Balancing and Settlement Code

BSC Sandbox Procedure

Version 0.10

Date: P362 implementation date

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BSC Sandbox Procedure

1. Reference is made to the Balancing and Settlement Code and, in particular, to the definition of "BSC Sandbox Procedure" in Section H.

2. This document is effective from XX July 2018.

3. This document sets out binding guidance for applications for derogation according to Section H of the Balancing and Settlement Code.

4. This document has been approved by the BSC Panel or its relevant delegated BSC Panel Committee(s).

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Amendment Record

Version	Date	Description of Change	Changes Included	Mods/Panel/Committee Refs.
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Contents

1 Introduction 5

1.1 Purpose and Scope of this document 5

1.2 Main Users of the Procedure 5

1.3 Balancing and Settlement Code Provision 5

1.4 Acronyms and Definitions 5

2 The BSC Sandbox 6

3 The BSC Sandbox Application Report 7

4 BSSCo role 9

5 Sandbox Eligibility criteria 11

6 Conditions on Derogations 12

7 Transition and Exit 13

8 Reporting and Monitoring 14

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1 Introduction

1.1 Purpose and Scope of this document

The purpose of this document is to set out the process that the BSC Panel, BSCCo and applicants should follow with respect of Sandbox applications in accordance with Section H of the BSC.

1.2 Main Users of the Procedure

This document should be used by:

- Sandbox Applicants;
- BSC Parties;
- BSCCo; and
- the BSC Panel.

1.3 Balancing and Settlement Code Provision

This document has been produced in accordance with the provisions of the BSC and in particular Section H. In the event of an inconsistency between this document and the provisions of the BSC, the provisions of the BSC shall prevail.

1.4 Acronyms and Definitions

Any capitalised term that is not defined in this document shall have the same meaning given to it as in the Code.

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2 The BSC Sandbox

The BSC Sandbox enables limited pre-competitive trials of potentially innovative products or services in a live market environment. It achieves this by allowing BSC Parties to participate in the BSC Trading Arrangements with certain obligations removed or altered (a derogation). The details of the alteration will be specific to the BSC Party involved and include a number of limitations, including on time.

Applications for the BSC Sandbox must set out the BSC Obligations the Sandbox Applicant is seeking to change, what benefit that will bring, and how long is needed for the trial. An applicant does not need to be a BSC Party to apply to the Sandbox, but would need to accede to the BSC before any trial commences.

Derogations can be applied for by all BSC Parties and non-parties with innovative ideas, excepting BSCCo or any related company [and the Transmission Company]. While a non-party can be granted derogation from aspects of the BSC, that derogation will have no effect until they have acceded to the BSC. Once acceded, the recipient of the derogation will be subject to all BSC Obligations except those from which they have received derogation.

Each derogation granted is in effect a time-bound project to trial an innovative product or service. Following the expiration of the derogation, projects must transition to BAU either by becoming fully compliant with the BSC or by raising and implementing a Modification to make the alterations permanent and open to all BSC Parties.

BSC Sandbox Applications must be raised to the Authority, who will consider whether to forward the Application to BSCCo for progression under this Procedure. This enables the Authority to coordinate applications which have an impact on more than one Code, or on both Codes and Licenses.

BSCCo will then assist in processing the request for consideration by the BSC Panel. BSCCo will also act as a critical friend to Sandbox Applicants prior to submissions. The BSC Panel will make a recommendation on whether or not to grant a derogation (and whether any conditions should be applied) to the Authority. The Authority will then consider the recommendation and make a decision on whether or not to grant a derogation.

The BSC Sandbox application is **not** a way of evading the rules of the BSC, and all applications will be assessed against the eligibility criteria set out in this document, the foremost of which is how the Sandbox application would better facilitate the Applicable BSC Objectives.

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3 The BSC Sandbox Application Report

When the BSC Panel is making a decision on a sandbox application, it must have sufficient information to make a robust decision in accordance with BSC Section H10.2. Collectively, this information is referred to as the BSC Sandbox Application Report, defined as per BSC Section H10.2.4(d).

The following information must be provided to BSCCo (and subsequently to the BSC Panel) in order that derogation can be granted in respect of an approved BSC Sandbox application. BSCCo will collect and collate this information and issue it to the BSC Panel in advance of the BSC Panel meeting making a decision.

3.1.1 Project information

The BSC Panel must be provided with

- information about the applicant, primarily;
  - Organisation name;
  - Organisation address
  - Contact name;
  - Contact details.
- the project the applicant is proposing,
- what the applicant hopes to learn by carrying out the trial, and
- how a Sandbox Application meets the Sandbox Eligibility Criteria set out in Section 5 of this document.

3.1.2 Derogation information

The BSC Panel must be provided with details of the derogation being requested. The details must include

- sections and paragraphs of the BSC being requested for derogation,
- why it is necessary to derogate from those sections of the BSC,
- the minimum duration required for the derogation, and
- the minimum scope[1] required for the derogation.

