

# Report Phase Consultation Responses



## P362 'Introducing BSC arrangements to facilitate an electricity market sandbox'

This Report Phase Consultation was issued on 20 June 2018, with responses invited by 3 July 2018. Version 1.0 was made public on 4 July 2018 with version 2.0 incorporating the response from Pixie Energy and made public on 5 July 2018.

### Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

### Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
ScottishPower Energy Management Limited	3/2	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA
National Grid	1/0	Transmission Company
Npower Ltd	1/1	Supplier, Supplier Agent
Drax Group PLC	2/0	Generator, Supplier
ScottishPower	1/1	Supplier, Meter Operator Agent (MOA)
British Gas	2/0	Generator, Supplier
Pixie Energy <sup>1</sup>	0/1	Consultant

<sup>1</sup> Please note that the full response from Pixie Energy can be found in Appendix 1. Comments have since been incorporated into the Consultation Response format as agreed with the respondent.

Question 1: Do you agree with the Panel's initial unanimous view that the P362 Proposed Modification better facilitates the applicable BSC Objectives than the current baseline?

## Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

## Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	P362 will better facilitate competition (Objective C) than the current baseline by removing barriers to entry of new, innovative products and services, the proposal is neutral against the other BSC objectives.
National Grid	Yes	<p>It is expected that facilitating innovation in the BSC through the Proposal will have the potential to promote competition so with the appropriate process controls in place to ensure that BSC Parties are not adversely affected as a result of any subsequent trials then we agree that the Proposal will better facilitate Applicable BSC Objective C.</p> <p>With regard to Applicable BSC Objective D, whilst the Proposal has potential to promote efficiency by providing an additional option for changes which meet the criteria, it also has the potential to increase workload and costs for Elexon and so on balance we feel that the Proposal will have a neutral effect on this applicable objective.</p> <p>We agree that the Proposal is neutral on all other Applicable BSC Objectives.</p>
Npower Ltd	Yes	-
Drax Group PLC	Yes	<p>We agree with the Panel's initial unanimous view that the P362 Proposed Modification better facilitates the Applicable BSC Objectives than the current baseline.</p> <p><b>Applicable BSC Objective (c) – Positive</b></p> <p>On the whole we agree that the proposal may have marginal benefit in promoting competition by facilitating the trialling of innovative products. This is balanced against the impact on existing market participants that comply with all necessary obligations, suffering from the commercial disadvantage of not having "sandbox" derogations.</p>

Respondent	Response	Rationale
		<p><b>Applicable BSC Objective (d) – Neutral</b></p> <p>Whilst we appreciate there may be benefits that arise from removing the need for future modifications to enable product tests, we are cautious as to timescales for the derogation period and feel that a maximum period of two years (including transition) is sufficient, given that the purpose of the sandbox is to test / trial new solutions. Also, the transition process appears complex and potentially open to abuse if modifications are prolonged.</p> <p>We support Ofgem’s eligibility criteria but would like to reiterate that no derogations should have a negative impact on settlement or act as barrier on ELEXON’s responsibility to administer the BSC arrangements.</p>
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	<p>We believe that, by enabling innovation and low-cost limited trials of market structures, the sandbox would promote BSC objectives (c), promoting competition, with potential benefits for objectives (b) and (d), as innovative ideas are introduced to improve systems over time. Particularly, the option to trial an innovation without going through the full modification process, and then to unwind unsuccessful innovations without having to again proceed with a modification, would promote the efficient operation of the system.</p>

Question 2: Do you agree with the Panel's initial unanimous view that the P362 Alternative Modification better facilitates the Applicable BSC Objectives than the current baseline?

## Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

## Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	As Q.1 above.
National Grid	Yes	Yes, for the same reasons as above.
Npower Ltd	Yes	-
Drax Group PLC	Yes	<p>We agree with the Panel's initial unanimous view that the P362 Alternative Modification better facilitates the Applicable BSC Objectives than the current baseline.</p> <p><b>Applicable BSC Objective (c) – Positive</b></p> <p>On the whole we agree that the proposal may have marginal benefit in promoting competition by facilitating the trialling of innovative products. This is balanced against the impact on existing market participants that comply with all necessary obligations, suffering from the commercial disadvantage of not having "sandbox" derogations.</p> <p>It's not clear what BSC derogations would be requested by the TC, we agree with the workgroup that Ofgem would need to be particularly cautious in considering Applications from monopoly companies, this is to ensure a level-playing field for all market participants.</p> <p><b>Applicable BSC Objective (b) – Neutral</b></p> <p>We are not convinced that allowing the TC to apply for derogations will allow for a more efficient operation of the electricity transmission system, there is no evidence to suggest that the Alternate is positive against this objective. We would welcome further evidence of benefits that could be realised by industry parties and consumers should the TC be</p>

