Risk Assessment Methodology

REC Sandbox and Derogation

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Introduction

Design Principles

The methodology should be proportionate, easy to apply and capable of being used consistently for both Sandbox and Derogation applications. It should support innovation while ensuring that market integrity, consumer protection and REC performance assurance expectations remain central to decision making.

- Simple and repeatable, using a common assessment template for all applicants.
- Risk based rather than document based, focusing on the impact of the proposal.
- Consistent with REC Performance Assurance principles and existing monitoring expectations.
- Explicitly considers consumer outcomes, cross code impacts, operational impacts and compliance risks.
- Includes clear approval conditions, monitoring requirements, success criteria and exit triggers.

Methodology

Three Lines of Defense Model

The Three Lines of Defense model provides a clear governance structure for assessing, challenging and overseeing risks. Adapted in this context, it distinguishes between the applicant owning the risk, the Code Manager independently assessing and monitoring the risk, and REC governance providing oversight and challenge.

Line of Defense	Role	Purpose
Line 1: Applicant self assessment	Applicant	Identifies the risks created by the proposed Sandbox or Derogation, proposes mitigations and confirms how impacts will be managed.
Line 2: Code Manager challenge review	Code Manager	Reviews the assessment, challenges assumptions, assesses retail risk, consumer impact and cross code implications, and recommends conditions or monitoring.
Line 3: Governance oversight	PAB / REC governance	Provides independent oversight, determines whether risks are acceptable and decides whether to approve, approve with conditions, request further evidence or reject.

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Core Assessment Categories and Assessment Questions

Each application should be assessed against a small set of common risk categories. This keeps the methodology consistent while allowing the detail to be scaled depending on the complexity and materiality of the application.

Category	Assessment focus
Consumer Impact	1. What consumer groups will be impacted by the proposal, and how? 2. Will consumers be better off as a result of the proposal, and how will this be measured? 3. Could any consumer group be disadvantaged or experience reduced accessibility? 4. Could the proposal negatively affect consumer service, experience, or outcomes? 5. What protections, safeguards, communications, and support arrangements are in place for consumers? 6. How will consumer harm be monitored, measured, managed, and reported throughout the Sandbox?
Market Impact	1. Which industry participants and stakeholder groups are affected by the proposal, and what are the potential impacts on each group? 2. Could the proposal introduce risks to the accuracy, timeliness, reliability, or effectiveness of market processes? 3. Could the proposal negatively affect the quality, accuracy, completeness, accessibility, or integrity of market data? 4. Could the proposal impact the performance, resilience, security, or availability of central market systems, including EES, CSS, and GES?
Cross-Code Impact	1. Which industry codes are impacted by the proposal, and what is the nature and extent of the cross-code impact? 2. Could the proposal impact any existing or planned cross-code initiatives, programmes, or code change activities? 3. If the Sandbox is successful, would permanent implementation require changes to other industry codes, governance arrangements, or associated obligations? 4. How will cross-code impacts be monitored, managed, and reported throughout the Sandbox?

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Operational Impact	1. What is the likelihood that the proposal will require a change request, system change, enhancement, or temporary operational solution to support the Sandbox? 2. Could the proposal impact Service Providers operational performance, service delivery, or system resilience? 3. What operational dependencies and resource requirements are associated with the Sandbox? 4. Could the Sandbox create additional workload, resource constraints, or wider operational impacts? 5. How will operational risks, incidents, and impacts be monitored, managed, and reported throughout the Sandbox?
Compliance Impact	1. Could the proposal compromise, conflict with, or create ambiguity regarding any legal, regulatory, licence, REC, or other code obligations? 2. Have the legal, regulatory, and compliance risks associated with the Sandbox been identified, assessed, and appropriately documented? 3. Could the proposal impact data protection, privacy, confidentiality, cybersecurity, or information security obligations? 4. Could the proposal affect REC Performance Assurance Services Provider(PASP), compliance monitoring, audit activities, reporting obligations, or other assurance processes? 5. Are appropriate compliance controls, governance arrangements, and escalation routes in place to ensure compliance can be maintained throughout the Sandbox and fully restored at its conclusion?

Scoring Approach

A simple likelihood and impact score can be used for each category. The risk score is calculated as Likelihood x Impact. This creates a consistent starting point but should not replace professional judgement, especially where consumer harm or cross code impacts are material.

Score	Likelihood / Impact descriptor	Indicative meaning
1	Negligible	Very limited or no practical impact.
2	Minor	Limited impact, manageable through standard controls.

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3	Moderate	Noticeable impact requiring active mitigation or monitoring.
4	Significant	Material impact requiring conditions, enhanced monitoring or governance scrutiny.
5	Severe	Unacceptable or high impact risk unless materially redesigned or mitigated.

Overall Risk Rating

The overall rating should combine the numeric risk score with judgement on consumer detriment, cross code materiality and the adequacy of mitigations.

Rating	Typical position	Decision route
Green	No material consumer detriment, no material cross code impact and risks are low or well controlled.	Approval may be suitable with standard monitoring.
Amber	Moderate risk, some consumer or cross code impact, or reliance on specific mitigations.	PAB consideration and proportionate conditions recommended.
Red	High risk, material consumer detriment or significant cross code implications.	Detailed scrutiny required. Approval should only proceed if risks are reduced or tightly controlled.

Other Considerations

Monitoring and Exit Criteria

Approval should not be the end of the risk assessment. Each approved Sandbox or Derogation should include proportionate monitoring arrangements, success criteria, failure triggers and exit criteria. Monitoring should test whether the risks identified during assessment remain controlled in practice.

- Data quality indicators, such as error rates or exceptions.
- Consumer outcome indicators, such as complaints, confusion, failed switching or service disruption.
- Process performance indicators, including delays, escalations or operational failures.
- Industry impact indicators, including settlement, market data or cross code issues.
- Defined triggers for adding conditions, suspending the trial, ending the derogation or escalating to PAB.

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Next Steps

The methodology could be converted into a standard assessment form, supported by guidance notes for applicants and a Code Manager review checklist. This would allow applicants to complete the first line assessment while enabling the Code Manager and PAB to apply consistent challenge, oversight and approval decisions.

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