

To:  
Reg Platt  
CEO  
Emergent Energy Systems Ltd  
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Hoxton  
London E2 8HD

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

Date: 26<sup>th</sup> May 2021

To:  
Relevant Supplier(s)

Reference number: ERS/001

Dear Mr Platt

### **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 the Relevant Supplier(s)<sup>1</sup> (the "**Party**"), a temporary derogation from requirements of the BSC (specifically the sections detailed below), and a dispensation from Metering Code of Practice 10 (CoP10):

- K1.1.4(c), K1.2.1, K1.2.2 and L2.1.1
- BSCP502: 3.4 and 4.9.3
- BSCP514: 2.1.2 and 8.4.3
- BSCP500: 4.2.5.1 and 4.4
- CoP10: 5.5.1(vi)

The derogation was applied for by a Third Party<sup>2</sup> (Emergent Energy Systems Ltd, Company Number 10403572, 'Emergent Energy') who will be responsible for the administration, monitoring and reporting related to this derogation. Emergent Energy will inform Elexon (the BSC Code Administrator) of the relevant Metering Points participating in the trial through the provision of the relevant Meter Point Administration Numbers (MPANs).

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<sup>1</sup> The Relevant Supplier is the licensed supplier responsible for the registration of the Metering Point(s) in the Metering Point Administration Service (MPAS). As the trial is testing a new methodology to facilitate switching, the designation of the Relevant Supplier (and, therefore, the derogated Party) for a given Metering Point will change.

<sup>2</sup> Capitalised terms used in this letter and Direction which are not defined herein shall have the meaning given to them in the BSC.

The BSC provides temporary Sandbox derogations for pre-competitive innovation projects. At the end of the Trial Period, Emergent Energy or another Party could raise a modification to permanently change the BSC. Alternatively, the scheme must revert to pre-trial arrangements. In the event a modification is raised, the derogation will continue to apply for an additional Transition Period.

The direction is attached to this letter and both will be published on Ofgem's and Elexon's websites. The direction is made from the Commencement Date and remains effective for a Trial Period of 2 years and up to an additional 1 year Transition Period, unless revoked earlier or varied in writing by the Authority:

- Emergent must inform the Authority and Elexon in writing of the expected Commencement Date, which must be within 4 months of the date of this letter.
- Any change in circumstances relevant to the direction must be reported to the Authority and Elexon without delay.
- Elexon will advise the Authority about any response required in the event of a change in circumstances, and when a relevant modification is raised.

To the extent that the arrangements subject to this derogation and metering dispensation are migrated to the Retail Energy Code (REC) as part of the Retail Code Consolidation, the Authority would anticipate, all else being equal, this decision being recognised by the REC Performance Assurance Board (PAB) and for the derogation and dispensation to continue to have effect for the full term agreed. We would welcome the REC PAB giving early consideration to whether there are any additional REC requirements, whether or not they are yet in effect, that may suitably be appended to this derogation in order to fulfil the intent of this Sandbox trial.

### **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 available Sandbox tools. The Authority received a Sandbox application from Emergent Energy on 11/08/20.

Emergent Energy establish and operate microgrids within residential housing developments. These microgrids typically include heat pumps, solar PV generation, EV chargers and shared battery storage, each connected to a locally operated private electricity network. Emergent Energy offers to pay housing companies for the right to apply their microgrid solution within housing developments, which reduces the cost to housing companies of decarbonising their housing stock, while helping to keep bills low for their residents. Emergent and their clients recognise that residents of microgrids must be able to exercise their right to switch their electricity supply.

As such, Emergent's application to the Energy Regulation Sandbox, is for a derogation from BSC rules about the metering of premises and the submission of metered data into settlement. In particular, a derogation is sought from the requirement that metered data for settlement be collected from a metering system at the interface between a premises

and the total system, or based on a calculated difference from that meter reading where more than one Supplier is supplying customers on a site.

Emergent Energy's objective in seeking this derogation is to allow customers located on Licence Exempt Networks (LENs)<sup>3</sup> better access to other Suppliers, whilst maintaining and improving the accuracy of reporting, and the allocation of electricity consumption in the balancing market.

The proposal is to submit a meter reading based on an aggregation of on-site customer meters that totals the value that would have been calculated using a differencing arrangement (a methodology currently provided for in the BSC). This enables each Supplier on the site to be settled for the correct amount of consumed or generated electricity without entering into a bilateral arrangement with all other Suppliers operating on the site. This should reduce the overheads associated with supplying customers located on LENs, improving their access to the competitive retail electricity market.

