

What is a regulatory sandbox?

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The regulatory sandbox allows innovators to trial new products, services and business models in a real-world environment without some of the usual rules applying.

Why are we offering regulatory sandboxes?

We're standing at the edge of a deep and wide-ranging transformation in the energy system. The rules and ways in which we regulate need to evolve to facilitate this change and ensure that we best protect consumers' interests.

But we can't be certain about what the future will look like. We think that regulating for uncertainty requires a more flexible approach that relies more on learning over time. We've developed the regulatory sandbox to allow innovators to test new products, services and business models. The concept derives from the world of software development where new code can be tested in a ring-fenced setting, without affecting the operations and safety of the wider system.

A sandbox allows a small, temporary trial

The sandbox offers innovators the opportunity to run a trial where some rules have been temporarily removed. Each trial will run for a set period of time with a limited number of customers. We expect the trial to have explicit learning objectives to test the viability of the model. At the end of the trial, all rules will apply as normal. The innovator will report what it has learnt. Ofgem will consider the results during future policy development.

The sandbox is not

It is not a means to change regulation on a permanent basis. To make permanent changes to regulation, we follow established processes leading to industry-wide changes available to all parties. Sandbox trials can provide evidence to help us understand whether regulation should change permanently.

A sandbox is also not an endorsement from Ofgem for a specific business model, product, service or new way of doing something.

What does a sandbox look like?

To allow an innovator to conduct a trial, the sandbox can offer one or more of:

- **Bespoke guidance:** on interpreting or complying with regulation, which innovators can rely on for the duration of their trial.
- **Comfort about approach to enforcement:** assurance on how we might enforce particular regulatory requirements, which would be valid for a period of time.

- **Relief from certain regulatory requirements:** help for licence holders to apply for relief from elements of their supply, distribution or generation licence through Ofgem's existing derogation process.

A derogation requires the involvement of a company licensed by Ofgem

Ofgem generally regulates energy companies through the licenses we grant. We can only offer derogations to companies that we license. If innovators are not licensed and are seeking derogations, then they will need to work with a licensed business (in our experience, normally a supplier), for the duration of the sandbox.

So far, the regulatory sandbox has covered rules controlled by Ofgem. We are not able to offer relief from the detailed codes which underpin the operation of the gas and electricity markets, and which industry maintain.

Eligibility criteria

For Ofgem to offer sandbox support, we will consider whether the proposition meets the following criteria:

- a) **The proposal is genuinely innovative.** This means that the product or service is not already being offered in the market or the business model being used to deliver the service or product is new and sufficiently different.
- b) **The innovation will deliver consumer benefits and consumers will be protected during the trial.** The innovator can demonstrate indirect or direct consumer benefit and has considered possible consumer risks and how to mitigate them.
- c) **A regulatory barrier inhibits innovation.** Ofgem, the Government and a number of other industry bodies oversee different parts of the market and regulatory arrangements. As such, Ofgem cannot commit to being able to remove all of the barriers that are identified. However, where possible we will assist innovators in bridging the gap with relevant bodies.
- d) **The proposal can be trialled.** The innovator has a well-developed plan to trial the innovation. The plan will include clear objectives and success criteria and must be completed within 24 months of the sandbox being granted.