

Retail Energy Code Company **Budget**

2023 - 24



Foreword to the 2023-24 Budget

The Retail Energy Code Company (RECCo) was established as the corporate vehicle for ensuring the proper, effective, and efficient implementation and ongoing management of the Retail Energy Code (the REC).

In accordance with the REC, the REC Board has agreed a 2023-24 Budget which has been prepared using a zero-based budgeting methodology. This is a good faith estimate of the costs that are anticipated to be incurred in delivering the Strategy and Forward Work Plan, [click here](#). REC Parties now have the opportunity to scrutinise the Budget and a right of appeal to Ofgem.

Our Forward Work Plan strikes a balance between embedding stability, improvement, and evolution of the REC Services, delivery of industry initiatives such as MHHS as well as theft and data initiatives. Each of the proposed initiatives will either improve upon existing activities, or has been signalled by BEIS* or Ofgem as an anticipated regulatory requirement that we can assist REC Parties in discharging their regulatory obligations. None are speculative.

The retail energy market has undergone significant change over the last two years. It has become clear that a strong consumer focus, balanced with sustainable and efficient market and business practices are integral to the success of a robust retail energy market. RECCo, in its role as intelligent customer procurer, manages, and transforms REC Services, systems and processes. In doing so we need to strike the right balance between what is needed to address today's challenges, while preparing for what is needed in the future. Reflecting on our experience in 2022-23, we expect the model of regulatory requirement implementation being discharged through the REC to continue for the coming year.

We are cognisant that we are spending industry and consumers' money and we have an obligation to deliver secure scalable, adaptable services which are economic and efficient. This obligation extends to our internal and external resources. RECCo is responsible for 17 centralised services which support industry in discharging their regulatory obligations.

Many parts of the retail energy market are evolving including; the introduction of new business models, Supplier exits, and the recent delivery of the Central Switching Service (CSS) to support faster and more reliable switching. From April 2023, RECCo has financial responsibility for the CSS. There are other changes, like the Market-wide Half Hourly Settlement (MHHS) programme that will have a material impact on the retail energy market and consumers, and for which we have an obligation to deliver a key element.



Brian O'Shea
Director of Finance and Commercial

RECCo is a not-for-profit organisation and any underspend against its full year budget in any financial year is returned to REC funding parties in the subsequent financial year as a rebate against the charges for that year. RECCo expects to underspend against its 2022-23 Budget and we will return that underspend to parties in the coming year. This rebate will help to mitigate the increased costs for next year.



* BEIS was in place at the time of the original publication of the FWP, we recognise that since then the new Department for Energy Security and Zero Carbon has been created'

Foreword to the 2023-24 Budget – Continued

The 2023-24 Budget shows a c21% increase on the costs we expected for this coming year, with c90% of the increase due to a combination of higher than previously signalled CSS charges and the impact of an enhanced MHHS programme. We have eliminated the impact of higher than expected Gas Enquiry Service costs.

We have separated the MHHS costs in our charging statement from our other charges. We will identify the MHHS charges on our invoices and this will allow Parties to make an informed decision as to whether they can be capitalised as an Intangible Asset.

We provide further analysis of the key cost increase drivers in the Budget Overview section below as well as the actions taken since the Forward Work Plan was published.

The maturing nature of our services means we are better informed on the level and nature of resource required to deliver our obligations and manage our services effectively and efficiently we have therefore taken the opportunity to right size our internal RECCo organisation accordingly. Unless our remit changes materially over the coming years, we would not expect any change in our internal capacity and capability. Consequently, over the planning period, our operating costs continue to remain less than 10% of the total budget.

The 2023-24 Budget will be recovered from Parties evenly across the year and invoiced in the first month of each calendar quarter. The charges by category of funding party are set out in the **2023-24 Budget Overview section**.

In the next section we set out the process used to develop the budget and the timescales for any appeals to the Authority. We hope this document provides you with sufficient information for your business planning. RECCo will be holding a stakeholder event on 01 March 2023 to present the Budget and answer any questions.

