

# Maximum Adjustment Period

October 28, 2009



We are asking the Stakeholder Advisory Committee whether to proceed with a maximum adjustment period.

- Often referred to as a sunset clause.
- IESO balances the market. IESO settlement cycle – 20 business days past trade day.
- If data error existed for a long period of time (i.e. > 1 or 2 years)
  - A settlement adjustment will retroactively correct error back to when it started.
- **A maximum adjustment period limits the amount of time for which an adjustment will recalculated.**

All market participants are potentially exposed to settlement adjustments for an unlimited amount of money, going back to market opening (2002).

- Theoretical example:
  - Error discovered, in existence since 2003
  - \$10 million adjustment charged to the market
  - All market participants who consume or export electricity must be allocated this charge
  - If you consumed or exported electricity in 2003 – 2009, you will be charged your portion of this adjustment.
  - Market Participants who finalize their year-end financial statements are unable to do so with any certainty knowing that further charges could be made in the future which could have the effect of requiring the market participants to restate their financial statements

A maximum adjustment period limits exposure to adjustments from previous years.

- Participants will have closure to their financial statements
- Participants will have finality to settlement statements

Market participant cost efficiencies associated with reduced requirements for tools, processes and support to verify a recalculation.

IESO cost efficiencies associated with:

- reduced manual effort and recalculation
- reduced requirement for maintaining a separate offline tool to support adjustments spanning several years.

- Some market participants have expressed concern with long duration recalculations indicating they are uncomfortable with the open-ended risk.
- Replacing settlement system
  - By limiting the adjustment period we can reduce the cost of a new system.
  - Maximum adjustment period in place for RFP ultimately sent to vendors.
- Adjustment duration is becoming impractical – today we can potentially go back 7 years including through a number of pricing regimes. <sup>8</sup>

# Replacement Settlement Tool with Maximum Adjustment Period

- All settlement data in one system, no longer require separate offline tool.
  - Quickly and easily recalculate settlement adjustments within a maximum adjustment period.
  - Rate changes, legislation changes all maintained in one tool.
  - Further cost efficiencies
    - Tools
    - Resources

Types of Settlement Adjustments > 1 Year Duration	Number of Adjustments	% of total (#)	% of total (\$)*
Meter registration	13	59%	67%
Ancillary contract	5	23%	25%
Data submission	2	9%	7%
Transmitter error	1	5%	1%
Meter data processing	1	5%	< 1%
<b>Grand Total</b>	<b>22</b>	<b>100%</b>	<b>100%</b>

\* The one adjustment of \$32 million skews the relative percentage of the other errors in dollar terms. To provide a more meaningful picture of these types of long duration errors, this percentage excludes this one adjustment.

<b>Number of adjustments since 2004 where duration of recalculation is &gt; 1 year</b>		<b>22</b>
Range		
	Highest *	\$ 32,000,000
	Lowest	\$ 1,200
Average*		\$ 1,169,422
Median*		\$ 325,968
Total		\$ 57,000,000

\* Note that the one adjustment of \$32 million skews the relative percentage of the other errors in dollar terms. To provide a more meaningful picture of these types of long duration errors, the average and median values exclude this one adjustment.

Long duration settlement adjustments (> 1 year of recalculation) account for 0.09% of the total amount billed since 2004.

Settlement Range	Number of adjustments	% of total (#)
< \$500,000	11	50%
\$500,000 - \$1,000,000	3	14%
\$1,000,000 - \$5,000,000	6	27%
> \$5,000,000	2	9%
Grand Total	22	100%

- Benchmarking with a sample of other Independent System Operators (ISO's) and Regional Transmission Organizations (RTO's) indicate:
  - Those who have sunset clauses have benefitted from settlement closure and cost efficiencies
    - ✓ California Independent System Operator
    - ✓ New York Independent System Operator
    - ✓ PJM Interconnection
    - ✓ New Brunswick System Operator
- As ISO's and RTO's are maturing, they are putting sunset clauses in place.

- Stakeholder Advisory Committee to advise whether to proceed with a maximum adjustment period.
- Technical panel with market rule change to identify what the adjustment period will be.