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Email: [sandbox@ofgem.gov.uk](mailto:sandbox@ofgem.gov.uk)

Date: 18/02/22

Reference number: ERS/007

Dear Mr Presley Abbott

### **Sandbox derogation from the Balancing and Settlement Code**

In accordance with paragraph 10 of Section H (General) of the Balancing and Settlement Code (BSC) this letter sets out the decision of the Gas and Electricity Markets Authority (the "**Authority**") to grant Centrica Business Solutions UK Optimisation Limited (company number 08355344, BSC ID CENDEPUK) on behalf of Centrica PLC, Company number 03033654 (the "**Party**"), a temporary derogation from requirements of the BSC, specifically:

- Section K paragraph 8.1.2(b).
- Section S paragraph 10.4.3.
- BSCP503 paragraph 3.4.2.3B.

The direction is attached to this letter and will be published on our and Elexon's websites. The direction is effective from 01/09/22 until 31/08/24, unless revoked earlier or varied in writing by the Authority. Any change in circumstances relevant to the direction must be reported to the Authority and Elexon (the BSC Code Administrator) without delay. Elexon will advise the Authority about any response required in the event of a change in circumstances.

The BSC provides temporary sandbox derogations for pre-competitive innovation projects. At the end of the derogation period, the Party (or another Party) could raise a modification to permanently change the BSC. Alternatively, the scheme must revert to pre-trial arrangements.

### **Background to the derogation / direction request**

The [Energy Regulation Sandbox](#) was designed to support innovators in trialling and bringing to market new products, services, methodologies and business models. The Sandbox toolkit includes the BSC Electricity Sandbox, which can be applied for in combination with or separate from the other Sandbox tools.

The Authority received an application from the Party on 23/06/21 for a derogation(s) from the requirement for assets utilised by a Virtual Lead Party (VLP) to be located on Half-Hourly (HH) settled sites. The requirement for sites to be HH-settled enables validation of the delivery of services, and ensures adjustments made to the volumes of the site's Supplier are accurate. However, the Party believes this derogation would enable greater participation in the Balancing Mechanism (BM) from customers not currently HH-settled, and for other customers who may not have access to HH settlement in the near future.

Derogation are sought from BSC Section K (Classification and Registration of Metering Systems and BM Units) to enable the utilisation of assets located on non-HH-settled sites in a Secondary Balancing Mechanism Unit, and from provisions in BSC Section S (Supplier Volume Allocations – SVA), and BSC Procedure 503 (HH Data Aggregation for SVA Metering Systems).

Centrica believes the trial will demonstrate benefits of the derogation for BSC Objectives (a) the efficient discharge by the National Electricity Transmission System Operator (NETSO) of its Transmission Licence obligations and (c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting competition in the sale and purchase of electricity. This is on the basis of bringing assets into the BM that would not otherwise be able to participate, providing National Grid Electricity System Operator (NGESO) with a greater range of options to balance the system, and increasing competition for the provision of services.

In accordance with the relevant provisions of the BSC and as explained in the [Energy Regulation Sandbox Guidance](#), Elexon has undertaken a detailed assessment of the Party's sandbox derogation application. This has involved assessing risks to the BSC's operation and other participants, and consulting with industry and other interested third parties, as applicable under the terms of the BSC.

### **Recommendation of the BSC Panel**

The BSC Panel considered details of the operation of the trial, including:

- How delivery of services to the BM would be determined.
- How often asset meters would be read.
- The applicability of non-delivery charges.
- Impact on the settlement volumes of Suppliers.

The BSC Panel was concerned about the potential distortive effect of the trial on Grid Supply Point (GSP) Group Take and Group Correction Factors. Analysis performed by Elexon indicates that the effect should be small, but the BSC Panel has requested specific reporting on this element to monitor the effects in practice.

The BSC Panel recommended that the Party's derogation request be approved, subject to a restriction on the total capacity of participating assets to 2.5MW, and specific annual reporting requirements (see reporting section below).

