

DCUSA Change Report		At what stage is this document in the process?
<h1 data-bbox="124 353 550 448">DCP 345</h1> <h2 data-bbox="124 481 702 548">Sandbox Application</h2> <p data-bbox="124 571 821 604"><i>Raised on 14 March 2019 as a Standard Change</i></p>		<p data-bbox="1189 347 1348 414">01 – Change Proposal</p> <p data-bbox="1189 470 1412 504">02 – Consultation</p> <p data-bbox="1189 560 1348 627">03 – Change Report</p> <p data-bbox="1189 672 1348 739">04 – Change Declaration</p>
<p data-bbox="124 784 566 817">Purpose of Change Proposal:</p> <p data-bbox="124 840 1212 873">The intent of DCP 345 is to facilitate the processing of sandbox applications¹.</p>		
	<p data-bbox="231 907 1428 985">This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 345 – Sandbox Application.</p> <p data-bbox="231 1008 1396 1131">DCP 345 is considered a Part 1 matter and Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by 11 October 2019.</p> <p data-bbox="231 1142 1428 1265">The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p> <p data-bbox="231 1276 1444 1355">If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>	
	<p data-bbox="231 1388 662 1433">Parties Impacted: All Parties</p>	
	<p data-bbox="231 1512 1372 1601">Impacted Clauses: Section 1 – ‘Definitions and Interpretations’ and Clause 56 – ‘Derogations’</p>	

¹ An application received from an innovator who is looking to run a trial to test new products, services and business models but to do so needs to derogate some of the clauses within a licence or relevant code.

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Timetable			
The timetable for the progression of the CP is as follows:			
Change Proposal timetable			
Activity	Date		
Initial Assessment Report Approved by Panel	20 March 2019		
Consultation issued to Parties	23 July 2019		
Change Report approved by Panel	18 September 2019		
Change Report issued for Voting	20 September 2019		
Party Voting Closes	11 October 2019		
Change Declaration Issued to Parties and the Authority	15 October 2019		
Authority Decision	19 November 2019		
Implementation	5WDs following receipt of the Authority Decision unless received before the 07 November Release		

1 Executive Summary

What?

- 1.1 Ofgem introduced an initiative (Innovation Link) in 2016 to promote innovation through what is known as a regulatory sandbox². This allows innovators to trial new products, services and business models in a real-world environment without having to comply with all the industry obligations.
- 1.2 So far, the regulatory sandbox has covered obligations controlled by Ofgem based on four eligibility criteria:
 - Innovation;
 - Consumer benefit;
 - Background research; and
 - The need for support.
- 1.3 If innovators are not licenced and are seeking derogations, then they will need to partner with a licenced business for the duration of the sandbox.
- 1.4 Ofgem are not able to offer relief from the detailed codes which underpin the operation of the gas and electricity markets, and which industry maintain. In order to widen the scope of the sandbox, Ofgem have worked closely with the Code Administrators and developed Principle 14 – Code Administrators shall support prospective energy innovators, which now forms part of the Code Administrators Code of Practice (CACoP)³.

Why?

- 1.5 The DCUSA derogation process is not currently flexible enough to cater for sandbox applications and may result in an application being rejected or accepted by the Panel without the Authority position being known after a set period of time has lapsed. This could cause un-necessary frustration and potentially costs to the innovator.

How?

- 1.6 The derogation clause 56 is proposed to be amended to cater for the processing of the sandbox application. The proposed process introduces send back powers to both the Panel and the Authority together with a positive accept or reject of the application by the Authority. In addition, new definitions will be included within Section 1 'Definitions and Interpretations'.

² [What is a regulatory sandbox?](#)

³ [Code Administrators Code of Practice](#)

2 Governance

Justification for Part 1 Matter

- 2.1 This CP is classed as a Part 1 Matter since it concerns the governance or the change control arrangements applying to this Agreement.

Requested Next Steps

- 2.2 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 345.
- 2.3 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting.