However, if you have any questions in advance of that event, please do not hesitate to email Brian O'Shea at brian@retailenergycode.co.uk.

In our Forward Work Plan and Strategy we published an indicative budget of c£56m. Over the last month, we have engaged successfully with the CSS and Gas Enquiry Service providers to reduce cost without compromising service, and we have also revisited our programme and workstream estimates in light of resource contention. As a result of this proactive engagement our proposed budget is now c£50.5m, a reduction of c10%.



Budget Consultation Process¹

The Retail Energy Code (REC) requires the REC Board to consult on its proposed strategy including indicative costs for the key activities. On 13 January 2023, the REC Board published its draft strategy, Forward Work Plan for 2023-2026, and associated 3-year financial projections for consultation. The Board invited comments on the Strategy which ended on 03 February. We received one response and the Board has considered the comments received, to determine its final strategy and its Budget for 2023-24.

The 2023-24 Budget is published to REC Parties to allow them the opportunity to appeal the decision of the REC Board to approve the budget to the Authority (Ofgem).

Any appeal brought must be specific to one or more individual cost items not to the budget as a whole and must be submitted within 10 Working Days of the Budget being published, no later than 07 March 2023.

Should a REC Party wish to appeal one or more budget items then they must submit their appeal to Ofgem industrycodes@ofgem.gov.uk no later than 07 March 2023 setting out the rationale for such appeal with reference to the criteria set out in REC Section 9.

The Authority may allow an appeal where the Authority is satisfied that the cost item in question:

- was not consulted upon as part of the draft budget or in accordance with Clause 9.5 or the REC Board failed to have reasonable regard to any consultation responses submitted
- is not a legitimate item of expenditure for the REC Board
- is a manifestly inappropriate provision for the activity in question, and there are insufficient safeguards in place to ensure that the actual costs incurred will be efficient
- will, or is likely to, prejudice unfairly the interests of one or more Parties, or cause them to be in breach of this Code, the Energy Licences and/or Law.

Where the Authority allows an appeal of the budget, the Authority may:

- refer the cost item back to the REC Board for further consideration and, if appropriate, to pursue a revision to the prevailing budget
- revise the provision for that budget item to a figure which it reasonably considers to be a better forecast of the cost likely to be incurred, whether that is higher or lower than the REC Board budgeted figure
- direct the REC Board to remove that cost item entirely, and make suitable revision to its annual budget and strategy.

Pending resolution of any appeal, RECCo shall not be entitled to incur costs in respect of the cost item that is subject to appeal, except as far as necessary to comply with legally binding obligations which it has previously incurred in accordance with this Code.



¹ This section is a summary extract of REC Section 9. The reader is recommended to review the legal text as set out in Section 9 of the REC to ensure they make an informed decision.

RECCo Strategy: An Overview

RECCo recently consulted on its draft Strategy and Forward Work Plan, and an accompanying financial projection for 2023-2026. That consultation can be found [here](#).

Our plan aims to strike the right balance between embedding stability, while seeking improvement to the REC Services and facilitating the delivery of industry programmes such as MHHS.

The proposed work areas will either improve upon existing activities, or has been signalled by Ofgem or the government as an anticipated regulatory requirement that we can assist REC Parties in discharging. In some cases, where the REC provides a possible means of delivery but such a decision is yet to be taken, for instance the consumer consent component of a Smart, Secure Electricity System², we have made provision in the budget though that expenditure remains wholly contingent upon the government's decision. Therefore none of the work areas are speculative.

Our Forward Work Plan will focus on:

1. Ensuring REC Services are delivered on time, on budget and to the quality standard required and that there is a clear plan for their evolution and re-procurement as necessary
2. Delivery of REC components of the MHHS programme
3. Data and Digitalisation strategies including that facilitation of Consumer Controlled Data and Consent
4. Theft Reduction Strategy initiatives
5. REC policy initiatives to support market development e.g. more effective Priority Services Registers and potential governance of Heat

We received only one response to the FWP consultation, which focused on the evolution of switching services and supported our approach to pursuing this through the Codes Roadmap rather than as a RECCo project. We have therefore not made any changes to the deliverables contained within the FWP, but have continued to revise the budget forecast for them, as set out in this document.



