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## Market Rule Amendment Submission

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This form is used to request an amendment to, or clarification of, the *Market Rules*. Please complete the first four parts of this form and submit the completed form by email or fax to the following:

Email Address: [Rule.Amendments@ieso.ca](mailto:Rule.Amendments@ieso.ca)

Fax No.: (416) 506-2847 Attention: Market Rules Group

**Subject: Market Rule Amendment Submission**

All information submitted in this process will be used by the *IESO* solely in support of its obligations under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, the *Market Rules* and associated policies, standards and procedures and its licence. All submitted information will be assigned the *confidentiality classification* of “Public” upon receipt. You should be aware that the *IESO* will *publish this amendment submission* if the *Technical Panel* determines it warrants consideration and may invite public comment.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *Market Rules*.

### PART 1 – SUBMITTER’S INFORMATION

Please enter contact information in full.	
Name: <u>IESO Staff</u>	
(if applicable) <i>Market Participant /</i> <i>Metering Service Provider</i> No. <sup>1</sup> : <u>N/A</u>	<i>Market Participant Class</i> : <u>N/A</u>
Telephone: <u>416 506-2801</u>	Fax: <u>416 506-2847</u>
E-mail Address: <u><a href="mailto:rule.amendments@ieso.ca">rule.amendments@ieso.ca</a></u>	

<sup>1</sup> This number is a maximum of 12 characters and does not include any spaces or underscore.

**PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION**

Subject: <u>Settlements</u>
Title: <u>Adjustment Period Allocation</u>
Nature of Request (please indicate with x)
<input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition <input type="checkbox"/> Clarification
Chapter: <u>9</u> Appendix: _____      Sections: _____
Sub-sections proposed for amending/clarifying: _____

**PART 3 – DESCRIPTION OF THE ISSUE**

Provide a brief description of the issue and reason for the proposed amendment. If possible, provide a qualitative and quantitative assessment of the impacts of the issue on you and the *IESO-administered markets*. Include the Chapter and Section number of the relevant *market rules*.

Under certain conditions, a settlement adjustment for a market participant for a given trading day is required after the IESO has issued the final settlement statement for that trading day, e.g. resolution of a notice of disagreement or dispute after the final settlement statement is issued. The market rules currently provide that the IESO shall determine the offsetting amounts to be recovered from or distributed to other market participants affected by the settlement adjustment by means of a current period adjustment applied to a subsequent preliminary settlement statement. Current period adjustments are based on transactions for the billing period during which the adjustment is effected, regardless of the billing period or trading day in which the event that triggered the adjustment occurred.

Concerns about the fairness of the current period adjustment method were raised by several market participants in the form of Notices of Disagreement (NoD) as a result of significant adjustments on preliminary settlement statements for July 31, 2004 (issued on August 16, 2004). These adjustments related to a revenue metering error that resulted in erroneously high energy and uplift charges to a market participant and, consequently, erroneously low charges to others over a period of twenty-one months. The market participant that had overpaid because of the metering error was reimbursed \$31 million. As required under the current market rules, this reimbursement payment was collected from the market via offsetting charges applied to the energy that other market participants withdrew in July 2004, the billing period of the current period adjustment. Market participants asserted that current period adjustment is an inappropriate basis to determine recovery of the adjustment as it does not reflect market participants' activity during the event requiring the settlement adjustment.

The issue was entered into the IESO Participant Issues Log in September 2004 and the Market Pricing Working Group (MPWG) was asked to consider alternative ways for making settlement adjustments in the future. The MPWG reviewed two alternatives to the current period adjustment method: 1) complete recalculation and 2) adjustment period allocation.

As the name implies, a complete recalculation is an allocation that is based on a complete recalculation of every final settlement statement for every market participant for the period of the event requiring the settlement adjustment. While this is the only method that results in the allocation that would have

### PART 3 – DESCRIPTION OF THE ISSUE

occurred in the absence of the event requiring the adjustment, this method requires substantial IESO resources and time. This method may also result in complicated processes for market participants that have contracts with others that would need to be correspondingly adjusted. The trade-off between fairness and simplicity was recognized when the current market rules were developed and, at that time, it was judged that the current period adjustment method was most appropriate to ensure overall efficiency of the IESO settlement statement recalculation process [ref MR-00147].

