RETAIL ENERGY CODE

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MARKET SCHEME ASSURANCE

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FOR DECISION	In this paper, the Code Manager presents a proposed methodology for assurance of market schemes. As the governing body responsible for determining assurance requirements to assess the REC arrangements are fit for purpose, the PAB are requested to: • **APPROVE** the methodology set out within this paper.

1 BACKGROUND

We anticipate Ofgem will ask RECCo to demonstrate how they are assuring market schemes operated within the REC arrangements are running effectively and meeting their objectives as the number of schemes administered by RECCo increases.

We have also noted that understanding lessons from previous schemes such as the Market Stabilisation Charge (MSC) may have benefitted the delivery of more recent schemes delivered under the REC, such as Payment Method Levelisation (PML).

Therefore, to assess market schemes delivered under REC arrangements are proactively monitored and opportunities identified to improve performance of subsequent schemes, RECCo has requested the Code Manager to develop an assurance methodology to assess market schemes which can be applied to various current and future schemes administered under the Code.

2 THE ROLE OF PAB

The PAB sets the policy, approach and risk appetite for Performance Assurance under the REC. Therefore, through this paper, we provide PAB information on the proposed methodology to assure market schemes operated within the REC arrangements and ask them to approve key decisions on the nature and extent of these assurance activities.

RECCo sets budgets for the Code Manager service and therefore will make decisions for resourcing and budget, which may impact the scope of any assurance performed.

3 THE PROPOSED METHODOLOGY

3.1 OBJECTIVE

The purpose of this work is to deliver an assurance methodology which:

- Provides stakeholders, ranging from market participants to the Authority, with confidence that the market schemes are being operated effectively, and the requirements set out under the REC are being met.
- Identifies lessons to inform decisions to improve effectiveness of other current and future market schemes.
- Can be applied at a relevant point within the Market Scheme lifecycle, e.g. during implementation or after go-live.
- Can be applied as a one-off or at a suitable period frequency as required based on the risk assessment.
- Is proportionate, scaling based upon the level of risk.

3.2 SCOPE

We have identified four areas that the assurance methodology should focus upon: data integrity, compliance with the scheme rules, processing accuracy and timeliness, and scheme risk management. Under each area, we have identified risks and proposed techniques for assurance. Based on the assessment of severity of risk for any particular market scheme, the scope of the review and the activities it entails will be determined by following the process proposed in section 4.

3.2.1 INTEGRITY OF INFORMATION

The integrity of the information used within the Market Scheme is key for it to operate effectively as inaccurate or poor-quality inputs will result in incorrect or unintended outcomes. How the inputs are managed also impacts the market confidence in scheme operation.

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
1.1	**Confidentiality of data submitted by REC Parties**	Depending on the sensitivity of data inputs into the scheme, it may be relevant to ensure sufficient safeguards are planned and implemented to manage data securely. As the governance body responsible for information security, this falls in the remit of PAB to oversee.	Assessment of the security controls in place over access to provide data and then receive outputs. This will include that sensitive information is kept confidential from other Parties. Assessment of the controls in place by scheme operators to maintain confidentiality of data received, at rest and whilst processing.	Either prior to implementation, or during operation.
1.2	**Accuracy of data submitted by REC Parties**	Inaccurate or incomplete submissions reduce the effectiveness of the scheme. Where errors are identified it also leads to inefficiencies resulting from additional effort for error resolution. In some schemes, there may be financial factors that incentive Parties to misreport or submit incomplete data.	Assessment of the controls in place by scheme operators to identify erroneous submissions. Direct testing of submission values.	Either prior to implementation, or during operation.
1.3	**Accuracy of standing data used in scheme operation**	Similar to the risk associated with Party submissions, inaccurate or incomplete standing data used in Market Scheme operation can lead to material or pervasive errors. These can also have reputational impacts on the scheme operator.	Data quality assessments provided by scheme operators prior to scheme launch for PAB approval. Data quality improvement initiatives.	Either prior to implementation, or during operation.

3.2.2 COMPLIANCE WITH SCHEME RULES

The operational effectiveness of any market scheme depends on the ability of scheme participants as well as operator to understanding and meeting their scheme obligations.

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
2.1	**One or more REC Parties do not meet their obligation in relation to the market scheme**	This can lead to inefficiencies due to introduction of errors, need for data estimation/substitution, additional effort for rework.	Establishing clear reporting from the scheme to assurance, so that there is action taken if organisations do not meet their requirements (e.g. on timeliness).	Prior to launch.
2.2	**The Scheme Operator does not meet its obligation in relation to the market scheme**	In addition to introducing inefficiencies or delays, this can reduce confidence in the market scheme and deter engagement.	Identifying key obligations, and processes in place to deliver those obligations, to inform the scope of compliance assessments.	Typically, in early life (e.g. after 3 complete cycles).

