



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00336-R00		
Subject:	Settlements		
Title:	Treatment of the Smart Metering Charge		
Nature of Proposal:	<input type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	9	Appendix:	
Sections:	6.11		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	August 22, 2007
2.0	Published for Stakeholder Review and Comment	August 30, 2007
3.0	Draft for Technical Panel Review	September 12, 2007
4.0	Published for Stakeholder Review and Comment	September 20, 2007
5.0	Published for Technical Panel Vote	October 9, 2007
6.0	Recommended by Technical Panel and Submitted for IESO Board Approval	October 16, 2007
7.0	Approved by IESO Board	November 15, 2007
Approved Amendment Publication Date:		November 16, 2007
Approved Amendment Effective Date:		December 12, 2007

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The amendment proposes to allow for use of the wholesale market settlement, invoicing and payment process for the smart metering services provided by the IESO to local distribution companies. The proposed amendment would allow the IESO to instruct the bank to debit the IESO-administered markets settlement clearing account only the amount paid for the smart metering charge and deposit those funds in an IESO operating account.

These amendments would simplify the smart metering charge settlement, invoicing and payment process by using the current wholesale market processes. As the Smart Metering Initiative is not part of the wholesale market, the obligation to pay and resulting actions due to non-payment of this charge would be included in agreements between the IESO and the LDCs. It is the IESO's intention that this agreement would authorize the use of wholesale market rules and processes regarding settlements and dispute resolution. This agreement will not make the LDCs that are not market participants subject to the market rules. Rather the LDCs will be agreeing to use certain existing processes defined by the market rules where applicable.

The issue of incomplete payments by market participants paying the smart metering charge is addressed in MR-00336-R01.

Background

The Smart Metering Initiative (SMI) is the Government of Ontario's initiative to create a conservation culture and a toolset for demand management based upon the province-wide deployment of smart meters. The smart meter will record electricity use for each hour and apply time-of-use pricing for Ontario consumers. This will, in effect, allow the consumer to manage their electricity use and take advantage of lower pricing periods.

The IESO entered into an agreement in July 2006 with the Ministry of Energy to support the SMI and was recently designated as the Smart Metering Entity (SME) by regulation under the Electricity Act, 1998.¹ As the SME, the IESO is responsible for the administration and operation of the meter data management / meter data repository (MDM/R), which will collect and store information related to the metering of consumers' consumption or use of electricity in Ontario,. The SME will also provide the validating, estimating and editing process for this data so that it can be used by the LDCs for billing purposes. The *Electricity Act, 1998*, as amended by Bill 21, entitles the SME to recover, through just

¹ Refer to the Ministry of Energy's announcement at http://www.e-laws.gov.on.ca/html/source/regs/english/2007/elaws_src_regs_r07393_e.htm

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and reasonable rates and the costs approved by the OEB associated with the conduct of the SME's activities. The OEB has not yet established a fee or fee structure for the SME function. This OEB-established fee would be the smart metering charge.

In June 2007, the OEB issued amendments to the Distribution System Code that require LDCs to enter into an agreement with the SME, in a form approved by the OEB. The agreement will set out the respective roles and responsibilities of the LDC and the SME in relation to metering and the information required to be exchanged to allow for the conduct of these respective roles and responsibilities. The IESO, as the SME, has circulated a draft agreement to the LDCs for comment and will be pursuing OEB approval of the agreement in the late summer/early fall of 2007.

For further information refer to MR-00336-Q00.

Discussion

It is proposed to add a new section, 6.11.4a, which would permit the IESO to instruct the bank to debit the IESO settlement clearing account the amount paid by the LDCs for the smart metering charge. The proposed amendment would also permit the IESO to instruct the bank to deposit these funds into an IESO operating account.

PART 4 – PROPOSED AMENDMENT**Chapter 9:****Chapter 9:****6.11 Payment of Invoices**

6.11.1 Subject to section 6.11.2 and section 11.5 of Chapter 2, each *market participant* shall pay the full net *invoice* amount by the *market participant payment date* specified in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27 and 6.3.29, regardless of whether or not the *market participant* has initiated or continues to have a dispute respecting the net amount payable.

