

P427 Materiality Thresholds for Error Accountability Notification

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Summary	The BSC Panel is invited to approve error thresholds provided for by the implementation of P427. Settlement Errors which breach these thresholds could result in public notification of accountability for Settlement Errors.		

1. Background

- 1.1 BSC Modification [P427 'Publication of Performance Assurance Parties' impact on Settlement Risk](#) was implemented on 23 February 2023. P427 introduced three triggers for public disclosure of Settlement Risk data. These triggers include:
- a) De Minimis error thresholds (aggregated market level impact and individual Trading Party level impact) for public notification of accountability for Settlement Errors;
 - b) 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
 - c) 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 At its [April 2023 meeting](#), the PAB agreed to recommend the proposed error thresholds below to the Panel following review of analysis presented by Elexon. This paper makes the PAB's recommendation to the BSC Panel in respect of trigger 'a' above.

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 These discussions concluded 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 greater levels of internal Assurance and monitoring at a market participant level 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 The principles set out in Modification P427 allow the PAB and BSC Panel to review and revise error thresholds in response to market changes. We do not currently foresee any further changes required, or any regular change to the thresholds, and will assess any required changes on an ad-hoc basis.

3. Analysis of Trading Dispute data

- 3.1 Elexon analysed historical Trading Disputes data to determine the appropriate aggregated financial materiality impact threshold.
- 3.2 A £2m materiality threshold would capture the top 2% of Trading Disputes raised over the last seven years, which is an appropriate threshold to consider public notification of accountability for the Settlement Error. It is anticipated that this threshold will avoid creating disincentives for Market Participants to raise Trading Disputes.
- 3.3 In order to determine an appropriate value for the threshold for impact on a single Trading Party, Elexon undertook analysis indicates that 80% of market wide energy volumes are distributed across 29 unique MPIDs which comprise 22 unique Qualified Persons and 18 distinct company groups.
- 3.4 Therefore it was proposed that the threshold for impact on a single Trading Party should be set as the market wide impact threshold divided by 29.

4. Proposed materiality thresholds

- 4.1 The PAB recommends 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

5. Recommendations

- 5.1 We invite the Panel to:
- a) **AGREE** the PAB's recommended materiality thresholds.

For more information, please contact:

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Appendix 1 – Relevant Section of BSC Section Z

For reference the Code provisions which provide for these materiality thresholds are included below:

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.