3.2.3 PROCESSING ACCURACY AND TIMELINESS

Timely and accurate processing underpins a market scheme's credibility by ensuring financial stability, fairness, regulatory compliance, and efficient operation, ultimately fostering trust among all participants.

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
3.1	**Accuracy of automated processing**	Accuracy of automated processing is essential to maintain financial integrity, fairness, regulatory compliance, and operational efficiency.	Assessment to test that rules are correctly interpreted to design tools and calculators used in processing, and the data they use is correctly mapping. Assessment of controls operated during processing to test accuracy. Assessment of trail runs and reconciliations.	Either prior to implementation, or during operation.
3.2	**Design of controls during processing to achieve accuracy and timeliness**	Crucial for accurate and timely processing, which underpins the integrity, fairness, and efficiency of the market.	Assessment of controls operated during processing to assess accuracy and timeliness.	Either prior to implementation, or during operation.
3.3	**Implementation and operating effectiveness of controls during**	Crucial for accurate and timely processing, which underpins the integrity,	Assessment of controls operated during processing to test accuracy and timeliness.	Typically in early life (e.g. after 3

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
	processing to achieve accuracy and timeliness	fairness, and efficiency of the market.	Independent reconciliation of all transactions for a given period. Sample based reprocessing.	complete cycles).
3.4	**Finance internal controls over the payment procedures**	Critical to mitigating financial risks, ensuring accurate and authorised payments, and safeguarding the scheme's financial integrity.	Assessment of controls operated over the payment procedure.	Either prior to implementation, or during operation.
3.5	**Reporting to Industry including scheme participants**	Accurate and appropriate reporting to industry is vital for transparency, and also provides an opportunity for participants to validate the processing.	Assessing the appropriateness of reporting suites, including the reporting for the purpose of validation.	Prior to launch.
3.6	**Reporting to the Authority**	Crucial for regulatory compliance, demonstrating accountability, enabling effective oversight of the market scheme, and maintaining the Authority's confidence in the scheme's operations.	Assessing the appropriateness of reporting suites. Direct assurance of accuracy of reporting.	Prior to launch. During operation.

3.2.4 SCHEME RISK MANAGEMENT

Effective risk management not only underpins operational efficiency and stability, but also enables informed decision making to protect reputation and stakeholder trust.

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
4.1	**Adequacy of risk management procedures operated by the Scheme Operator**	Essential to proactively identify, assess, mitigate, and monitor potential vulnerabilities, ensuring the scheme's stability, resilience, and stakeholder confidence.	Assessing the appropriateness of risk management procedures.	Either prior to implementation, or during operation.
4.2	**Resilience to manage system failure and**	Crucial to maintain operational continuity, safeguard financial stability, protect stakeholder	Assessing design and operating effectiveness of controls and procedures	Either prior to implementation,

#	RISK	RATIONALE	PROPOSED ASSURANCE	APPLIED AT
	minimise delays, errors or losses	interests, and uphold trust in the market, even during system failures or disruptions.	implemented to manage system resilience.	or during operation.
4.3	**Managing failure to comply with market scheme rules and standards**	Crucial to deter violations, maintain a level playing field, protect market integrity, and uphold the credibility of the scheme.	Assessing the appropriateness of procedures to manage non-compliance.	Either prior to implementation, or during operation.
4.4	**Counterparty risks such as default, insolvency, etc.**	It is important to ensure there are sufficient safeguards and response mechanisms in place to prevent disruptions, including financial losses for scheme participants, and prevent any potential cascade of failures.	Assessing the appropriateness of procedures to manage counterparty risks.	Either prior to implementation, or during operation.
4.5	**Managing disputes appropriately**	Crucial to ensure fairness, maintain trust among participants, prevent escalation of conflicts, and uphold the integrity and reputation of the scheme.	Assessing the appropriateness of procedures to manage disputes.	Either prior to implementation, or during operation.
4.6	**Adequacy planning to manage rework**	Crucial for minimising disruptions and unforeseen costs while ensuring timely delivery and stakeholder satisfaction.	Assessing the appropriateness of procedures to manage rework.	Either prior to implementation, or during operation.

