

# FAA PROCESSING

This document outlines the methodology used to assess the Settlement Risk related to the FAA not accurately processing Trading Charges or ad-hoc charges correctly. We are not seeking to exhaustively outline all aspects considered during this assessment; our aim is to draw out the main data items considered and any key assumptions when estimating a future impact range.

**The risk...** that the FAA does not accurately process Trading Charges or calculate ad-hoc charges correctly, such that Advice Notes are incorrect **resulting in...** erroneous Trading Charges.

**Category:** Central aggregation and Trading Charges

**Sub category:** FAA processes

## Estimated impact in 2019/20

Lower	Middle	Upper
£0	£58,178	£116,357

## At risk population

The FAA produces an average of 2953 Advice Notes a month or ~35,436 times a year.

The at risk population for this risk can range from one Party who's Advice Note has been manually adjusted for Default Funding Share to all Parties if all Trading Charges have not been processed correctly.

The materiality and impact on the different Parties depends on the scale of the error and the Settlement Periods/ Dates that are affected.

## Data point considered

The number of Default Funding Share (DFS) payments has increased, particularly from Q4 of 2017 to date, and continues to increase. The increase in DFS payments creates a greater risk to industry based on manual intervention of Advice Notes.

	2016/17	2017/18
# of Parties for DFS	4	2
# of DFS payments	68	212
Amount of DFS payments	£547,271	£274,131

- It is important to note that this data for 2017/2018 ends at the Financial Year (April 2018).  
There has been an additional 5 Parties so far since May 2018 for which the payments will be allocated to DFS.

## Failure rate

There are controls in place to cover the BSC Central systems, and the data that is being created, that almost always capture any issues prior to Settlement.

As data can be seen by ELEXON and Parties at the II Settlement Run, issues are generally identified and corrected before there is financial impact at the SF Settlement Run. For this reason, the failure rate is low and there aren't many instances of historical issues to consider.

When assessing historical performance in this area, we considered a day with significantly high imbalance cashflow (1 March 2018) which is likely to occur again following the P305 changes that were implemented.

0.5% of the total Imbalance Cashflow for this day was £58,178 which is a plausible amount of error we would expect to see, with 1% of the total Imbalance Cashflow being the upper estimated impact.

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## Considerations

Below are the key consideration and assumptions when forecasting for the 2019/20 period:

- Based on the increased number of Defaulting Parties, we would expect to see an increase in the number of DFS payments and the amounts of DFS payments.
- Controls are in place to check data produced by FAA at II Settlement Run, before Advice Note is issued and there are financial implications.
- The number of Extra Settlement Determinations (ESD) that have been completed has also increased from 2016/2017 which is another manual process introduced to Settlement.
- No historical instances of Advice Notes being incorrect since 2012.