

# Maximum Adjustment Period

Revenue Metering Standing Committee  
April 29, 2010

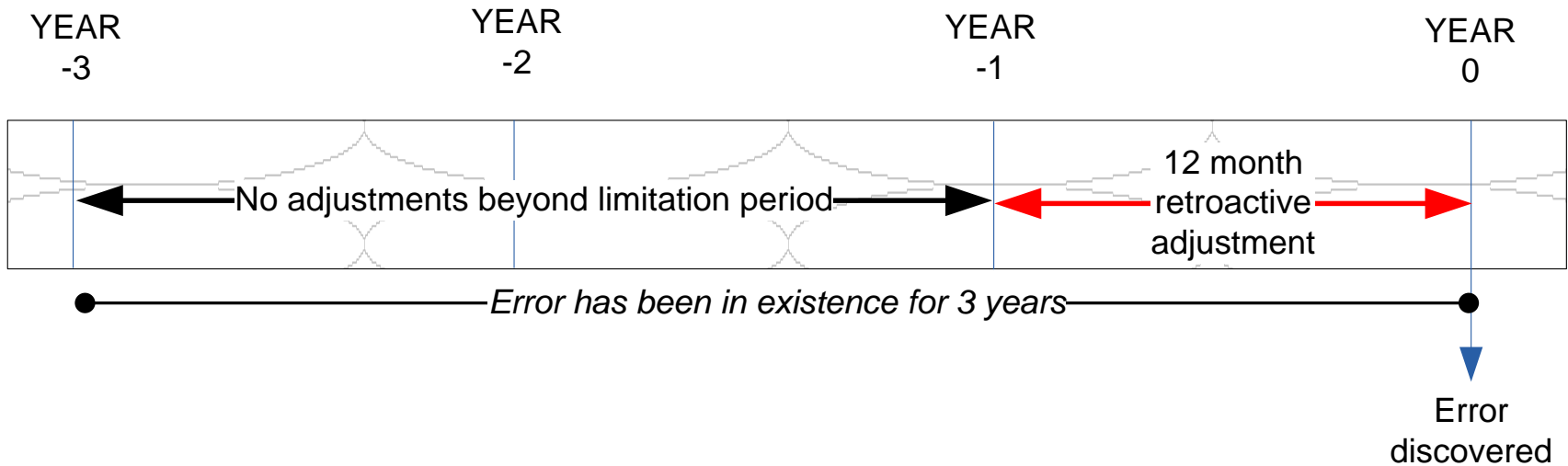


- IESO Proposal
- What is a Maximum Adjustment Period?
- Current Risks, Benefits for Market Participants and the IESO
- Current Settlement Cycle, Disputes and other Adjustments
- Activities to date and planned

The IESO proposes to establish a maximum adjustment period for settlement adjustments. Under the current market rules, settlement adjustments may apply to transactions that date back to market opening.

The proposed maximum adjustment period will limit the adjustment to one year from the date of discovery.

## One Year Maximum Adjustment Period



- How does the current risk impact participants?  
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.
  - If adjustment > \$3.5 million, allocation is based on electricity withdrawn over the period of the error.

- Market participants' tolerance for exposure.
- Benchmarking for best practice.
  - ISO's / RTO's
  - Mostly one year or less (including processing time).
- Initial Advisory Committee feedback.
- Analysis of existing data
- Existing tool capability
  - For example the IESO's metering tool retains up to 18 months' worth of meter data, anything outside of this takes additional manual time and effort.

- The introduction of a maximum adjustment period of one year will eliminate uncertainty about the period for settlement adjustments.
- Market participants have expressed concern with open-ended periods for settlement adjustments because it creates uncertainty with respect to the finality of their financial statements.
- The longer the adjustment period, the greater the potential impact of prior years' activities on the financial results of the current fiscal year.

- Market participants may also realize cost savings as they will not be required to have the necessary tools, processes, and support to verify these types of long duration settlement adjustments.

- Within IESO's current settlement system, cost savings will be realized with the amount of time IESO staff must spend to retrieve, verify, calculate and check long duration settlement adjustments. These costs increase with the duration of the re-calculation required.
- Reduced costs to replace systems (get rid of offline tool).

- The IESO settlement cycle allows twenty business days past a trade date to review and adjust all settlement data. After this point, the settlement statement related to that trade date is considered final and no further adjustments are considered, within that cycle.

- The dispute process allows for adjustments to be applied after final settlement, provided the participant meets the dispute submission deadline of twenty business days past the final statement along with other criteria.

- In addition to the resolution of disputes, in certain instances the IESO will process other post final settlement adjustments. These adjustments fall into 5 main categories:
  - Meter registration (such as errors in wiring or meter multipliers)
  - Meter data processing
  - Amounts calculated under ancillary contracts
  - Missing data submissions by the market participant
  - IESO process error.

- Measurement Canada has the authority to investigate and resolve complaints regarding metering
- To date they have not been involved in meter errors
- Measurement Canada's process is limited to correcting inaccurate data and the consequences of the inaccuracy (i.e, financial compensation) are left to the parties.

- Presented to Stakeholder Advisory Committee in October 2009.
- The Committee agreed that IESO should proceed with a maximum adjustment period.
- IESO senior management approved the initiative in November 2009.
- Introduced to the Technical Panel in February, 2010
- Amendment proposal on the May 11 Technical Panel agenda

- Comments or questions?

- Benchmarking with a sample of other Independent System Operators (ISO's) and Regional Transmission Organizations (RTO's) indicate:
  - ✓ ERCOT – **7 ½ months**
  - ✓ New York Independent System Operator – **8 months**
  - ✓ ISO New England – **11 months**
  - ✓ New Brunswick System Operator – **1 year**
  - ✓ PJM Interconnection – **2 years**
  - ✓ California Independent System Operator – **3 years**
- All but one of these timelines include time to recalculate and apply the adjustment.
- Those who have sunset clauses have benefitted from settlement closure and cost efficiencies
- As ISO's and RTO's are maturing, they are putting maximum adjustment clauses in place.

# EXAMPLE (using historical data)\*

	<b>Paid to Market**</b> (\$ 000)	<b>Charged to Market***</b> (\$ 000)
<b>Today: no limit</b>	14,699	42,441
<b>With a 2 year limit</b>	9,083	37,781
<b>With a 1 year limit</b>	2,140	18,802

Applying a limit means that only a portion of long duration errors will be adjusted.

\* Data is comprised of all settlement adjustments where duration of error was one year or greater.

\*\* Paid to market: Charged to individual market participants, offsetting credit allocated to market.

\*\*\*Charged to market: Paid to individual market participants, offsetting charge allocated to market.

# Historical Snapshot (Adjustments > 1 year)

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
Longest duration of error/adjustment		5 years, 1 month

\* 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 where duration of error > 1 year	% 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%

If we exclude the largest adjustment of \$32 million, we're left with many smaller adjustments (>1 year duration) that take extra time and money to manually recalculate and apply to the market.