

Recommended Values for SEM Price Materiality Threshold

Report to the Regulatory Authorities

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1.0 Introduction

The Price Materiality Threshold is designed to test when a change in input data, resulting from an upheld dispute, causes a change in the price greater than 5%. When the threshold is exceeded, the price is recalculated and included in a Settlement rerun. The purpose of the Price Materiality Threshold value is to achieve a balance between the value to the market of repricing and resettlement of a material error, and the operational overhead of the effort and resources required to adjust for the error.

The Price Materiality Threshold is a parameter which determines whether the Market Operator will include a corrected data input value, following a Pricing Dispute, in recalculating the Imbalance Settlement Price.

2.0 Background

On 10th May 2017, SEMO set out a report to the Regulatory Authorities, *Recommended Values for I-SEM Pricing Parameters*. The report sets out a recommendation for setting of *De Minimis Acceptance Threshold*, *Price Average Reference Quantity* and the *Price Materiality Threshold* for the purposes of the I-SEM arrangements. On 11th November 2020, the SEM Committee published the TSC Annual Operational Parameters for 2021 Decision Paper (*SEM-20-076*) in this paper, the SEM Committee set the Price Materiality Threshold at 5%, to be applied from 1st October 2021.

Under paragraph B.19.3.1 of Part B of the Trading and Settlement Code (TSC), the Market Operator (MO) is required to report to the Regulatory Authorities proposing parameters to be used in determining the occurrence of recalculating the Imbalance Settlement Price as required from time to time.

3.0 Imbalance Settlement Price & Price Materiality Threshold

An Imbalance Settlement Price is an average price based on the 5 minute Imbalance Prices that comprise a given 30 minute Imbalance Settlement Period. When, as part of an upheld Pricing Dispute it has been determined that there is a manifest error, and the resulting change causes a change in price greater than a certain Price Materiality Threshold, the price will be recalculated and the changes will be included in a Settlement rerun, otherwise the price is not recalculated.

The Price Materiality Threshold parameter shall be proposed by the Market Operator from time to time and approved by the Regulatory Authorities. This is outlined in Section B.19.3.1 (b) of the TSC. The currently approved Pricing Materiality Threshold is 5%, as per *SEM-20-076*.

The Market Operator is therefore required to assess each individual Imbalance Settlement Price with respect to the 5% Price Materiality Threshold, and where the Price Materiality Threshold has been met, republish and resettle the impacted Imbalance Settlement Periods.

SEMO proposes no change to the current parameter for Materiality Thresholds and this will remain at 5%.

4.0

Summary and Conclusion

Since this decision SEMO has been able to start Materiality Assessments and repricing operationally as of February 2021. Making good progress and meeting timeframes published to Participants, we have been able to complete 103 materiality assessments and repriced these dates.

Operational ability to perform Materiality Assessments and sufficient systems and processes has been developed to support SEMOs ability to meet the requirements of the Trading and Settlement Code. No change is recommended to the 5% Materiality Threshold until such time that there is evidence that another value would better maintain the balance between the importance to the market of repricing and the resettlement of a material error versus the operational overhead and significant resources required to adjust for the error.