



Making a positive difference  
for energy consumers

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Reference number: ERS/009

Dear Mr Dixon

### **Sandbox derogation from the Balancing and Settlement Code (BSC) and Retail Energy Code (REC)**

Thank you for your interest in the Energy Regulation Sandbox. I regret to inform you that Ofgem is not granting a regulatory sandbox for the proposal set-out in your application.

We believe the problem you identify is, though, one worthy of further consideration and progression through the BSC and REC. We recommend, therefore, you raise the appropriate modification(s) in accordance with the BSC and REC modification procedures.

### **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 Sandbox, which can be applied for in combination with or separate from the other Sandbox tools. It also incorporates applications to the REC Sandbox where the trial requires support in addition to that which the REC can provide, such as other Code or licence derogations.

The Authority received an application from Good Energy on 06/05/22 for temporary derogations from the requirements of the BSC and REC that where shared metering equipment is utilised by suppliers for the purposes of recording import and export, the same supplier agents (Metering Equipment Manager (MEM) and Data Collector (DC)) are used. Specifically, derogations were sought from BSC Section J (4.1.5 and 4.1.6), and REC Schedule 14 (2.4 and 2.5), which require the same MEMs and DCs. While these requirements are in place for good reason, Good Energy believes that the advent of smart

metering and digital communication capabilities mitigate many of the concerns associated with different agents being responsible for import and export metering and data functions.

The [Energy Regulation Sandbox Guidance](#) (the Guidance) provides that where an innovator seeks relief from the specified Industry Code sandbox, the respective Code Administrators will undertake assessment of the application. As the BSC and REC provisions mirror each other, it was agreed that Elexon and Gemserv (REC Code Manager) would undertake a joint assessment of the application (including a consultation), led by Elexon. In accordance with the relevant provisions of the BSC and as explained in the Guidance, Elexon has undertaken a detailed assessment of the Party's sandbox derogation application. This involved assessing risks to the BSC's operation and other participants, and consulting with the BSC Performance Assurance Board, industry and other interested third parties, as applicable under the terms of the BSC.

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

The BSC Panel considered the application against a range of criteria including whether the trial better facilitates the Applicable BSC Objectives, its impact on settlement and Elexon's systems, impact on other BSC parties / participants and the trial's scale (scope and duration).

The Panel agreed that Good Energy's proposal is likely to better facilitate Applicable BSC Objective (c), namely promoting effective competition in the generation and supply of electricity, and promoting such competition in the sale and purchase of electricity. The Panel also considered that the proposal is likely to better facilitate Applicable BSC Objective (d), namely promoting efficiency in the implementation of the balancing and settlement arrangements.

However, the Panel noted that the BSC Sandbox is intended to trial whether or not a proposal is workable and beneficial, gathering learnings and evidence to help frame an enduring solution and speed up the progression of any modification that would unlock the benefits for all BSC Parties. The Panel was unclear what extra learnings the trial would add to the possibility of a BSC modification being approved. Given this, the Panel concluded that it would be better for competition and efficiency to progress this matter as a modification rather than a Sandbox trial.

In the event the Authority took a different view and was minded to approve the derogation, the Panel recommended conditions that would limit the scaling of the trial (ie, the number of participating consumers) if the trigger events required to meet the success criteria were met at an earlier than expected stage of the trial.

The BSC Panel recommended that Good Energy's request for a temporary derogation from the BSC be rejected. Given the REC provisions mirror those in the BSC, the effect would extend to the REC.

## **Ofgem decision**

Where Data Communications Company (DCC) adopted smart meters are used for the measurement of imports and exports, we can see potential efficiency and consumer benefit to be had from a consumer's export supplier being able to use its own supplier agents rather than those of the import supplier, as required by BSC and REC provisions. Reducing the associated overheads with serving an export-only relationship may incentivise all suppliers to bring to market innovative export offerings.

However, like the BSC Panel we are not persuaded that it is necessary for Good Energy's proposed methodology to be trialled in advance of and to inform the deliberations of an industry modification working group. In addition, the proposed scale of the trial (involving 100,000 metering points at the end of 6 months) is arguably excessive for testing the efficacy of the proposed methodologies. Based on the information you have provided and the apparent maturity of your proposed arrangement, we believe a market-wide solution is best assessed sooner by industry rather than 2-3 years from now. Consequently, we do not grant the requested derogations.

We have taken this decision in accordance with the published [Energy Regulation Sandbox Guidance](#). Should you wish to discuss this decision, please contact the Innovation Link team at [sandbox@ofgem.gov.uk](mailto:sandbox@ofgem.gov.uk).

Yours sincerely



**Kevin Baillie**  
**Head of Innovation Link**

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

Cc:

- BSC Panel Chair and REC Performance Assurance Board (PAB) Chair.
- BSC and REC sandbox coordinators.