Performance Assurance
Risk Evaluation Methodology (REM)

Version [0.1]

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Version	PAB Approval Date	Change Description	Change Reason
V0.1	N/A	Initial Draft	Initial Creation

Contents

Glossary of Terms

Terms used in this document related to the SEC and the Performance Assurance Framework (PAF) are defined in SEC Section A, Definitions and Interpretations. Other terms that are not included in the SEC, but may require explanation, are listed below.

"Proof-of-Concept" (PoC) is a time-limited period during which SEC Performance Assurance (SEC PA) applies the PAF processes, artefacts and subset of Performance Assurance Techniques (PATs) to a defined, real-world issue in order to test, refine and validate their effectiveness prior to wider implementation. Only the PATs contained within this document will be used for the PoC. An enduring set of PATs will be implemented for the pilot phase of PAF mobilisation, which commences in September 2026.

1. Purpose

Smart Energy Code (SEC) Appendix AW, Performance Assurance Framework sets out the provisions for the SEC Performance Assurance Board (PAB) to implement a Performance Assurance Framework (PAF) on behalf of the SEC Panel. Appendix AW also acknowledges that the PAB shall establish and maintain a risk-based methodology (the "Risk Evaluation Methodology").

The Risk Evaluation Methodology (REM) defines the principles, processes, and analytical framework used to proactively identify, evaluate and assess the significance of SEC Risks to the fulfilment of General SEC Objectives, as recorded in Appendix 1. The purpose of the REM is to drive the identification and prioritisation of material SEC Risks to ensure that Performance Assurance Techniques (PATs) are targeted effectively, ultimately reducing the likelihood and impact of risk materialisation.

The REM underpins the wider suite of SEC Performance Assurance (PA) artefacts, including the Performance Assurance Risk Register (PARR), Performance Assurance Operating Plan (PAOP), Performance Assurance Techniques (PATs) and Risk Management Determinations (RMDs). It also informs the Annual Performance Assurance Report (APAR), which uses REM-driven risk evaluations to explain why particular assurance activities were undertaken, how risk levels have changed over the reporting period, and whether assurance interventions have been effective in their mitigation.

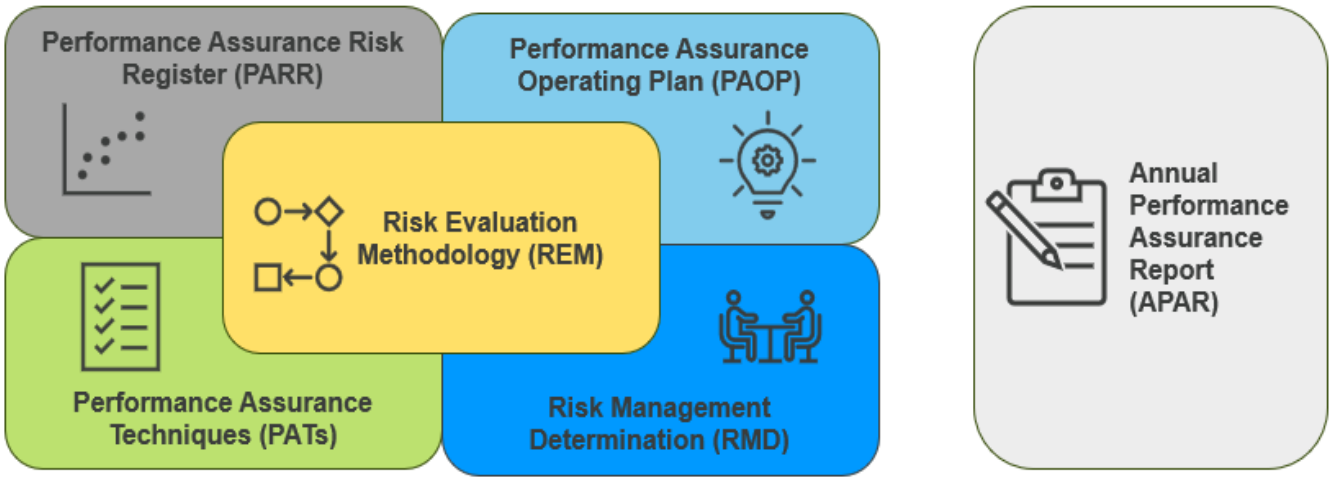

Figure 1 – Performance Assurance Framework

2. Governance and Review Arrangements

Role of the Performance Assurance Board (PAB)

The role of the Performance Assurance Board and its decision-making powers that have been delegated from the Panel are stipulated in SEC Section C Governance (C9 Performance Assurance Board). Appendix AW, Performance Assurance Framework, outlines the PAB's responsibilities for the establishment and ongoing maintenance of the REM. SEC PA will lead the drafting process, seeking input from SEC stakeholders and PAB members via workshops, benchmarking against comparable risk evaluation methodologies and risk management best practice, and ensuring alignment with General SEC Objectives.