In accordance with the relevant provision of the BSC and as explained in the [Energy Regulation Sandbox Guidance](#), Elexon has undertaken a detailed assessment of the 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 welcomed the Sandbox application and derogation request. It agreed that the derogation request met BSC Objective (c) namely:

"promoting effective competition in the generation of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity" as it felt the trial's aim was to improve access to third party Suppliers of customers on LENs.

The Panel expressed concern at the proposal to allow 10,000 customers to participate, and agreed to limit the trial to 2,000 customers. The Panel, therefore, recommended approval of the derogation to the Authority subject to the following conditions:

- a) The maximum number of customers across any number of sites supplied under the trial is 2,000.
- b) The maximum duration of the derogation is for a 2 year Trial Period effective from the Commencement Date, with up to an additional 1 year for a Transition Period in the event a BSC modification related to the Sandbox trial is raised.

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<sup>3</sup> A Licence Exempt Network (LEN) is a network which distributes power without the need for an electricity distribution licence. They can be connected to or stand apart from the public network (comprising the distribution and transmission networks). Operators of these networks (otherwise known as distribution exemption holders) must satisfy themselves that they can operate within the framework provided for by the [Electricity \(Class Exemptions from the Requirement for a Licence\) Order 2001](#) and appropriate provisions of the Electricity Act 1989, particularly Schedule 2ZA which sets out the duties of distribution exemption holders. LENs are commonly referred to as private wire networks and microgrids.

## **Our decision**

Based on the information provided by the applicant, 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 Objective (c) namely "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 that the methodology to be trialled could provide for a more efficient and effective way of facilitating the switch of Supplier for consumers located on LENSs, notably domestic consumers in vulnerable situations.

Emergent Energy and 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) The trial is limited to 2,000 customers.
- b) The maximum duration of the derogation is for a 2 year Trial Period from the Commencement Date, with an additional 1 year for a Transition Period.
- c) Emergent Energy is to inform Elexon of the relevant MPANs participating in the trial.

This 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**

Emergent Energy will provide monitoring reports on a quarterly basis from the date of this letter until 3 years from the Commencement Date (or 2 years if a Transition Period is not required), in a format to be agreed with Ofgem and Elexon.

To help Ofgem and Elexon assess the effectiveness and usefulness of the Sandbox service, Emergent Energy 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, relevance and impact of the services provided.

Emergent Energy will also complete an evaluation (self-assessed or independent) of the impact of the trial, covering:

- a) The methodology's effectiveness in meeting the participants' and customers' needs, and delivering good consumer outcomes.
- b) The key insights gathered affecting the development / delivery of the innovation.

- 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, that 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 12 months after the Trial Period ends 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 trialling a product, service or methodology similar to another Sandbox supported scheme or where it is targeting customers with similar characteristics, Ofgem and / or Elexon may require that Emergent Energy participate in a parallel comparative evaluation. To aid these studies, Emergent Energy will ensure that permission is procured for Ofgem and / or Elexon (or an appointed third party) to engage with the Relevant Suppliers and other trial participants.

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 and BSC Sandbox Coordinator.
- REC Chair.

**Direction issued by the Gas and Electricity Markets Authority under Sections H8 and H10 of the Balancing and Settlement Code (BSC) to Relevant Supplier(s).**

**To: Relevant Supplier(s), "the Party"**

1. The Authority issues this direction pursuant to Sections H8 and H10 of the Balancing and Settlement Code.
2. The Relevant Supplier(s) ("the Party") is the licensed supplier responsible for the Registration (in the Metering Point Administration Service (MPAS)) of the Metering Point(s) that participate in Emergent Energy's Sandbox trial.
3. Capitalised terms used in this Direction which are not defined in this Direction shall have the meaning given to them in the BSC.
4. 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.
5. 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 Emergent Energy and the Party, dated 26<sup>th</sup> May 2021.
6. The Authority directs that, subject to the condition set out below, the Party is relieved of its obligations to comply with sections K1.1.4(c), K1.2.1, K1.2.2, L2.1.1, BSCP502 (3.4 and 4.9.3), BSCP514 (2.1.2 and 8.4.3), BSCP500 (4.2.5.1 and 4.4) and Metering Code of Practice 10 (section 5.5.1(vi)) of the BSC as far as is necessary to achieve the aims of the trial described in the Sandbox application ("the **Derogation**").
7. This Direction shall take effect from the Commencement Date (no later than 4 months from the date of this direction) and shall remain in force until expiry at the end of the Trial Period (2 years after the Commencement Date) or the end of the Transition Period (no later than 3 years from the Commencement Date), unless it is revoked earlier or varied in writing by the Authority.
8. The derogation shall apply in respect of no more than 2,000 customers (where a customer is identifiable as a single component metering system forming part of the aggregation to be submitted in lieu of a boundary meter reading).

Dated: 26<sup>th</sup> May 2021



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

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