A second alternative to current period adjustment is an allocation that is based on historical energy withdrawal or injection values, referred to as an adjustment period allocation. Under the adjustment period allocation methodology, credits or costs that are calculated are proportionate to market participants' activity during the time of the event that triggered the adjustment. Adjustment period allocation is a compromise between current period adjustment and complete recalculation: it allocates adjustments to market participants who were in the market at the time of the event and on the basis of their activity at that time. However, as it is a pro-rata allocation (like a current period adjustment), it is not as accurate as a full recalculation.

During the MPWG deliberations on settlement adjustments, the IESO received a letter from four market participants requesting market rule amendments related to current period adjustments (see letter attached). These amendments were requested on the grounds that the current period adjustment mechanism is 1) unfair because it does not take into account usage during the period when the error occurred, and 2) creates uncertainty with respect to final settlement statements associated with the IESO's ability to levy retroactive charges. Furthermore, the writers of the letter requested the following changes to address their concerns:

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1. Any adjustments made to uplift charges should be based on actual market participant kw/h usage, as this is the only equitable way to allocate the expense.
2. The current period adjustment and ability to make retroactive charges should be limited to a one-year period. This could be linked to the IESO's internal audit function.
3. A complete rewrite of the current period adjustment provisions is required in order to specify the circumstances in which a current period adjustment may be made by the IESO.”

For adjustments resulting from metering errors, it is not possible to limit the period of the adjustment to one year because of the requirements of the Federal Electricity and Gas Inspection Act. If a one year period is accepted for other types of adjustments then there must be recognition that the participant(s) who was either over or under charged will either recover amounts or be charged the additional amounts for the one year period only.

The MPWG has recommended that the IESO use the adjustment period allocation method rather than the current period adjustment for the allocation of all settlement adjustments required after a final settlement statement is issued (see complete MPWG recommendation attached).

The cost of developing Settlement tools to automate adjustment period allocations must be determined before a decision can be made about investment in tools development. If the cost of a systems change is not justified relative to the benefit, the IESO could manually apply an adjustment period allocation for events triggering significant adjustments. A manual adjustment period allocation is very labour intensive and may not be warranted for small adjustments or recent events; these adjustments would be more efficiently handled as a current period adjustment using existing tools. Further consultation would be required to develop thresholds for the use of the manual adjustment period allocation. If the IESO

**PART 3 – DESCRIPTION OF THE ISSUE**

commits to Settlement tools development, thresholds may be needed to allow the use of manual adjustment period allocations until the Settlement tools are in place. In either case (i.e. if tool development is not feasible or in the interim period before tools are implemented), the thresholds may need to be either materiality (e.g. small dollar amount adjustments would remain as current period adjustments and not be subject to adjustment period allocation) and/or elapsed time since the event (e.g. adjustments from recent events within the same billing period would remain as current period adjustments).

The use of an adjustment period allocation for settlement adjustments also presents a liability issue regarding the allocation of costs/credits to a market participant who has exited the market. Under the Market Rules, Chapter 2, Section 9.1.5, a person who ceases to be a market participant remains subject to and liable for all of its obligations and liabilities as a market participant. In reference to the recovery or re-distribution of default levy amounts, Chapter 2, Section 8.8 of the Market Rules outlines that the IESO must take reasonable steps to recover costs or distribute credits to defaulting and non-defaulting parties. Although a default levy may not be an appropriate mechanism for recovering costs related to settlement adjustments, the requirement to collect/disburse from exited market participants may set a precedent. In situations where the IESO cannot recover amounts from a market participant, a mechanism for allocating outstanding cost/credits resulting from an adjustment period allocation would need to be developed.

**PART 4 – PROPOSAL (BY SUBMITTER)**

Provide your proposed amendment. If possible, provide suggested wording of proposed amendment.

