RETAIL ENERGY CODE

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PERFORMANCE ASSURANCE STRATEGY AND PLANNING FOR 2024-25

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FOR INFORMATION

This paper provides information to help PAB members prepare for the discussion on Performance Assurance Strategy and Planning at the June meeting. This includes:

- Discussion points that will be covered on the day.
- Insights from work done so far.

Key objectives of the discussion will be to:

- Gain input from PAB members on the strategic priorities for 2024-25.
- Validate the proposed plan for development of Performance Assurance Operating Plan, including the approach for engagement into the planning process.

1 BACKGROUND

In line with the Performance Assurance Schedule (Schedule 6), the REC Performance Assurance Board (PAB) are responsible for overseeing the delivery of the following documents every year:

1. **Performance Assurance Annual Report –** The PAB deliver a report covering performance under the Code in the past year. This contains a summary of Code performance by key topic area along with insights and reflections. It is required to be published in September every year. Insights on Performance Assurance, also feed into the REC Annual Report produced by the RECCo Board as well as the Code Manager's Annual Report.
2. **Performance Assurance Operating Plan –** The PAB are also responsible for setting the performance assurance priorities for the upcoming performance year and planning Code Manager activities to deliver those priorities. These are documented within the Performance Assurance Operating Plan (PAOP) that is also published in September every year. This plan is used to track performance assurance activities through the year and the plan is updated, as and when required, to respond to emerging and evolving risks within the retail energy market.

1.1 PURPOSE OF THIS PAPER

To support the delivery of the documents listed above, in this paper the Code Manager has set out some initial insight to support development. At the PAB meeting in June, we intend to engage PAB members in a discussion to shape the strategic priorities for the next performance year which starts from 1 September 2024. This will be followed by estimating the resources required to deliver each priority area, with two opportunities for further input, as set out below.



Figure 1: Plan for PAOP 2024-25 development

1.2 WHAT IS THE PAOP

In line with the REC Performance Assurance Schedule, the Code Manager prepares an annual operating plan setting out the techniques it intends to apply to manage Retail Risks identified within the Retail Risk Register. This plan, referred to as the Performance Assurance Operating Plan (PAOP), sets out the Performance Assurance priorities and is approved and tracked by the PAB.

1.2.1 SCOPE AND PURPOSE OF THE PAOP

The scope of the PAOP is dependent on the vires of the Code with the aim to prioritise management of key Retail Risks so that the Performance Assurance service supports the Code to meet its objectives which are defined as:

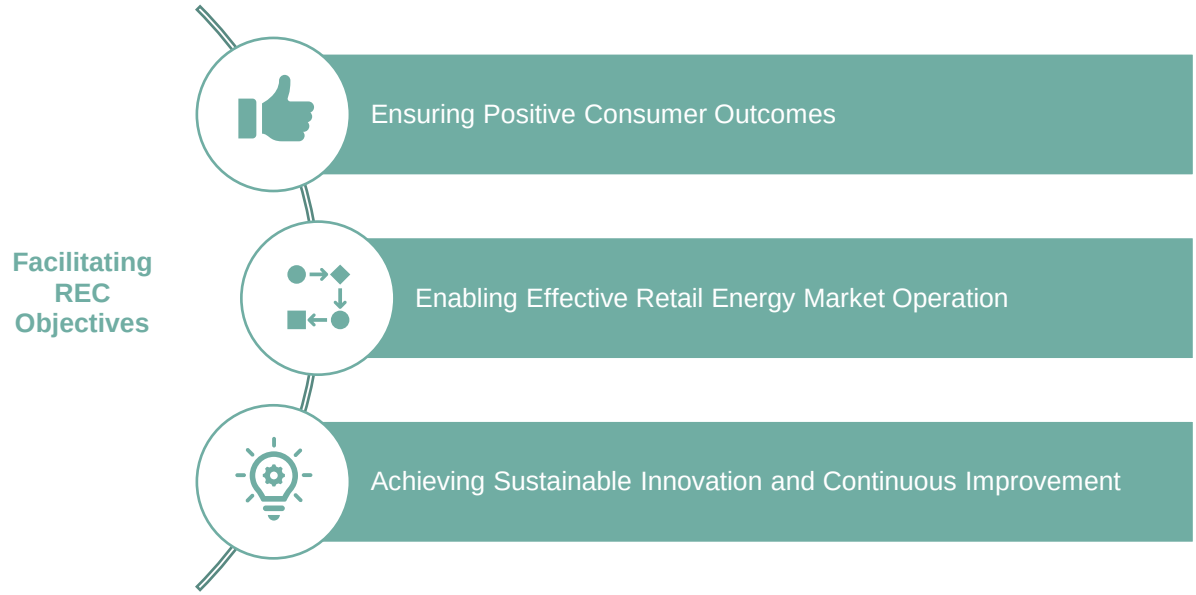


Figure 2: Key Objectives

The PAOP aims to encourage transparency by clarifying for all REC stakeholders the areas of focus for the Performance Assurance service and the interventions planned by the Code Manager and PAB. These activities are based on the current assessment of Retail Risks and reviewed when Retail Risks change. The activities are reviewed on a quarterly basis and tracked through to completion by the PAB.

