

Proposal to Create a Maximum Adjustment Period (SE-85)



Summary

The IESO would like to establish a maximum adjustment period for settlement adjustments. Under the current framework, settlement adjustments can go back an unlimited number of years.

The IESO is asking the Stakeholder Advisory Committee to recommend a change that will allow a maximum adjustment period.

The introduction of a maximum adjustment period, for example at one or two years, will result in efficiencies in the IESO's existing settlement processes. In addition, during the exercise of producing a vision for a new settlement system it was found that significant cost savings would be realized if there was a maximum adjustment period limitation as this would allow a more limited amount of data retention required by a replacement tool in order to execute settlement recalculations. Requests for proposal (RFP) are targeted to go to vendors by the end of 2010, and the proposed time limit change will be included in the RFP's technical specifications.

Anticipated Benefits of Implementing a Maximum Adjustment Period

Currently market participants who finalize their year-end financial statements are unable to do so with any certainty knowing that further changes may occur as a result of settlement adjustments. Long duration settlement adjustments could have the effect of requiring the market participants to restate their financial statements. The introduction of a maximum adjustment period will provide, after a certain date, finality to settlement statements. 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 settlements.

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.

IESO will also realize cost efficiencies with the eventual replacement of a settlement system that need not require the technology or capacity to support long duration recalculations. Currently IESO's production systems are not capable of retaining the data necessary to calculate longer duration adjustments, and as a result, offline systems have been created to both store the data and do the calculations. A shorter, defined settlement adjustment period means that an offline system does not need to be maintained. In fact a replacement system can be specified to keep all settlement data in the production system, and therefore post-final calculations can be quickly and easily calculated.

Background

The IESO settlement cycle allows twenty business days past a trade day to review and adjust all settlement data. After this point, the settlement statement related to that trade day is considered final and no further adjustments are considered, within that cycle. There is a dispute process that allows for adjustments to be applied after final settlement, provided the participant meets the dispute submission deadline of 20 business days past the final statement.

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, meter multipliers, and loss factors)
- Meter data processing
- Amounts calculated under ancillary contracts
- Missing data submissions by the market participant
- IESO process error

It has been the IESO's experience that errors with meter registration and amounts calculated under ancillary contracts can be of longer duration. The other three categories are typically discovered and corrected within a few months of the trade date(s) impacted.

The errors are investigated, and if a market rule is found that supports the correction of the error, an adjustment is made. These adjustments usually calculate back to the first date the error occurred, which could be back to market opening. The calculation of an adjustment can take many months, depending on the duration of the error. Once calculated, an adjustment is applied to a market participant's settlement statement, and the offsetting balance is either charged or credited to the rest of the market.

Other Independent System Operator's (ISO) Experience:

Preliminary research shows that certain ISO's do have a provision for sunset clauses that limit the adjustment period (CA-ISO, NYISO, and NBSO). Their experience with this limit is positive. The benefits gained have been consistent with the benefits anticipated by the IESO – participants have settlement closure, and both participants and the ISO realize cost efficiencies.

Of those ISO's that do not have a sunset clause, some are not experiencing any issues with doing settlement recalculations that span several years for various reasons, including:

- The methodology of recalculation is basic and only provides lump sum adjustments. Therefore the recalculation is not an onerous task.
- Their market opening date is recent and recalculations do not span years of data.

- They have longer settlement cycles that allow more time to discover errors and correct errors before a regular settlement cycle is finalized.

Regulatory Impact

Ontario legislation expressly provides that statutory limitation periods can be varied or excluded in business or arbitration agreements. The market rules constitute such an agreement.

Next Steps

Market Rule amendments for a maximum adjustment period will be brought forward to the Technical Panel starting in the first quarter of 2010 for its review and consideration.