## Our decision

Based on the information provided by the Party, the assessment undertaken by Elexon and the BSC Panel's recommendation, and having regard to our principal objective and statutory duties, the Authority has decided to grant the requested derogation.

- We agree that the derogation request meets BSC Objectives (a) the "efficient discharge by the NETSO of the obligations imposed upon it by the Transmission Licence" and (c) "promoting effective competition in the generation of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity".
- We consider that the proposed trial meets the eligibility and desirability requirements of the Energy Regulatory Sandbox.
- Overall, we consider the methodology to be trialled could provide a solution for consumers at risk of being marginalised from opportunities arising from a smart, flexible electricity system to participate sooner than mainstream market changes may enable, and for expanding the market of flexible assets competitively available to NGESO.

The Party must comply with the BSC Sandbox Derogation requirements as set out in Section H10 of the BSC. In addition, the following specific conditions are stipulated:

- a) Trial scale: the total capacity of participating assets is limited to 2.5MW. Subject to the trial's first year performance, the Party may request that the threshold be increased for year two; the BSC Panel will assess and make a recommendation to Ofgem.
- b) Consumer harm: no consumer participating in the trial shall experience financial detriment arising from load-shifting or other trial activities. The Party will provide Ofgem and Elexon with a methodology for managing this risk, operating on the basis that the avoidance of negative load-shifting will be sought as a first order principle, and, where not possible, swift mitigation measures that recompense consumers.
- c) Consumer engagement: many of the consumers involved in the trial may experience fuel-poverty or be in vulnerable situations. It's critical the trial has a clear engagement and communication plan that's responsive to each customer's circumstances, across the trial's set-up, delivery and exit phases. It must be clear to consumers who they need to contact when they have questions or concerns. The Party is required to provide Ofgem and Elexon with an appropriate plan, reporting on its implementation.
- d) Smart meters: we do not expect the trial to become a barrier to the installation of smart meters in participating dwellings, particularly with progress in deploying the Alt HAN solution, or suppliers' compliance with their smart metering licence obligations.

The derogation only applies to the provisions summarised above and set-out in the attached direction. The Party is required to comply with all other relevant BSC provisions and requirements.

## Reporting

The Party will provide monitoring reports on a quarterly basis for up to 2 years in a format to be agreed with Ofgem and Elexon. On approval of this derogation, the Party will provide Ofgem with a detailed trial delivery plan, against which quarterly reports will be submitted (the first monitoring report is due 3 months after the trial's initiation).

The quarterly report will provide a general update on progress, noting variations against expectations and any material issues that arise, including those related to the trial conditions set-out above. In addition, the 4<sup>th</sup> quarter report will operate as an annual project report, and include additional information as directed by the BSC Panel and set-out in its [assessment report](#) to Ofgem:

- Number of instructions.
- Value to NGESO.
- Delivered versus expected results.
- Learning about the controllability of assets.
- Adaptations to dynamic parameters for the assets in question.
- Cost of the derogation.

Elexon will also review delivery of the trial with the Party after the first winter period (Q1 2023), providing information to the BSC Panel.

To help Ofgem and Elexon assess the effectiveness and usefulness of the Sandbox service the Party will respond to a digital survey (for completion after 6, 12, 18 and 24 months from the date of approval) seeking views on the quality and relevance of the services provided.

The Party will also complete an evaluation (self-assessed or independent) of the impact of the relevant product, service or methodology covering:

- a) Its effectiveness in meeting the customer's needs and delivering good consumer outcomes, including (but not limited to) insights about consumer behavioural change.
- b) The key insights gathered affecting the development / delivery of the innovation, including (but not limited to) experiences, opportunities and issues related to elective HH settlement arrangements.
- c) Any insights garnered which are relevant to energy policy and regulation, residing within the spheres of responsibility of the BSC, other Codes, Ofgem, BEIS or another party.
- d) That information the Authority and / or Elexon can publish, which can be used to inform policy development, and that which is commercially confidential, and to be protected.