² See our response to the BEIS consultation [here](#)

2023-24 Budget Overview

The 2023-24 Budget is £50.5m

RECCo, like other businesses, is operating in a period of unprecedented market instability including challenging supply chains, high levels of inflation and wage demands and talent shortages. This is amplified by the current issues facing the energy market. RECCo must respond to these changes in the market, including the needs of REC Parties, consumers and the wider community. We recognise the challenges facing REC funding parties and will, wherever possible, look to minimise the financial impact on them, to the extent that doing so would not compromise our ability to deliver the REC Objectives or meet its financial liabilities. We utilise a bottom-up budget approach and our projections include a modest value of contingency. Other than for the MHHS project, reflecting the early life nature of that project and the emerging RECCo obligations, we have not included any project or service specific contingencies.

We will invoice MHHS costs separately from the RECCo charges and this will allow Parties to clearly identify such costs and make an informed decision as to whether they can be capitalised as an Intangible Asset. As we continue to mature as an organisation we benefit from a better understanding of the nature, volume, and complexity of issues which RECCo is either mandated or requested to resolve and the services and service providers we are required to manage to ensure they deliver quality services economically and efficiently. Greater clarity and transparency has emerged on industry initiatives such as MHHS as well as likely increases in regulatory activities signalled by BEIS or Ofgem.

In our 2022-23 Budget we identified several budget allowances which carried a high degree of estimation risk. These included the allowances for CSS charges, MHHS project costs and the Gas Enquiry Service.

The expected costs for FY 2023-24 show a c21% increase on those which were originally expected for that year. This equates to an additional c£8.9m of which c£8.1m (c90%) is due to higher-than-previously signalled CSS charges and the impact of an expanded remit for MHHS. The balance is due to a combination of Theft and Data projects being deferred from Financial Year (FY) 2022-23, inflationary impacts and the enhanced internal resource requirements needed to fulfil the obligations of a maturing organisation with an expanded scope.

The CSS costs provided by DCC represent a c52% increase on those previously published by them in August 2021³ for FY 2023-24. We used those published costs to inform our original expectations for FY 2023-24. In line with our role as intelligent customer, after having carefully considered the rationale provided to us by DCC we challenged the initial cost estimates of £19.2m. DCC responded in a positive manner to the challenge and through a process of professional dialogue we have achieved a £2.5m reduction in costs. We have also agreed new ways of working for the development of future CSS budgets which will deliver benefit for both organisations and REC Parties. Consequently, the REC Board has accepted the revised CSS 2023-24 Budget and will not refer any elements to Ofgem.

MHHS project costs have increased by c£2.5m from our original expectation for 2023-24. As the MHHS Programme has been revised and replanned, based on the latest available documentation and information from the programme, there has been a material increase in the scope, scale and complexity of REC and REC Service obligations incumbent on RECCo to deliver than originally envisaged in previously available programme documentation and information.

In our Strategy and Forward Work Plan we reported GES costs being higher than expected. We have engaged with Xoserve (Gas Enquiry service provider) to develop a proposal for the re-engineering of the delivery platform which will reduce the overall service delivery costs. Xoserve, in conjunction with its key sub-contractor (Correlia Ltd), has responded in a timely and positive way to this challenge and have provided us with a credible proposal which will deliver cost reductions (c£1m per annum) and improve overall service performance without risk to the end service user. Consequently, the budget now reflects this reduction in cost.

