



# Market Pricing Working Group

Market Evolution Program

Meeting #12  
December 8, 2004  
9:00am - 12:00pm

Public



# Market Pricing Working Group

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## **ISSUE 17: APPLICATION OF SETTLEMENT ADJUSTMENTS # 2 - ADJUSTMENT PERIOD ALLOCATION**



Independent  
Electricity  
Market Operator

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## Introduction

- At the last MPWG meeting, two alternatives to the current period adjustment method of allocating settlement adjustments were discussed.
- Today we will continue discussion of the “adjustment period allocation” method.
- The liability issue associated with the adjustment period allocation method will be addressed.

## 2) Adjustment Period Allocation

- Uses the historical energy withdrawal values and the historical adjustment amount.
- For adjustment periods that span more than one month, the adjustment could be calculated as a lump sum or split into monthly sums.

$$A_{MP_j} = \frac{\text{Energy Withdrawn For Period of Adjustment by } MP_j}{\sum_{k=1}^n \text{Energy Withdrawn For Period of Adjustment by } MP_k} * A$$

$A$  = 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



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## Advantages/Disadvantages:

- 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.
- Does not charge market participants who did not exist at the time of the error.
- If a market participant (present during the error) leaves at any time after the error, then a liability issue would need to be addressed.



## Addressing the Liability Issue:

- There is a potential liability issue for participants that leave the market if they remain liable for settlement adjustments.
- Liabilities of this nature have been an issue in other electricity markets and are avoided by using the current period adjustment.
- Using the adjustment period allocation may result in some residual uncollected (or undistributed) adjustment amounts attributed to the participants that have left the market.
- Settlement neutrality must be maintained. Details of how this is to be addressed would need to be determined. A similar process to that used for Default Levy may be appropriate.



## Monthly Analysis of Settlement Adjustments

[expressed as uplift rate (\$/MWh)]

