



The Innovation Link

Regulatory Sandbox Window 2 Guidance

Ofgem's Innovation Link is a 'one stop shop' offering support on energy regulation to businesses looking to introduce innovative or significantly different propositions to the energy sector.

We want to support innovative ideas that bring benefits to consumers. This also helps us understand emerging trends in the sector and identify areas in which our regulation may need to adapt to sustain innovation.

We are requesting expressions of interest from energy innovators who aim to trial innovative products, services and business models that may benefit from a regulatory sandbox.

What the regulatory sandbox is

The regulatory sandbox allows for the trialling of innovative business products, services and business models that cannot currently operate under the existing regulations. Trials run for a set period of time with a limited number of customers.

For Ofgem to offer sandbox support we need to be satisfied that an innovative proposition meets the sandbox eligibility criteria, namely that:

- 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 has potential to deliver consumer benefits and consumers will be protected during the trial;** any potential risks are not transferred from the innovator to consumers; we may put safeguards in place to preclude this happening.
- c) **A regulatory barrier inhibits the progress of a trial.** Ofgem, the government (the Department for Business, Energy, and Industrial Strategy) 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.

What the regulatory sandbox is not

The purpose of the regulatory sandbox is to enable companies to trial new products, services and business models to test in a real world application. We expect trials to be limited in numbers of customers and in duration. The sandbox is not a means to change policy or regulation on a permanent basis. To make permanent changes to regulations, we have to follow appropriate processes and make them available to all parties.

The regulatory sandbox is not a mechanism to trial out new regulations. Sandbox propositions must centre on the trial of a new technology or business model, rather than the application of new regulation to existing schemes. While there may be merit in such trials, these are best taken forward by the policy teams in Ofgem so we will not accept these in the sandbox but refer innovators to the relevant teams.

What innovators can expect

We will engage with all innovators who express interest, to discuss their proposition in the context of the sandbox eligibility criteria as well as to understand their product, service or business model in a two-step process.

Our fast frank feedback service will serve as **step one** in supporting innovators to assess whether their business model could operate within the current regulatory framework and whether a sandbox is necessary. While this service is available from the Innovation Link throughout the year, it serves to bolster both Ofgem's and innovators' understanding of the regulatory challenges faced.

Where fast, frank feedback identifies regulatory barriers and the eligibility criteria are met, we will engage in **step 2** and ask those innovators to apply for a sandbox by completing a detailed application form. We will work, with innovators who make an application to the sandbox to assess the detail of their proposition and regulatory barriers. We will announce sandbox candidates thereafter.

Sandbox candidates may receive any or all of the following support:

- Bespoke guidance: guidance on the interpretation of or compliance with regulatory requirements, which innovators can rely on for the duration of the trial;
- 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; and/or
- Derogations or exemptions from certain regulatory requirements: where relevant, we will refer innovators to exemptions or derogation mechanisms that already exist and support them in their application.

Sandbox eligibility criteria

Sandbox Criteria	Key questions	Positive indicators	Negative indicators
Genuine innovation	Is your innovation groundbreaking or a significantly different offering in the marketplace?	Innovation is identified as significantly different from current market offerings. Step-change in scale	There are numerous examples of similar offerings already established in the market It looks like artificial product differentiation
Consumer benefit	Does the innovation offer a good prospect of identifiable benefit to consumers (either directly or via heightened competition)?	The innovation is likely to lead to a better deal for consumer directly or indirectly The applicant has identified any possible consumer risks and proposed mitigation The innovation will promote effective competition	Likely detrimental impact on consumers, markets or the energy system It looks designed to circumvent regulations rather than meet consumer's needs.
Need for a sandbox	Do you have a genuine need to test the innovation in our sandbox?	The innovation does not easily fit the existing regulatory framework, making it difficult or costly to get the innovation to market There is a clear need for a sandbox to trial in a live environment The business has no alternative means of engaging with the Ofgem, other key network stakeholders or achieving the testing objective The full authorisation process would be too costly/difficult for a short viability test	Live testing is not necessary to answer the question that the innovator wants answered (to achieve the testing objective) The innovator is able to undertake the trial easily without the support of the Ofgem The innovator's query can be answered through the Innovation Link's fast, frank feedback service The innovator's trial objectives or query are beyond Ofgem's remit – in which case Ofgem will support and coordinate with other organisations to the extent possible
Ready for trial	Are you ready to trial the innovation on the energy system with real consumers?	The applicant has a well-developed plan with clear objectives, parameters and success criteria and is capable of completing a trial within 24 months of a sandbox being granted. Some testing and modelling has been conducted to date The innovator has the resources to test in the sandbox	Unclear objectives for testing and/or plans for testing are underdeveloped and/or unable to complete a trial within 24 months of a sandbox being granted. Little to no testing has been done The innovator does not have the resources for the test

How to apply and important dates

2 October – Regulatory sandbox window 2 is open for expressions of interest. To express interest, please contact the team by emailing us at innovationlink@ofgem.gov.uk with the subject “**sandbox expression of interest**”. We will respond on a first come first served basis. We will schedule initial meetings with innovators who contact us during this period, subject to our resource availability. Therefore, we recommend that innovators engage early.

27 October – Deadline for submitting expressions of interest.

3 November – All innovators who submitted an expression of interest must have had an initial meeting with the innovation team by this date. If you have been unable to complete this, you are still eligible for fast, frank feedback, but may not be eligible for the sandbox. Please engage early to avoid disappointment.

November to December – Innovators will be provided with the fast, frank feedback service

Late December – Innovators identified as sandbox applicant candidates are notified

12 January – Deadline for sandbox application form submissions

February – Regulatory sandbox window 2 candidates announced

May – Regulatory sandbox granted