³ DCC Development Plan (smartdcc.co.uk)

Table 1

RECCo 2023-24 Charges by category of funding party.

| Charges by REC Funding Parties | | Annual charge (£) |
|--------------------------------------|------------------------------------|-------------------|
| Energy Suppliers Charge per RMP | | £0.814 |
| Energy Suppliers MHHS Charge per RMP | | £0.05 |
| Electricity Distribution Networks | >750k RMPs on MPAS, annual charge | £38,500 |
| | <750k RMPs on MPAS, charge per RMP | £0.018 |

2023-24 Budget Overview – Continued

RECCo is committed to achieving efficiency in its REC Services and as such we will initiate two REC Services Evolution projects in 2023-24 to identify how best to rationalise the three current enquiry services (Electricity, Gas and Green Deal) and to determine the nature of Code Manager services for the future.

RECCo is not immune to the current “cost of living” crisis and the impacts of high levels of inflation. However, we have been able to partly mitigate the impact by placing fixed price contracts which are not subject to indexation for their initial terms.

We have retained the Change Allowance at the rate expected for the year. The increase in the allowance compared to 2022-23 reflects a combination of RECCo assuming full financial liability for all CSS change costs from 01 April 2023 and the full year impact of the new enhanced enquiry services. All proposed change costs are subject to a series of gated assessments (both by the Code Managers and by RECCo internal processes) to ensure they deliver the requirements and reflect value for money.

In line with its REC obligation to develop budgets on a bottom-up basis, the Contingency Allowance included has been maintained at a modest rate of c4%. This contingency is to mitigate inherent uncertainty in the market and hedge against any future regulatory requirements developed by BEIS or Ofgem and to guard against market instability.

RECCo operates on a non-profit basis with its income matching its costs in each financial year. Any underspend (including change allowance and contingency) against the overall budget is returned to funding parties as a rebate against the following year’s charges. RECCo expects to underspend against its 2022-23 Budget and this underspend will help to mitigate the impact of the increased charges for this year.

Below we set out the 2023-24 Budget with indicative projections for each of the two subsequent years. Also shown for information is the expected projection for the 2023-24 year included in last year’s business plan.

Table 2
2023-24 Budget and indicative projections for following two years.

| RECCo 2023-24 Budget | 2023/24 Expectation in 2022/23 Plan £'000 | 2023/24 Budget £'000 | 2024/25 Indicative £'000 | 2025/26 Indicative £'000 |
|------------------------|----------------------------------------------------|----------------------------|--------------------------------|--------------------------------|
| REC Services | 29,225 | 33,539 | 38,040 | 42,085 |
| RECCo Operations | 4,150 | 5,038 | 5,315 | 5,817 |
| Projects & Workstreams | 2,250 | 5,969 | 6,122 | 4,568 |
| | 35,625 | 44,546 | 49,477 | 52,470 |
| Change Allowance | 4,000 | 4,000 | 4,000 | 4,000 |
| Contingency | 2,100 | 2,000 | 2,000 | 2,000 |
| TOTAL | 41,725 | 50,546 | 55,477 | 58,470 |

REC Services

RECCo is required to provide 17 REC Services and our operational ethos is that we are the accountable service provider to REC Parties and other service users. The key REC Services are described below.

The Code Manager is not responsible for the procurement or management of the REC Services or the service providers. RECCo took on operational responsibility for the full suite of current REC Services at REC v3 publication in July 2022.

RECCo has adopted an outsourced service delivery model. This model enables it to achieve two key objectives. Firstly, service providers are required to deliver against contracts with clear requirements, quantitative and qualitative standards (KPIs) which have financial and contractual consequences for non-performance and to demonstrate continual improvement. To achieve this first objective, RECCo must proactively manage its service providers and to do so it needs an appropriate level of resource capacity and capability which is proportional to its obligations.

Secondly, it allows for periodic procurement of best-in-class service providers wherever possible and (if economically and technically advantageous to do so) as early as possible and as often as required. Our procurement objectives are clear; we will act as the intelligent customer on behalf of industry and procure services that are value for money, scalable and adaptable. We will always strike a balance between innovation and return on industry investment already made.

The costs of the REC services are detailed in the table below. To protect commercial confidentiality individual service provider costs have been anonymised and/or aggregated.

