

Problem Statement / Issue Charge

Third Settlement (“Settlement C”) Business Process

A Third Settlement process, informally known as “Settlement C,” allows Electric Distribution Companies (“EDCs”) the ability to true-up the market for significant errors at some defined period after the 60 day Settlement (“Settlement B”) is performed. As currently employed by PJM and utilized by EDC members, the Settlement C has limited efficacy because of the requirement that all affected parties must consent to a resettlement. Even if there is no meaningful dispute that a billing error has in fact occurred, there are instances when it can be difficult and time-consuming to obtain unanimous consent to resettle when multiple parties are affected.

Brief Background

PJM issues month-to-date invoices on a weekly basis. Under its correction limits proviso, (Section 3.6.6 of the Operating Agreement), a member has up to two years from the date of the error to request a PJM billing adjustment for a metering error, and such adjustments are limited to the most recent annual accounting period of the impacted market participant. In 2008, PJM and some of its members recognized that there needed to be a protocol for a third settlement, and the Market Settlements Reporting System (“MSRS”) that was implemented by PJM in August 2008 allowed the implementation of a Settlement C within PJM. The proposal that was advanced through the PJM stakeholder process in 2009 was ultimately not adopted and, instead, a modified Settlement C process was developed. This Settlement C allows the resettlement of bills not more than two years after the first date on which the billing for the month occurred. PJM will toll the two year period when notified of an error. However, under Section 3.6.2, if a metering error is discovered, and both impacted participants agree there is an issue and notify PJM of its existence, and no other parties are affected, PJM will correct the error. If, however, the error involves a metering error as reported by an EDC, the likelihood is that all Load Serving Entities (“LSEs”) would be affected by resettlement and unanimous consent is required to resettle. (A resettlement to correct a metering under-registration error, for example, would require that the LSE serving the customer purchase more power from PJM and collect more from the customer. At the same time, most other market participants would likely benefit because they would receive a credit against the amount they paid for the pro-rata share of the unaccounted for difference between the aggregated load of the retail meters of the EDC and the PJM zonal load for the EDC’s zone.) Because unanimous consent can at times be difficult to obtain, the result has been that even large and indisputable metering errors have gone uncorrected.

PJM has interpreted its tariff to allow resettlements of metering and other billing errors beyond 60 days and up to two years, provided that all affected LSEs agree. PJM has interpreted its tariff such that LSE agreement is determined by every LSE consenting in writing to the resettlement. There is no formal process for how such agreement is obtained, so it is up to the parties affected by the error to contact all parties. With the increased growth of retail competition, this has become a highly impracticable solution. In one case where PJM received erroneous meter data, 44 parties would have had to agree to resettlement. Ultimately all 44 parties were contacted and only 5 responded, all affirmatively, but to no avail. In informal discussions, PJM stated that even if the state utility commission issued an order recognizing the error and supporting correction, that order would not satisfy or override the requirement that LSEs must agree to resettlement. Thus the provisions of the Settlement C business process as currently employed are unjust and unreasonable from a few perspectives. First, it can be

challenging to secure sign off from a market participant if the participant believes they would be harmed by a resettlement, even if all parties acknowledge a significant billing error. Secondly, there is no process or rules on how to contact affected parties, when they must respond, what to do when no response is received, or only one materially impacted party refuses to sign off.

Metering is essentially in a transitional stage – with increased retail competition, conversion from older forms of metering to the use of AMI metering, more complicated metering arrangements with shifting load, demand-side management and behind the meter generation, etc. In spite of all parties' best efforts to get the right metering data and to verify the data on their bills, it has proven to be impossible to ensure that all errors are identified and corrected within 60 days. If it is only two parties involved in the error, then they may have two years to correct the error. But that is rarely the case; and if there are more than two parties involved, even an indisputable error with precisely quantifiable results may be left uncorrected because of the structure of Settlement C. While the expectation is over time we will have fewer and fewer incidents of metering and other errors as the AMI technology expands and parties adapt and transition to its use, at the present moment they do occur, and they can have huge effects on the aggrieved parties. When a significant error is found, the market should provide a more reliable and equitable process to right the wrong.

Market participants have considered the issue before and hence the development of Settlement C. In fact, this issue was revisited in 2013 by the Market Settlements Subcommittee (MSS), and that group ultimately agreed to defer any action until the issue of the extension of PJM PowerMeter and InSchedule deadlines was resolved. Now that the resolution of those issues has been implemented (June 1, 2015), some EDCs and other PJM members believe it is time to again examine Settlement C in the PJM market. Settlement C is intended to provide additional time to correct metering and other billing errors, while providing some finality to billing invoices. Experience has shown, however, that the current Settlement C process does not work in all cases. Requiring that all metering errors be discovered within a 60 day time-period (meeting Settlement B criteria) or that all affected parties must agree to a rebilling is impracticable. Given the increase in market participants, switching that takes place between default and competitive suppliers, more sophisticated meter readings and as traditional meter readings that require actually going out to the field and transmitting data, a more equitable treatment of metering and other billing errors discovered beyond 60 days is warranted.

Changing Settlement C will not affect PJM resettlement capabilities. PJM currently has the capability to resettle errors beyond the 60 day period.

Commissioner Moeller in a recent concurrence in a New York Independent System Operator matter noted the need for RTOs to have adequate resettlement processes in hand. In contrast to the PJM approach, because of the wording of the NYISO tariff, it is clear that NYISO may resettle bills and correct errors that are identified for periods well beyond the 60 day Settlement B process that PJM has.

Problem Statement / Issue Charge

The PJM Settlement C process is still not sufficient to allow for correction of agreed to metering and other billing errors.

The Settlement C process is not a fair approach to correcting legitimate metering and other billing errors, and PJM's interpretation as to how to achieve LSEs' "agreement," is not reasonable.

Metering and other billing errors will continue but ultimately diminish over time as market participants adjust to new technology, AMI is implemented on a wider scale throughout the region, and more parties are involved in receiving and settling bills involving shared meter readings.

- Consider a formal third Settlement process within PJM settlements, or an official Settlement C that would be similar to, and in addition to, the current 60-Day Settlement B reconciliation process
- Consider a superior method to allowing for resettlement of errors involving more than two parties
- Consider extending the two year window for resettlements

Issue Source

The Dayton Power and Light Company
Direct Energy
PepcoHoldings, Inc.
Potomac Electric Power Company
Delmarva Power & Light Company
Atlantic City Electric Company

Stakeholder Group Assignment

Recommendation would be for the MSS to develop potential solutions and include a recommended approach.

Key Work Activities

1. Establish benefits of this activity and their value.
2. Determine a final pro/con list
3. PJM and stakeholders to identify specifics of any potential solutions
4. Determination of tariff and business manual language to implement proposed solutions.
5. Vote on proposals.
6. File at FERC, if necessary.

Expected implementation third quarter 2016.

Expected Deliverables

See Key Work Activities Above

Expected Overall Duration of Work

9-12 months

Decision Making Method

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