

Recommended Values for SEM Price Materiality Threshold

Report to Regulatory Authorities

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Contents

1. Introduction	3
2. Background	3
3. Imbalance Settlement Price & Price Materiality Threshold	3
4. Summary and Conclusion	4

1. 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 resettlement run. 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. Background

On 10th May 2017, SEMO set out a report to the Regulatory Authorities, *Recommended Values for I-SEM Pricing Parameters*. The report set out the initial recommendation for setting the *Price Materiality Threshold* for the purposes of the I-SEM arrangements; the initial value was set to 5%. This parameter has been reviewed annually, since 2021, and published in the yearly *TSC Annual Operational Parameters Decision Paper*. The Price Materiality Threshold has remained at 5%.

Under paragraph B.19.3.1 of the Trading and Settlement Code (TSC), the Market Operator is required to propose a Price Materiality Threshold to the Regulatory Authorities from time to time.

3. 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 price change is greater than the Price Materiality Threshold, the price will be recalculated, and the changes included in a resettlement run.

Between July 2019 and December 2024, there were 1,842 Imbalance Settlement Prices that were subject to a manifest error. In total, 723 Imbalance Settlement Prices (39%) met the Price Materiality Threshold of 5% and therefore were recalculated and republished; with the changes included in resettlement runs. The graph below illustrates the percentage changes in Imbalance Settlement Prices that were subject to a manifest error, categorised into seven groups ranging from 0-5% (below the materiality threshold) to over 30%.

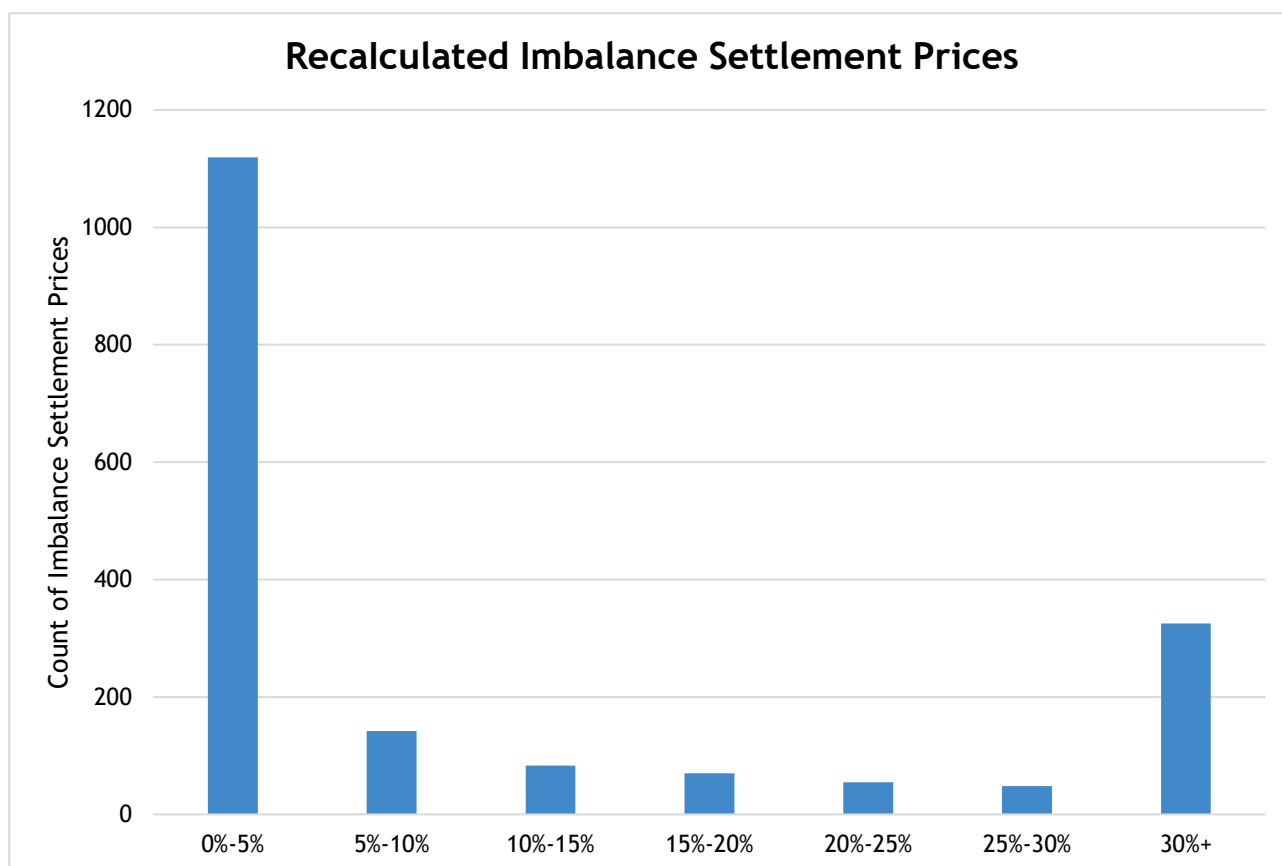


Figure 1: Percentage Breakdown of recalculated Imbalance Settlement Prices July 2019 - December 2024

SEMO considers that the current Price Materiality Threshold balances the need to identify and reprice periods with a material impact. Increasing the threshold could risk excluding some price changes that are sufficiently material to merit publication. Conversely, lowering the threshold below 5% would result in a significantly higher volume of repricing; much of which would relate to publication and resettlement of low materiality price changes. This would increase the operational burden and may impact on other work; requiring additional resources.

Based on analysis completed SEMO propose no change to the current Materiality Threshold parameter of 5%.

4. Summary and Conclusion

Between July 2019 and December 2024, 723 Imbalance Settlement Prices have met the Materiality Threshold of 5% and have been republished by SEMO.

Based on analysis completed for this paper; SEMO propose no change to current 5% Materiality Threshold.