Table 3
REC Services

| RECCo 2023-24 Budget | 2023/24 Expectation in 2022/23 Plan £'000 | 2023/24 Budget £'000 | 2024/25 Indicative £'000 | 2025/26 Indicative £'000 |
|---------------------------------|----------------------------------------------|-------------------------|-----------------------------|-----------------------------|
| Central Switching Service (CSS) | 11,000 | 16,700 | 18,554 | 20,613 |
| Code Manager | 10,000 | 10,010 | 10,713 | 12,184 |
| Enquiry Services | 5,175 | 4,887 | 4,846 | 5,246 |
| Theft Services | 2,400 | 1,004 | 3,104 | 3,210 |
| REC Support Costs | 600 | 692 | 600 | 600 |
| Other Services | 50 | 246 | 223 | 232 |
| TOTAL | 29,225 | 33,539 | 38,040 | 42,085 |



REC Services – Continued

Central Switching Service

From July 2022 CSS operational delivery has been governed by the REC, with RECCo taking on financial liability for the service charges from 01 April 2023. The original indicative costs for 2023-24 of £11m were based on the published expected costs by DCC for switching in their 2021 Business and Development Plan. In December 2022 DCC submitted a draft budget of £19.2m and this was challenged by RECCo. Through a constructive dialogue with DCC the draft budget was reduced by £2.5m and we have also agreed new ways of working with DCC which will allow for review of the costs during the year which may yield further cost savings.

Code Manager

Costs for 2023-24 are not materially different from expectations. This reflects the fixed price nature of the contracts and the management of service change in the prior years. For subsequent years the projections include a small budget allowance to fund the enduring impact of any in-year service changes. The uplift in years 2 and 3 reflect the impact of the indexation charges which apply for the periods after the initial contract term to September 2024. In this budget year we will initiate a project to consider the future Code Manager model and our detailed future procurement plan. This is likely to reflect a staged approach to re-procurement and we will consider the makeup of each service.

Enquiry Services

Reflect the combined costs of the Electricity Enquiry Service (EES), the Gas Enquiry Service (GES) and the Green Deal Central Charging (GDCC) enquiry service. The costs for 2023-24 now reflect the anticipated impact of the savings being achieved by Xoserve and its delivery partner due to a re-platforming of the service. This will be done without impact to the end GES Users.

Like the Code Managers, we are initiating a project in this budget year to plan for the competitive procurement of a future rationalised single enquiry service.

Theft Services

Reflects the costs of the Energy Theft Tip off Service and the associated marketing and awareness campaign. The reduction compared to expectations reflects the deferral of further theft services e.g. data analytics to 2024-25. As part of our Theft Reduction project budget, shown in the Projects section below, we will consider and evaluate the requirement for a theft data analytics service and/or a theft investigation or prosecution service. Each will require a robust business case which demonstrates a positive consumer outcome.

REC Support Costs

Includes allowances for legal review of REC Changes as well as costs of funding independent members of both the Change Panel and Performance Assurance Board. The REC requires RECCo to fund these costs.

Other Services

Includes several sundry data reporting services which are required to support the Performance Assurance Framework as well as an allowance to fund the centralised administration costs for the single metering code of practice auditor procured in 2022.

The Operations team have been sized to enable the effective management of all the listed services. Our portfolio of services includes significant data processing requirements and, in most cases, RECCo is the data controller in the service contract. Consequently, we have allowed for an appropriate level for data and information security expertise in the financial projections.



RECCo Operations

The maturing nature of our services means we are better informed on the level and nature of resource required to deliver our obligations and manage our services effectively and efficiently. We have sized our operational capability and capacity accordingly. Over the planning period our operating costs as a percentage of the total budget remain below 10%. This will only change if there is a material change to our operating environment.

RECCo operational costs include maintaining a fully independent and remunerated Non-Executive Board, infrastructure costs to enable the company to discharge its obligations under the REC and Companies Act, successfully manage and mitigate the commercial and operational risks inherent in its outsourced business model, have the capacity to deliver successful change and effectively and efficiently manage all the REC Services. Over the last year we have implemented a policy whereby reliance on external Subject Matter Experts is reduced and talent and knowledge are developed and retained internally in the organisation for future benefit.