1.2.2 DEVELOPMENT APPROACH

In proposing the PAOP for the coming year, the Code Manager is undertaking the following activities:

IDENTIFY AND EVALUATE RISK

As part of the PAOP development, the Code Manager is reviewing the current state of Retail Risks to identify emerging risks and understand how the risk landscape may evolve over the period to ensure our PAOP remains fit for purpose. This is detailed within RECPAB_24_0625_06 – Risk Register Updates. This helps the Code Manager and PAB evaluate which areas to prioritise based on their potential impact on retail arrangements and outcomes.

CONSULT AND VALIDATE

We have used our industry engagement sessions to gain insights from REC Parties, which are summarised in Appendix 1.

We also have a plan to seek further views from a wide range of REC stakeholders to feed into the planning process as it progresses. This is further detailed in section 2.3.

PRIORITISE AND PLAN

We will compile insights from our analysis along with feedback from the REC stakeholders to enable PAB to make informed decision to define the PAOP for 2024-25.

1.3 ROLE OF THE PAB

The PAB are responsible for making determinations in relation to the Retail Risks and the wider Performance Assurance Framework (PAF) to ensure it meets its objectives. The PAB's strategic priorities shape the PAOP and inform the Code Manager's proposals for performance assurance activities in the coming REC year.

The PAB is also responsible for monitoring performance assurance activities during the REC year and tracking progress against the PAOP.

When the PAB and Code Manager identify any changes to retail risks, they review and update the PAOP as required.

1.4 HOW WE WILL TAKE INPUT IN THE JUNE PAB MEETING

In the June PAB meeting we will request PAB members directly input into our plan through an interactive session. We will provide three worksheets in different parts of the room, covering the three key objectives (consumer outcomes, effective retail market operation and innovation / change). We have set out the areas these worksheets will cover below, which PAB members should reflect upon prior to the meeting:

- The role and impact of the Performance Assurance service over the last 12 months:
    - What are the key **achievements** for the service over the last 12 months?
    - What are the key **lessons** from 2023-24?
        - What do we need to **start** doing to help REC deliver its objectives, while responding to market changes and ensure all priority areas are covered appropriately? *This could involve new areas that should be brought into the scope of risk monitoring where associated performance risk can materially impact the delivery of REC objectives.*
        - What do we need to **continue** doing from previous years to drive performance improvements? *This could include interventions that have been successful and continue to deliver benefits with the retail energy market.*
        - What can we **stop** doing to make room for other activities where performance assurance interventions are required? *This could be for reasons such as performance within an area is at an acceptable level, the impact of lower performance is not material on the consumer or other market participants, there are commercial incentives to drive good performance, these are lower in priority compared to other areas, etc.*
        - From this, which are the key priorities for PAB to oversee?
- **Priorities** for Performance Assurance over the next 12 months:
    - Which areas under the REC are most prone to the risk of low performance?
    - Which areas under the REC are most likely to cause a material impact on other market participants and/or consumers if there are any performance dips?
    - Amongst the areas identified, which require prioritisation over the next 12 months?

To support the PAB we present two key inputs as an appendices:

1. The outputs of engagement with REC Parties at the PA webinar, which indicate the areas they believe the Performance Assurance Board should focus.

