

Industry Consultation

Review of the Risk Evaluation Register – 2014/15

As required by Section Z5.5.3 of the Balancing and Settlement Code (BSC), the Performance Assurance Board (PAB) reviews the Risk Evaluation Register (RER) annually and seeks comment from Industry. The RER sets out the Settlement Risks identified and evaluated by the PAB in accordance with the Risk Evaluation Methodology (REM). The RER should be read in conjunction with the REM 2014/2015 and [Section Z](#) of the BSC.

This document relates to the Performance Assurance Operating Period (PAOP) 7 - 1 April 2014 to 31 March 2015.

The RER is being issued for you to review and provide comments on:

- Settlement Risk descriptions;
- Settlement Risk assumptions and noted controls;
- Settlement Risk Impact ratings;
- Settlement Risk Probability ratings;
- Settlement Risks that should be removed; and
- Settlement Risks that should be added.

ELEXON has analysed outputs from Performance Assurance Techniques and other sources for 2012/2013, to determine which Settlement Risks may need updating for 2014/15.

Section 2 of this document highlights the changes we are proposing. All other elements of the RER remain unchanged from 2013/14.

Section 3-4 provides background information on the RER.

Note: If you advise on materiality changes to Settlement Risks (i.e. net significance) in your consultation response, we will require a clear rationale alongside supporting evidence to enable us make an informed recommendation to the PAB for approval.

Target Audience

All BSC Parties, BSC Agents and Performance Assurance Parties as defined within the BSC.

The closing date of the consultation is 19 July 2013.

Contents

Industry Consultation.....	1
1 Introduction	3
2 Changes to the Risk Evaluation Register for 2014/15	4
3 Performance Assurance Board Strategy	8
4 Risk Evaluation Register Structure	11
5 General Assumptions	12
6 Further Information	14
Appendix 1: Probability, Impact and Controls Ratings.....	15

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1 Introduction

Summary of the Risk Evaluation Register (RER)

A Settlement Risk is the risk of any failure in a Balancing and Settlement Code (BSC) process which affects Settlement or is otherwise required in connection with Settlement.

As set out in Section Z, 5.5.1 of the BSC, the Performance Assurance Board (PAB) will:

- Identify and evaluate risks which are Settlement Risks, by applying the Risk Evaluation Methodology (REM); and
- Prepare and maintain a register (the RER) setting out Settlement Risks, and the significance of each risk on Settlement in relation to a specific Performance Assurance Operating Period¹ (PAOP).

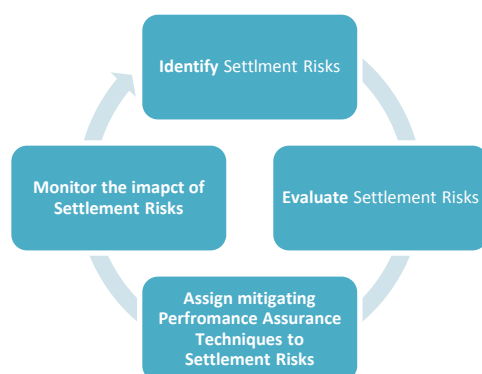
ELEXON issued the REM for industry consultation earlier in the year and it was approved by the PAB in March 2013, for use in PAOP 7 - 01 April 2014 to 31 March 2015.

The RER, reviewed in line with the approved REM, is provided as Attachment 1 of this document and lists the risks for PAOP 7. As a result of this review ELEXON proposes changes to a number of Settlement Risks.

The changes and the rationale behind them are described in Section 2 of this document.

Purpose

The Risk Evaluation Register (RER) is an integral part of the Performance Assurance Framework and our approach to reviewing the register is described in the Risk Evaluation Methodology (REM). The RER is derived from the activities detailed in sections 2 - 5 of the REM:



Performance Assurance Board (PAB)

The Performance Assurance Board (PAB) conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified and the relevant standards maintained.



Risk Evaluation Methodology (REM)

The REM describes how the Performance Assurance Board (PAB) will :-

- Identify Settlement Risks;
- Evaluate Settlement Risks; and
- Assess the materiality of Settlement Risks.

¹ The Performance Assurance Operating Period is the twelve month period commencing 1 April to 31 March during which the Performance Assurance Board will deploy the procedures to review the Risk Evaluation Methodology, the Risk Evaluation Register, the Risk Operating Plan and the Risk Management Plan.