The evaluation report will be submitted to Ofgem and Elexon within 12 months of the trial's completion, in a format to be agreed with Ofgem. This report may be combined with other required reports, if agreed by Ofgem and Elexon.

Where the scheme is delivering products, services or methodologies similar to another Sandbox supported scheme or where it is targeting customers with similar characteristics, Ofgem and / or Elexon may require that the Party participate in a parallel comparative evaluation. To aid these studies, the Party will ensure that permission is procured for Ofgem and / or Elexon (or an appointed third party) to engage with the Party and the Party's customers (including energy consumers).

If you have any questions about this decision, please contact Ofgem's Innovation Link team, at [sandbox@ofgem.gov.uk](mailto:sandbox@ofgem.gov.uk), ensuring you copy in the BSC sandbox coordinator: [BSC.Sandbox@elexon.co.uk](mailto:BSC.Sandbox@elexon.co.uk).

Yours sincerely



**Meghna Tewari**  
**Head of Retail Market Policy**

Cc:

- BSC Chair.
- BSC sandbox coordinator.

**Direction issued by the Gas and Electricity Markets Authority under Section H10 of  
the Balancing and Settlement Code (BSC) to Centrica Business Solutions UK  
Optimisation Limited**

**To: Centrica Business Solutions UK Optimisation Limited (company number 08355344, BSC ID CENDEPUK) on behalf of Centrica PLC, Company number 03033654, "the Party"**

1. The Authority issues this direction pursuant to Sections H8 and H10 of the Balancing and Settlement Code (BSC).
2. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the BSC.
3. Section H10 of the BSC provides that the Authority may issue directions relieving the Party of its obligations to comply with specified parts of the BSC to such extent and subject to such conditions as the Authority may direct.
4. The considerations and rationale of the Authority's decision based on the assessment and recommendations of the BSC Panel are set out in the accompanying letter to the Party, dated 18/02/22.
5. The Authority directs that, subject to the conditions set out below, the Party is relieved of its obligations to comply with Section K paragraph 8.1.2(b), Section S paragraph 10.4.3, and BSCP503 paragraph 3.4.2.3B of the BSC ("the **Derogation**").
6. This Direction shall take effect on 01/09/22 and shall remain in force until expiry on 31/08/24, unless it is revoked earlier or varied in writing by the Authority.
7. The following conditions shall apply:
  - a) Trial scale: the total capacity of participating assets is limited to 2.5MW. Subject to the trial's first year performance, the Party may request that the threshold be increased for year two; the BSC Panel will assess and make a recommendation to Ofgem.
  - b) Consumer harm: no consumer participating in the trial shall experience financial detriment arising from load-shifting or other trial activities. The Party will provide Ofgem and Elexon with a methodology for managing this risk, operating on the basis that the avoidance of negative load-shifting will be sought as a first order principle, and, where not possible, swift mitigation measures that recompense consumers.
  - c) Consumer engagement: many of the consumers involved in the trial may experience fuel-poverty or be in vulnerable situations. It's critical the trial has a clear engagement and communication plan that's responsive to each customer's circumstances, across the trial's set-up, delivery and exit phases. It must be clear to consumers who they need to contact when they have questions or concerns. The Party is required to provide Ofgem and Elexon with an appropriate plan, reporting on its implementation.

- d) Smart meters: we do not expect the trial to become a barrier to the installation of smart meters in participating dwellings, particularly with progress in deploying the Alt HAN solution, or suppliers' compliance with their smart metering licence obligations.

Dated: 18/02/22

A handwritten signature in black ink, appearing to read 'Meghna Tewari', with a horizontal line underneath.

**Meghna Tewari**  
**Head of Retail Market Policy**

Signed on behalf of the Authority and authorised for that purpose.