

TCMF Pre-reading

To be considered in advance of meeting on 13/02/2019

In advance of this month's meeting, we'd like to share with you our CUSC Sandbox proposal slides.

We hope that by sharing this in advance you can read through the proposal and think about the following questions.

- Do you foresee any issues or gaps in the proposed option (what and how)?
- Do you agree with a principles-based approach to sandbox derogation?
- Are the potential guiding principles sufficient in scope?
- Do you have any other comments or observations?

CUSC Sandbox proposal

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Enabling innovation through a sandbox approach



- Ofgem launched its Innovation Link in December 2016.
- The initiative also introduced a regulatory sandbox for small-scale innovative propositions to be trialed in a real-world environment without some of the usual regulatory rules applying.
- 3 sandbox projects supported 2017
- 4 sandbox projects supported 2018
- The scope of this sandbox is limited by Ofgem's remit and does not extend to industry codes.



- P362 implemented August 2018, introducing an electricity market sandbox in the BSC.
- Enable pre-competitive or proof of concept testing for innovative products/business models in the live BSC Settlement environment.
- Concept of derogation existed in the BSC, but was ring-fenced to particular areas of the code.
- Anyone (other than Elexon) can apply for exemption from specific BSC obligations for a fixed time period at a small scale.

4 September 2018 Ofgem approved the addition of a new Principle 14 to the CACoP which requires Code Administrators to support energy innovation through the wider adoption of the sandbox approach.

Current state and defect

The concept of derogation from the existing regulatory framework does not exist within current CUSC arrangements, nor does a regulatory sandbox process.

The absence of these processes means CUSC and non-CUSC parties may face barriers to the development / testing of innovations within the electricity market.

The only option participants currently have is to raise a CUSC Modification to facilitate their exemption from CUSC obligations which would otherwise prevent their trial.

The facilitation of innovative products or services via the prescribed Modification process would likely be protracted and resource intensive for industry and the Code Administrator.



Proposed option

Introduce a regulatory sandbox in the CUSC to give industry participants the ability to request derogation from relevant CUSC obligations to test and develop new products, processes or services in a live environment.

Proposed option

WHAT

- Embed the concept of a derogation and introduce an appropriate process to support the operation of a sandbox
- Derogations can be applied for by all CUSC Parties and non-Parties with innovative projects
- Non-Parties required to accede to the CUSC before derogation comes in to effect
- Any derogation granted is temporary and of a fixed duration
- Ofgem act as the coordinating body and receive and assess information from applicants in the first instance, as per CACoP principle 14

HOW

- Principles-based approach to derogation
- Change to Section 8 to facilitate process and new defined terms (i.e. Sandbox Derogation, Sandbox Report)
- Applicants required to demonstrate how the proposed innovative project better facilitates applicable CUSC objectives
- As Code Administrator, ESO facilitates sandbox and associated governance processes
- CUSC Panel review the sandbox report and make a recommendation to Ofgem
- Ofgem make a final decision on whether or not to grant a derogation

Potential guiding principles

1. Applications to facilitate trials of an identified process improvement and/or innovative approach to current practice are encouraged and should offer identifiable direct or indirect benefits to wider industry and consumers, such as a reduction in time and cost.
2. Sandbox projects should show demonstrable benefit to the better facilitation of the Applicable CUSC Objectives.
3. Any provisions related to charging methodologies and User Commitment Methodology and to codified obligations to pay transmission charges and/or securities would be protected and made exempt from derogation in any circumstances.
4. Any provisions related to requirements that have originated from outside the CUSC and that have a higher legal standing cannot be derogated in practice. CUSC derogation should have no effect on compliance with the following non-exhaustive list of provisions and requirements:
 - (i) any Licence conditions
 - (ii) any other Industry Code
 - (iii) any relevant European Legal requirement
 - (iv) any relevant UK primary legislation
5. Where the derogation being requested is materially similar to an area already under consideration as part of a wider industry, Government and/or Ofgem-led review, and would likely conflict and make the derogation invaluable or inoperable, it would not be appropriate to grant the derogation request.

8 * Guiding principles are not exhaustive nor exclusive. Broad in formulation to permit CUSC Panel and Ofgem to assess applications on a case by case basis.

Feedback and questions

- Do you foresee any issues or gaps in the proposed option (what and how)?
- Do you agree with a principles-based approach to sandbox derogation?
- Are the potential guiding principles sufficient in scope?
- Do you have any other comments or observations?

If you wish to provide any additional feedback after TCMF please contact sarah.york@nationalgrid.com