Supplier Volume Allocation Settlement Risks

The identification and evaluation of Supplier Volume Allocation (SVA) Settlement Risks are documented generically and by role, rather than by reference to specific Performance Assurance Parties (PAPs). All SVA Settlement Risks are captured in Attachment A to this document on the 'SVA Settlement Risks' tab.

Central Volume Allocation & Central Systems Settlement Risks

The Risk Evaluation Register supports the Performance Assurance Board and the Panel to identify all Central Volume Allocation (CVA) Settlement Risks. All CVA risks are deemed to be significant in terms of both probability of failure and impact on Settlement. CVA risks include all risks relating to Metering Systems registered within the Central Meter Registration Service (CMRS) together with all risks relating to Central BSC Agents and the Balancing and Settlement Code Company (BSCCo). All CVA and Central Systems Settlement Risks are documented in Attachment A to this document on the 'CVA Settlement Risks' tab.

2 Changes to the Risk Evaluation Register (RER) for 2014/15

Review of the RER

As prescribed in the Risk Evaluation Methodology 2014/15, ELEXON has analysed the outputs of Performance Assurance Techniques which showed evidence of where recent/current issues indicated changes in probability/impact and also whether new processes are to be implemented that will provide new controls to Settlement Risks. The review included:

- Closed Trading Disputes during 2012/2013;
- Closed and new BSC Audit Issues²;
- PARMS Serial data;
- Technical Assurance checks findings;
- Change Proposals and Modifications (Approved/Implemented); and
- Industry inputs on relevant Settlement Risks.

The outputs of the above were linked to the associated Settlement Risks and, as a result, we assessed which Settlement Risks required modification.

The complete RER spreadsheet is in Attachment A to this document.

The changes proposed are changes to probability and noted controls and are described in the following table.



Performance Assurance Techniques

The implementation of any provision or process that mitigate Settlement Risks either by detecting/ preventing the occurrence, or correcting the effects, as defined in BSC Section Z.

² At the time of reviewing the RER, the auditors' findings were not finalised.

Within-Period Revisions

The Performance Assurance Board (PAB) may decide to revise the Risk Evaluation Register (RER) outside of the normal annual review process. Revisions may arise as a result of ad hoc developments affecting Settlement or due to submissions from industry that support the need to revise any part of a specific Settlement Risk sooner than April 2014. The following within period revisions are proposed for implementation following PAB approval in August 2013.

Changes to Probability/Noted Controls

BSC Audit and Technical Assurance of Performance Assurance Parties checks

We are proposing increases in the probability rating for SR0112³ and SR0115⁴ following the results of Technical Assurance of Performance Assurance Parties (TAPAP) and Audit checks that show an increase in the risk occurring. The table below shows the proposed changes in more detail.

Settlement Risk	Description	Current Net Sig (Prob/Imp/Ctrl)	Proposed changes	Role Codes	Proposed Net Sig (Prob/Imp/Ctrl)	Proposed EFD	Monitoring the Risks ⁵
SR0112	The risk that HHDCs use data from faulty Metering Systems resulting in incorrect data being entered into Settlement.	12 (3/4/Low)	We propose to increase the probability rating from 3 to 4 because we know this is happening (Audit and TAPAP confirm) and a rating of 4 better matches the definition of a probability rating of 4 (refer Appendix 1).	HHDC, HHDA, HHMOA, HH Supplier, LDSO	16 (4 /4/Low)	30 August 2013	No change
SR0115	The risk that NHHDCs use data from faulty Metering Systems resulting in incorrect data being entered into Settlement.	5 (2/3/Medium)	We propose to increase the probability rating from 2 to 3 because we know this is happening (Audit and TAPAP confirm) and a rating of 3 better matches the definition of a probability rating of 3 (refer Appendix 1).	NHHDC, NHH Supplier, NHHMOA	7 (3 /3/Medium)	30 August 2013	No change



³ The risk that HHDCs use data from faulty Metering Systems resulting in incorrect data being entered into Settlement.

⁴ The risk that NHHDCs use data from faulty Metering Systems resulting in incorrect data being entered into Settlement.