Table 4
RECCo Operations

| RECCo 2023-24 Budget | 2023/24 Expectation in 2022/23 Plan £'000 | 2023/24 Budget £'000 | 2024/25 Indicative £'000 | 2025/26 Indicative £'000 |
|----------------------|----------------------------------------------|-------------------------|-----------------------------|-----------------------------|
| Board Costs | 350 | 328 | 284 | 311 |
| Human Capital Costs | 2,750 | 3,743 | 3,954 | 4,328 |
| Operating Costs | 1,050 | 967 | 1,077 | 1,178 |
| TOTAL | 4,150 | 5,038 | 5,315 | 5,817 |

RECCo must proactively manage its service providers and to do so it needs an appropriate level of resource capacity and capability which is proportional to its obligations. RECCo should be an expert organisation, consisting of employees with a deep understanding and knowledge of the REC Services. This enables internal knowledge development and retention. Alongside this, it should remain current with energy market developments, engage proactively with its stakeholders, manage its finances and commercial arrangements, and set out a Strategy and Forward Work Plan which will achieve the REC Objectives.

The Budget allows for 35 employee roles. In previous governance arrangements several of the functions retained in-house by RECCo were either delivered by the then code administrators or were not required. While the Code Manager service will continue to be the most interacted with by REC Party personnel, RECCo is increasingly becoming an organisation required to deliver data services. Each of the REC Services, except for the Theft Calculator, have data processing requirements, be that commercially sensitive data or personal data. Ensuring consumers interests and data is protected in the operation of the REC is a defined component of the REC Objectives as set in Licence Conditions. For the planning period, our human capital will be structured as follows:



RECCo Operations – Continued

Operations

The role of the operations department is to ensure that each REC Service provider is delivering its services in line with REC requirements and/or contractual obligations and to the required quality standards. The resource model we have established will ensure that each service provider/service function has a service manager lead who will be the expert on the service. Resources will be assigned to reflect the scope and quantum for each service. The effectiveness of our operational service delivery management is evidenced by the recovery of more than £900k of service credits in 2022 coupled with a strong customer satisfaction result reported through the recent independent stakeholder satisfaction survey.

Finance

The role of the finance and commercial function is to ensure that RECCo's finances are managed in an efficient manner to ensure it has the resources available to meet its financial liabilities and deliver its strategy and projects. The commercial function is required to ensure that RECCo's commercial risk is managed, services are procured competitively and, working alongside the operational and transformation teams that all services are delivered to their contractual requirements. In the 2022-23 financial year, the finance and commercial team evidenced the delivery of its obligations through our ability to meet all our financial obligations and liabilities as they fell due, the minimisation of bad debt (<£10k) in 2022-23, the renegotiation of the GDCC service offering delivering c.£600k of cost reduction and the effective execution of the financial aspects of the Theft Detection Incentive Scheme ensuring >99% of monies due into the scheme were collected and paid out to the scheme recipients within 6 weeks. The finance and commercial team led on the CSS and GES cost reductions discussed earlier.

Transformation

Given the nature, complexity and number of data flows and data services for which RECCo is now and will become responsible as Data Controller or Processor, and recognising the extensive and complex GDPR arrangements inherent within the REC, the data management and transformational activities have been consolidated under a dedicated team. This team will deal with increasing data, security and information issues and initiatives which cannot be economically and effectively outsourced to service providers as well as delivering dedicated project management and PMO capability.

Strategy

The role of the Strategy and Development team is to ensure that the REC continues to evolve in order that both the code content and the associated services provided by RECCo anticipate and then meet the changing needs of REC Parties and wider stakeholders in the retail energy market. The team also engages with government and regulators to understand and influence policy relating to or impacting upon the retail energy market. This will include for example the sharing of lessons learnt from Retail Code Consolidation and the competitive procurement of the REC Code Manager.

