Innovation Sandbox Service - Overview

Introduction

1. Our Strategic Narrative for 2019-23 recognises the critical role innovation will play in delivering new products and services that better respond to consumers' needs in a decarbonising energy system.

2. To enable this, we commit to removing barriers to new business models from the regulatory framework; this is echoed in our Decarbonisation Action Plan which says we will "support innovation and experimentation, particularly in the retail market, to create low carbon products and services that will directly benefit consumers."

3. The energy sector rulebook rightly sets the high standards we expect of an essential service. As the system transitions, the rules that govern it will too. But, where an innovator wants to trial something novel, or launch a new business now, some rules might be barriers to making this happen.

4. We launched the sandbox in 2017 as a means of experimenting with ways of mitigating barriers where an innovator's plans didn't readily fit with the rulebook, but where there was the prospect of consumer benefit. We've run two sandbox application windows (see here for the outcomes of window 1 and window 2) and worked with lots of innovators. We've learned from this, and better understand the kinds of support innovators are looking for, and are expanding the support that's available through the sandbox.

What's on offer?

5. The sandbox service is here to help innovators that want to offer something different to energy consumers, but their plans don't fit comfortably with today's rules. It can support innovators in delivering trials, or entering the market with a new product or service:

Trials

- An innovator may want to trial (or pilot or demonstrate) a new proposition in a live operating environment, but are concerned about how the rules apply to them.
- The sandbox could provide bespoke guidance on what the rules would mean in their specific trial circumstances. Or, it could provide comfort about our approach to enforcement for the purposes of a trial.

Market entry

- An innovator may have developed a product or service and are near market ready, but investors and customers aren't clear that what they're being offered is permitted. The sandbox won't endorse a specific product or business, but can confirm whether a type of activity is permissible.
- Alternatively, an innovator has identified a specific rule that's blocking their proposition and wants to explore what flexibility might be available (by way of derogation) for temporary or enduring relief.

6. The sandbox is an adaptive service, designed to respond to the specific aspirations and needs of an innovator, dependent on their stage of development. It could be that an innovator wants to undertake a trail before entering the market; in this scenario the innovator may seek sandbox support for the different stages.

7. Unlike the original sandbox, innovators will be able to access the service when they need it rather than fit into strict windows deadlines. That's not to say that we won't consider utilising windows in the future, potentially for themed sandbox activities.

8. Our experience is that many innovators need feedback instead of, or in advance of, sandbox support. We expect anyone seeking sandbox support to have a sufficiently mature

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proposition, and are able to set-out what support they require. If a proposition isn't ready, innovators can access our [feedback service](#) or seek sandbox support at a later time.

Who's it for?

9. The sandbox is for innovators who already (or intend to) operate in a regulated energy market. This doesn't mean that only licensees (generally speaking, holders of generation, distribution and supply licences) can benefit, but in most cases an innovator wanting to run a live trial either has to be a licensee, work with a licensee or be a party to industry codes that allow them to participate in the system.

10. Similarly, for innovators seeking to launch a new product or service, they too may already be licensed, exempted from the requirement to hold a licence, or are undertaking activities that don't require licences. The type of support available and who can access it, will ultimately depend on who the innovator is, what market they're operating in and what they want to do.

11. Our experience is that most innovators seeking sandbox-like support are looking at opportunities in the retail electricity market. At the same time, other innovations we're seeing are blurring the lines between the roles of generator, network operator, supplier and consumer, with value streams reaching across the wholesale, retail and flexibility markets. This means that while we expect the retail emphasis to continue, the sandbox is available to innovators in other energy markets where they too can demonstrate a barrier, the potential for consumer benefit and the need for support.

How's it different from the previous sandbox?

12. The service has evolved to reflect what innovators told us they needed. The main things we learned from the first two windows and how we've adapted the service are summarised in the table below.

13. However, innovators also told us that it's important that the limitations of the sandbox are made clear so they can make informed judgements about resources and risk. One of the key issues that came up through the first two windows, is that the energy regulation

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sandbox can only operate within existing arrangements. The sandbox does not and is not capable of providing what some innovators' desire: an alternative regulatory framework they can 'play-in' with all current rules turned off, much more akin to digital / software development sandboxes.

		How the sandbox has evolved

What we learned		New sandbox service
Innovators want to access the sandbox at time of need	⇒	• An on-demand service is more innovator friendly. • Innovator's stage of development determines timing of request. Not forced to ask for support too soon.
Scope of rules covered too narrow	⇒	• We are looking at expanding the number of rules in the supply licence that we can provide relief from. • Sandbox now includes code tools: BSC and DCUSA. • REC hard-wiring sandbox flexibilities. • Innovation principle adopted in CACoP.
Innovators want to launch businesses not do trials	⇒	• Sandbox will confirm whether non-traditional types of activity are permissible. • Derogations available to support market entry.
Start-ups want to signal low regulatory risks to investors	⇒	• Sandbox will confirm whether non-traditional types of activity are permissible.
Innovators want clarity about support available	⇒	• Guidance will be explicit about sandbox scope. • Clear entry criteria for different sandbox services.
Innovators often need guidance, not sandboxes	⇒	• Innovators access feedback if not sandbox-ready. • We will publish general guidance on common use-cases / issues arising from the feedback service. • Where possible, we will publish details of activities that we have confirmed as permissible so this is available to others.

14. One of the main changes is the range of tools available. The Balancing and Settlement Codes (BSC) and the Distribution Connection and Use of System Agreement (DCUSA) both have sandbox capabilities. The forthcoming Retail Energy Code (REC) is hard-wiring sandbox flexibility, and the Code Administrators have adopted a new innovation principle as part of their collective Code of Practice (CACoP). While the sandbox doesn't have complete code coverage, there are opportunities to evolve and expand this over time.

How will innovators access sandbox support?

15. Innovators will apply to Ofgem's Innovation Link for sandbox support. It's an open-access service, available to innovators at any time. In keeping with one-stop-shop principles, Ofgem will be the single point of entry and will coordinate support from the code bodies.

16. If we don't think an innovator's proposition is ready for sandbox support, it could be that they would benefit from our feedback service and / or pre-sandbox support available from Elexon (for the BSC) and ElectraLink (for DCUSA).

17. The sandbox prospectus setting out the detail of what's on offer and what's out of scope, who can access it, how to apply, entry criteria and other key information will go live shortly.

18. You can keep up-to-date by checking back at our webpage, or contact the Link team to register your interest.