

P427 De Minimis Error Thresholds

Performance Assurance Board (PAB)

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Purpose of paper **Decision**

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Summary **The Performance Assurance Board (PAB) is requested to review Exelon's analysis of Trading Disputes data and recommend appropriate De Minimis error thresholds for public notification of accountability to the BSC Panel.**

1. Background

- 1.1 Modification [P427](#) 'Publication of Performance Assurance Parties' impact on Settlement Risk' introduced triggers that, if breached, would result in the public disclosure of data and information related to a Settlement Risk, which has previously been considered confidential. These triggers include:
- De minimis error thresholds (aggregated market level impact and individual Trading Party level impact) for public notification of accountability for Settlement Errors;
 - Error and Failure Resolution (EFR) escalation process triggers for public notification of EFR status and contribution to risk where a Performance Assurance Party (PAP) fails to meet a milestone in its EFR plan following escalation to the Performance Assurance Board (PAB) for the same EFR plan; and
 - Publication of any data via the Peer Comparison technique, where recommended by the PAB and approved by the BSC Panel, where the PAB believes that making the data set(s) publically available would have a net benefit in respect of Settlement Performance.
- 1.2 This paper sets out Exelon's suggested values for the materiality thresholds for this first trigger.

2. Principle for setting error thresholds

- 2.1 The provision for a notice of accountability for a Settlement error to be considered for publication by the BSC Panel, introduced by P427, has been examined and discussed by the BSC Panel, the PAB, and the Modification Workgroup.
- 2.2 Our evaluation of these discussions indicates that the consensus is that the thresholds which would trigger such a notice should apply only to the largest Settlement errors, which have a disproportionate and severe impact on the market.
- 2.3 This approach aims to incentivise proper internal Assurance and monitoring by market participants to prevent significant long-term errors, while avoiding any perverse incentives to refrain from raising Trading Disputes that could negatively impact overall Settlement Accuracy.
- 2.4 Notably, the provision introduced by P427 intentionally allows the PAB and the BSC Panel to review and revise these thresholds in response to changing market conditions and evolving trading and Settlement arrangements.

3. Analysis of Trading Dispute data

- 3.1 To determine the appropriate aggregated financial materiality impact threshold, Exelon analysed historical Trading Disputes data.

- 3.2 Elexon's analysis indicates that the largest disputes, considered outliers compared to the full population, are Trading Disputes with a materiality exceeding £2m.
- 3.3 A materiality threshold of £2m would capture only the top 2% of Trading Disputes raised over the last seven years. Elexon anticipates this would not create a disincentive for market participants to raise Trading Disputes.
- 3.4 Alternatively, a materiality threshold of £1m could be considered, which would capture 3% of Trading Disputes raised over the same period.

4. Proposed materiality thresholds

- 4.1 These thresholds are provided for by the following amendment to BSC Section Z introduced by P427.

7.2 Publication of Certain Data

7.2.1

(b) where the Performance Assurance Party's contribution to a Settlement Risk(s) results in:

- (i) an aggregate financial impact on all Trading Parties equivalent to or greater than the materiality threshold determined by the Panel (upon the recommendation of the Performance Assurance Board or otherwise) for the purpose of this paragraph from time to time; or
- (ii) a financial impact on any single Trading Party equivalent to or greater than the materiality threshold determined by the Panel (upon the recommendation of the Performance Assurance Board or otherwise) for the purpose of this paragraph from time to time.

7.2.2 Where the Panel determines that data or information should be published in accordance with paragraph 7.2.1, such data must be published in accordance with the process set out in any relevant BSCP, or as otherwise determined by the Panel.

- 4.2 Elexon's assessment suggests that the objectives of these thresholds would be well served by the following materiality threshold values:
- Aggregate financial impact on all Trading Parties equivalent to or greater than £2m
 - Financial impact on any single Trading Party equivalent to or greater than £70k
- 4.3 The aggregate threshold was determined based on Elexon's analysis of historic Trading Disputes, as mentioned above. The single Trading Party materiality threshold is the aggregate threshold divided by 29.
- 4.4 We suggest dividing the aggregate materiality threshold value by 29 on the basis that at the time of writing, 80% of the total energy volume is made up by 29 unique MPIDs.
- 4.5 Within the HH, NHH, and Sub100 markets, 80% of the energy volume is associated with 11, 21, and 12 unique MPIDs, respectively.

5. Recommendations

- 5.1 We invite the PAB to:
- a) AGREE** to recommend to the BSC Panel that the aggregate and single Trading Party error materiality thresholds are set in line with Elexon's suggested values.

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