

# Grid Code Sandbox proposal



Sarah York  
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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 trialled 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

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

Codified derogation process already exists within Grid Code (CP.9)

Purpose is derogation from an obligation to comply with a technical requirement and not proof of concept testing for innovative products or services

Existing derogation provisions are arguably not agile enough to facilitate an efficient sandbox process

Facilitation of innovative products, processes or services via modification process would be protracted and resource intensive

Modification process introduces regulatory change on permanent basis which is applicable to all Grid Code Parties

**Appropriate derogation provisions are required to enable innovators to test new products and processes in the Grid Code environment - a regulatory sandbox will achieve this.**

# Proposed option

Modification to introduce sandbox arrangements to the Grid Code, allowing industry participants to request derogation from relevant code obligations with the sole purpose to test and develop new products/services in a live environment.

## Potential high-level process

- ❑ Ofgem is the 'gatekeeper' for applications and makes a final decision on whether to grant derogation (incl. send back provisions)
- ❑ ESO as Code Administrator facilitates the sandbox and associated governance processes
- ❑ Code Administrator undertakes analysis and provides collated application information to the Panel
- ❑ Grid Code Panel assess derogation requests and make a recommendation to Ofgem
- ❑ Derogation period would be a maximum of 24 months, then transition to BAU or put in place permanent arrangements via code modification

## Potential guiding principles\*

- ❑ Applications to facilitate trials of an innovative product, service or system should offer identifiable direct or indirect benefits to wider industry and consumers
- ❑ Sandbox projects should show demonstrable benefit to the better facilitation of the Applicable Grid Code objectives
- ❑ Any obligations related to technical requirements or standards that originated from outside the Grid Code and that have a higher legal standing cannot be derogated in practice.

For example:

- any Licence conditions
- any other Industry Code
- any relevant European Legal requirement / UK primary legislation

# Feedback and questions

- Do you have any concerns about the proposed role of the Panel in assessing derogation requests and making recommendations to Ofgem?
  - Do you foresee any issues or gaps in the proposed high-level process?
  - Do you agree with a principles-based approach to derogation?
  - Are the proposed guiding principles sufficient in scope?
  - Do you have any other comments or observations?
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