Consultation Arrangements

As part of the drafting process, the PAB is required to issue a draft of the REM for consultation. SEC PA will work with the PAB to consider any comments received during that consultation and make any amendments to the draft, where considered appropriate.

Review Frequency and Governance Triggers

The enduring REM will be periodically (at least annually) reviewed by the PAB – in collaboration with SEC PA – to ensure it remains fit for purpose. An exceptional review of the REM can be triggered by:

- Significant changes to General SEC Objectives
- Changes in the risk landscape of market conditions
- Insights from assurance activity indicating gaps or inefficiencies
- A major risk event that hinders SEC Parties from meeting their obligations

Approval, Publication and Transparency

The PAB is accountable for the formal approval of the REM and the publication of the approved version on the SECCo Website. Where material changes have been made to the REM following review, changes will be communicated to stakeholders with accompanying rationale.

3. Risk Management Principles

Core Principles

The PAF is underpinned by the following risk management principles, which guide the identification, evaluation and assessment of SEC Risks through the REM:

- **Proportionality**: Assurance activity will be proportionate to the materiality of the risk to the achievement of the General SEC Objectives. The scale, intensity and frequency of assurance interventions will reflect the likelihood, impact and proximity of a risk materialising, ensuring that resources are focused on those risks that pose the greatest potential detriment to consumers, Parties, or the effective operation of the SEC. Proportionality extends to data requests and reporting requirements, which will, where practicable, utilise existing information and avoid unnecessary burden on Parties.
- **Consistency**: The REM will be applied in a consistent and repeatable manner across all identified SEC Risks and relevant SEC Parties. Common risk information and assessment criteria will be used to support comparability of risks over time and across categories. This consistency ensures fairness, supports robust prioritisation and enables risk trends to be monitored effectively.
- **Transparency**: The risk evaluation process, including the identification of risks, assessment of likelihood, impact and proximity, and decisions relating to prioritisation and mitigation, will be clearly documented and auditable. The rationale for key determinations will be recorded within the PARR. In line with Appendix AW, Performance Assurance Framework, approved versions of the REM and associated outputs will be published, ensuring Parties and other interested stakeholders have visibility of how risks are assessed and managed.
- **Objectivity**: Risk assessments will be grounded in evidence and informed by quantitative and qualitative data wherever practicable. While professional judgement will be applied where necessary, particularly in areas of

uncertainty or emerging risk, assessments will be based on defined and agreed scoring criteria, rather than subjective opinion.

4. Risk Identification Process

In order for SEC Risks to be controlled, they must first be identified. SEC Performance Assurance identifies risks by proactively scanning a range of operational, compliance, and market sources of SEC Risk Data, as well as reacting promptly to notifications from SEC Sub-Committees, Parties, other Code functions, other Code bodies, the Authority, and other stakeholders, to detect actual, emerging, and potential threats to the achievement of the SEC Objectives. Risks can be identified in many ways, including but not limited to:

- **Assurance Insights:** Insights derived from the application of PATs (e.g. SEC Risk Data Requests and Ongoing Monitoring).
- **Compliance Submissions**: Incidents of non-compliance, breaches or failures reported by Parties, including analysis of patterns of non-compliance to identify systemic risks
- **Escalation**: Notifications or reports escalated through SEC governance processes
- **Feedback**: Observations from SEC Parties, SEC Sub-Committees and other stakeholders on the areas they consider posing the main threat to the achievement of the General SEC Objectives
- **Incident Logs:** Evidence of operational incidents, service disruptions or data issues recorded in SEC Party incident logs, including incident frequency, severity and root cause analysis
- **Issues**: Analysis of current and previous issues (e.g., those discussed within the SEC Sub-Committees)
- **Market Intelligence:** Intelligence gathered from industry forums and working groups, market-wide performance trends and media or public interest signals
- **SEC or other Code Modifications**: Review of proposed and approved modifications
- **PAB Direction**: Guidance, recommendations and directives from the PAB on areas where risks have been observed
- **Policy**: Monitoring of government, regulatory and industry policy shifts
- **Sub-Committee Risk Registers:** Engaging with Sub-Committee chairs and Risk Registers.
- SEC Parties: Risks and issues brought to our attention directly by organisation bound by the SEC.

