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MANAGEMENT OF TRANSFORMATION RISK IN RECCO

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FOR INFORMATION 	Following an action in the Performance Assurance Operating Plan, this paper provides transparency on how RECCo delivers its programme governance and risk management processes and how that mitigates the delivery risk.

1 MANAGEMENT OF TRANSFORMATION RISK IN RECCO

1.1 BACKGROUND

The energy sector is undergoing substantial transformation, driven by Ofgem, DESNZ, and RECCo initiatives. Concurrent changes and projects will always pose delivery risks. This is not a delivery risk unique to RECCo and is present in any portfolio of concurrent projects. The project management function and associated governance established by RECCo is a recognisable framework and is designed to mitigate the delivery risk and they reduce the potential impact on industry.

Following an action in the Performance Assurance Operating Plan, this paper provides transparency on how RECCo delivers its programme governance and risk management processes and how that mitigates the delivery risk.

1.2 RISK MANAGEMENT PROCESS

The REC Board has employed a standardised risk management process since inception. Risks are captured across all functions and evaluated based on defined criteria for likelihood and impact. These risks are summarised and categorised in the Company Risk Register. The Company Risk Register is reviewed on a quarterly basis by both the REC Board and its dedicated Risk Sub-Committee. Risks are reviewed on a pre-and post-mitigation basis according to timebound mitigation plans. During 2024, there was significant emphasis placed by the REC Board, Risk Sub-Committee and RECCo Executive team to incorporate into the risk management assessment process the setting and comparison of risks against a Risk Appetite methodology as defined in the Government Orange Book.1 As a result, all risks are peer-reviewed prior to being reviewed at the Board Risk Sub-Committee with any Risk outside the Risk Appetite value reviewed by the full Board. The risk management process is conducted quarterly, involving the entire organisation to ensure comprehensive oversight. In addition, the Risk Sub-Committee has a programme of deep dives into particular risk areas.

The Risk Sub-Committee has established tailored thresholds for different risk types, rather than applying a uniform threshold. This approach aligns thresholds with the organisation's risk appetite, allowing for flexibility and appropriate prioritisation based on the nature and significance of each risk type.

1.3 ROLE OF THE PAB

The REC Board has established the PAB to oversee retail risk, i.e. risks to the market as opposed to risks to RECCo as an organisation. The PAB does not have a role in defining the strategy or transformation activities themselves, other than when identifying performance issues that could then require transformation to address.

Some transformation projects are entirely outside the scope of the PAB, for example those that look to develop RECCo's staff capability.

The PAB's interest in transformation activities is therefore in identifying and managing risks that transformation delivery pose to the operation of REC Services (such as CSS, the Code Manager and or the Enquiry Services), or to market participants abilities to operate REC processes. PAB's role is to gain sufficient assurance on behalf of the users of those services. Following PAB feedback risk VI on the retail risk register was identified the risk that 'Significant transformation activities result in less efficient or effective REC systems and processes'. Within the Performance Assurance Operating Plan the PAB approved quarterly updates on this risk. This could take the form of papers, briefings like the briefing on Forward Work Programme such as was provided in the January meeting or MHHS in previous years and information on specific topics (e.g. how Code Manager licencing changes the PAB).

1.4 PROJECT DELIVERY

[1] The Orange Book – Management of Risk – Principles and Concepts

RECCo's governance of transformation activities and associated risks is overseen by the REC Board at each Board meeting.

The REC Board delegates financial authority to the CEO and RECCo Executive team for delivery of projects. The Portfolio Board which comprises all RECCo Executive team members is responsible for the governance and implementation of the Project Management process within RECCo. The Portfolio Board is supported by a dedicated Project Management Function and Project Management Office (PMO) staffed with experienced (each 10+ years) project managers and a dedicated PMO.

The Portfolio Board is specifically responsible for all decisions regarding the initiation projects. These decisions are based on an assessment of the project's scope, timeline, budget, resource requirements and associated risks and mitigation.

The Portfolio Board convenes fortnightly to review the overall portfolio's status, address risks, manage issues (including the overall availability and adequacy of resources) and progress against plan and budgets proactively.