Corporate Affairs

The corporate affairs function is responsible for leading on RECCo's stakeholder engagement strategy, communications and marketing, HR, people and culture functions within the business. The HR and people function has been brought in-house which is a more cost-efficient solution for the organisation and will ensure there is a continued focus on developing the employees into a highly capable and performing team. To address RECCo's desire to proactively consider the needs and wants of all its stakeholders whilst building trust and confidence and ensuring buy in for the organisation's initiatives, stakeholder engagement capacity has been brought into the business. The communications and marketing function ensures that RECCo's external communications are planned and effective, supported by dedicated internal resource and external agencies for discrete projects.

RECCo's operational and infrastructure costs reflect the day-to-day operational costs of the company and are predominantly by their nature a necessity to comply with legislation, REC requirements or good business risk management practice e.g. audit fees, insurance, training and development, and IT costs. In addition, we actively review our contingency planning arrangements across all our resources.

The projections include an allowance for bad debts. While the REC allows for the socialisation of any bad debts, RECCo works to commercial principles in managing its debtors. Our finance system automatically "chase" overdue debts, material value overdue debts are examined individually with the nominated REC Contract Manager and REC v3 was updated to explicitly identify non-payment as a "REC event of default" which can be referred to the Performance Assurance Board. This may lead to expulsion from the Code. Together these combine to provide commercial incentives for REC Parties to pay their invoices on time and for RECCo financial exposure to be reduced.

Projects and Workstreams

Our Strategy and Forward Work Plan sets out the detail of our four key programmes for 2023-24: MHHS, Data and Digitalisation, Theft Reduction and REC Services Evolution. Alongside these we expect to deliver several further projects. The Data and Transformation team will have responsibility for ensuring a robust project governance structure including delivery of PMO functions. Each programme will have a Senior Responsible Officer who is accountable for ensuring a programme or project meets its objectives, delivers the projected outcomes, and realises the required benefits.

Any change to the assumptions included in the strategy will impact the values attributed to each project or workstream. This section does not seek to replicate the detail provided in the strategy document.

The table below shows the cost of projects for 2023-24 is c£6m and this reflects a material increase on our original expectation for the year. The largest part of the increase is due to an uplift of c£2.5m in MHHS costs due to the expanded scope of that project. The balance of the increase is due to the deferral of data and theft projects from 2022-23 into 2023-24 due to capacity and capability constraints and delay in securing access to theft data sets, and allowances to enable the development of service requirements for industry or BEIS sponsored data initiatives. If the industry or BEIS sponsored data initiatives are not progressed, then those costs will not be incurred.

Table 5
Projects and Workstreams

| RECCo 2023-24 Budget | 2023/24 Expectation in 2022/23 Plan £'000 | 2023/24 Budget £'000 | 2024/25 Indicative £'000 | 2025/26 Indicative £'000 |
|-------------------------------------------|----------------------------------------------------|----------------------------|--------------------------------|--------------------------------|
| Market-wide Half Hourly Settlement (MHHS) | 450 | 2,854 | 3,704 | 2,362 |
| Data Programmes | 350 | 1,100 | 876 | 976 |
| Theft Reduction Budget | 350 | 1,060 | 575 | 575 |
| REC Services Evolution | - | 667 | 679 | 367 |
| REC Policy Initiatives | 250 | 175 | 175 | 175 |
| Other Services | 350 | 113 | 113 | 113 |
| MSC Project | 500 | - | - | - |
| TOTAL | 2,250 | 5,969 | 6,122 | 4,568 |

Market-wide Half Hourly Settlement

As noted earlier, the scale and scope and complexity of both REC changes and REC Service changes and obligations which RECCo is now required to deliver in support of the MHHS programme changed significantly in 2022. The revised budget reflects the level of expert resource required to support and deliver our obligations as well as an estimate of the likely consequential impact on REC services, namely the Electricity Enquiry Service and the CSS. Given the complexity of this project and the associated high level of risk, we have included a specific contingency allowance for this project.