⁵ PAT deployment will be considered during the ROP Review which will start in August

Further Considerations

Central Volume Allocation (CVA) Risks

Background

Section Z5.1.3 of the BSC deems all CVA Settlement Risks to be significant in terms of both probability and impact on Settlement. As such we apply a blanket net significance of 25 to all CVA risks. In response to the Risk Evaluation Register (RER) industry consultation last year this rationale was queried and we were asked if we had carried out or intend to carry out any additional work to better understand CVA risks and whether we would consider changing some of the criteria. Due to the requirements in the BSC we are unable to alter the net significance of these risks, however we have undertaken reviews of the CVA risks in the past – updating our assumptions about CVA risks and improving how we identify and prevent CVA issues.

What are we doing now?

We are currently undertaking further work in relation to CVA risks. We are documenting the controls that are applied to CVA risks for inclusion in the RER. As well as documenting the noted controls for each CVA risk we will also provide additional information in the RER on preventative actions, identifying issues and mitigating actions if issues occur. We will present the proposed amendments to PAB and Industry as Within Period Revisions to the RER when the work is completed.

Change Proposal (CP)1388 'Meter Technical Details for Smart Meters'

Background

CP1388 was raised in order to create Meter Technical Details (MTDs) for smart Meters and the associated process changes to reflect responsibilities for smart metering MTDs. We will be holding an Education Session on CP1388 on the 20 June, which we expect other alternative solutions (or aspects of these) will be discussed and at least one other solution to be raised.

The CP will be presented to the BSC Panel at its July meeting. Our recommendation will depend on whether any alternative solutions are raised.

What are we doing now?

In the meantime we are considering potential impacts on Performance Assurance Reporting and Monitoring System (PARMS) and transitional issues if the CP is approved. If we determine there are any impacts on Settlement Risks we will progress any proposed changes to the Risk Evaluation Register as Within Period Revisions at the appropriate time.

P283 'Reinforcing the Commissioning of Metering Equipment processes'

Background

P283 proposes a number of changes intended to reinforce Metering Equipment commissioning processes:

- Amend commissioning requirements to place obligations on the relevant Equipment Owner where possible; and

- Require the Meter Operator Agent to assess Metering Systems and notify the Registrant of issues, and introduce provisions for the management of such issues by Registrants.

What are we doing now?

This Modification is currently in the Report Phase of its progression. The Panel will make its final recommendations on P283 at its meeting on 11 July 2013. Should this Modification be approved and implemented during 2014 (as proposed) we will amend the Risk Evaluation Register to reflect the new requirements. This will be undertaken as Within Period Revisions.

Third Party Access to Private Networks

Background

In the Risk Evaluation Register (RER) 2013/14 we discussed the impact of new Electricity and Gas Regulations which came into force in November 2011. These regulations allowed customers on private networks to choose their own Supplier. The BSC supported two options for complying with the regulations:

- Full Settlement metering; and
- Difference metering⁶.

There was a concern however that these processes may not support large volumes of requests by Suppliers for their potential customers. In addition a number of stakeholders asked for advice on the processes, and in relation to difference metering have suggested possible improvements.

In response to stakeholders concerns Change Proposal (CP) 1377 'Clarifying rules on Third Party Access on Licence Exempt Distribution Network' was raised and implemented in November 2012. Since then another CP has been raised. CP1378 is identical to CP1377 except that it removes the requirement on Registrants to appoint a common Meter Operator Agent (MOA), and instead allows customers to choose their own MOA. The rationale for this CP is that allowing customers a free choice of MOA is important for competition and would not cause any risks to Settlement. This CP is currently being assessed.

What are we doing now?

Currently SR0032 'The risk that HHDCs do not process Complex Site Supplementary Information correctly resulting in erroneous data entering Settlement' is covered in the RER. To date there are only a handful of customers opting for third party access and we do not feel any changes to the RER are required. We will however, continue to monitor the situation and follow the progression of CP1378. If any impacts are identified as a consequence of this work we will progress as Within Period Revisions if appropriate.

Meter Technical Details

Background

Following discussions with the Performance Assurance Board (PAB) around Meter Technical Details (MTD) the BSC Auditor was asked to check various processes to

⁶ This option is recognised as a type of 'Complex Site' in the BSC.

verify data retrieval, data validation and ultimately ensure that Meter Operator Agents understand the processes.

Therefore as part of the 2012/13 BSC Audit the BSC Auditor, during site visits, had conversations in relation to MTDs with Supplier's, Meter Operators and Licenced Distribution System Operators. The following areas were discussed:

- Their understanding/perception of the industry challenge/issue?
- What do they do currently to create and maintain data quality?
- What additional activities and/or procedural controls they believe could be used to create and maintain data quality?

What are we doing now?

