Problem Statement / Issue Charge

Third Settlement ("Settlement C") Business Process

A third settlement ("Settlement C") provision in the PJM OATT or PJM Manuals would allow EDCs the ability to true-up the market for significant errors at some defined period after the 60-day Settlement (Settlement B) is performed in a more efficient, accurate, equitable and reliable manner.

Brief Background

PJM currently performs a single settlement (Settlement B) on a two-month lag for load reconciliations between the Electric Distribution Company (EDCs) and their zonal Load Serving Entity (LSEs). Today, many situations occur that require the EDC to perform a third settlement (Resettlement / Settlement C). Such situations are handled on a case-by-case basis and require the EDC to perform additional resettlement work within their systems. PJM systems currently have the capability to perform a third settlement but the current rule is that the EDC must obtain sign offs from all impacted counter parties (without certainty on dollar impacts) before PJM can proceed with processing any Resettlements / Settlement Cs. This often results in the EDC having to make the Settlement C calculations within their systems in order to secure the counter party signoffs. Additionally, with every re-settlement there are winners and losers which make it difficult and time-consuming to get signoffs from all impacted parties.

These situations (Resettlements / Settlement Cs) are often not within the control of the zonal EDCs’ settlement groups, and arise frequently enough that this issue needs to be addressed in a more systematic fashion than the manner in which these events are handled today. Examples of such situations causing the need for Resettlements / Settlement Cs include, but are not limited to, retail customer cancel / rebills, reverse metering situations, incorrect initial metering setup, meter failures, incorrect communication of data between EDC customer information systems and EDC settlement systems, incorrect information supplied to the EDC by entities within the EDC’s zone, etc.

The method used today to handle these situations is patchwork, at best, and lends itself to incorrect or incomplete final settlements. Even if only one LSE overpaid the market, this means that all other parties have underpaid the market by a like amount in total. The current process makes it quite difficult to pull dollars back from all parties to pay back the money overpaid by one party. Requiring counter party sign off creates tension between parties that are properly entitled to billing credits, and those parties who gain from incorrect initial or reconciled settlements that are based upon the data available at the time of the Settlement A and Settlement B. When a significant error is found, the market should provide a more reliable and equitable process to right the wrong.

Part of the problem can be traced to the lack of finality in the market settlements results that such a third settlement could lead to, as expressed by some stakeholders, as well as the constant changes that take place today with retail choice prevalent in so many jurisdictions that the ability of third party suppliers to pass on such third settlement results that occur well after the initial settlement month become severely restricted. However, such challenges should be
addressed as part of the overall approach to a potential resolution, rather than not at all, as the current situation causes too many inequities in settlements.

This issue warrants consideration in the PJM stakeholder process for the following reasons, in addition to what is cited above:

- Establishing a protocol would eliminate the need for EDCs to duplicate PJM’s many reconciliation calculations that need to be performed in “one-off” Resettlement / Settlement C situations that arise today.

- Establishing an existing systematic protocol would eliminate the current need to compile and submit results to LSEs and PJM as it would be handled similarly to today’s Settlement B.

- Establishing such a protocol for a third settlement option would reduce PJM efforts required today to manually produce and process billing adjustments.

- The potential inconsistencies/approximations related to current EDC calculations necessitated today would be reduced.

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Though the timeline for final settlement of dollars for a given period would be extended, these resettlements are justified since more accurate data is available for the final settlement and all impacted parties would be treated equitably via the PJM market process.

EDCs have no financial incentive to perform Resettlements / Settlement Cs, since these adjustments would be a “zero-sum gain” for the EDC.

Such a systematic Resettlements / Settlement C would provide greater transparency of load reconciliation adjustments via PJM billing reports.

- Consider if such systematic Resettlements / Settlement Cs would be optional, and subject to the discretion of the EDC as to when the third settlement option would be used.

- Consider establishment of a threshold that would trigger a Resettlement / Settlement C.

- Consider problem of third party suppliers to allocate results of a later third settlement amongst customers who may have switched to other third party suppliers or to the utility default service.
- Address issue of lack of closure for market settlements in terms of how to account for prior period adjustments that later third settlements can cause – from a financial and accounting perspective, the "reopening the books" issue.

- Alternatively, consider passing agreement that all signatories to PJM would agree to abide by current market results provided through the current PJM Settlement A and Settlement B processes, with no further adjustments to be made beyond Settlement B, similar to the manner in which capacity and transmission results are handled.

**Issue Source**

Potomac Electric Power Company

**Stakeholder Group Assignment**

Recommendation would be for the MSS to handle this request.

**Key Work Activities**

1. Establish benefits of this activity and their value
2. Establish implications of this activity including delaying the settlement of dollars for a given billing period (any different from current PJM billing line item adjustments?) including any credit exposure or collateral impacts.
3. Determine a final pro/con list
4. PJM and stakeholders to identify specifics of any potential solutions(s).
5. Determination of tariff and business manual language to implement proposed solutions.
6. Vote on proposals.
7. File at FERC, if necessary.
8. Implement for 2014/2015 or, more likely, the 2015/2016 PJM planning year (note: any changes could coincide with residual pricing already approved to be effective June 1, 2015).

**Expected Deliverables**

See “Key Work Activities” above.

**Expected Overall Duration of Work**

9 – 18 months

**Decision-Making Method**

Tier 1 consensus (near-unanimity) on a single proposal (preferred) or Tier 2, multiple alternatives.

The table below is illustrative of a potential scenario solution, based upon the 2009 MSS proposal, which narrowly failed by MRC vote.

- A modified version of the timeline Re-settlement Month
presented with the failed 2009 proposal: Original Reconciliation Billing Month

Q1 – Jan, Feb, Mar

Q2 – Apr, May, Jun

Q3 – Jul, Aug, Sep

Q4 – Oct, Nov, Dec

? (October in initial 2009 proposal, voted down by MRC).

? (January in initial 2009 proposal, voted down by MRC).

? (April in initial 2009 proposal, voted down by MRC).

? (July in initial 2009 proposal, voted down by MRC).