Projects are only initiated if a budget is available, and a full Project Brief has been approved by the Portfolio Board. The Project Brief is a living document that is updated if the Project requires material change during its lifecycle. The Project Brief includes identification of project metrics: scope, objectives, deliverables, timeline, budget and resource requirement. The budgets are set at the start of the year and are subject to industry scrutiny as part of the Forward Work Plan and Budget consultations. No project is initiated unless there is adequate budget and confirmation of availability of required RECCo resources. If additional budget or resources are required, then some resource and Contingency budget spend is delegated to the discretion of the CEO, while additional amounts require Board approval upon the CEO's request. The approval to spend contingency budget, to mitigate new obligations placed on RECCo, each year demonstrates that the process works. Each individual project is supported by a Steering Committee which, meets no less frequently than monthly for major projects, is accountable for delivering the project's scope, objectives and deliverables. These committees include relevant Executive team members and representatives from the Extended Leadership Team (ELT) to ensure alignment and effective oversight. SteerCo is supported by access to Subject Matter Experts where necessary. Each project has an Executive Sponsor and a Senior Responsible Officer who reports the progress of their project to the Portfolio Board.

1.5 CURRENT PORTFOLIO STATE

As of January 24th, 2025, thirteen projects are Green and three are Amber. The three Amber projects do not directly impact industry or any REC obligations. An Amber project is a project experiencing some issues or risks that could impact its timeline, budget or deliverables and the corrective action is in the control of the project, not requiring escalation.

1.6 FUTURE RESOURCING NEED

At the end of 2024, the RECCo Executive team, Risk Sub-Committee and REC Board identified the availability of adequate RECCo resource as its top risk, given the impact of the likely REC Code Licence award and the transformational demands being placed upon RECCo because of new initiatives proposed by Ofgem and DESNZ. In response to this, RECCo has assessed its resource requirements and proposed an increased budget and headcount increase to meet the anticipated workload in 2025/26 both to deliver ongoing service delivery and all new identified projects.

These proposals follow a period of engagement and consultation with wider industry under the Forward Work Plan process.

The 2025/26 Forward Work Plan and draft budget underwent internal scrutiny before being presented to the Finance and Audit Committee who subsequently recommended it to the REC Board for approval, and is supported by detailed business cases for material projects.

The Forward Work Plan is currently open for consultation, allowing stakeholders to provide input and feedback. Individual Budget line items can be appealed to Ofgem should parties not think this is appropriate.

1.7 SERVICE DELIVERY

RECCo has established comprehensive and detailed reporting aligned to each of our relevant service provider partners, regarding their actual delivery against agreed, required performance levels. This reporting is delivered monthly and is shared with the RECCo leadership team through monthly management information reporting. The service provider reporting is also reviewed on a regular basis by our assurance partner to ensure it is pertinent and accurate. Performance levels across all our service providers are currently meeting the relevant key performance indicators agreed within their individual contracts and there are agreed performance assurance techniques to remedy any underperformance, if required. RECCo related service provider performance is reported to every REC Board meeting.

1.8 CONCLUSION

RECCo utilises standard and best practice to manage the transformation risks across projects and services, with review of the Portfolio progress at each REC Board meeting. In addition, there is a quarterly review by the Risk Sub-Committee of all RECCo Company Risks, with Risks exceeding the Risk Appetite reviewed by the REC Board. The current portfolio is in a healthy state with appropriate governance and processes established to continuously monitor and manage risk.

The REC Board has recognised the potential risk associated with increased transformational activity within RECCo and is actively addressing it by increasing both RECCo project and operational budgets and resources in its Forward Work Plan and Budget consultations. The management of projects is proactively managed by the Portfolio Board with the CEO given discretion to spend up to £100k of contingency budget or request additional resources and contingency budget from the REC Board.

The REC Board has commissioned a review of the efficacy and its oversight of the activities of its Sub Committees outlined in the REC (namely the Change Panel and Performance Assurance Board) considering the impending REC Licence Award application by RECCo. The content and frequency of programme reporting to the PAB will be subject to the outcome of this review.