3 Why Change?

Background of DCP 345

- 3.1 Ofgem have introduced a regulatory sandbox to promote innovation within the energy industry. It however cannot fully process those initiatives that impact industry codes. In order to progress further and support innovators. Ofgem have introduced principle 14 within CACoP. The principle description being:

*“Code Administrators shall support prospective energy innovators (“applicants”) by providing guidance on their codes to any applicant including those not acceded to said code(s). Ofgem will act as the co-ordinating and externally facing body and will be responsible for receiving and assessing information from applicants. For applicants seeking to trial an innovative product or service. Code Administrators will assess the appropriateness of the proposed temporary derogation and provide advice to the **Code Panel who will provide a recommendation to Ofgem**”.*

- 3.2 In addition, principle 14 also provides guidance where it makes it clear that it is the Authority who will grant the derogation:

*“Enable applicants to trial innovations, where applicable, **through time limited derogations granted by the Gas and Electricity Markets Authority**”.*

- 3.3 The current derogation process allows a derogation to any obligation, but this is usually related to newly introduced or amended obligations introduced by the change control process or new entrants:

*The Panel may (subject to Clause 56.3) resolve, on the application of any Party, **to grant a derogation to any Party or Parties in relation to any obligation or obligations contained in this Agreement**. In resolving to grant such derogation, the Panel may impose such conditions as it sees fit, and shall specify the term, scope and application of such derogation. **Derogations will normally***

only be granted in respect of newly introduced or amended obligations (or obligations due to be implemented in the future).

3.4 The current process also allows for a non-veto by the Authority:

“A derogation granted to any Party by the Panel, or any retraction, amendment or addition under Clause 56.2, shall, in each case, only be effective if made in conformity with any representations received from the Authority in accordance with Clause 56.5.3 and if not vetoed by the Authority within 10 Working Days of notification of the Panel's decision and the rationale for it.”

If the Authority do not reply within the 10 Working Days, it is classes on a non-veto and the Panel recommendation is deemed to be approved.

3.5 There is a risk that if there is no change to this process and the Authority response to the sandbox application is received sometime later than the 10 Working Days after the Panel has approved the derogation, and the innovator has potentially started their project, that this may result in costs to the innovator should the Authority reject the derogation request. Conversely should the Authority overrule the Panel, the innovator may have been given a rejection notice, which is then followed up with an acceptance, thereby creating further uncertainty and frustration with the process.

3.6 In addition, DCUSA is currently silent on whether any rejected requests made by the Panel are subject to a decision by the Authority.

3.7 Similarly, there has been a modification progressed in the Balancing & Settlements Codes (BSC)⁴ which also allows industry participants, that have pre-competitive innovative products or services but are facing barrier to entry, seek derogation from relevant BSC obligations, in order to test and develop a product or service for a fixed time period.

4 Solution

DCP 345 Assessment

4.1 The DCUSA Panel established a Working Group to assess DCP 345. This Working Group consists of DNO and Supplier representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk

4.2 The Proposer's initial solution for DCP 345 is to amend Clause 56 by ensuring that the process is not completed until the Authority has formally responded to the request for sandbox applications.

4.3 In addition, the process should be enhanced to cater for:

- Panel and Authority send back powers similar to that in the change process;

⁴ [BSC Modification P362](#)

- An initial sandbox report to include what the initiative is and what clauses are to be derogated against;
- Parties to have the ability to comment on the sandbox application;
- A sandbox report post Party representation; and
- A final report to the Authority that contains all of the above together with any conditions placed on the derogation by the Panel (similar to the current process).

4.4 It is the intention of this CP to allow Parties the opportunity to comment on the Sandbox Application after the initial DCUSA Panel view. The Working Group also obtained Party views around the possibility of DCUSA Parties being consulted on each Sandbox Application before they are submitted to the DCUSA Panel for review so that DCUSA Parties can provide any comments or feedback on the applications. This may provide the innovator with information they were not aware of. More information regarding this can be found in sections 4.16, 4.17 and 4.34 below.

4.5 On further review of the CP, the Working Group also noted that there is no reference as to how the DCUSA Panel will treat each Sandbox Application and whether there should be a level of transparency.

4.6 It was suggested that there should be a “register” similar to the “Change Register” included on the DCUSA Website that would detail all Sandbox Application and which would include the following detail:

- Who the Applicant is;
- Who their innovative partner is (if different to the Applicant);
- The duration of the derogation requested;
- What stage their application is at;
- The recommendation made by the DCUSA Panel; and
- The decision of the Authority.

4.7 The Working Group sought industry feedback on how transparent this data should be and whether all Applicants should be accessible to all Industry Parties, DCUSA Parties only or the DCUSA Panel only. More information can be found in sections 4.18 to 4.21 and 4.35 below.

DCUSA Sandbox Application Guidance Document

4.8 To aid the development of this Change Proposal, the Working Group have developed a DCUSA Sandbox Application Guidance Document.