3.1.3 Risk assessment

BSCCo must provide the BSC Panel with an assessment of any risks to Settlement which could be caused by granting the requested derogation. This assessment should include any appropriate controls or mitigations for the risks identified.

3.1.4 Impact assessment

BSCCo must provide the BSC Panel with an assessment of any impacts to other Parties which could be caused by granting the requested derogation. This must include representations from other BSC Parties and interested third parties made to BSCCo.

[1] Where scope refers to the conditions that can be placed on derogations by the Panel, see Section 6

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Representations will be invited by BSCCo in a consultation process prior to providing to the BSC Panel.

3.1.5 Reporting plan

The applicant must provide the BSC Panel with a plan of how they will report on progress, via the Authority who will coordinate those reports.

3.1.6 Administration Costs

In the event that BSCCo would incur Sandbox administration costs (for example by having to implement and maintain a manual workaround to support a derogation) those costs may be passed on to the Derogation Party.

BSCCo must prepare a summary of these costs and any proposed fees for the BSC Panel. BSCCo will seek to provide an accurate estimation of costs, and minimise or eliminate them where possible.

BSCCo may also require payment of a fee to cover the costs of processing an application. This is a standard fee approved by the BSC Panel from time to time and published on the BSC website.

3.1.7 Transition Plan

The Sandbox applicant, in collaboration with BSCCo, must produce a plan for transitioning back to full compliance with the BSC in the event of derogated project success or failure, including failure prior to the end of the Derogation Period. In particular, the Transition Plan should ensure that any involved third parties, particularly consumers, remain protected, and that Settlement is not impacted.

The Transition Plan will include provisions for any extension to the Derogation Period due a Modification having been raised during the Trial Period, as outlined in Section H10.5 of the BSC.

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4 BSSCo role

Once the Authority has determined that derogation of the BSC may be required and BSCCo input is necessary, BSCCo has a number of responsibilities when processing an application.

4.1.1 Risk assessment

BSCCo must provide an assessment of risk to Settlement of granting the requested derogation. The purpose of this risk assessment is to determine whether granting the derogation would create circumstances which could cause material disruption to the ongoing processes covered by the BSC.

Additionally, the assessment should identify whether, by granting the requested derogation, the Derogation Party would not be subject to some requirement which would undermine an enduring implementation (for example a derogation predicated on avoiding some otherwise applicable charge would not be representative of an enduring implementation).

4.1.2 Industry impact assessment

BSCCo must consider the impacts on other BSC Parties of granting the requested derogation. Before the derogation request is submitted to the BSC Panel, this impact assessment must be consulted on for a minimum of 10 Working Days. The purpose of this impact assessment is to determine whether there are any impacts to other BSC Parties. The assessment will not invite comment on the merits of the proposal. BSCCo must also invite any other interested third parties it considers necessary to provide a statement of the impact of the Sandbox Application on them.

BSCCo must summarise the responses of this consultation and provide them to the BSC Panel for consideration when making a recommendation on derogation.

4.1.3 Assessment of application

BSCCo must provide an assessment on the application ahead of the BSC Panel meeting to discuss the recommendation. This assessment must include BSCCo's views on whether;

- the application meets the Sandbox Eligibility Criteria;
- the provisions of the BSC from which derogation has been requested are correct and complete with regards fulfilling the need of the applicant;
- the Trial Period requested by the Applicant is the shortest period needed to test the proposal.

4.1.4 Assessment of fees

BSCCo must assess what fees should be paid, if any, to account for the reasonable costs of administering a derogation. These administration costs are distinct from any fee for processing an application.

4.1.5 Previous applications

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BSCCo must make the BSC Panel aware if an application is materially similar to an application which has previously received derogation via the sandbox process.

4.1.6 Accession to the BSC

BSCCo will process accession to the BSC for non-BSC Parties granted derogations according to the normal market entry processes, except in circumstances where market entry rules are the subject of derogation.

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5 Sandbox Eligibility Criteria

Decisions to recommend derogation to the Authority must be made according to the Sandbox Eligibility Criteria. BSC Section H10.2.6 (a) makes specific reference to the BSC Applicable objectives, and there are a number of other provisions which the Panel must have regard to when considering applications (BSC Section 10.2.6(b). The Panel retains discretion to make other considerations when making a decision on recommending derogation. Applicants are not expected to make consideration of these criteria. Additional criteria include;

- That granting the derogation does not pose undue risk to Settlement;
- That granting the derogation does not have material impact on other BSC Parties (other than by prior agreement e.g. a partnership or consortium);
- That the derogation request has reasonably assessed the minimum scope and timeline required to effectively trial the project;
- That the derogation being requested is not materially similar to a derogation which is currently in force;
- That, while always considering applications against the current baseline, any imminent changes to the BSC would not make the derogation nugatory or inoperable; and
- Any other criteria that the Panel deem relevant to the Sandbox Application.

