



Regulatory sandbox arrangements - interim advice

The Australian Energy Market Commission (AEMC) has recommended the introduction of formal regulatory sandbox arrangements in the national electricity market (NEM) to make it easier for businesses to develop and trial innovative energy technologies and business models.

The regulatory sandbox approach

The emergence of innovative energy technologies and business models can bring significant benefits to consumers, but new concepts can sometimes be inconsistent with the existing regulatory framework.

The AEMC is exploring potential barriers to trialling new approaches and whether there may be a need for formal regulatory sandbox arrangements in the NEM. A “regulatory sandbox” is a framework within which participants can trial innovative technology, business models, products and services in the market under relaxed regulatory requirements at a smaller scale, on a time-limited basis, and with appropriate safeguards in place.

Interim advice

The AEMC’s interim advice is that current arrangements for facilitating proof-of-concept trials can be improved and that trials can be better facilitated and coordinated through the introduction of regulatory sandbox arrangements in the national electricity market (NEM). The Commission considers that a regulatory sandbox initiative could provide for a regulatory framework that is better equipped at responding to the rapid change in the electricity sector and delivering customer benefits through innovation.

Feedback from stakeholders suggested that greater flexibility in the regulatory framework, a defined and well understood regulatory process for conducting trials and more guidance on navigating the regulatory framework would serve to better facilitate proof-of-concept trials and promote innovation in the NEM.

The Commission suggests that a regulatory sandbox initiative aimed at encouraging innovation which has the potential to contribute to the long term interest of consumer should be developed further. The Commission proposes a regulatory sandbox initiative that could make use of a variety of existing and new tools that could be applied according to their suitability to a proposed trial. To access regulatory sandbox arrangements, proof-of-concept trials would need to be time-limited and meet appropriate eligibility criteria, and appropriate consumer safeguards must remain in place.

The regulatory tools in the sandbox initiative could include:

- a new, coordinated approach to providing feedback and guidance on regulatory issues to proponents of proof-of-trials
- introducing a broad power for the Australian Energy Regulator (AER) to grant specific, time-limited exemptions or waivers to allow proof-of-concept trials to proceed, subject to a “sandbox guideline” to be developed by the AER in consultation with stakeholders
- a new AEMC expedited rule change process for proof-of-concept trials that involve significant deviation from existing energy market rules. For example, a trial of aggregated demand response may need a new concept of “baseline energy” incorporated in the rules. This could involve the AEMC making expedited, time-limited rules, possibly restricted to a certain location or group of market participants. If the trial is successful, a permanent rule change could be initiated.

The regulatory sandbox initiative could facilitate access to existing regulatory tools such as

the AER's ring-fencing waivers and retailer exemptions provided by the AER.

Next steps

The Commission considers that immediate steps could be taken to develop the new process for coordinated guidance and feedback for trial proponents under a collaborative effort involving the AEMC, AER, Australian Energy Market Operator (AEMO), Energy Consumers Australia (ECA) and Australian Renewable Energy Agency (ARENA). This work could commence in the first half of 2019.

We also propose to consult further with stakeholders on the design of the regulatory sandbox arrangements, including appropriate eligibility criteria for trial proponents to access the regulatory sandbox and whether they should be extended to the regulatory framework for gas. This process would also consider possible law and rule changes to give effect to new AER waiver and exemption powers and the expedited AEMC rule change process for proof-of-concept trials. We would aim to provide advice on recommended law and rule changes to the COAG Energy Council in the second half of 2019 under the *Electricity network economic regulatory framework review*.

Background

As part of the 2019 *Electricity network economic regulatory framework review*, the COAG Energy Council requested the AEMC to examine regulatory sandbox arrangements and how to best facilitate coordination of proof-of-concept trials. The AEMC was required to provide interim advice by February 2019.

The Commission was requested to consider issues beyond economic regulation of electricity networks and the need for regulatory sandbox arrangements in other parts of the NEM regulatory framework, for example, relating to wholesale electricity markets and consumer protections.

This work also builds on the findings of our 2018 *Electricity network economic regulatory framework review*, a recommendation of the Independent Review into the Future Security of the National Electricity Market (Finkel review) and previous work done by state, territory and commonwealth officials to consider the case for introducing regulatory sandbox arrangements.

On 20 December 2018, the Commission published a consultation paper inviting written submissions by 31 January 2019. The Commission received submissions from 28 stakeholders, with most supporting the establishment of regulatory sandbox arrangements.

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