6.11.2 A *market participant* may pay at an earlier date than the *market participant payment date* specified in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27, and 6.3.29 in accordance with the following:

6.11.2.1 notification must be given to the *IESO* before submitting such prepayment or before converting an existing overpayment by the *market participant* into a prepayment;

6.11.2.2 the prepayment notification shall specify the dollar amount prepaid;

- 6.11.2.3 a prepayment shall be made by the *market participant* into the *IESO prepayment account* designated by the *IESO*;
- 6.11.2.4 on any *market participant payment date*, the *IESO* may initiate the transfer of necessary funds from the *IESO's prepayment account* to the *IESO settlement clearing account* to discharge, up to the amount of the prepayment, that *market participant's* outstanding payment obligations arising in relation to that *market participant payment date*; and
- 6.11.2.5 [Intentionally left blank]
- 6.11.2.6 [Intentionally left blank]
- 6.11.2.7 subject to section 5.6.3 of Chapter 2, and notwithstanding section 4.18.1.2 of Chapter 8, funds held in an *IESO prepayment account* on behalf a *market participant* may be applied by the *IESO* to any outstanding financial obligations of that *market participant* to the *IESO* for transactions carried out in the *IESO-administered markets*.
- 6.11.3 With respect to transmission service charges, the *IESO* may instruct the bank where the *IESO settlement clearing account* is held to debit the *IESO settlement clearing account* and transfer to the relevant transmitter's transmission services settlement account sufficient funds to pay in full the transmission service charges falling due to that transmitter on any *IESO* payment date specified in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27, and 6.3.29.
- 6.11.4 With respect to the *IESO administration charge*, the *IESO* may instruct the bank where the *IESO settlement clearing account* is held to debit the *IESO settlement clearing account* and transfer to the relevant *IESO* operating account sufficient funds to pay in full the *IESO administration charge* falling due on any *IESO payment date* specified in the *SSPC* in priority to any other payments to be made on that *IESO payment date* or on subsequent days out of the *IESO settlement clearing account*.
- 6.11.4a With respect to the smart metering charge, the *IESO* may instruct the bank where the *IESO settlement clearing account* is held to debit the *IESO settlement clearing account* and transfer to the relevant *IESO* operating account only those funds that were received in the *IESO settlement clearing account* in payment of the smart metering charge. The smart metering charge is the fee approved by the *OEB* to recover costs incurred by the *IESO* solely as a result of the *IESO* acting as the Smart Metering Entity and its responsibilities related to the smart metering initiative.
- 6.11.5 The *IESO* shall, on the *IESO payment date* specified in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27, and 6.3.29, determine the amounts available in the *IESO settlement clearing account* for distribution to *market participants*, and shall, if necessary, borrow funds in accordance with the provisions of

section 6.14 if necessary to enable the *IESO settlement clearing account* to clear no later than 11:00 am on the *IESO payment date*.

PART 5 – IESO BOARD DECISION RATIONALE

These amendments would simplify and reduce the costs of the smart metering charge settlement, invoicing and payment processes by using the current wholesale market processes.



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Sections:	6.14		
Sub-sections proposed for amending:			

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- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

Refer to MR-00336-R00.

This amendment proposes to address the situation where a market participant:

- makes a partial payment on an invoice that contains wholesale market settlement amounts and the smart metering charge; and
- does not direct the IESO how to apportion the partial payment to the wholesale market settlement amounts and the smart metering charge.

This amendment would obligate the IESO to apply the partial payment first to wholesale market settlement amounts owed by the market participant and then apply any remaining payment to the smart metering charge.

This amendment would reduce the risk of a default on payment of wholesale market settlement amounts by a market participant also paying the smart metering charge and the subsequent imposition of a default levy on non-defaulting market participants.

Background

Refer to MR-00336-R00.

When making a payment to one of its creditors, a debtor has the right at law to allocate the payment among the various obligations owed to that creditor. The proposed introduction of the smart metering charge on the same invoice as wholesale market charges requires recognition of the debtor's rights to allocate a partial payment. The situation where the debtor does not exercise its right to allocate a partial payment also needs to be addressed. In this latter situation, it is important that the wholesale market be protected, to the extent possible, from a default of wholesale market charges and the resulting imposition of the default levy.

Discussion

It is proposed to add a new section, 6.14.3A, which would dictate the allocation of funds if there is an incomplete invoice payment. If a market participant fails to pay their invoice in full and the market participant has not advised the IESO as to how to apportion a partial payment, the IESO would be obligated to allocate the partial payment first to satisfying any charges due under the market rules before being applied to the smart metering charge.