SEC PA will evaluate the completeness, accuracy and timeliness of risk source data, triangulating insights with other sources wherever possible.

Once a risk has been identified, it is recorded for assessment and prioritisation in the Performance Assurance Risk Register (PARR), with the following information:

Category	PARR Field	Notes
Risk Description	**Type**	Risk or issue
	Item ID	A unique numerical identifier for each risk or issue
	Date Raised	Date risk or issue was raised
	Title	A description of the event that would lead to the negative consequence on the fulfilment of SEC objectives
	Description	A description of the risk or issue
	Source	The Sub-Committee where the risk or issue was raised

	Source Information	Corresponding Sub-Committee risk/issue ID(s)
	Primary Category	The area that the risk or issue relates to. Categories include: • Safety • Environment • Reputation • Client & Customer • Asset • Legal & Regulatory • Financial Impact • People • Maintaining Operations of Smart Devices • Install and Commission • Maintaining DCC Service • Other Operational Processes • Security • Strategic
	Relevant SEC Objective	The General SEC Objective is impacted by the risk or issue
	Relevant SEC Process	The SEC process or set of processes to which the identified risk or issue most directly relates, as defined within the SEC Code and its Appendices.
	Relevant SEC Obligation	The specific obligations set out in the SEC Code and its Appendices that are directly associated with the identified risk or issue
	Drivers	A description of the root causes of the risk or issue
	Accountable SEC Parties	The SEC Party responsible for the risk or issue.
	Impact	A description of the consequences of the risk materialising, or the impact the issue is having
	Impacted SEC Parties	The SEC Party(s) impacted by the risk or issue.
Sub-Committee Risk/Issue Scoring	**Current Impact (SC)**	Where the risk or issue has been inherited from a Sub-Committee Register, the 'Current Impact' from the relevant register is reflected here.
	Current Probability (SC)	Where the risk or issue has been inherited from a Sub-Committee Register, the 'Current Probability' from the relevant register is reflected here.
	Current Severity (SC)	Where the risk or issue has been inherited from a Sub-Committee Register, the 'Current Severity' from the relevant register is reflected here.
SEC PA Risk/Issue Scoring	**Current Impact (PA)**	The scale of the negative consequence on the fulfilment of General SEC Objectives, resulting from the risk or issue materialisation, assigned by the SEC PA team. Rated from 1-5 (see '5. Risk Assessment Method' below)
	Current Probability (PA)	The probability of the risk materialising, assigned by the SEC PA team. Rated from 1-5 (see '5. Risk Assessment Method' below). Issues will be assigned a score of 5 by default.

	Current Proximity (PA)	The time horizon of potential risk or issue occurrence, assigned by the SEC PA team. Rated from 1-5 (see '5. Risk Assessment Method' below). Issues will be assigned a score of 5 by default.
	Current Severity (PA)	The overall numerical score assigned to the risk or issue to determine its significance (Likelihood x Impact + Proximity)
	SEC PA Risk/Issue Spread	The breadth of risk or issue impact, expressed, where practicable, as the number of affected Globally Unique Identifier (GUIDs). The value should reflect the best available estimate at the time of assessment and may be expressed as a range where precise data is not available. Where MPANs are not an appropriate measure, an alternative unit of measurement may be used, provided this is clearly stated and justified.
	Classification	Low, Medium, High, Critical. Classification is determined by the severity score. In some cases, it may be appropriate to upgrade/downgrade the Classification based on 'SEC PA Risk/Issue Spread'. In these scenarios, the justification should be documented in the 'Comments'.
Controls	**Determination**	Determination on how the risk or issue should be treated. Determinations include: • Avoid • Mitigate • Transfer • Accept • Monitor • Reduce
	Relevant PAOP Item	Related PAOP activity, and corresponding PATs.
	Comments	A date-stamped log of material changes to the risk or issue entry in the PARR
	Status	The current lifecycle stage of the risk or issue (Open, Closed or In Draft)

5. Risk Assessment Method

SEC PA evaluates the significance of SEC Risks and issues by making an evidence-based assessment of their relative impact, probability and proximity. The purpose of this exercise it to clearly set out the risks to the fulfilment of the General SEC Objectives, the significance of each risk or issue, and to allow the SEC PA and PAB to prioritise effort towards those with the greatest perceived severity.

