

Assessment Procedure Consultation Responses



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

This Assessment Procedure Consultation was issued on 3 May 2018, with responses invited by 22 May 2018.

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

| Respondent | No. of Parties/Non-Parties Represented | Role(s) Represented |
|---|--|---|
| Npower Ltd | 5 | Supplier, Supplier Agent |
| E.ON Energy Solutions | 1 | Supplier, Supplier Agent |
| Drax Group PLC | 1 | Generator |
| British Gas | 1 | Generator, Supplier |
| The Renewable Energy Company (Ecotricity) | 1 | Generator, Supplier |
| ScottishPower | 1/1 | Generator, Supplier, Non Physical Trader / ECVNA, MVRNA |
| National Grid (Electricity System Operator) | 1 | Transmission Company |

P362
2nd Assessment
Consultation Responses

23 May 2018

Version 1.0

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Question 1: Do you agree with the Workgroup’s initial majority view that the P362 Proposed solution does better facilitate the Applicable BSC Objectives compared with the current baseline?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|---|
| Npower Ltd | Yes | <p>We agree that this modification this better facilitates one of the Applicable BSC Objectives* and therefore should be approved on this basis.</p> <p>*(c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.</p> |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | <p>Applicable BSC Objective (c) – Positive</p> <p>We agree that the proposal may have marginal benefit in facilitating the trialling of innovative solutions. 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>Applicable BSC Objective (d) – Neutral</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, this may be in the interests of derogated parties and allow derogation to be longer than what is necessary.</p> <p>We support Ofgem’s eligibility criteria but would like to reiterate that no derogations</p> |

| Respondent | Response | Rationale |
|---|----------|--|
| | | should have a negative impact or act as barrier |
| British Gas | Yes | We agree that P362 does better facilitate the Applicable BSC Objectives as it will enable parties to the code to test and trial new innovative products thereby helping to improve competition in the market. |
| The Renewable Energy Company (Ecotricity) | Yes | P362 Proposed solution better facilitates Applicable BSC Objectives C and D due to the positive impacts witnessed with promoting effective competition and efficiency in the balancing and settlement arrangements. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | 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> |

Question 2: Do you agree with the Workgroup’s initial majority view that the P362 Alternative solution does better facilitate the Applicable BSC Objectives compared with the current baseline?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|---|
| Npower Ltd | Yes | <p>We agree that this modification this better facilitates objective C*, however in our view has a smaller negative impact on objective D**. Overall the alternative modification is an improvement to the baseline.</p> <p>*(c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.</p> <p>** (d) Promoting efficiency in the implementation of the balancing and settlement arrangements</p> |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | <p>Applicable BSC Objective (c) – Positive</p> <p>We agree that the proposal may have marginal benefit in facilitating the trialling of innovative solutions. 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. Its 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>Applicable BSC Objective (b) – Neutral</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>Applicable BSC Objective (d) – Neutral</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, this may be in the interests of derogated parties and allow derogation to be longer than what is necessary.</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. 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> |
| British Gas | Yes | We agree that P362 alternative solution does better facilitate the Applicable BSC Objectives as it will enable more parties to the code to test and trial new innovative products thereby helping to improve competition in the market. |
| The Renewable Energy Company (Ecotricity) | Yes | P362 Alternative solution better facilitates Applicable BSC Objectives C and D due to the positive impacts witnessed with promoting effective competition and efficiency in the balancing and settlement arrangements. |
| ScottishPower | Yes | 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. |
| National Grid (Electricity System Operator) | Yes | Yes, for the same reasons as above. |

Question 3: Do you agree with the Workgroup’s initial majority view that the P362 Alternative solution does better facilitate the Applicable BSC Objectives compared with the P362 Proposed solution and so should be approved?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 5 | 2 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|-----------------------|----------|---|
| 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 compared to the original.</p> <p>Other considerations:</p> <ul style="list-style-type: none"> The systems 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. 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. <p>We believe both of these points have the potential to negatively impact objective D.</p> |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | No | <p>We do not believe that the Alternative solution better facilitates the Applicable BSC Objectives compared to the Proposed solution.</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 TC 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 to apply</p> |

| Respondent | Response | Rationale |
|---|----------|---|
| | | <p>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> |
| British Gas | Yes | The alternative solution would mean that there is a greater potential for the BSC sandbox to be used if more parties have the ability to be involved. |
| The Renewable Energy Company (Ecotricity) | Yes | <p>The P362 Alternative solution does better facilitate the Applicable BSC Objectives than the P362 Proposed solution. The P362 Alternative solution achieves this by better facilitating Applicable BSC Objective C, due to there being less restrictions on facilitating effective competition and allowing wider participation.</p> <p>However, while we agree in principle that the P362 Alternative solution does better facilitate the Applicable BSC Objectives than the P362 Proposed solution, we believe that any sandbox applications made by the Transmission Company must ensure greater transparency. This will ensure that the Transmission Company cannot exploit its position as a monopoly and the wider industry can learn from any trials undertaken by the Transmission Company.</p> |
| ScottishPower | Yes | Refer to Q2 notes. |
| National Grid (Electricity System Operator) | 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. |

Question 4: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of P362 Proposed solution?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|---|
| Npower Ltd | Yes | None provided. |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | The legal text delivers the proposed solution. |
| British Gas | Yes | None provided. |
| The Renewable Energy Company (Ecotricity) | Yes | We agree that the draft legal text delivers the intentions of the P362 Proposed solution. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | Yes | The draft legal text appears to deliver the intention of the Proposal. |