2. Reflections from the REC Code Manager, which are presented in the format intended to be used for the Operating Plan.

1.5 NEXT STEPS

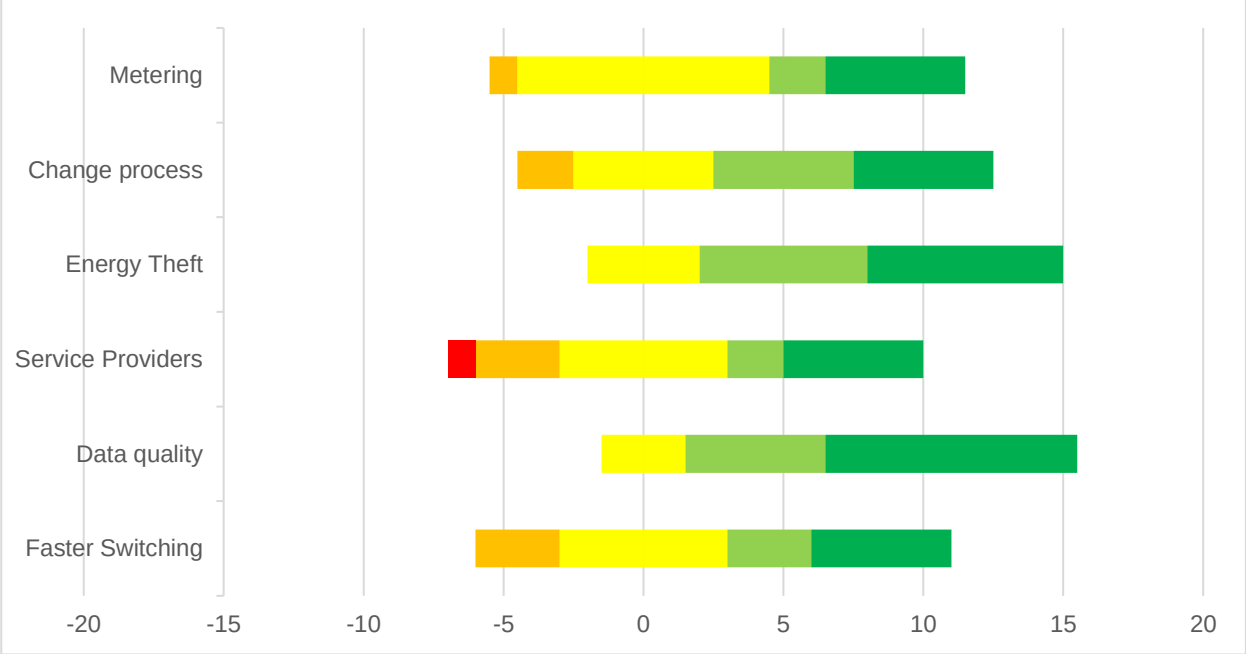
The Code Manager will collate the PAB's input from this meeting and include it as an appendix to next month's PAOP paper, which will include a draft PAOP. This will include estimates of the total time required for each activity, and any output from the activity that can be directly shared with industry or other interested stakeholders (e.g. Ofgem).

We welcome any feedback from PAB members on the proposed plan for developing the PAOP.

APPENDIX 1 OUTPUTS OF INDUSTRY ENGAGEMENT

In June 2024 we engaged with industry on the key areas of our work to determine if they consider we should do more, or do less. We have summarised below the conclusions of the REC Parties below, removing any RECCo or Code Manager representatives (although including a representative of DCC).

Participants were asked to rate on a 1 – 5 scale if we should do less (red or amber), about the same (yellow) or more (green or dark green).



The overall outcome was that those attending the meeting showed an overall preference for a greater extent of performance assurance work, with focus on energy theft, and data quality those with the highest preference.

Whilst there were calls for more assurance, in our discussions there was also recognition of the progress made on change. We asked a freeform question on other areas to consider that we hadn't discussed but should consider whilst planning recurring annual activities. Whilst many attendees respond with an 'n/a' demonstrating that there was nothing more they would like us to consider or prioritise, we received the following suggestions:

- Focus on reducing compliance burden
- Reducing the overall cost of REC Services
- Reviewing the effectiveness of REC governance
- Reviewing REC processes related to CoMCoP audits, annual compliance statement and the 3-yearly Information Security assessment.

APPENDIX 2 - DEFINING THE PAOP

The PAOP is based on the assessment of retail risks, anticipated market activities and key strategic priorities of the PAB. During this process, we also look at the previous year to identify key achievements and lessons. *Some insights are detailed in the following sections to inform the discussion.*

1.6 LOOK BACK AT 2023-24

Key performance assurance activities in previous years have included:

- Operating the Market Entry assurance processes so that new entrants do not introduce material risks to the retail arrangements. The diversity and volume of organisations interacting with the REC have continued to increase.
- Operating the Maintenance of Qualification processes which include conducting routine deep dive assessments to manage key risk and confirm Parties remain Qualified to use REC Services.
- Monitoring Party Performance across key REC processes to identify risk of adverse outcomes and applying Performance Assurance Techniques (PATs) to manage the risk, including the improvements achieved through the data cleanse reporting and sprints.
- Assuring the performance of REC Services through direct assessment so that REC Service Users get the performance levels they expect, and the retail arrangements operate effectively.

Additionally, the focus of the Code Manager in 2023-24 has also been on the Market-wide Half-Hourly Settlement (MHHS) Programme which is a larger scale industry change for electricity markets.

Last year, we deprioritised any additional direct assessment of Parties, beyond the Maintenance of Qualification processes.