The BSC Auditor will present a separate report to PAB shortly. Any changes to Settlement Risks required as a result of the Auditor's findings will be presented to PAB and Industry as Within Period Revisions.

3 Performance Assurance Board (PAB) Strategy

The PAB Strategy has several work streams that are reviewing Settlement Risks:

Settlement Risk Controls Review

Background

As outlined in the November PAB Strategy paper PAB130/07, we proposed to review the controls identified for all Supplier Volume Allocation Settlement Risks. The review was intended to look at:

- Consistent application of control strengths (high/medium/low) against all Settlement Risks;
- Detailed analysis of the top controls (e.g. those most frequently used) focussing on their effectiveness; and
- Recommendations for improving the controls.

What are we doing now?

In light of the wider Performance Assurance Framework process work, which is reviewing at all the Performance Assurance Techniques, the Risk Evaluation Register and associated controls, we plan to undertake the control review as part of this work.

Supplier re-Qualification

Background

We recently presented a paper to the PAB⁷ which highlighted controls for further Supplier assurance. The paper focused on developing options for:

- addressing the excessive amount of time between a Supplier gaining PAB approval and becoming operational; and
- Third Parties seeking PAB approval for off-the-shelf Suppliers that could end up operating differently compared to their original Qualification assessment.

The PAB agreed to use elements of the three options presented:

- Revocation of Supplier Volume Allocation Qualification
- Qualification health check
- Controlled Market Entry

What are we doing now?

ELEXON is currently undertaking further development of this approach and will present the analysis to the PAB at a future meeting. It is possible that changes to the deployment of the Performance Assurance Framework techniques may be recommended following the outcome of developing the agreed approach further. Should these changes affect Settlement Risks we will address any required amendments to the RER as Within Period Revisions.

Change of Measurement Class

Background

The PAB and the Auditor have expressed concerns about difficulties in operating the Change of Measurement Class (CoMC) process, especially in light of Modification P272 'Mandatory Half Hourly Settlement for profile Classes 5-8'. Therefore it was suggested that an expert group could be convened to analyse the process and provide additional guidance, which may help minimise the Settlement Risks associated with CoMC.

What are we doing now?

ELEXON presented a paper to the Profiling and Settlement Review Group (PSRG25/01) identifying where the CoMC process would benefit from changes to reflect those circumstances in which the Meter Operator Agent (MOA) does not need to exchange the Meter or even visit the site. The PSRG agreed ELEXON's recommendation to convene an Issue Group to further explore process changes and/or guidance. ELEXON has raised Issue 49 'Change of Measurement Class (CoMC) process for advanced Meters'.

The PSRG wants to ensure that the complexity (real or perceived) of the CoMC process does not act as a barrier to elective HH Settlement and so the focus of Issue 49 is advanced Meters. Any changes to how Meter Technical Details are maintained and distributed for smart Meters will have an impact on the CoMC process. The Smart Meter Technical Details Workgroup has deferred consideration of the CoMC process for

⁷ This paper was confidential and so is not available to the public.

smart Meters pending decisions on Modification Proposal 'Amending Supplier & Meter Operator Agent responsibilities for smart Meter Technical Details' (P292) and 'Meter Technical Details for Smart Meters' (CP1388). This is on the understanding that CoMC from Profile Class 1-4 to HH is unlikely to occur in large numbers at the start of the mass roll-out of smart Meters.

In light of the work underway above, we no longer believe that additional activities under the PAB Strategy are necessary at this time. We will however ensure that the PAB is kept up to date of the findings of the work.

Change of Supplier

Background

The Change of Supplier process has been reviewed in a number of guises (e.g. the Customer Transfer Programme, European developments and the Master Registration Agreement). Issues still remain, however, and the BSC Auditor raised it as a Market Issue this year in relation to delays in receiving D0086 flows (Notification of Change of Supplier Readings) from Non Half Hourly Data Collector Agents.

What are we doing now?

We have reconsidered this problem in relation to the RER but feel that no changes are required at this time. Ofgem is currently looking at the process used by industry to transfer a customer from one supplier to another. They believe that smart metering presents an opportunity to improve this process.

We will continue to keep a watching brief on wider industry developments and contribute appropriately.

4 Risk Evaluation Register Structure

Settlement Risks are evaluated using the approach set out in the Risk Evaluation Methodology (sections 2 - 3). All Settlement Risks are logged using the data fields specified below.