Question 5: Do you agree with the Workgroup that the draft legal text in Attachment B delivers the intention of P362 Alternative solution?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|--|
| Npower Ltd | Yes | None provided. |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | The legal text delivers the alternate solution, allowing the TC to apply for derogations. |
| British Gas | Yes | None provided. |
| The Renewable Energy Company (Ecotricity) | Yes | We agree that the draft legal text delivers the intentions of the P362 Alternative solution. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | Yes | The draft legal text appears to deliver the intention of the Proposal. |

Question 6: Do you agree with the Workgroup's recommended Implementation Date?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|---|
| Npower Ltd | Yes | None provided. |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | Since this is a document only change, we think implementation Five Working Days after the Authority's decision is reasonable. |
| British Gas | Yes | None provided. |
| The Renewable Energy Company (Ecotricity) | Yes | We agree with the recommended Implementation Date. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | Yes | If approved we see no reason why a longer implementation period would be required. |

Question 7: Do you agree with the Workgroup that there are no other potential Alternative Modifications within the scope of P362 which would better facilitate the Applicable BSC Objectives compared to the Proposed and Alternative Modifications?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 6 | 1 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|---|
| Npower Ltd | No | An alternative could be the proposed process without the option to extend the derogation through a transition period, where a related modification is raised. This would make the process simpler and reduce the amount of time a derogation is required for, however the derogated party may experience regression costs / impact. |
| E.ON Energy Solutions | Yes | None provided. |
| Drax Group PLC | Yes | We do not wish to raise an alternative modification. |
| British Gas | Yes | None provided. |
| The Renewable Energy Company (Ecotricity) | Yes | We don't believe there are any other potential Alternative Modifications. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | Yes | n/a |

Question 8: Will P362 impact your organisation?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 1 | 6 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|---|
| Npower Ltd | Yes | As a BSC party we will need to adapt our change process to take into account a review and response for any BSC derogation applications raised, prior to Panel review. |
| E.ON Energy Solutions | No | None provided. |
| Drax Group PLC | No | The implementation of P362 will not have an immediate impact, although there are obvious risks in diluting compliance with BSC rules and parties obligations, potentially resulting in derogated parties having a distinct competitive advantage. |
| British Gas | No | None provided. |
| The Renewable Energy Company (Ecotricity) | No | There is no direct material impact upon us as an organisation from this modification, only new opportunities. |
| ScottishPower | No | None provided. |
| National Grid (Electricity System Operator) | No | We do not believe that we will be directly impacted as a result of the implementation of this Proposal. |

Question 9: Will your organisation incur any costs in implementing P362?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 0 | 7 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|--|
| Npower Ltd | No | Costs for a minor process change only. This is based on the assumption that levels of derogations that progress further that the application stage will be relatively low. |
| E.ON Energy Solutions | No | None provided. |
| Drax Group PLC | No | As above, there will be no immediate impact. |
| British Gas | No | None provided. |
| The Renewable Energy Company (Ecotricity) | No | We shan't incur any costs from implementation P362. |
| ScottishPower | No | None provided. |
| National Grid (Electricity System Operator) | No | We do not believe that we will incur any costs as a direct result of the implementation of this Proposal. |

Question 10: How long (from the point of Ofgem approval) would you need to implement P362?

Responses

| Respondent | Response |
|---|---|
| Npower Ltd | The proposed time frame is acceptable. |
| E.ON Energy Solutions | We don't expect any direct impacts so 10wd's should be sufficient for an internal review |
| Drax Group PLC | We do not need any time to implement P362. |
| British Gas | We are happy with the proposed implementation timescales as this is a document only change |
| The Renewable Energy Company (Ecotricity) | As there is no direct material impact upon us as an organisation from this modification, we don't require any implementation lead time. |
| ScottishPower | No more than a month. |
| National Grid (Electricity System Operator) | n/a |

Question 11: Do you agree that P362 does not meet the Self-Governance Criteria and so should not be progressed as a Self-Governance Modification?

Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 7 | 0 | 0 | 0 |

Responses

| Respondent | Response | Rationale |
|---|----------|---|
| Npower Ltd | Yes | This modification is clearly not self-governance and could materially impact: i) existing or future electricity consumers; ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and v) the Code's governance procedures or modification procedures, |
| E.ON Energy Solutions | Yes | None provided. |
| 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). |
| British Gas | Yes | None provided. |
| The Renewable Energy Company (Ecotricity) | Yes | We have no further comments to provide. |
| ScottishPower | Yes | None provided. |
| National Grid (Electricity System Operator) | 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. |

Question 12: Do you have any further comments on P362?

Summary

| Yes | No |
|-----|----|
| 3 | 4 |

Responses

| Respondent | Response | Comments |
|---|----------|--|
| Npower Ltd | Yes | It is worth noting that without actual examples of derogations that may be requested the proposed BSC process is best guess, so may need to evolve over time. The protections for BSC parties appear robust. |
| E.ON Energy Solutions | No | None provided. |
| 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. |
| British Gas | No | None provided. |
| The Renewable Energy Company (Ecotricity) | No | We have no further comments to provide. |
| ScottishPower | Yes | Refer to note in Q2. |
| National Grid (Electricity System Operator) | No | n/a |