



Committee and Date

West Mercia Energy Joint
Committee

29th November 2021

Item

7

Public

RISK MANAGEMENT UPDATE

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1. Summary

- 1.1 The purpose of this report is for the Joint Committee to receive details of all medium and high risks in accordance with the WME Risk Management Strategy. This report has been updated from the report submitted to the September Joint Committee.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment the medium and high risks presented.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

4. Financial Implications

- 4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

5. Background

- 5.1 A report was submitted to the September Joint Committee but due to illness to WME staff at the time of the meeting it was agreed that this item be deferred to this meeting. As a result the key risks have been reconsidered and the report updated.
- 5.2 The WME Risk Management Strategy is reviewed and presented to the Joint Committee on an annual basis. This was presented and endorsed by the Joint Committee in February. WME Risk Management Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting.
- 5.3 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of seventy six highlighted risks.
- 5.4 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.
- 5.5 The table below identifies the six current high and medium risks, the one medium risk from the last meeting that now has a lower rank and the change in rank levels from the last meeting.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
Current High and Medium Risks							
1	Market conditions leading to less competitive prices / high year on year price rises	Gareth Maude	4	3	12	Medium	Increase
2	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	3	15	Medium	Increase
3	Breach of product tolerance levels	Gareth Maude	4	5	20	High	Increase
4	Breach of trading risk levels	Gareth Maude	4	5	20	High	Increase
5	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No change
6	Loss of key staff	Nigel Evans	3	4	12	Medium	No change
Previous Medium Risk							
1	Loss of external customer contracts due to natural competition	Nigel Evans	3	3	9	Low	Decrease

L – likelihood of the risk
I – impact of the risk

- 5.6 The key driver affecting the increase in rank levels of the first four identified risks is the energy commodity market conditions we have experienced over recent months. Gas and electricity prices have increased significantly since March and have traded at unprecedented levels - the market commodity prices for gas for the 21/22 delivery period have risen by over 380% by the start of October and for electricity by 250%.
- 5.7 In addition, Day Ahead gas prices (the price of gas for delivery tomorrow) have traded consistently above £1 per therm since the end of July rising to above £2 a therm in October. To put these levels into context gas Day Ahead rates have only

been above £1 a therm on six separate days since 2011 so the consistent high levels we have seen are truly exceptional.

- 5.8 With the gas Day Ahead prices currently so high, the rank of the risk associated with the gas cash out (Ref 3 in the table above) has been increased. Should consumed volumes be greater than those procured (e.g. where the winter is colder than the norm) then these additional volumes would be bought at the Day Ahead rates leading to additional costs. This risk is being closely monitored by the business and mitigated where possible by procuring additional volumes for the remaining months of the financial year where it is considered necessary. By doing so this does increase the risk of breaching risk levels hence why the risk has been increased for Ref 4 in the table also.
- 5.9 As a result of the exceptional market conditions experienced by the business and potential financial impacts on the trading results for the current financial year, it has been considered prudent to defer any approval of the distribution of surplus relating to the financial year 2020/21 to March.
- 5.10 The risk relating to the loss of key staff has been reassessed also with the status increased but the rank remaining at the medium level. A review of the structure of the business is currently being considered in order to mitigate this risk, build in greater resilience and strengthen for further growth.
- 5.11 The WME risk register identifies a number of risks relating to the supply of green energy and currently through the proactive work conducted the risks have been classified as low but continued focus will remain on this key area.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Joint Committee 28th September 2021 – Risk Management Update

Joint Committee 2nd March 2021 – Risk Management Update

Member

Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices

None