

Recommended Values for SEM Price Materiality Threshold

Report to the Regulatory Authorities

Version 1.2

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1.0 Introduction

The Trading and Settlement Code (B.19.3.1) stipulates that a Price Materiality Threshold shall be proposed by the Market Operator from time to time and approved by the Regulatory Authorities.

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 7th July 2017, the SEM Committee published the I-SEM Policy Parameters and Scheduling and Dispatch Parameters Decision Paper (SEM-17-046). In this paper, the SEM Committee set the Price Materiality Threshold at 5%, to be applied from 1st October 2018.

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-17-046.

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

Following the first annual review of repricing the SEMC decision¹ was to retain a 5% materiality threshold and not require repricing from 1st Oct 2018 to 11 June 2019 for operational and pragmatic reasons. “SEMO state that a pragmatic approach is important to ensure price certainty and prioritisation of system issues in the short term to make way for a business-as-usual approach in the longer term.”²

Due to issues with the implementation within the market systems, the process of repricing is not due to start until August 2020, with the first set of revised settlement documents due to be issued September 2020.

Furthermore, there has been no practical experience of repricing to date, and therefore no data to base a recommendation to move the threshold in either direction. 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.

¹ (SEM-19-068) Repricing and Price Materiality Threshold Parameter Decision paper. November 2019

² (SEM-19-068) Repricing and Price Materiality Threshold Parameter Decision paper. November 2019