

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP345 – Sandbox Application		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	19 November 2019	Implementation date:	5 working days after approval

Background

The energy system is in transition and industry is undergoing rapid developments in technology, products and services. These developments have the potential to contribute to the Government’s net-zero carbon emission goals, and to realise near term benefits for consumers and the electricity system. There is a need for more flexible arrangements to enable innovations in technology, products, services and business models to be tested and trialled.

To support innovation, in 2017 Ofgem created a regulatory sandbox for small-scale innovative propositions to be trialled. However, the scope of this tool is limited by Ofgem’s remit, and does not extend to industry codes. In January 2018, we invited all industry code chairs to discuss innovation and the adoption of the sandbox approach. We further engaged with all Code Administrators’ panels.

A DCUSA modification process exists to enable changes to the code to be developed and decided upon. This process is not designed for trialling innovative proposals. The existing DCUSA derogation provisions are also not suited to trialling innovative sandbox proposals. This modification seeks to align the DCUSA derogations process with related cross-code sandbox arrangements aimed at facilitating innovation: Principle 14⁴ of the Code Administration Code of Practices (CACoP)⁵, and similar derogation provisions included within the Balancing and Settlement Code (BSC)⁷.

The modification proposal

The change proposal was raised by UK Power Networks (the Proposer) on 14 March 2019. The Proposer considers that the existing DCUSA derogation process is not flexible enough to cater for Sandbox Applications. DCP345 proposes to align the DCUSA’s derogations process with the sandbox approval arrangements set-out in Principle 14 of CACoP.

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² ‘Change’ and ‘modification’ are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ Code Administrators shall support prospective energy innovators

⁵ [Principle 14](#) seeks to encourage Code Administrators to develop cross code processes and identify and facilitate changes to their codes to support Ofgem’s innovation activities. It was approved on 17 September 2018.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/approval-changes-code-administration-code-practice-version-5>

⁷ The Balancing and Settlement Code (BSC) Electricity Market Sandbox was introduced through modification P362, approved by Ofgem on 20 August 2018: <https://www.elexon.co.uk/mod-proposal/p362/>

DCP345 proposes to allow industry participants with innovative propositions to seek derogations from relevant DCUSA obligations, in order to test and trial innovative products or services, for a fixed period of time. The key elements of this proposal are:

- Applications for a temporary derogation will be made to Ofgem, which will act as the single point of access and coordinate Sandbox Applications across the industry. Ofgem will assess and pass applications to DCUSA (and other Code Administrators if appropriate) for assessment.
- ElectraLink, as the DCUSA Code Administrator, will assess applications against eligibility criteria and advise the DCUSA Panel on its recommendation to Ofgem about whether the derogation should be granted.
- Only once Ofgem has given its approval can a sandbox derogation be granted. Unlike other DCUSA derogation decisions (which may be made by the DCUSA Panel), under DCP345 all sandbox derogation requests are decided by Ofgem.
- Any innovator can apply to the DCUSA sandbox. However, if successful, the Sandbox Applicant will either have to accede to the DCUSA (or work with a partner that has already acceded) for the derogation to take effect.
- Derogations provided in the DCUSA sandbox are time limited, with a focus on testing and learning.

The Proposer believes the modification better meets DCUSA General Objective (d)⁸, because they consider it provides a robust process for the Authority to make decisions on all requests for sandbox derogations, thereby mitigating the risk of an innovator incurring unnecessary costs.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the CVA Registrant party category),⁹ there was unanimous support for the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP345 is accepted. The outcome of the weighted vote is set out in the table below:

DCP345	WEIGHTED VOTING (%)							
	DNO ¹⁰		IDNO/OTSO ¹¹		SUPPLIER		CVA ¹²	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	100%	0%	N/A	N/A
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	N/A	N/A

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report received by us on 15 October 2019. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

⁸ General Objective (d) is concerned with the "promotion of efficiency in the implementation and administration of the DCUSA."

⁹ There are currently no gas supplier parties.

¹⁰ Distribution Network Operator.

¹¹ Independent Distribution Network Operator/Offshore Transmission System Operator.

¹² Central Volume Allocation.

- Implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objective;¹³ and
- Directing that the modification is approved is consistent with our principal objective and statutory duties.¹⁴

Reasons for our decision

We consider this modification proposal will better facilitate Applicable DCUSA Objective (d) and have a neutral impact on the other objectives.

Applicable DCUSA Objective (d) – the promotion of efficiency in the implementation and administration of the DCUSA arrangements

We welcome the introduction of the DCUSA Sandbox Application mechanism, which will provide a means to enable innovators to undertake time-limited tests and trials in the electricity sector.

We agree with the Proposer (and the workgroup) that the current DCUSA derogation provision should be amended to enable consideration of sandbox derogation requests in a way that aligns with the process in Principle 14 of CACoP. This Principle sets-out that it is for the Authority to make the decision on sandbox derogations with the Panel providing a recommendation.

The Sandbox Application mechanism will require resource from ElectraLink to administer. Ofgem will act as the gatekeeper for applications, which is expected to reduce the administrative burden. Additionally, the modification allows the Panel to set an application fee if required (currently set to zero) to recover costs if the volume of work becomes significant.

We note the workgroup’s deliberations about the transparency of the Sandbox Application and assessment process and the degree to which DCUSA Parties and the DCUSA Panel should have access to information about Sandbox Applications.

There were mixed views from respondents about whether there was a need for a pre-consultation period through which DCUSA parties would have the opportunity to provide feedback on Sandbox Applications before the Panel makes its recommendation to Ofgem. We agree it could be beneficial for Sandbox Applicants to receive advice from DCUSA parties, and for DCUSA parties to be aware of sandbox developments that may impact them. However, we share the view of other respondents that Sandbox Applicants’ commercially sensitive information must be protected. We consider that the workgroup solution provides for a balanced approach comprising of a pre-panel consultation with the Sandbox Applicant determining whether there is commercially sensitive information that should be protected and withheld. In these cases, only the DCUSA Panel would have access to the complete Sandbox Application.

¹³ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence. The relevant DCUSA Objective is Objective (d).

¹⁴ The Authority’s statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP345: Sandbox Application be made.

Neil Barnes

Deputy Director, Future Retail Markets

Signed on behalf of the Authority and authorised for that purpose