



**Budget Energy Response to SEM Committee Consultation
Paper SEM-19-042**

***I-SEM Repricing and Price Materiality
Threshold Parameter***

27th September 2019

INTRODUCTION

Budget Energy welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-19-042 titled "Repricing and Price Materiality Threshold Parameter Consultation." (the "Consultation Paper"). Budget Energy have raised concerns with SEMO in relation to the uncertainty relating to both the volume and timing of repricing and the impact that this has on our business. We also participated in the imbalance repricing survey that took place in July 2019. The below sections detail Budget Energy's comments with respect to the four options put forward.

1. OPTION ONE: APPLICATION OF REPRICING IN ACCORDANCE WITH THE CURRENT 5% PRICE MATERIALITY THRESHOLD

1.1) IS YOUR PREFERENCE FOR REPRICING FROM 1 OCTOBER 2018 TO 11 JUNE 2019 (AND FROM 11 JUNE 2019 ONWARDS) TO PROCEED BASED ON THE CURRENT PRICE MATERIALITY THRESHOLD OF 5%?

Budget Energy would like to highlight that the cumulative impact of numerous immaterial price changes could potentially add up to a significant difference in price. Publication of recalculated prices in instances of immateriality also increases the number of reprices and therefore the uncertainty pertaining to exposure to price changes. While Budget Energy are concerned about this increased exposure, we acknowledge the functional restrictions and the justifications presented in SEMO's report to the regulatory authorities (RA's). It is evident, from both the consultation and SEMO's report to the RA's, that the manual solution of applying the Price Materiality Threshold is overly burdensome on the market operator and therefore, is not cost effective. In addition to this, the risk of error due to manual processing is observed. Given the high volume of reprices, Budget Energy are of the opinion that the manual processing could potentially lead to extensive delays in publication of recalculated prices. Repricing cannot be delayed any further. Taking all this into consideration, we agree with the RA's view that the application of the 5% Price Materiality Threshold is not an appropriate way forward.

2. OPTION TWO: APPLICATION OF REPRICING USING A TEMPORARY PRICE MATERIALITY THRESHOLD OF 0%

2.1) DO YOU AGREE WITH THE PROPOSAL TO APPLY A 0% PRICE MATERIALITY THRESHOLD ON A TEMPORARY BASIS?

Following on from Budget Energy's comments in option one, we accept the proposal to apply a 0% Price Materiality Threshold.

2.2) SHOULD THE 0% PRICE MATERIALITY THRESHOLD BE IMPLEMENTED FOR THE PERIOD FROM 1 OCTOBER 2018 TO 11 JUNE 2019 ONLY OR UNTIL SUCH TIME AS AN UPDATED

REPRICING SOLUTION TO MANAGE THE 5% PRICE MATERIALITY THRESHOLD CAN BE IMPLEMENTED?

At present, there is still a number of manifest errors within the imbalance pricing algorithm that will inevitably require repricing. The nature of these manifest errors is such that the volume of repricing is likely to be high for periods post 11th June until a fix can be deployed. Given the best estimate for delivery of the Price Materiality Threshold solution is between one and two years away, Budget Energy are of the view that the 0% Price Materiality Threshold be implemented until such time as an updated repricing solution to manage the 5% Price Materiality Threshold can be delivered as this will avoid delays to future repricing.

2.3) DO YOU SEE ANY ISSUES WITH THE PROPOSED APPROACH TO REPRICING OUTLINED IN THE 'RECOMMENDED VALUES FOR SEM PRICE MATERIALITY THRESHOLD' REPORT TO THE REGULATORY AUTHORITIES?

Budget energy do not have any concerns in relation to the proposed approach outlined in SEMO's report to the RA's. However, we would like to highlight the importance of ensuring the accuracy of all reprices and resettlement prior to publication, especially due to the restrictions within the settlements system whereby only one instance of an ad hoc resettlement can be carried out.

3. OPTION THREE & FOUR: AMENDMENT OF SECTION E.3.8 OF THE TRADING AND SETTLEMENT CODE

3.1) RAISING AN URGENT MODIFICATION TO THE TRADING AND SETTLEMENT CODE THAT WOULD ENTAIL AN AMENDMENT TO SECTION E.3.8 TO EITHER REMOVE THE REQUIREMENT FOR REPRICING FOR THE PERIOD FROM 1ST OCTOBER 2018 TO 11TH JUNE 2019 OR TO REQUIRE ANY REPRICING TO BE COMPLETED BY THE 13TH MONTH OF THE SETTLEMENT CALENDAR AT THE LATEST

Uncertainty of imbalance settlement prices represents both trading and financial risks which are of major concern for Budget Energy. Incorrect imbalance prices should be remedied in a timely manner so as to mitigate such risks. To ensure timely remedy of errors, Budget Energy are of the opinion that it is prudent to amend Section E.3.8 of the Trading and Settlement Code to require any repricing to be completed by the 13th month after the trading date at the latest. Therefore, we would support option four.

We hope that you find these comments of use and submit them for your consideration. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Budget Energy Limited



Rochelle Broderick

Trading Manger