The market rules should be amended such that settlement adjustments after the final settlement statement is issued are made using the adjustment period allocation method rather than the current period adjustment method. In the development of market rules, the following issues need to be addressed and resolved:

1. Should the IESO automate the adjustment period allocation? Is the cost of automation warranted relative to the resulting benefits to the market?
2. If automation is warranted, how should settlement adjustments be made in the period that settlement software changes are under development – status quo? Manual adjustment period allocation?
3. In the event that the IESO would manually apply an adjustment period allocation, are threshold(s) for events to warrant such manual adjustments required? If so, what thresholds are appropriate?
4. How are costs/credits allocated to the market when former market participants cannot be located by the IESO?

**PART 5 – FOR IESO USE ONLY**

*Technical Panel* Decision on Rule Amendment Submission: \_\_\_\_\_

MR Number: MR-00291

Date Submitted to *Technical Panel*: March 17, 2005

Accepted by *Technical Panel* as: (please indicate with x)

Date:

General

Urgent

Minor

March 22, 2005

Criteria for Acceptance: It identifies means to better enable the market to satisfy the market design principles. Adjustment period allocation would improve efficiency of the market because it would result in more appropriate allocation of costs/credits within the market.

Priority: High

Criteria for Assigning Priority: High level of stakeholder interest and potential impact these settlement adjustments have on all market participants.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

*Technical Panel* Minutes Reference: IESOTP 160-1

*Technical Panel* Comments: This is not a new issue; the Technical Panel reviewed alternative methods for settlement adjustments at the time of selecting the method currently provided for in the Market Rules (i.e. current period adjustment). The Technical Panel will re-visit the original rationale for selecting the current period adjustment method. Additional information on the outstanding issues described in the submission was requested.



**VIA FACSIMILE**

January 24<sup>th</sup>, 2005

Independent Electricity System Operator  
Attention: Market Rule Amendments  
655 Bay Street, Suite 410  
Toronto, ON M5G 2K4

Dear Sir:

**Re: Proposed Market Rule Amendments related to the Current Period Adjustment**

We write in order to bring your attention to certain current practices of the Independent Electricity System Operator (the "IESO") which we believe require change and as a result, market rule amendments. These practices include the following; 1) the flawed method of calculation by which current period adjustments are made which does not reflect actual usage and 2) the ability of the IESO to levy retroactive charges.

The implications resulting from these mechanisms were recently brought to light when the IESO levied an uplift charge against certain market participants based on a revenue metering error (the "Error Adjustment"). The revenue metering error involved incorrectly high energy readings at a meter installation over a period of 21 months. However, the current period adjustment, as determined by the IESO, was based on the energy withdrawn by market participants during the month of July 2004 only. In response to concerns raised and objections made, as to how the Error Adjustment was calculated, the IESO has taken the position that under the market rules dealing with the current period adjustment, the IESO is not required to make an adjustment based on actual market participant kilowatt usage. Rather, the IESO takes the position that the market rules allow the IESO to make an adjustment within a month which it designates, regardless of whether usage in the month is in any way representative of the month in which the error occurred. This obviously creates a situation that is inequitable, in that market participants are charged uplift based on their usage in the month when the current period adjustment is made, despite the fact that usage may in no way be reflective of actual market participant usage during the period of the error.

As well, when exacting the Error Adjustment, the IESO did not take into account that market participants who may have been in the market in May 2002, may no longer be in the market some 21-months later, when the charge was issued. Conversely there may be new market participants who only recently joined the market and would be subject to an adjustment for an error which had occurred prior to their entering the market.

The ability on the part of the IESO to make these types of adjustments at any time does not provide market participants with any certainty related to settlement statements. In fact, quite contrary to the term final settlement statement, the statement charges are subject to change at any time. 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 by the IESO which could have the effect of requiring the market participants to restate their financial statements.