Column	Description	Applicable to
Settlement Risk Identification Number	Unique number extracted from the RER.	SVA Risks CVA Risks
Effective from Date/Effective to Date	Operational period of the risk.	SVA Risks CVA Risks
Workflow Status	Indicates whether the risk has been approved by Performance Assurance Board.	SVA Risks CVA Risks
Originator	The source of the initial identification of the risk.	SVA Risks CVA Risks
Risk Category	Classification of risks into subgroup categories.	SVA Risks CVA Risks
HH/NHH	Indicates whether it is applicable in the half hourly or non half hourly market.	SVA Risks
Risk Description	Detailed description of the risk.	SVA Risks CVA Risks
Gross Settlement Risk Probability⁸	How likely a Settlement Risk is to occur if there are no controls in place?	SVA Risks CVA Risks (Set to 5)
Gross Settlement Risk Impact⁸	How severe the impact of a Settlement Risk would be (should it happen) if there are no controls in place?	SVA Risks CVA Risks (Set to 5)
Gross Settlement Risk Significance	The gross probability multiplied by the gross impact.	SVA Risks CVA Risks (Set to 25)
Noted Controls	The key mechanisms that should be applied routinely to the processes for deriving Trading Charges from recorded energy production or consumption.	SVA Risks
Controls Strength⁸	The effectiveness of the identified controls when taken in aggregate.	SVA Risks CVA Risks (Currently Low)
Net Significance	Gross significance multiplied by a factor based on the strength of controls as defined in the REM.	SVA Risks CVA Risks (Currently 25)
Assumptions	Any specific assumptions made in relation to the risk.	SVA Risks
Relevant Performance Assurance Parties⁹	Specific classes of Performance Assurance Parties who may be required to support the application of one or more Performance Assurance Techniques in the event that the PAB chooses to deploy techniques to manage the risk.	SVA Risks

⁸ Definitions of probabilities, impact and control strength used are provided in Appendix 2.

⁹ Settlement Risks are relevant to any Performance Assurance Party which might send, receive or take action in respect of processes, controls or data which relate to the risk in question. The Supplier is a relevant Performance Assurance Party in respect of Settlement Risks relating to the activities of the Party Agent. This is consistent with the provisions of Section J of the BSC which note that Parties shall be responsible for every act, breach, omission, neglect and failure of appointed Party Agents. It should also be noted that, in the context of the Risk Evaluation Register, relevant Performance Assurance Parties may not directly contribute to or be directly impacted by Settlement Risks. They are identified on the Risk Evaluation Register as they could be required to support the application of one or more Performance Assurance Techniques in the event that the PAB chooses to deploy techniques to manage this Settlement Risk

5 General Assumptions

Independent Assessment of Risks

It has been assumed that predecessors¹⁰ to Settlement Risks have been completed successfully, i.e. the cumulative impact of errors has been excluded from the risk evaluation process. This ensures that Settlement Risks which arise later in the Settlement process do not automatically qualify as highly significant and consequently divert attention from an earlier key control point.

For example, when considering the risk that the Non Half Hourly Data Aggregator (NHHDA) does not pass data to the Supplier Volume Allocation Agent (SVAA), the evaluation is based on the assumption that the aggregated data has been derived in accordance with the Balancing and Settlement Code – i.e. it is assumed that the Meter Technical Details that were used to interpret energy consumption for Metering Systems are correct and that Non Half Hourly Data Collectors have calculated energy consumption correctly etc.

This approach does not prevent Settlement Risks from covering a range of root causes (reasons for failures of the processes falling under the scope of each Settlement risk). For example, there are many reasons why the Non Half Hourly Data Aggregator (NHHDA) might not pass data to the SVAA including but not limited to: NHHDA system failure (and failure of associated disaster recovery processes), failure to follow the published timetable due to manual error, mishandling of incoming data, failure to submit the data in the correct format resulting in rejection by SVAA etc.

Consideration of Half Hourly and Non Half Hourly Settlement Risks

Many of the identified Settlement Risks arise at each Settlement Run. The gross probability and gross significance of a Settlement Risk may be different when assessed at each Settlement Run.

In the context of Settlement, the impact of an error arising in respect of a small number of Half Hourly Metering Systems is likely to have greater cash flow implications for Trading Parties than an error arising in respect of a small number of Non Half Hourly Metering Systems.