This amendment would:

- recognize the right of the market participant to allocate a partial payment,
- provide transparency and certainty as to what would happen when a market participant does

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

not exercise that right; and

- reduce the risk of a default on wholesale market payments and the resulting imposition of the default levy.

PART 4 – PROPOSED AMENDMENT**Chapter 9****6.14 Payment Default**

- 6.14.1 Subsequent to the *close of banking business* (of the bank at which the *IESO settlement clearing account* is held) on the *market participant payment date* referred to in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27, and 6.3.29, the *IESO* shall ascertain if the full amount due by any *market participant* has been remitted to the *IESO settlement clearing account*.
- 6.14.2 A *market participant* shall notify the *IESO* immediately if it becomes aware that a payment for which it is responsible will not be remitted to the *IESO settlement clearing account* on time and shall provide the reason for the delay in payment.
- 6.14.3 If the full amount due by a *market participant* has not been remitted after accounting for any prepayments made by the *market participant* pursuant to section 6.11.2, the provisions of section 6.3 of Chapter 3 shall apply and *default interest* shall accrue on all amounts outstanding.
- 6.14.4 The *IESO* shall be authorised to borrow short-term funds to clear the credits in any settlement cycle only if the following conditions are met:
- 6.14.4.1 there are insufficient funds remitted into the *IESO settlement clearing account* to pay all *market creditors* due for payment from the funds in the *IESO settlement clearing account*, and clear the *IESO settlement clearing account* on a given *IESO payment date*, due to:
- payment default by one or more *market participants* in the *day-ahead energy forward market* or the *real-time markets*; or
 - the circumstances referred to in section 4.19.2 or 4.19.6 of Chapter 8;
- 6.14.4.2 [Intentionally left blank]
- 6.14.5 If the *IESO* borrows short-term funds pursuant to section 6.14.4, it shall recover this borrowing:

- 6.14.5.1 where the insufficient funds were due to a payment default referred to in section 6.14.4.1 (a) by taking all steps against the *defaulting market participant* as provided for in these *market rules* and as referred to in section 8.1.2.2 and then, if necessary, by imposing the *default levy* in accordance with section 8 of Chapter 2; or
- 6.14.5.2 where the insufficient funds were due to the circumstances referred to in section 6.14.4.1 (b), in the manner referred to in sections 4.19.3 and 4.19.5 of Chapter 8 and then, if necessary, by recovering from *market participants*, on a pro-rata basis across all allocated quantities of *energy* withdrawn at all *RWMs* and *intertie metering points* during all intervals and *settlement hours* within the *energy market billing period* in which the *IESO* invoices the *market participants*.
- 6.14.6 If there are insufficient funds remitted into the *IESO settlement clearing account* to pay all *market creditors* due for payment from the funds in the *IESO settlement clearing account*, and clear the *IESO settlement clearing account* on a given *IESO payment date* due to default by one or more *market participants* or to the circumstances referred to in section 6.14.4.1 (b), the *IESO* shall borrow funds in accordance with section 6.14.4 in order to clear the *IESO settlement clearing account* no later than the *close of banking business* (of the bank at which the *IESO settlement clearing account* is held) on that *IESO payment date*.
- 6.14.7 If the *IESO* has exhausted credit availability contemplated by section 6.14.4, then the *IESO* shall pay *real-time market creditors* on a pro rata basis in proportion to the amounts owed to each *real-time market creditor*. Any amounts that remain owing to *real-time market creditors* shall bear interest at the *default interest rate* until paid.
- 6.14.8 Upon receipt of any payments by the *IESO*, either from or on the behalf of one or more *defaulting market participants* including any *prudential support* held by the *IESO*, or on behalf of *non-defaulting market participants* pursuant to a *default levy*, the *IESO* shall first repay all existing lines of credit and other banking facilities, including the portion of the *deferred payment plan line of credit* applicable to such *defaulting market participants*, and following repayment of such lines of credit and banking facilities, the *IESO* shall then repay on a pro-rata basis all *real-time market creditors* owed amounts pursuant to section 6.14.7.