Data Programmes

The full extent of the RECCo role in the guardianship and stewardship of industry data sets within the REC Services and the corresponding impact of GDPR, security and information management has crystalised throughout 2022. The budget allowance includes several data workstreams including delivering of centralised consumer consent for the industry, evolution of the roadmap to enabling open data access for RECCo data sets and a continuing commitment to improving data quality. In the year RECCo will review the REC Services digital architecture and this may result in the need for some system or service variations. An allowance has been included for this work. Also included is an allowance for the development of service requirements for the BEIS driven Secure Smart Energy System (SSES). If either the industry driven consumer consent initiative or the SSES is not taken forward, then the budget allocation for those projects will not be spent.

Projects and Workstreams – Continued

Theft Reduction Strategy

In 2022 we completed the development of a Theft Estimation Methodology (TEM); this provides a data-driven basis upon which industry can assess the current scale of annual energy theft, which the TEM estimates to be c.£1.4 billion. This now informs RECCo’s theft strategy activities for the coming year and central to our programme will be a focus on taking a whole-of-system approach and facilitating greater collaboration between the entities impacted by theft. Inter-alia our programme activities will include: re-establishing a dedicated theft expert group and representative stakeholder forum; significantly raising awareness through education programmes so that consumers and market participants alike are fully aware of the impact of theft as a safety risk, its consequential financial impacts and how to report theft through the Stay Energy Safe campaign run by Crimestoppers; develop theft prevention, detection and response data hub and analytics for the benefit of industry parties; improve the Theft Detection Incentive Scheme administered by RECCo in the short term and a pan-industry code review to better align all theft incentives and disincentives in the long term; and consider the feasibility of improving police focus on energy theft.

REC Services Evolution

RECCo is committed to competitive procurement as often and as early as possible for our REC Services where it is economic to do so. For 2023-24 we have allowed for two projects to establish the first stages of re-procurement of Code Manager and Enquiry Services. These reviews will allow us the opportunity to ensure we are maximizing our use of existing assets but to think more broadly about the future industry requirements. We will engage with stakeholders and the market to ensure we identify the most competitive options available and enable us to take advantage of advances in technical and service delivery capabilities.

REC Policy Initiatives and Other Projects

Reflects a modest allowance for a suite of small research driven projects. Detail on the individual areas is set out in the Forward Work Plan and Strategy. Topic areas for the coming year include Priority Services Register, potential governance of Heat and continuing to support the drive to Net Zero. Each of these areas are, either currently or likely to be in the future, governed by the REC and directly linked to the REC Objectives. None of these projects are speculative.



Change Allowance and Contingency

Table 6
Change Allowance and Contingency

| RECCo 2023-24 Budget | 2023/24 Expectation in 2022/23 Plan £'000 | 2023/24 Budget £'000 | 2024/25 Indicative £'000 | 2025/26 Indicative £'000 |
|----------------------|----------------------------------------------------|----------------------------|--------------------------------|--------------------------------|
| Change Allowance | 4,000 | 4,000 | 4,000 | 4,000 |
| Contingency | 2,100 | 2,000 | 2,000 | 2,000 |
| TOTAL | 6,100 | 6,000 | 6,000 | 6,000 |

Change Allowance

The change allowance for 2023-24 has been retained at the expected level. This shows an increase on the allowance included in prior years reflecting the increased financial obligation for RECCo for its suite of REC Services. From April 2023, RECCo takes on financial liability of changes to the CSS system and the full year effect of the Gas Enquiry and Electricity Enquiry services which went live part way through 2022-23. The change allowance will be used to fund changes to existing REC Services. All proposed changes are subject to a stage gate scrutiny process whereby the requirement is validated, the service provided proposal is tested to ensure it meets the requirements and will deliver value for money and delivers a positive net benefit. All changes are formalised within contract. As of the end of 2022, there are 52 REC Change Proposals under consideration.

Contingency Allowance

RECCo is required to develop its budget on a bottom-up basis. Other than MHHS, we have not included any project or service specific risk premiums in the appropriate budget lines. Therefore, reflecting the inherent instability and uncertainty in the market we have included a contingency allowance of c4%.