Respondent	Response	Rationale
		<p>allowed to apply for derogations.</p> <p><b>Applicable BSC Objective (d) – Neutral</b></p> <p>Whilst we appreciate there may be benefits that arise from removing the need for future modifications to enable product tests, we are cautious as to timescales for the derogation period and feel that a maximum period of two years (including transition) is sufficient, given that the purpose of the sandbox is to test / trial new solutions. Also, the transition process appears complex, and potentially open to abuse if modifications are prolonged.</p> <p>We support Ofgem’s eligibility criteria but would like to reiterate that no derogations should have a negative impact or act as barrier on ELEXON’s responsibility to administer the BSC arrangements.</p> <p>In particular, we do not believe it is appropriate for the TC to seek BSC Derogations when they are responsible for establishing the BSC under their Transmission Licence conditions.</p>
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	-

Question 3: Do you agree with the Panel's initial unanimous view that the P362 Alternative Modification better facilitates the Applicable BSC Objectives than the P362 Proposed Modification and should therefore be approved?

## Summary

Yes	No	Neutral/No Comment	Other
5	2	0	0

## Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	We agree. However, until SO/TO business separation is completed, we continue to share the reservations expressed over the Transmission Company potentially being able to seek derogations from its obligations to properly administer and deliver the BSC.
National Grid	Yes	Yes, for the same reasons as above but we believe that if the Transmission Company can also submit a BSC Sandbox Application there will be a greater positive impact on Applicable BSC Objective C.
Npower Ltd	No	<p>Widening the scope of this modification to include NG Transmission will allow for an increased level of derogation and potential innovation so perhaps better facilitates objective C when compared to the original.</p> <p>Other considerations:</p> <ul style="list-style-type: none"> <li>•The system operator should not need to apply for derogations and these derogations are more likely to impact all parties so the modification route is our preferred option.</li> <li>•The derogation process is administered by Elexon, who are owned and appointed by NGT so are perhaps too close to participate. We are aware that there is an independently appointed Panel that makes a final recommendation to Ofgem.</li> </ul> <p>We believe both of these points have the potential to negatively impact objective D.</p> <p>We believe both the modification and alternative will overall better facilitate the BSC objectives so do not object to either being approved by the authority, despite our preference for the original modification.</p>

Respondent	Response	Rationale
Drax Group PLC	No	<p>We do not agree with the Panel's initial unanimous view that the P362 Alternative Modification better facilitates the Applicable BSC Objectives than the P362 Proposed Modification.</p> <p>Applicable BSC Objective (c)</p> <p>We agree with the workgroup that Ofgem would need to be particularly cautious in considering Applications from monopolies. Depending on the nature of the derogation, BSC derogations for the Transmission Company (TC) or any Network Owner could fail to promote competition in the generation and supply of electricity.</p> <p>Applicable BSC Objective (b)</p> <p>We are not convinced that allowing the TC or in fact any Network Owner to apply for derogations will allow for a more efficient operation of the electricity transmission system, there is no evidence to suggest that the Alternate is positive against this objective. We would welcome further evidence of what benefits could be realised by industry parties and consumers should the TC be allowed to apply for derogations and why the TC would need a derogation from the BSC.</p> <p>Applicable BSC Objective (d)</p> <p>Should the TC have BSC derogations, there is a risk that it could act as a barrier to efficient implementation and administration of the BSC arrangements. We do not foresee any additional benefits in relation to the Applicable BSC objectives, consumers or industry parties by allowing the TC to be derogated from certain BSC rules. We do not believe it is appropriate for the TC, to seek BSC Derogations when they are responsible for establishing the BSC under its Transmission Licence condition.</p>
ScottishPower	Yes	<p>We agree however until SO/TO business separation is completed, we share the reservations expressed over the Transmission Company potentially being able to seek derogations from its obligations to properly administer and deliver the BSC.</p>

Respondent	Response	Rationale
British Gas	Yes	-
Pixie Energy	Yes	With regards to the original and alternative modifications, we agree that the transmission company (TC) should be able to apply for and be granted derogations. It seems unfair to exclude the TC from a route to innovation where other monopolies such as distribution company are able to access this. It will also support the objectives of the network innovation fund by allowing projects under that workstream. We therefore support the alternative modification.



Question 4: Do you agree with the Panel's initial unanimous view that the redlined changes to the BSC deliver the intention of the P362 Proposed and Alternative solutions?

## Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

## Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	We are comfortable that the redlined changes will deliver the intention of P362.
National Grid	Yes	The redlined changes to the BSC legal text appears to deliver the intent of both the Proposed and Alternative solutions.
Npower Ltd	Yes	-
Drax Group PLC	Yes	The redlined changes to the BSC deliver the P362 Proposed and Alternative Solutions.
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	-

Question 5: Do you agree that the subsidiary document in Attachment D delivers the intent of P362?

### Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

### Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	The subsidiary document in Attachment D appears to reflect all the necessary eligibility criteria and monitoring requirements of P362.
National Grid	Yes	We generally agree with the intent and content of Attachment D for P362 – please note that the document will require slight amendments to reflect the Alternative solution.
Npower Ltd	Yes	-
Drax Group PLC	Yes	Yes, we agree that the subsidiary document in Attachment D delivers the intent of P362 but we believe it should be made clear that there are certain parts of the BSC that parties cannot be derogated from. Such as requirements to pay settlement and trading charges and lodge credit cover.
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	-

## Question 6: Do you agree with the Panel's initial unanimous recommended Implementation Date?

### Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

### Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	As P362 can be implemented as a standalone release we agree with the recommended implementation date.
National Grid	Yes	If approved we see no reason why a longer implementation period would be required.
Npower Ltd	Yes	-
Drax Group PLC	Yes	Since this is a document only change, we think implementation Five Working Days after the Authority's decision is reasonable.
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	-

Question 7: Do you agree with the Panel's initial unanimous view that P362 should not be treated as a Self-Governance Modification?

### Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

### Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	Yes	As p362 has a potential impact on competition (and indeed is intended to better facilitate competition) it does not meet the Self Governance Criteria.
National Grid	Yes	We believe this should not be progressed as a Self-Governance Modification Proposal as it will materially affect the governance procedures of the BSC and it could also potentially interact with some of the other areas under the Self-Governance Criteria.
Npower Ltd	Yes	-
Drax Group PLC	Yes	This Modification does not meet the Self-Governance Criteria due to it having a material impact on competition and the Code's governance and modification procedures (Self-Governance criteria (a) (ii) and (iv) respectively).
ScottishPower	Yes	-
British Gas	Yes	-
Pixie Energy	Yes	-

## Question 8: Do you have any further comments on P362?

### Summary

Yes	No
4	3

### Responses

Respondent	Response	Rationale
ScottishPower Energy Management Limited	No	None
National Grid	No	N/A
Npower Ltd	Yes	As we have commented previously, this modification has been developed without actual examples of derogations that may be requested through the proposed BSC process. It's therefore likely that the process will need to evolve over time and early applications should be reviewed to facilitate any necessary changes to the subsidiary document or legal text.
Drax Group PLC	Yes	We would see benefit in the applicant clearly defining the success criteria for the derogation as well as the minimum scope when presenting their application to the panel. Applicants should also clearly define the benefits to other Industry parties as part of its success criteria - how it will remove barriers and bring opportunities to all BSC Parties.
ScottishPower	No	-
British Gas	Yes	British Gas is supportive of allowing innovative new propositions to be developed in the energy market and this modification will help facilitate this.
Pixie Energy	Yes	We call on Ofgem to approve and implement this modification with all due haste, unlocking further innovation to the benefit of GB consumers.



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BSC Change  
Elexon

2 July 2018

Dear Sirs

## ***P362 Introducing BSC Arrangements to Facilitate an Electricity Market Sandbox – Report Consultation***

Pixie Energy is an energy market consultancy, using the national markets knowledge and expertise of parent company Cornwall Insight to bring forward local markets studies and initiatives. While not itself a BSC party, Pixie Energy is working with partners including BSC parties on projects which would benefit from the ability to secure derogations from the Code, in order to trial innovative market structures. We are considering becoming a BSC party, as the modification notes would be required in order to secure a derogation.

We believe that, by enabling innovation and low-cost limited trials of market structures, the sandbox would promote BSC objectives (c), promoting competition, with potential benefits for objectives (b) and (d), as innovative ideas are introduced to improve systems over time. Particularly, the option to trial an innovation without going through the full modification process, and then to unwind unsuccessful innovations without having to again proceed with a modification, would promote the efficient operation of the system.

With regards to the original and alternative modifications, we agree that the transmission company (TC) should be able to apply for and be granted derogations. It seems unfair to exclude the TC from a route to innovation where other monopolies such as distribution company are able to access this. It will also support the objectives of the network innovation fund by allowing projects under that workstream. We therefore support the alternative modification.

We call on Ofgem to approve and implement this modification with all due haste, unlocking further innovation to the benefit of GB consumers.

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P362  
Report Phase Consultation  
Responses

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Version 2.0

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Page 14 of 14

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