



The Innovation Link

Open letter:

To energy innovators

Date: 06 February 2017

Request for expressions of interest in a 'regulatory sandbox'

In December we launched the Innovation Link. It provides fast, frank feedback to help innovators understand the regulatory implications of their business propositions.

Reaction to the Innovation Link has been positive and we have received a number of enquiries covering a wide range of topics from a broad base of innovators. We are now engaging with these innovators to provide them with feedback on the relevant regulations.

However, we also committed to trialling means to address the regulatory barriers that innovators face, through a regulatory sandbox.

We are now inviting expressions of interest for a potential regulatory sandbox

What is a regulatory sandbox?

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.

How might a sandbox work?

We have an open mind on the exact form of support offered by the regulatory sandbox. Hence, we are calling innovators to come forward with information about the regulatory barriers they face in order for us to assess whether there is support that we can offer.

Options for support may include:

- **bespoke guidance:** guidance on the interpretation of or compliance with regulatory requirements, which innovators can rely on for a defined period of time.

- **indication of approach to enforcement:** guidance on how we might enforce particular regulatory requirements (in accordance with our Enforcement Guidelines) which would be valid for a particular period of time
- **derogations or exemptions from certain regulatory requirements:** where relevant, we will refer innovators to exemptions or derogations that already exist and support them in their application.

For Ofgem to offer sandbox support we need to be satisfied that: a) the innovation will deliver consumer benefits and consumers will be protected during the trial; and b) that the barrier faced is one that arises from requirements or provisions overseen by Ofgem. As such, there may be applications that we are unable to support.

All sandbox support will be time limited. We may also put safeguards on innovators to ensure that the risk is not transferred from the innovator to consumers. For example, support may be applicable to the business operating with a maximum number of consumers and/or require the innovator to return consumers to the pre-test state.

Eligibility criteria

- **genuine innovation:** the concept must be ground breaking or significantly different to existing offerings.
- **consumer benefit:** the concept must offer a good prospect of benefits to consumers.
- **need for regulatory sandbox:** the innovator must be able to demonstrate why it needs a sandbox arrangement – i.e. what regulatory barrier currently exists that impedes the business trialling the new proposition.
- **type of regulatory barrier:** Ofgem cannot remove regulatory barriers which arise from primary legislation, or rules enforced by others. The barrier must arise from requirements or provisions enforced by Ofgem.
- **timescales:** the innovator must be able to set out the timescales on which it will be ready (e.g. technically, financially and commercially) to conduct its trial and how it expects to achieve this. Any dependencies (e.g. on other organisations) should be made clear.

How to express interest?

Interested innovators should use the **expression of interest form** published alongside this letter. To do this, please email innovationlink@ofgem.gov.uk and **mark your email as a sandbox enquiry**. Final expressions of interest must be submitted by **Friday 17 March 2017**.

Next steps

When we receive any expressions of interest, our first step will be to assess them against the eligibility criteria above. We will then determine whether we can offer one of the options and outline the safeguards necessary. We will talk to the relevant innovators in our assessment process. An update will be provided on the levels of interest and how we plan to take this initiative forward in May 2017.

Yours faithfully,

Pamela Taylor, Partner, Innovation Link