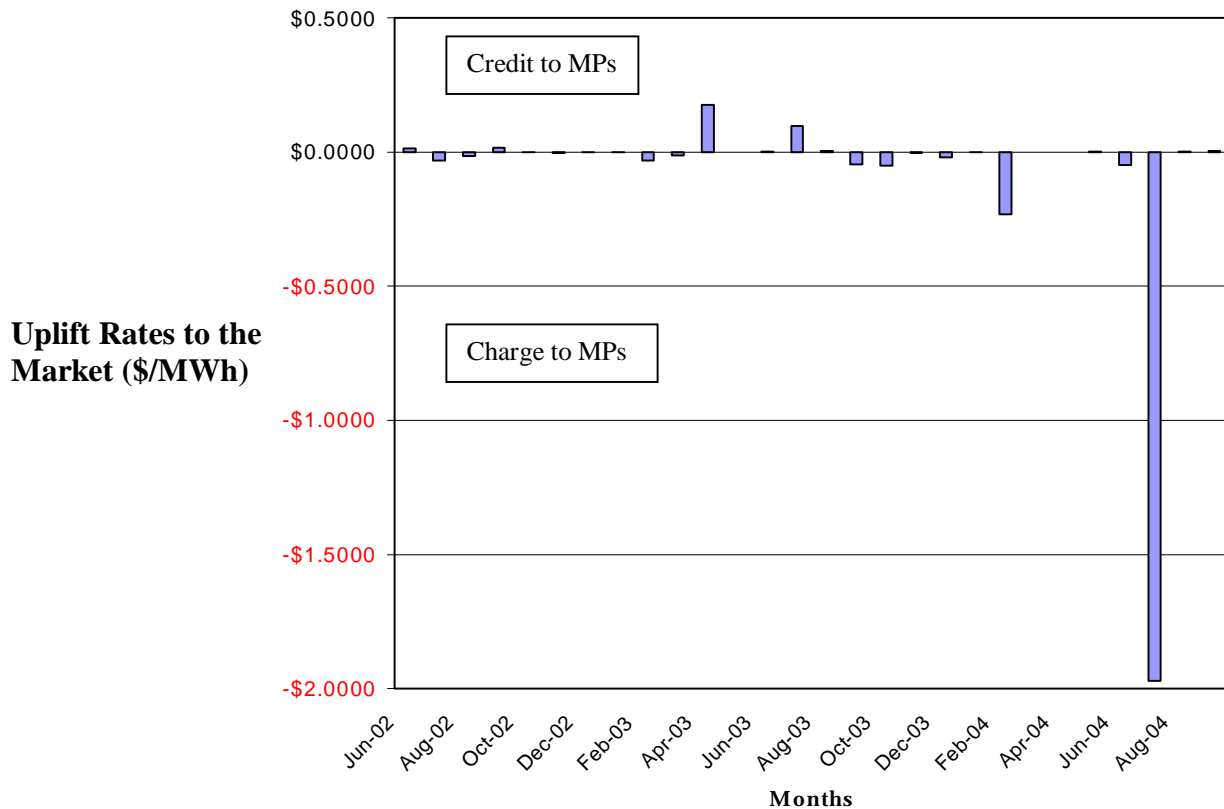


Figure 1. Monthly Analysis of Uplift Rates to the Market (\$/MWh)

Table 1 outlines each of the settlement adjustment amounts (shown as uplift rates to the market) on a monthly basis, since the beginning of the market. One should note that of the 27 months with an adjustment, only 4 adjustments have been greater than 5¢/MWh and only one has been greater than 25¢/MWh.

ADJUSTMENT MONTH	UPLIFT RATES TO THE MARKET (\$/MWh)
2002/06	\$0.01
2002/07	-\$0.03
2002/08	-\$0.01
2002/09	\$0.02
2002/10	< -\$0.01
2002/11	< -\$0.01
2002/12	< -\$0.01
2003/01	< -\$0.01
2003/02	-\$0.03
2003/03	-\$0.01
2003/04	\$0.18
2003/05	< -\$0.01
2003/06	< \$0.01
2003/07	\$0.10
2003/08	< \$0.01
2003/09	-\$0.05
2003/10	-\$0.05
2003/11	< -\$0.01
2003/12	-\$0.02
2004/01	< -\$0.01
2004/02	-\$0.23
2004/03	< -\$0.01
2004/05	< \$0.01
2004/06	-\$0.05
2004/07	-\$1.97
2004/08	< \$0.01
2004/09	< \$0.01

Table 1. Uplift Rates to the Market (\$/MWh) on a monthly basis since the beginning of the market. Note that on the Uplift Rates to Market (\$/MWh) column, the positive values denote *Credits* and the negative values denote *Charges*.