

Innovation Sandbox

1. Background

In February 2017 Ofgem launched the concept of a regulatory sandbox. Ofgem published an open letter to industry noting:

'The regulatory sandbox will allow innovators to trial innovative business propositions that will benefit consumers without incurring all of the usual regulatory requirements. Business propositions that are deemed eligible for sandbox support will receive bespoke guidance to help address regulatory barriers; innovators will be able to rely on the guidance for a defined period of time.'

*The sandbox will allow us to further develop our understanding of new business models and the potential benefits to consumers. In the longer-term, this will allow us to adapt the regulatory framework to the future developments in the sector.'*¹

Ofgem have proposed that where an innovative business model, product or service identifies a regulatory barrier, they will reduce the regulations for a limited period of time (e.g. 18 months) in order to allow a trial. Ofgem propose that they would do this through legally binding advice on the interpretations of the legal requirements.

2. Code Administrator Workshop – BSC Modification

At the November CACoP meeting Douglas Alexander (Elexon) noted that the BSC has created a modification proposal to incorporate arrangements to facilitate an electricity market sandbox. P362² highlights that appropriate provisions do not exist to enable pre-competitive or proof of concept testing for innovative products/business models in the live BSC Settlement environment. The Modification Proposal seeks to enable the Panel to grant derogation of certain BSC obligations to participants of ELEXON's BSC sandbox.

Elexon have noted that this modification would positively impact;

Objective (c)

This Modification would have a positive impact on competition in the generation and supply of electricity. By enabling innovative businesses to test their new products and ways of working, the Modification makes it possible to introduce more disruptions to the existing ways of doing business. Greater numbers of firms offering alternative solutions to providing consumers with electricity contributes to the competitive market.

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https://www.ofgem.gov.uk/system/files/docs/2017/02/open_letter_regulatory_sandbox_6_february_2017.pdf

² <https://www.elexon.co.uk/mod-proposal/p362/>

Objective (d)

This Modification would have a positive impact on efficiency in the implementation of the balancing and settlement arrangements. By negating the need for future Modifications to enable small scale product tests with no material impact on the rest of the system, ELEXON and industry resource can be focussed elsewhere. Additionally, if enduring Modifications should become necessary following a successful trial, more information about the solution and any impacts will be known in advance, facilitating a more efficient Modification process.

P362 has been submitted as an Authority decision modification, has been sent to a Workgroup for development with a final BSC Panel recommendation on 17th May 2018.

Elexon highlighted this during the CACoP meeting to enquire whether any other Codes had considered similar modifications. Other Code Administrators had not yet considered such a move, and therefore, resolved to take this back to individual panels for consideration.

Pamela Taylor (Partner, Enforcement and Innovation Link) of Ofgem notes that with regards to the Regulatory Sandbox the immediate concern is lifting the barriers currently in place in Code which would stop innovators from introducing a ground-breaking or significantly different proposition to what is currently in the market. Pamela Taylor did note that at the moment Ofgem are not considering the Regulatory Sandbox will deal with long term policy changes, although recognised that this would develop hand-in-hand in the future. It is apparent that for this initiative to work an amount of unilateral cross-code working will need to take place to align the intention of the derogation process across the industry.

3. iGT UNC arrangements

There are currently no iGT UNC provisions to allow for the iGT UNC Panel to grant any derogation to parties with regards to relaxing regulations around implementation of a modification to the Code, or derogations against being in breach.

4. Recommendation

The Panel may wish to consider adding a section to the iGT UNC to enable any sandbox regulations that may be required to be adopted in the iGT UNC, either from the UNC or wider a field.

iGT UNC Panel is invited to:

- **NOTE** the contents of this paper; and
- **CONSIDER** if a modification should be raised to incorporate the concept of a 'regulatory sandbox' into code.

Rachel Bird

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