4.9 The intention of the guidance document is to provide potential innovators with a high-level process of what needs to be completed when submitting their application for their derogation. It also provides the Applicant with detail on what powers the DCUSA Panel and the Authority have regarding their application.

- 4.10 Following a further review of the guidance document, the Working Group noted that there was information included regarding costs and a paragraph stating that the DCUSA Secretariat may require payment of a fee to cover costs of processing an application. This would be a standard fee approved by the DCUSA Panel from time to time and will be published on the DCUSA Website.
- 4.11 This has been included to cater for the concerns raised during the development of the BSC Modification P362 regarding the volume of additional work the sandbox service may require from ELEXON. The Workgroup agreed that the solution should allow for the Panel to set an application fee, although such a fee should initially be set at zero. The inclusion of a fee, should it be necessary is to deter speculative applications. The counter argument was that Ofgem would filter out such application. It was concluded that its inclusion would add some level of flexibility.

DCP 345 Consultation

- 4.12 Working Group members sought Party views on the proposed solution and issued a consultation to all DCUSA Contract Managers on 23 July 2019. A copy of the consultation document alongside the Party responses and Working Group conclusions can be found as Attachment 4.
- 4.13 The consultation document was seeking Party views on the proposed solution and draft legal text. There were eight respondents to the consultation comprising of Distribution Network Operators, Independent Distribution Network Operators and Suppliers.

Q1: Do you understand the intent of DCP 345?

- 4.14 All respondents to the consultation understood the intent of DCP 345.

Q2: Are you supportive of the principles of DCP 345?

- 4.15 All respondents to the consultation were supportive of the principles of DCP 345.

Q3: Do Parties believe that there should be a pre-Panel consultation period whereby Parties will be able to provide any comments or feedback to the DCUSA Panel on each Sandbox Application? Please provide your rationale.

- 4.16 There were mixed views on whether there was a need for a pre-panel consultation period. Those in favour suggested that this would help the Applicant by sharing expertise and identify potential solutions to the application that may not be included in the initial submission. In addition, industry parties may have sight of activity underway under other industry codes, new technologies, commercially led investigations and research that may help. Also, because the Applicant may be new to or unfamiliar with the industry this would allow a wider audience to provide any comments or feedback on the application before it is considered by the panel.
- 4.17 Other responders suggested that consideration needs to be given to any commercially sensitive information and the protection of intellectual property rights and that it may be better that Parties are only involved post Panel initial review.

Q4: Should the detail of all Sandbox Applications be accessible to all industry Parties, DCUSA Parties only or the DCUSA Panel only? If you have a preference, please provide your rationale. If you believe there is an alternative, please provide details.

- 4.18 There was an even split between who should be given access to the Sandbox Applications with a further response suggesting initially the DCUSA Panel and then DCUSA Parties.
- 4.19 Those supporting DCUSA Parties suggested that it is they that could be directly impacted by the proposed derogation(s) and as such they should have open access to such information, and industry parties should have access via the Authority website rather than DCUSA.
- 4.20 Those in favour of DCUSA Panel only suggested that with these applications containing new ideas/innovations some protection should be afforded, so it will be more appropriate for all Sandbox Application to only be accessible to the DCUSA Panel. A further respondent stated that this seems to maintain equivalence with the BSC requirements for the Transmission Sandbox process.
- 4.21 In support of industry party access one respondent stated that such information should be accessible to all, unless there is a clear confidentiality consideration which would need to be clearly stated in the initial application. A further respondent caveated their response by stating that there may be scenarios where the details of a Sandbox Application could be commercially sensitive, and the Applicant should have the option that the details only be seen by the DCUSA Panel.

Q5: Do you agree with the proposed solution for this CP? Please provide your rationale.

- 4.22 All respondents to the consultation agreed with the proposed solution.

Q6: Do you believe the Working Group should consider a different solution? If so, please provide your rationale.

- 4.23 All respondents to the consultation did not believe that the Working Group should consider a different solution and the proposed solution should be taken forward.

Q7: Do you agree with the inclusion of an Administrator fee to process the Sandbox Applications? Please provide your rationale.

- 4.24 All respondents supported the inclusion of an Administrator fee with the caveat that it should be cost reflective. It was suggested that it also prevents speculative applications potentially wasting the time of the Panel and secretariat.

Q8: Do Parties have any suggested amendments on the DCUSA Sandbox Application Guidance Document?