In the last year, the time spent by the Code Manager is depicted in the diagram below:

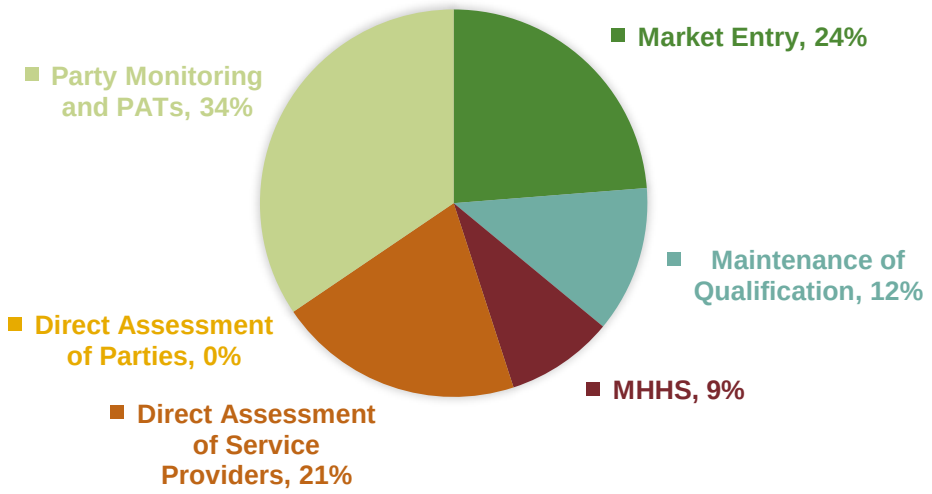


Figure 1: Performance Assurance Actuals for 2023-24

We expect the focus of the service to shift in 2024-25 for the following reasons:

- In 2023-34, our time spent on the MHHS Programme included activities such as designing the assurance process and requirements for MHHS Qualification. In 2024-25, we expect to see a surge in activity as the Code Manager starts operating the MHHS Qualification process and

assessing Parties. With MHHS transition starting in March 2025, with both the legacy and MHHS arrangements operating over until all meter points are migrated to the new arrangements, we anticipate an increase in volume of Party Monitoring activity. *To keep Party Monitoring focused and so that the burden on assurance on Parties is proportionate, PAB should consider if any areas of Party monitoring within the legacy arrangements can be deprioritised.*

- With the introduction of Performance Assurance Check-ins, where the Code Manager will meet with REC Parties on a one-to-one basis to discuss their performance and any improvement initiatives (as applicable), we anticipate a slight increase in time spent on Party Engagement and Stakeholder Management.
- There is potential to reduce spend on the direct assurance of REC Services by focusing effort on key services and service areas that are more susceptible to performance dips. *PAB could also consider reducing activities over completeness and accuracy of performance reporting as the Service Providers are now familiar with the reporting requirements having undergone multiple cycles of review. PAB could consider introducing techniques such as spot checks where a random sample may be assured across the performance levels reported by REC Services to validate what is reported.*
- Streamlining MHHS Qualification assessments with the Maintenance of Qualification activities may encourage efficiency both for the REC Parties as well as the Code Managers.

1.7 STAKEHOLDER ENGAGEMENT APPROACH

Based on the REC objectives, the Code Manager has identified the following groups as the key REC Stakeholders. In this section, we have outlined the approach we will take to understand their interests, to define the performance assurance priorities. *We welcome feedback from PAB to ensure our engagement approach outlined below is effective.*

1.7.1 REC PARTY AND SERVICE USER INTERESTS

The Code Manager sought input from REC Parties at the REC Performance Assurance Webinar in June. To enable those Parties who could not attend the webinar the opportunity to contribute, we followed up with a survey. Some of the key insights from this engagement has been:

- There is appetite for an increased focus on assurance over other REC Parties such as Meter Operator Agents (MOAs).
- Parties flagged the large volume of change happening across the industry, suggesting Performance Assurance should also consider how Parties are supported through these changes to minimise performance risks.
- Data quality was flagged as an important area for focus due to downstream impacts presented for multiple market participants. However, Parties also recognised that the techniques applied to improve data quality must be pragmatic and consider real-life scenarios where factors beyond a Party's control may impact their ability to meet certain standards.

The Code Manager is planning further sessions to playback thinking so far and seek views from Parties and Service Users.

We are considering approaches that will allow us to engage with harder to reach groups and also engage with a broader spectrum of organisation types, such as Non-Party REC Service Users. Some of key insights and initiatives for 2023-24 came from engagement with such groups (e.g. REC Change Proposal R0155 which is looking at improving the Change of Tenancy process).

1.7.2 CONSUMER INTERESTS

The Code Manager has proposed new initiatives to increase how the voice of consumers can inform and influence performance assurance processes, however these are yet to be developed further. In the interim, we are proposing the following steps to gain insights on consumer priorities so that the consumer outcomes prioritised by PAB are in line with consumer expectations:

- Engage with Citizens' Advice, Ofgem (including Ofgem's Non-Domestic Large User Group) and other consumer advocates to gain insights on consumer priorities and pain points.
- Invite representatives from these groups to join engagement sessions with other REC Parties and Service Users to ensure all perspectives are considered.
- Through these groups, identify key research on consumer insights on the retail energy market.