Furthermore, since almost all Half Hourly Metering Systems settle on actual metered data in all Settlement Runs, the Settlement processes that apply to Half Hourly Metering Systems tend to apply equally to each Settlement Run. Therefore the impact of Settlement Risks associated with Half Hourly Metering Systems is likely to be the same across Settlement Runs. Conversely, the proportion of Non Half Hourly Metering systems which settle on actual metered data increases over the course of each Settlement Run. Therefore the impact of Settlement Risks associated with Non Half Hourly Metering Systems is likely to be greatest by the Final Reconciliation Run (RF).

Consequently, in order to avoid recording a multitude of duplicate Settlement Risks (a version of each Settlement Risk in respect of each Settlement Run) and still ensure that

¹⁰ Procedures which occur earlier in the Settlement process and which might contribute to process steps directly relating to the Settlement Risk under consideration. Failures in these earlier procedures should be covered by other Settlement Risks.

the evaluated significance is sufficient to cover all Settlement Runs, the following principles have been applied:

- Settlement Risks which relate to Half Hourly Metering Systems have been primarily assessed at the Initial Settlement (SF) Run; and
- Settlement Risks which relate to Non Half Hourly Metering Systems have been primarily assessed at the RF Run.

These principles do not limit application of Performance Assurance Techniques to these Settlement Runs only. Assurance will be delivered across all Settlement Runs as appropriate.

Generic Controls

A number of generic controls have been identified which apply to all risks and have therefore not been logged in RER against individual risks. These include:

- Disaster Recovery processes;
- Change Management processes;
- System Security Controls;
- Appropriate System Design and Testing; and
- Processes for maintaining audit trails in relation to Settlement transactions.

6 Further Information

Queries

If you have any questions or require further information on the Risk Evaluation Register please contact:

Melinda Anderson

✉ - melinda.anderson@elexon.co.uk

☎ - 020 7380 4019

References

Document

[Risk Evaluation Methodology 2013/2014](#)

[Balancing and Settlement Code Section Z](#)

[ELEXON Glossary](#)

Attachments

The following attachments accompany this document on the ELEXON Consultation page of the website:

Attachment A – Risk Evaluation Register 2014/15 (complete ledger of Settlement Risks)

Attachment B – Risk Evaluation Register 2014/15 Industry Consultation Questions

RER Forum

We will hold a Risk Evaluation Register Forum on **Monday 22 July 2013**. This is an opportunity for you to discuss your consultation responses informally in an open session, before the PAB make a decision about the RER in August 2013. The meeting will last approximately 2 hours and will be held at ELEXON's office with teleconferencing available. If you wish to attend please send your details to Melinda Anderson.

Appendix 1: Probability, Impact and Controls Ratings

Probability Rating	Description
5	It is highly likely that the Settlement Risk will occur during a single PAOP.
4	It likely that the Settlement Risk is will occur during a single PAOP.
3	Approximately, the Settlement Risk is as likely to occur as not occur during a single PAOP.
2	It is unlikely that the Settlement Risk would occur during a single PAOP.
1	It is highly unlikely that the Settlement Risk would occur in a single PAOP.

Impact Rating	Description
5	The Settlement Risk has the potential to threaten the Balancing Mechanism and Industry Settlement procedures as a whole, causing severe problems for customers, Industry, the System Operator or ELEXON. Extreme Settlement Risks would have significant financial or political consequences on Performance Assurance Parties.
4	The Settlement Risk has the potential to impact one or more GSP Groups and would have a significant impact on the Business Plans of multiple Performance Assurance Parties.
3	The Settlement Risk could have an impact on a particular area of Settlement and/or the Business Plans of one or more Performance Assurance Parties.
2	The impact of the Settlement Risk is not severe enough to pose a threat to Performance Assurance Parties' businesses, but is significant enough for the Industry to consider addressing via corrective measures.
1	The Settlement Risk is not severe enough to pose a threat to Performance Assurance Parties' businesses and could be dealt with using normal business procedures or the cost and effort required to address the Settlement Risk outweighs the benefit.

Control Strength	Description
Low	Where the control strength is Low, or no controls exist, Net Settlement Risk significance will be Gross Settlement Risk significance multiplied by 1.0 (i.e. will equal Gross Settlement Risk significance).
Medium	Where the control strength is Medium, Net Settlement Risk will be Gross Settlement Risk significance multiplied by 0.8 .
High	Where the control strength is High, Net Settlement Risk will be Gross Settlement Risk significance multiplied by 0.6 .