There are also market participants who have structured agreements with other parties based on the veracity of settlement information received from the IESO. The ability of market participants to rely on settlement information provided by the IESO has now been jeopardized. For example, certain market participants who were parties to TRO Agreements with Ontario Power Generation paid an escalating portion of uplift as the Ontario electricity market matured. These market participants have been directly prejudiced by receiving an invoice for payment of uplift some 21-months after the uplift fees were incurred. Because of the IESO's failure to make the adjustment in a timely manner, market participants have been required to pay more for uplift than they would have had to if the charges had been made in a timeframe that was current.

The lack of any type of finality with respect to settlement statements and calculations of uplift not based on actual usage are clearly two undesirable effects of the current period adjustment mechanism as currently set out in the market rules.

Lastly it has become evident to us that the market rules around current period adjustments are unclear and are ambiguous and generally lack the clarity and prescriptive nature that other aspects of the market rules contain. In the case of the Error Adjustment, ambiguous rules have allowed the IESO to use the market rules in a manner that was never contemplated when the market rules were developed, and has resulted in other market participants being penalized for lack of diligence on the part of the IESO and failures of other third parties to follow the requirements specified in the market rules. That is not acceptable.

We urge the IESO to consider the inequity and uncertainty experienced by market participants as a result of the current market rules as drafted, and make the appropriate market rule changes.

The writers require changes that would address the following issues:

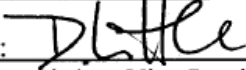
1. Any adjustments made to uplift charges should be based on actual market participant kw/h usage, as this is the only equitable way to allocate the expense.
2. The current period adjustment and ability to make retroactive charges should be limited to a one-year period. This could be linked to the IESO's internal audit function.
3. A complete rewrite of the current period adjustment provisions is required in order to specify the circumstances in which a current period adjustment may be made by the IESO.



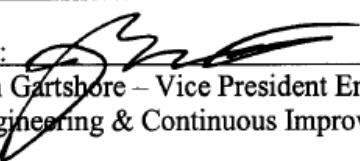
We would be happy to discuss these issues with you in further detail.

Yours truly,


**POWEREX CORP.**

Per:   
\_\_\_\_\_  
Doug Little – Vice President Marketing & Trade Policy

**ABITIBI CONSOLIDATED INC.**

Per:   
\_\_\_\_\_  
Jim Gartshore – Vice President Energy,  
Engineering & Continuous Improvement

**BOWATER CANADIAN FOREST  
PRODUCTS, INC.**

Per:   
\_\_\_\_\_  
Mike Kuriychuk – Manager of Energy Development

**INCO LTD.**

Per:   
\_\_\_\_\_  
John Lemay – Project Manager, Energy Conservation

- cc: The Honourable Dwight Duncan, Minister of Energy
- cc: James C. Baillie, Chairman of the Board,  
The Independent Electricity Market Operator
- cc: Dave Goulding, President and Chief Executive Officer,  
The Independent Electricity Market Operator





**RECOMMENDATION FOR ISSUE 17**

**SETTLEMENT ADJUSTMENT AND ALLOCATION**

**Document #17-3**

The IESO Market Pricing Working Group is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

Advice and recommendations of the Market Pricing Working Group as well as other materials developed in the course of the working group’s deliberations are used as inputs into the IESO’s broader stakeholdering process and to inform IESO decisions, including decisions of the IESO Board of Directors and IESO Technical Panel.

The recommendation documented here is made in principle. The working group recognizes that, if this recommendation is adopted by the IESO, further consultation and consideration with respect to implementation details and feasibility may be required.

Working Group members from the following sectors participated in the polling of this recommendation:

- |                             |                           |                                  |
|-----------------------------|---------------------------|----------------------------------|
| Yes - Dispatchable Load     | No - Distributor          | Yes - Dispatchable Generator     |
| Yes - Non-dispatchable Load | Yes - Transmission        | Yes - Non-Dispatchable Generator |
| No - Residential            | Yes - Wholesaler/Retailer |                                  |

**A. Description of Issue**

Settlement adjustments may be required after a final settlement statement has been issued for a trading day due to a number of reasons, including a notice of disagreement analysis that is completed post final, a dispute, an adjustment required from a specific market rule, etc. When these adjustments are applied to a market participant the offsetting charges are applied to all market participants that have withdrawn energy from the IESO-administered market via a Current Period Adjustment. The application of a Current Period Adjustment results in the adjustments being made on the basis of the activity of market participants during the billing period when the adjustment was applied (the current billing period), rather than on the basis of their activity over the time period that

may be the subject of the settlement adjustment. While this simplifies any adjustment, it may result in some market participants receiving credits or incurring payments out of proportion to their activity during the period of the event in question.