The mechanism by which risks and issues are assessed is to assign them with a severity score. This is the process of assigning a numerical value to a risk or issue, depending on its likelihood, impact and proximity of occurrence. The 'Likelihood', 'Impact' and 'Proximity' scores will be determined by the SEC PA, based on quantitative and qualitative evidence, including, where applicable, the risk or issue assessment outputs from the relevant Sub-Committee. The overarching 'Current Severity' score is calculated by multiplying the 'Current Impact' score and the 'Current Probability' score and then adding the 'Current Proximity' score. For example, a new risk allocated a 'Current Impact' of '3', a 'Current Probability of '2' and a 'Current Proximity' of '2' would receive an overarching Risk Score of '8' (3x2+2). The higher the 'Current Severity' score, the higher the probability of disruption to the fulfilment of General SEC Objectives.

Impact, Probability and Proximity

Impact is the scale of the consequence of a risk or issue should materialise. It is rated from 1-5, as follows:

Impact Band	Guide
1	**Negligible –** The issue or risk realisation is expected to have no material impact on the achievement of the General SEC Objectives. Any impacts are localised, short-lived and easily corrected, with no significant or measurable detriment to consumers, SEC Parties, market operation or regulatory outcomes.
2	**Minor –** The issue or risk realisation is expected to have limited and measurable impact on one or more General SEC Objectives but does not materially impede their achievement. Impacts may affect a small subset of consumers or SEC Parties, involve low financial or operational consequences, or represent isolated non-compliance that can be readily remedied.
3	**Moderate –** The issue or risk realisation is expected to have noticeable degradation in the achievement of one or more General SEC Objectives. Impacts may affect multiple SEC Parties or a significant group of consumers, persist over time if unaddressed, or indicate weaknesses in controls or processes.
4	**Serious –** The issue or risk realisation is expected to substantially undermine the achievement of one or more General SEC Objectives. Impacts are likely to be widespread, systemic, or prolonged, potentially affecting market confidence, consumer outcomes, data security or regulatory compliance.
5	**Major –** The issue or risk realisation is expected to severely compromise the achievement of the General SEC Objectives. Impacts are extensive, sustained and potentially irreversible without significant intervention. May involve large-scale consumer detriment, major financial consequences, serious regulatory breach, or fundamental disruption to the operation of SEC-governed arrangements.

Probability is the likelihood of the risk materialising. It is rated from 1-5, as follows:

Probability Band	Guide
1	**Very Unlikely** – There is a less than 5% chance that the risk will occur
2	**Unlikely** – There is a 5-20% chance that the risk will occur
3	**Possible** – There is 20-50% chance that the risk will occur
4	**Likely** – There is a 50-80% chance that the risk will occur
5	**Very Likely** – There is a 80-100% chance that the risk will occur. Issues will be assigned a score of 5 by default.

Proximity is the time horizon of potential risk occurrence. It is rated from 1-5, as follows:

Proximity Band	Guide
1	**Remote –** The risk will materialise in >12 months if no action is taken
2	**Distant** – The risk will materialise in 9-12 months if no action is taken
3	**Emerging** – The risk will materialise in 5-8 months if no action is taken
4	**Imminent** – The risk will materialise in 1-4 months if no action is taken
5	**Immediate –** The risk will materialise in <1 month if no action is taken. Issues will be assigned a score of 5 by default.

Once a risk or issue has been identified, assessed and captured in the PARR, SEC PA will determine the next steps and whether further mitigation is required. Where further mitigation is required, SEC PA will identify the appropriate PATs to mitigate the risk, by agreement with the PAB. This will inform the PAOP and RMDs.

Classification & Escalation Implications

Classification is determined by the severity score. In some cases, it may be appropriate to upgrade/downgrade the Classification based on 'SEC PA Risk Spread'. In these scenarios, the justification should be documented in the 'Comments'.

Classification	Weighted Risk Score	Mitigation / Escalation Implications
Low	2 to 8	Monitored via SEC PA regular risk monitoring processes. No immediate escalation to the PAB or additional mitigation is required beyond routine monitoring and periodic review of the PARR.
Medium	9 to 16	Subject to enhanced monitoring and may prompt targeted assurance activity. SEC PA and the PAB consider whether PATs should be applied to prevent escalation. Risks reviewed regularly to assess movement.
High	17 to 24	Require active consideration by the PAB and are likely to warrant the application of specific PATs. Risks are prioritised within the PAOP and may result in RMDs. Escalation to the Panel may be considered where risks are systemic, persistent or indicate material non-compliance.
Critical	25 to 30	Require urgent PAB attention. Immediate mitigating action is required, including the application of robust PATs. Risks are escalated to the Panel where appropriate, and may result in formal notifications, RMDs or recommendations for risk data publication (in accordance with Appendix AW, Performance Assurance Framework).

