Single Electricity Market Committee

SEM TRADING AND SETTLEMENT CODE

Market Operator's Proposed Value
for the
Settlement Recalculation Threshold

DECISION PAPER

05 March 2008
SEM/08/015

Background

The SEM Trading and Settlement Code (TSC) was commenced on 3rd July 2007, when the Framework Agreement was signed by the original signatories.

The TSC specifies that the Settlement Recalculation Threshold shall be proposed by the Market Operator from time to time and approved by the Regulatory Authorities.[1] The Regulatory Authorities received the Market Operator's proposal for the Settlement Recalculation Threshold on 31st October 2007. The Market Operator proposed to use 3% as the Settlement Recalculation Threshold. The proposal was published for consultation on 2nd November 2007. Given that the SEM commenced on 1st November 2007, the RAs gave interim approval to this value as applying from 1st November 2007.

The SEM Committee[2] has determined that the matter of approving the Settlement Recalculation Threshold is an SEM Committee matter within the meaning of the SEM legislation. Therefore, on behalf of the Regulatory Authorities, the SEM Committee now issues its decision on the value to apply from the date of this decision paper.

Settlement Recalculation Threshold in the Trading and Settlement Code

The Settlement Recalculation Threshold is defined under the TSC as being *"a percentage of change in Metered Generation or Market Schedule Quantity or λ or φ in a Trading Day that results from an Upheld Dispute or the resolution of a Data Query or a Settlement Query which will result in the Market Operator re-running the MSP Software or re-calculating the Ex-Post Loss of Load Probability, as appropriate".*

The Settlement Recalculation Threshold applies in respect of an Upheld Dispute, the resolution of a Data Query or a Settlement Query and obliges the Market Operator to rerun the MSP Software or recalculate the Ex-Post Loss of Load Probability where relevant. The TSC outlines[3] the precise circumstances under which the Market Operator carries out the mentioned rerun/recalculation, should it be that case that there has been an incorrect application of an item of data and the correct application of the relevant amount would require a change by more than the Settlement Recalculation Threshold.

[1] See TSC paragraph 6.77

[2] The SEM Committee is established in Ireland and Northern Ireland by virtue of section 8A of the Electricity Regulation Act 1999 as inserted by section 4 of the Electricity Regulation (Amendment) Act 2007, and Article 6 (1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 respectively. The SEM Committee is a Committee of both CER and NIAUR (together the Regulatory Authorities) that, on behalf of the Regulatory Authorities, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter.

[3] See TSC, for Data Queries : paragraph 6.82, 6.83, 6.84; for Settlement Disputes 6.106

Market Operator's Proposal

The Market Operator has submitted the following value and justification for the Settlement Recalculation Threshold:

The Market Operator proposes to use 3% as the Settlement Recalculation Threshold. The Settlement Recalculation Threshold is a figure which mandates the Market Operator to do a re-run if the schedule quantities or prices for a unit or on the system on a whole are proven to be in error by greater than this. The selection of 3% is trying to achieve a balance between the early resettlement of a material data error and the operational overhead. As the Settlement Recalculation Threshold covers both unit and system wide data issues it is unlikely that there is a universal value that will automatically achieve the correct balance. Notwithstanding that where a data error occurs which does not breach the Settlement Recalculation Threshold level the participant considered is capable of using the settlement query and dispute process to mandate a re-run.

The MO proposes that this Settlement Recalculation Threshold value is reviewed on a regular basis to see how well it is meeting the conflicting objectives of early settlement for data errors and efficient operation of the market.

Comments Received

The RAs received 3 responses to this consultation paper. These were from:

- ESB Customer Supply (ESBCS)
- NIE Energy (NIE)
- Synergen

ESBCS agreed with the Market Operator's proposal to set the Settlement Recalculation Threshold at 3%, while suggesting that the value should be reviewed on a regular basis to ensure that there is an adequate balancing of the conflicting objectives of early settlement for data errors and efficient operation of the market. ESBCS requested confirmation that the Settlement Recalculation Threshold is in addition to the materiality threshold of €50,000, above which, an ad hoc settlement rerun is triggered, as specified in the market documentation regarding queries/disputes.

NIE agreed with the proposed value of 3% for the Settlement Recalculation Threshold, noting that it strikes the required balance between early resettlement and operational overheads.

Synergen argued that the Market Operator's proposal provides no information on the central costs of re-running the MSP and settlement re-runs and further noted that there is no assessment provided as to why 3% represents a reasonable balance in meeting the “conflicting objectives of early settlement for data errors and efficient operation of the market” – an objective that Synergen signal their concurrence with.

Synergen made the case for several Settlement Recalculations set at different levels, comprising:

a.2% error in an upheld data dispute for a unit error;

b.1.0% error in an upheld dispute when calculated on the system as a whole;

c. both figures subject to a de-minimis threshold of €10,000 per Trading Day; and

d. a cumulative error threshold of €25,000 over an invoice period.

Synergen further noted that the Market Operator should provide a cost / benefit assessment to demonstrate any values ultimately adopted – and should include such in similar proposals in the future.

Regulatory Authorities’ Responses

The Regulatory Authorities acknowledge the support for the proposed value from ESBCS and NIE. Regarding the clarification requested from ESBCS on whether the Settlement Recalculation Threshold is in addition to the High Materiality threshold of €50,000 provided for in the TSC, the RAs confirm that these are independent provisions. The Settlement Recalculation Threshold is the basis for the determination of whether prices need to be recalculated. The Materiality provisions in contrast are about whether an extra Settlement Rerun needs to be done or whether the next Timetabled Settlement Rerun should be awaited.

The Regulatory Authorities have taken on board the issues raised by Synergen, however the setting of SRT values at different levels would requires a change to the Trading and Settlement Code and likely a change to the systems. The RAs are of the view that the 3% value should stand for the first year of the market, allowing time for evidence to be accumulated to conduct a full review of how this parameter is set and potential TSC modifications around setting of several SRTs.

SEM Committee Decision

In view of the above considerations, the SEM Committee gives approval to the value **of 3% for the Settlement Recalculation Threshold** in the TSC as proposed by the Market Operator.