6.14 Payment Default

- 6.14.1 Subsequent to the *close of banking business* (of the bank at which the *IESO settlement clearing account* is held) on the *market participant payment date* referred to in the *SSPC* or, where applicable, determined in accordance with any of sections 6.3.23, 6.3.27, and 6.3.29, the *IESO* shall ascertain if the full amount due by any *market participant* has been remitted to the *IESO settlement clearing account*.

6.14.2 A *market participant* shall notify the *IESO* immediately if it becomes aware that a payment for which it is responsible will not be remitted to the *IESO settlement clearing account* on time and shall provide the reason for the delay in payment.

6.14.3 If the full amount due by a *market participant* has not been remitted after accounting for any prepayments made by the *market participant* pursuant to section 6.11.2, the provisions of section 6.3 of Chapter 3 shall apply and *default interest* shall accrue on all amounts outstanding.

6.14.3A If the *market participant's invoice* includes a *settlement amount* owing for the smart metering charge under section 6.11.4A and the *market participant*:

- fails to remit the full *invoice* amount due by the *market participant payment date*; and
- does not direct the *IESO* how to apportion the payment between the smart metering charge and all other *settlement amounts* on the *invoice* prior to the *IESO payment date*,

the *IESO* shall allocate the payment made by the *market participant* first to satisfying any *settlement amounts* due under the *market rules* before being applied to the smart metering charge.

6.14.4 The *IESO* shall be authorised to borrow short-term funds to clear the credits in any settlement cycle only if the following conditions are met:

6.14.4.1 there are insufficient funds remitted into the *IESO settlement clearing account* to pay all *market creditors* due for payment from the funds in the *IESO settlement clearing account*, and clear the *IESO settlement clearing account* on a given *IESO payment date*, due to:

- a. payment default by one or more *market participants* in the *day-ahead energy forward market* or the *real-time markets*; or
- b. the circumstances referred to in section 4.19.2 or 4.19.6 of Chapter 8;

6.14.4.2 [Intentionally left blank]

6.14.5 If the *IESO* borrows short-term funds pursuant to section 6.14.4, it shall recover this borrowing:

6.14.5.1 where the insufficient funds were due to a payment default referred to in section 6.14.4.1 (a) by taking all steps against the *defaulting market participant* as provided for in these *market rules* and as referred to in section 8.1.2.2 and then, if necessary, by imposing the *default levy* in accordance with section 8 of Chapter 2; or

6.14.5.2 where the insufficient funds were due to the circumstances referred to in section 6.14.4.1 (b), in the manner referred to in sections 4.19.3 and 4.19.5 of Chapter 8 and then, if necessary, by recovering from *market participants*, on a pro-rata basis across all allocated quantities of *energy* withdrawn at all *RWMs* and *intertie metering points* during all

intervals and *settlement hours* within the *energy market billing period* in which the *IESO* invoices the *market participants*.

- 6.14.6 If there are insufficient funds remitted into the *IESO settlement clearing account* to pay all *market creditors* due for payment from the funds in the *IESO settlement clearing account*, and clear the *IESO settlement clearing account* on a given *IESO payment date* due to default by one or more *market participants* or to the circumstances referred to in section 6.14.4.1 (b), the *IESO* shall borrow funds in accordance with section 6.14.4 in order to clear the *IESO settlement clearing account* no later than the *close of banking business* (of the bank at which the *IESO settlement clearing account* is held) on that *IESO payment date*.
- 6.14.7 If the *IESO* has exhausted credit availability contemplated by section 6.14.4, then the *IESO* shall pay *real-time market creditors* on a pro rata basis in proportion to the amounts owed to each *real-time market creditor*. Any amounts that remain owing to *real-time market creditors* shall bear interest at the *default interest rate* until paid.
- 6.14.8 Upon receipt of any payments by the *IESO*, either from or on the behalf of one or more *defaulting market participants* including any *prudential support* held by the *IESO*, or on behalf of *non-defaulting market participants* pursuant to a *default levy*, the *IESO* shall first repay all existing lines of credit and other banking facilities, including the portion of the *deferred payment plan line of credit* applicable to such *defaulting market participants*, and following repayment of such lines of credit and banking facilities, the *IESO* shall then repay on a pro-rata basis all *real-time market creditors* owed amounts pursuant to section 6.14.7.

PART 5 – IESO BOARD DECISION RATIONALE

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