Some sections of the BSC are unlikely to meet the requirements for derogation in any circumstances. The following (non-exhaustive) list of requirements would likely result in undue risks to Settlement if derogated;

- Payment of BSC charges
- Registration of Metering Systems
- Accurate metering
- Posting Credit Cover
- Invoicing and Payment of Settlement and trading charges
- Being subject to Trading Disputes
- Being subject to performance assurance.

While the actual BSC Obligations on a BSC Party are unlikely to be derogated, the manner in which the obligations are discharged, where specified, could be subject to derogation.

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6 Conditions on Derogations

Depending on the nature of the derogation being requested, the Panel may apply conditions to derogations before making a recommendation to the Authority. The purpose of such conditions is to limit the risk and impact of derogation to the normal operation of Settlement and to other BSC Parties.

Each derogation will be subject to a limit on the amount of time it is applicable for, up to the maximum time limit – [2] years for the Trial Period and [3] years for the Transition Period. The Panel may also recommend limits on;

- The total number of customers/MSIDs involved in the trial;
- The geographical area of the trial (e.g. single GSP, single feeder, single site);
- The meter classes that can be engaged in the trial;
- The total average consumption/generation of the MSIDs involved in the trial; and
- Any other parameters relevant to the derogation being requested.

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7 Transition and Exit

There are two possible outcomes from BSC Derogations:

1) raising a Modification to the BSC; or
2) returning to business as usual operation in compliance with the BSC (without derogation).

When there is a desire to make the derogated arrangements permanent, a Modification must be raised to make the change to the BSC. The Modification can be raised at the end of the trial period, or during the trial period if the Derogation Party (or an interested other BSC Party) is satisfied that the conditions for raising a Modification have been met.

Depending on the nature of the trial, it may not be efficient or practical to end the trial while the Modification is underway. Provided there is a Modification active to make the arrangements of the derogation open to all BSC Parties, and the trial period has ended, the project may enter the agreed Transition Period.

During the Transition Period, the Derogation Party can request an extension until the earlier of the related Modification being implemented, or reaching the time limit on the Transition period provided for in BSC Section H10.5.2. This extension would be terminated early in the event of a Modification being rejected or withdrawn, at which point the exit plan would apply as it may not be possible to end the derogated project immediately. All other aspects of the derogation remain the same as in the trial period, including the scope and any conditions.

The Transition Plan agreed in the Sandbox Report must include a plan to exit in the case of project failure or timeline expiry. Conditions for early failure could include project failure, early cessation due to breach of conditions, company failure or Modification withdrawal/rejection. The plan must provide a process for returning all derogated elements to compliance with the BSC without derogation in a reasonable amount of time.

The time limit of a derogation would not ordinarily be able to extend beyond that agreed when the derogation was granted, or as requested in line with the Transition Period. In exceptional circumstances, an applicant may request an extension to this time period. The Panel would make a recommendation based on their assessment of the exceptional circumstances and refer to the Authority for a decision on extending the derogation timeframe.

The consideration of exceptional circumstances is at the discretion of the BSC Panel (for the purposes of recommendation) and the Authority (for the purposes of decision making). Extensions are always subject to the maximum derogation time period specified in the BSC.

Derogation Parties may exit the BSC according to the BSC exit process and the Transition Plan in the event they end the trial before the end of the Derogation Period.

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8 Reporting and Monitoring

Sandbox Applicants must provide the Panel with reports on their progress. These reports may be coordinated centrally by the Authority, to ensure minimum reporting burden on applicants and maintaining a coordinated approach to reporting across different derogation procedures, and in particular between the BSC derogation procedure and the regulatory sandbox operated by the Authority.

The reports will be published to ensure learnings from the derogations can be shared across the industry. Elements of the reporting may be commercially sensitive. In this case separate reports should be created, with one containing all information required by the Panel to monitor progress of the derogation and another with commercially sensitive information redacted for publication.

The frequency and content of these reports will form part of the derogation. With regards derogations granted to the BSC, the reports must contain;

- Information on the success/failure of the project
- Progress against key milestones as agreed in the derogation request
- Whether the project is impacting against the Applicable BSC Objectives
- Relevant information pertaining to conditions imposed on the derogation (e.g. number of meters enrolled in the project)
- Any other such relevant information as recommended by the Panel and agreed by Ofgem when granting the derogation

BSCCo may determine that it is necessary to monitor progress of the derogated project using other such means as may be available, including the utilisation of Performance Assurance techniques. This might be necessary where there is, for example, a particular risk to settlement or other Parties if the project deviates from the agreed parameters.

Additionally, BSCCo must produce a lessons learned report from time to time. This report must contain

- Metrics relating to participation in the sandbox
    - Number of derogations granted (and currently active)
    - Number of Modifications raised following derogation
    - Number of failed projects
- Number of derogations terminated due to approved Modifications
- A summary of live and recently ended derogations
- BSCCo's view of whether the programme is delivering against the Applicable BSC Objectives
- Any other information or metrics that the Panel or BSCCo determine are relevant for the report

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