4 APPLYING THIS METHODOLOGY

The methodology proposed above is the comprehensive list of options available for market scheme assurance. When onboarding a new scheme, or reviewing an existing scheme, the PAB will determine the most relevant assurance techniques to apply based on the specific risks associated with the scheme under review, ensuring that the applied approach for assurance is proportionate. The Code Manager and RECCo – whilst maintaining independence of the assurance function – will make recommendations to support the PAB decision. To do so, we propose implementing the following process:

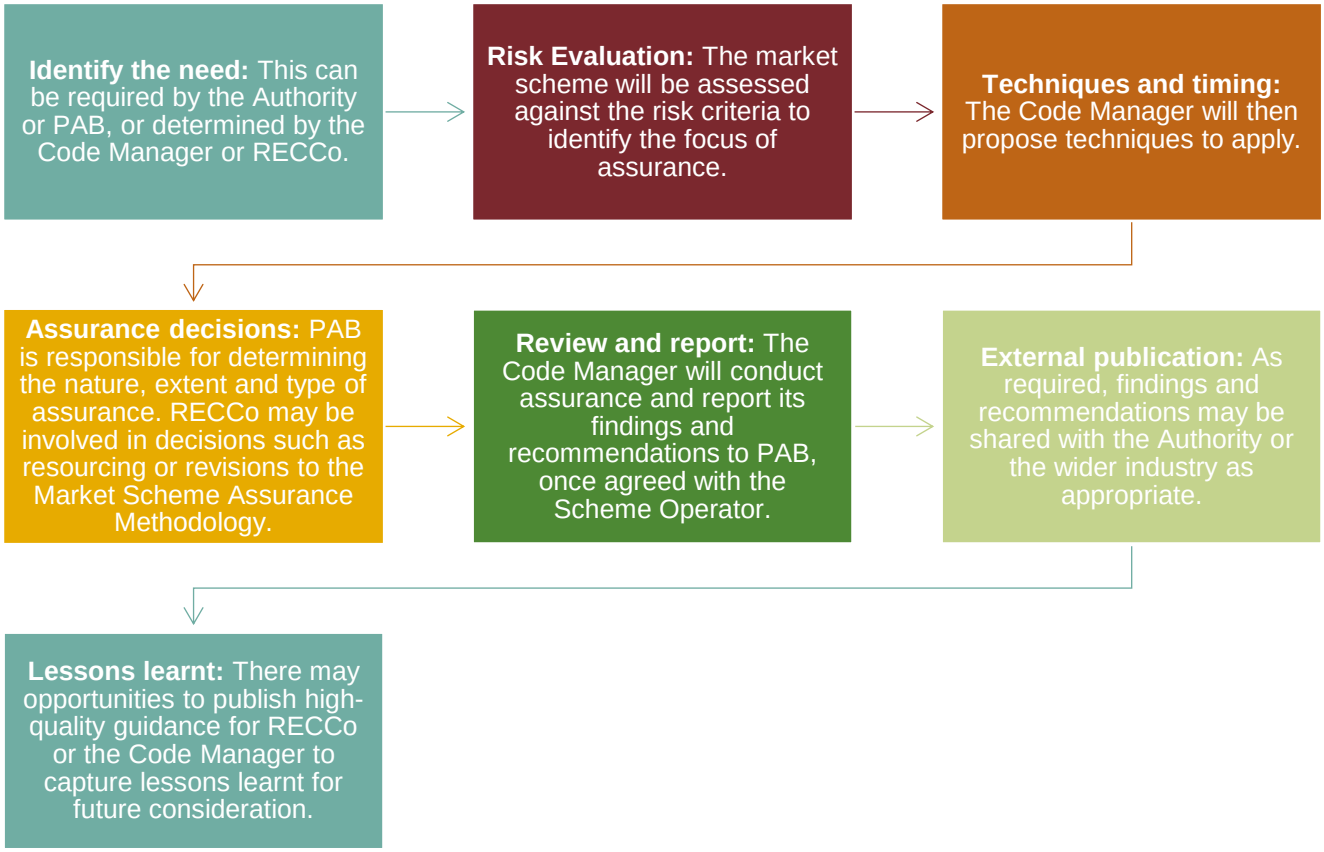


Figure 1: Applying the Market Scheme Assurance Methodology

5 PAB CONSIDERATION

Based on the information provided in this paper, we ask PAB to consider:

- Are there any other risks we should consider?
- Is the proposed process to apply the proposed methodology fit for purpose?
- Anything else that must be considered whilst applying this methodology?

PAB DECISION

The Code Manager recommends PAB to approve the methodology for assurance of market schemes managed under the REC as proposed in this paper.