4.25 All respondents to the consultation, who provided a response to this question, agreed that there were no further amendments needed to be made on the DCUSA Sandbox Application Guidance Document.

Q9: Do you have any comments on the proposed legal text for DCP 345? Please provide your rationale.

4.26 The majority of respondents, who provided a response to this question, did not believe that there needed to be any amendments made to the proposed legal text. However, one respondent suggested that clause 56.17.1 needed to be updated to pre-define the procedure that the Authority will use as it considers its determination. This would allow the Applicant to know what criteria are being applied.

4.27 It was also suggested by another respondent that clause 56.17.1 be updated further to clarify that the length of time in which a derogation will last should be no greater than at the end of two years after Authority approval.

Q10: Which of the DCUSA General Objectives does this CP better facilitate? Please provide supporting comments.

4.28 The Working Group concluded that all respondents who provided a comment on which of the DCUSA Objectives would be better facilitated, agreed with the Proposer that DCUSA General Objective 4 would be better facilitated by the implementation of this CP.

4.29 The Working Group conclusions and further information in this area can be found in section 5 below.

Q11: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

4.30 The majority of respondents, who provided comments to this question, agree that there are no wider industry developments that would be impacted upon or be impacted by the implementation of this CP.

4.31 However, one respondent highlighted that they were unclear as to how widely used the Sandbox will be during the current industry reviews, i.e. the Access and Forward-Looking Charging Significant Code Review and the Targeted Charging Review.

Q12: The proposed implementation date for DCP 345 is the first DCUSA Release following Authority approval. Do you agree with the proposed implementation date? Please provide your rationale.

4.32 All respondents to the consultation agree that the proposed implementation date is appropriate, and the changes should be made in the first DCUSA Release following receipt of the Authority approval.

Working Group Conclusions

4.33 Following review of the consultation responses, the Working Group agreed that the following areas needed further discussion:

- Pre-Panel consultation period;
- Accessibility to Sandbox applications; and
- Legal text suggestions amendments.

Pre-Panel consultation period

4.34 The Working Group concluded that they are supportive of a pre-Panel communication process and agreed that there should be a standard consultation document seeking Party views which would aid the Applicant and the production of the Sandbox Report for discussion at the DCUSA Panel. The DCUSA Sandbox Guidance Document was updated to reflect this and an updated version can be found as Attachment 5. Although this information was included in the guidance document, the Working Group felt that the legal text did not need to be updated to reflect this part of the process making it easier to amend the process if no value is obtained from it.

Accessibility to Sandbox applications

4.35 The Working Group concluded that application forms should only be accessible by the DCUSA Panel if the innovator highlights that there is commercially sensitive information included. If there is not, then the application form will be accessible to all industry parties. The consultation to DCUSA Parties will only contain information regarding the rationale as to why a derogation to the legal text is being requested and not how the innovation will be delivered. Any information received back from the Panel and the Authority will equally be available to all industry parties via the DCUSA Website.

Legal text suggestions amendments

4.36 The Working Group discussed the first suggestion to update clause 56.17.1 (*[In making a determination under Clause 56.16, the Authority:] "May follow such a procedure as it considers appropriate"*) to ensure that the procedure used by the Authority is pre-defined so that the Applicant knows the criteria being applied.

4.37 The Working Group concluded that they would not be updating the legal text to reflect this suggestion as the current drafting is no different to the send back clause already included in clause 13.10 of DCUSA. The Authority will already have the criteria for the Applicants regarding their decision process and the Applicant will also need to liaise with the Authority in the initial states of their Application and so the Authority procedures should be available.

4.38 There was also a further suggested that the legal text should be updated as follows:

“State the length of time the derogation is required, *the end of which should be no greater than two years from the Authority approval;*”

4.39 The Working Group did not have a preference as to whether to include this suggestion or not and so they requested advice from the DCUSA Legal Advisors on whether it was required or not as part of their review. The Legal Advisor considered the addition and amended the sentence to read:

“state the period of the requested derogation, the end of which shall be no longer than two years from the Authority's approval of such derogation;”

4.40 Information regarding the finalised legal text can be found in Section 8 below and a copy of the legal text can be found as Attachment 1.