Reassessment of Risks

Risks and issues are continuously monitored by SEC PA as new information arises. As a minimum, items recorded in the PARR will be reviewed ahead of each monthly PAB meeting. Any material changes to the risk or issue profile will be captured in the PARR 'Comments' field (e.g., adjustments to the 'Current Impact', 'Current Probability' or 'Current Proximity' scores).

6. Outputs and Integration with the PAF

The REM is the foundational artefact for the PAF, defining how risks and issues are identified, assessed and prioritised. The REM determines how SEC Risks and issues are recorded and evaluated via the PARR, which influences the selection and intensity of PATs applied, the PAOP and RMDs. Changes to the REM (e.g., amendments to the scoring criteria) will trigger reviews, and updates where necessary, to the PARR, PATs, PAOP and RMDs so that the full suite of PAF artefacts align with the latest approved evaluation logic.

Reporting

The Annual Performance Assurance Report (APAR) uses REM-driven risk evaluations to explain why particular assurance activities were undertaken, how risk levels have changed over the reporting period, and whether assurance interventions have been effective in their mitigation. Risk dashboards in the SEC Portal (once available) will provide a real-time view of risk information, mirroring risk detail from the PARR

Appendix 1 - General SEC Objectives

a) To facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain
b) To enable the DCC to comply at all times with the General Objectives of the DCC (as defined in the DCC Licence), and to efficiently discharge the other obligations imposed upon it by the DCC Licence
c) To facilitate Energy Consumers' management of their use of electricity and gas through the provision to them of appropriate information by means of Smart Metering Systems
d) To facilitate effective competition between persons engaged in, or in Commercial Activities connected with, the Supply of Energy
e) To facilitate such innovation in the design and operation of Energy Networks (as defined in the DCC Licence) as will best contribute to the delivery of a secure and sustainable Supply of Energy
f) To ensure the protection of Data and the security of Data and Systems in the operation of this Code
g) To facilitate the efficient and transparent administration and implementation of this Code; and
h) To facilitate the establishment and operation of the Alt HAN Arrangements

Appendix 2 – Example Risk & Scoring

Type	Item ID	Date Raised	Title	Description	Source	Source Information	Primary Category	Relevant SEC Objective	Relevant SEC Process	Relevant SEC Ob
Issue	PARR_001	29/01/2026	Incorrect or no Electricity Network Parties certificates	There is an issue that Electricity Network Parties are unable to communicate with ESME devices, nor receive relevant alerts from ESME devices, installed in their Electricity Network Parties region(s). February 2026 Report 'SMKI012_DNO certificate mismatch per supplier' shows that the number of devices with incorrect Electricity Network Parties is 1.15% of the total market estate (c. 225k of 22.2m ESMEs).	OPSG	I008	Install and Commision	a) To facilitate the efficient provision, installation, and operation, as well as interoperability, of Smart Metering Systems at Energy Consumers' premises within Great Britain	Install and Commission (post commissioning obligations)	SEC Appendix AC 'Inventory, Enrolment and Decommissioning Procedures' -Section 5.3

				Sub-Committee Risk Scoring		
Drivers	Accountable SEC Parties	Impact	Impacted SEC Parties	Current Impact (SC)	Current Probability (SC	Current Severity (SC)
Failure of Supplier parties to place the correct Electricity Network Party security credentials on ESME devices during installation and commission (and thereby failing their obligation under SEC Appendix AC section 5.3)	Suppliers	**Unable to realise Smart Meter benefits.** This may result in failure to identify potential, or actual, health and safety risks associated with ESME devices, thereby causing consumer detriment. Electricity Network Parties are unable to deliver consumer and system benefits. Electricity Network Parties may be required to send out emergency calls for prepayment customers.	Electricity Network Parties	2	5	10

SEC PA Risk Scoring									
Current Impact (PA)	Current Probability (PA	Current Proximity (PA)	Current Severity (I	SEC PA Risk/Issue Spre	Classification	Determination	Relevant PAOP Item	Comments	Status
2	5	5	15	225k ESMEs (based on February 2025 Report 'SMKI012_DNO certificate mismatch per supplier')	Medium	Reduce			Open