A more complete description of the issue is provided in the Market Pricing Working Group document titled “Issue 17: Settlement Adjustments and Allocations.”

[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG\\_2004Sep03\\_ISS17\\_StlmtAdj.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2004Sep03_ISS17_StlmtAdj.pdf)

## **B. Options Considered**

The three options considered by the working group for allocating a settlement adjustment were:

1. Do nothing – continue to use the existing Current Period Adjustment method.
2. Replace Current Period Adjustment with a more precise method that has been named the Adjustment Period Allocation.
3. Replace Current Period Adjustment with a complete settlement recalculation.

These options are discussed in detail in two discussion papers on this topic, #'s 17-1 and 17-2.

[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG\\_2004Nov26\\_ISSUE%2017.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2004Nov26_ISSUE%2017.pdf)

[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG\\_2004Dec08\\_AdjPrdAlloc.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2004Dec08_AdjPrdAlloc.pdf)

## **C. Recommendation of the Market Pricing Working Group**

The Market Pricing Working Group recommends that the IESO not use the Current Period Adjustment for the allocation of settlement adjustments and that it instead use the method described herein as the “Adjustment Period Allocation”. It is the view of the working group that there is some urgency with regards to the timeline of implementation of this recommendation, at least for significant settlement adjustment amounts.

This alternative to the Current Period Adjustment method allocates settlement adjustments on the basis of the historical energy withdrawal values as opposed to the energy withdrawn in the current billing period. This allocation could either be calculated on a monthly basis (for adjustment periods that span more than one month) or as a single lump sum for the entire adjustment period.

The calculation of the Adjustment Period Allocation is similar to Current Period Adjustment in that the adjustment amount is allocated to all participants based on their allocated quantity of energy withdrawn (AQEW) in a defined period. The difference is in the definition of the period over which the allocation is to be calculated. In the existing Current Period Adjustment method, the participant’s AQEW in the current billing period (month) is used to base the allocation while in the proposed Adjustment Period Adjustment method, the participant’s AQEW in the period in which the event occurred (that resulted in the settlement adjustment) is used. This is more reflective of the adjustments and offsetting charges that would have occurred had the event not happened at all.

The following is a mathematical expression describing the calculation of the offsetting charge for each market participant under the proposed Adjustment Period Allocation method:

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

Where:

**A** = Total Adjustment Amount in Dollars

**A<sub>MPj</sub>** = Adjustment Amount in Dollars for Market Participant “j”

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

Under the above allocation method there may be instances in which allocations are being made to entities that are no longer participating in the IESO-administered markets. While the Market Pricing Working Group is not providing any specific recommendation in this regard, it recognizes that this issue will need to be addressed in any implementation of this recommendation. A similar issue is addressed via the existing Default Levy rules as defined in Ch 2, s 8.6.

**Impacts of Recommendation:**

**Participant Impact** – Will allow settlement adjustments to be more fairly allocated to market participants in that the basis for allocation is their activity, i.e. consumption, during the event period.

**Market Impact** – An allocation more in line with market participants activity and participation in the consequences of the event supports the principle of fairness in the market.

**IESO Impacts** – Would require amendments to the IESO Market Rules. Also, in order to implement this recommendation, either software development or manual settlement processes (or both) will be required. These changes to Settlement tools and processes may be significant.

**Other Impacts** – No expected impact on system reliability, market prices or quality of service.

**Dissenting and Abstaining Views of the Market Pricing Working Group:**

	<b>Sector Member</b>	<b>Reason:</b>
<b>Against:</b>	none	
<b>Abstain:</b>	A Dispatchable Load and a Non-Dispatchable Load	The member was not given instruction to participate in the polling of this question.