5 Relevant Objectives

Assessment against the DCUSA Objectives

- 5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. A full list of the DCUSA Objectives can be found in the DCP 345 Change Proposal found as Attachment 3.
- 5.2 The Proposer of DCP 345 believes that DCUSA General Objective four will be better facilitated by the implementation of this change as it will provide a more robust and transparent process for handling sandbox applications received from innovators via Ofgem and ensure a positive decision is received from the Authority.
- 5.3 The Working Group sought Party views on which of the DCUSA General Objectives they thought would be better facilitated by the implementation of DCP 345. A summary of the Party views can be found in section 4.28 above and in the consolidated consultation responses document found as Attachment 4.
- 5.4 The Working Group unanimously agrees with both the Proposer of the Change Proposal and the respondents to the consultation that DCUSA General Objective Four would be better facilitated by the implementation of the DCP 345 solution because it provides a more robust process to mitigate the risks identified in sections 3.5 and 3.6 above.

DCUSA General Objectives	Identified impact
<input type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.	None
<input type="checkbox"/> 2 The facilitation of effective competition in the generation and supply of electricity and (so far is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity.	None
<input type="checkbox"/> 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.	None

<input checked="" type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of the DCUSA.	Positive
<input type="checkbox"/> 5 Compliance with the Regulation on Cross-Border Exchange and Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

6 Impacts & Other Considerations

- 6.1 There are no cross-code concerns with this CP other than the obligation under CACoP to liaise with Code Administrators should the Sandbox Application cut across the industry codes.
- 6.2 There is already one innovator in discussion with the Secretariat, and that innovator gave a presentation at the DCUSA Panel closed session meeting in January 2019.

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

- 6.3 This CP does not have any impacts on the current SCRs or any other industry change projects.

Consumer Impacts

- 6.4 This CP does not have any impact on customers.

DCUSA Website Impact

- 6.5 A new page will need to be designed on the DCUSA Website to include all the processes required to complete the Sandbox Applications. This will include the sandbox register (which will be similar to the Change Register for DCUSA CPs), the DCUSA Sandbox Guidance Document and any administration costs (if there are any) would also need to be included.
- 6.6 The Working Group also noted that there may be some instances where access to specific Sandbox Applications may need to be restricted to ensure that only the DCUSA Panel can access the document subject to the sensitivity and as such the website design will need to cater for such instances..
- 6.7 Costs required to update the DCUSA Website are estimated to be a maximum of £5000.00.

Environmental Impacts

- 6.8 In accordance with DCUSA Clause 11.14.6, the Proposer assessed whether there would be a material impact on greenhouse gas emissions if this CP were implemented. The Proposer did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

6.9 Ofgem were not invited to join the Working Group and so did not provide a representative.

Code Specific Matters

6.10 The BSC has already introduced a Sandbox process via BSC Modification P362.

7 Implementation

7.1 The proposed implementation date initially was the first DCUSA Release following Authority approval, however, following on from the review of the consultation responses, the Working Group agreed that this should be changed to 5 Working Days following the Authority approval. This is to allow for an unnecessary delay on the introduction of the DCUSA Sandbox due to the potential of not receiving the Authority decision before the next DCUSA Release on 07 November 2019. However, if the decision is received in time for the DCUSA Release then the normal procedure will take place.

7.2 The Working Group also considered that there was enough time for the DCUSA Website to be updated to allow for the process to be completed.

8 Legal Text

8.1 The proposed legal text makes the following changes:

- The addition of definitions for “Sandbox Applicant”, “Sandbox Application” “Sandbox Register” and “Sandbox Report”. These will be included in Section 1 – Definitions and Interpretations;
- The amendment of Clause 56.1 – 56.3 to highlight the exclusion of Sandbox Applications; and
- Inclusion of Clauses 56.10 – 56.21 to detail the Sandbox Application Process, including the send-back powers that the DCUSA Panel and Authority will hold (similar to clauses 13.10 – 13.12) and any potential costs (similar clauses to those implemented by the BSC Modification).

8.2 The proposed legal text can be found as Attachment 1.

9 Recommendations

Panel’s Recommendation

9.1 The Panel approved this Change Report on 18 September 2019. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on this CP.

9.2 The Panel have recommended this report be issued for voting and DCUSA Parties should consider whether they wish to submit views regarding this CP. The Voting Form can be found in Attachment 2.

Attachments

- Attachment 1 – DCP 345 Legal Text
- Attachment 2 – DCP 345 Voting Form
- Attachment 3 – DCP 345 Change Proposal
- Attachment 4 – DCP 345 Consultation and Collated Responses
- Attachment 5 – DCUSA Sandbox Application Guidance Document