





Modification	At what stage is this document in the process?
<h1>IGT154:</h1> <h2>Introducing the concept of a derogation into the IGT UNC for Net Zero innovation projects</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This Modification seeks to introduce derogations for innovation projects related to Net Zero as a concept in the IGT UNC, giving effect to derogations implemented within the UNC (where there is an effect on one or more IGT networks) and enabling additional derogations to be created within the IGT UNC should they be required.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> assessed by a Workgroup go to the authority for approval <p>This modification will be presented by the Proposer to the Panel on 26th March 2021. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
<p>Impacted Parties and Codes</p>	
	<p>High Impact:</p> <p>None</p>
	<p>Medium Impact:</p> <p>Pipeline Operators, Pipeline Users involved in innovation projects and/or CDSP may be consequentially impacted by any derogation requests approved by this framework</p>
	<p>Low Impact:</p> <p>UNC – this Modification Proposal is linked to UNC 0760</p>

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Timetable

The Proposer recommends the following timetable:

Initial consideration by Workgroup	8 th April 2021
Amended Modification considered by Workgroup	dd month year
Workgroup Report presented to Panel	23 rd July 2021
Draft Modification Report issued for consultation	27 th July 2021
Consultation Close-out for representations	17 th August 2021
Variation Request presented to Panel	dd month year
Final Modification Report available for Panel	20 th August 2021
Modification Panel decision	27 th August 2021



Any questions?

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1 Summary

This Modification Proposal is linked to UNC0760 raised by Northern Gas Networks and is intended to ensure that any derogations to the UNC are applied appropriately within the IGT UNC where the derogation affects one or more IGT networks. It is also intended to provide scope for similar derogations to be raised to the IGT UNC specifically should that be appropriate in the future.

What

Currently there is no concept of derogation within either the UNC or the IGT UNC, which means that where innovation projects need to be trialled there either needs to be a Modification raised to amend the relevant part of the Codes, which changes this for all or the trial needs to be amended or have additional unnecessary parameters to allow it to proceed.

The concept of derogations exist within Ofgem's Licence Conditions and other Codes (such as Distribution Connection and Use of System Agreement (DCUSA), Balancing & Settlement Code (BSC) & Supply Point Administration Agreement (SPAA)) and therefore it would seem logical that this principle should also exist within the UNC and IGT UNC.

Why

Industry Codes are seen by many to prevent or restrict innovation. The process of requesting change can be lengthy and for new concepts, where there is no proof of benefit, it can be almost impossible to get positive decisions in a timely manner, if at all.

Aligning the IGT UNC with the UNC ensures that Independent Networks do not prevent or delay innovation projects driven by large transporters and can support and engage with such projects. A large number of innovation projects and trials are being undertaken to facilitate the UK's drive to 'Net Zero'.

Additionally, by allowing derogations to the IGT UNC, it will demonstrate that IGT UNC parties encourage innovation and seek to facilitate this where possible.

How

UNC Modification 0760 will, if implemented, introduce the concept of derogations into the UNC. It will set out the parameters around how derogations can be applied for, the evidence required, restrictions and decision-making criteria. It will allow UNC parties to apply for a derogation for innovation for their organisation, which may be for one, or a combination, of:

- a limited time
- a specific area of code
- a regional exclusion.

Innovation derogations may be applied against the majority of sections of the UNC and its related documents, except the following:

- Modification Rules,
- Part A (disputes)
- any part of the UNC covered by a live Significant Code Review (SCR)
- any part of the UNC that impacts the ability of Suppliers or end consumers to switch.

This modification is intended to ensure that where a derogation to the UNC affects an IGT network, the IGT UNC gives effect to that derogation.

It is also proposed that a process for enabling stand-alone derogations to the IGT UNC is created to facilitate innovation within IGT networks. This will allow IGT UNC parties to apply for a derogation for innovation for their organisation, which may be for one, or a combination, of:

- a limited time,
- a specific area of code
- a geographic area

Innovation derogations may be applied against the majority of sections of the UNC and its related documents, except the following:

- Part L (Modification Rules)
- Part K (General)
- any part of the IGT UNC covered by a live Significant Code Review (SCR)
- any part of the IGT UNC that impacts the ability of Suppliers or end consumers to switch.

It should be noted that anyone who is not a party to the IGT UNC can develop innovations and seek a derogation via Ofgem's Energy Regulation Sandbox¹.

2 Governance

Justification for Authority Direction

The Proposer believes that the Modification will cause a material change to the IGT UNC governance procedures and/or Modification procedures by introduction of the concept of derogation throughout the IGT UNC. This, under the Self-Governance criteria, as defined in the Gas Transporters Licence Standard Special Condition A11, 'excludes a proposal that, if implemented is likely to have a material effect on the Uniform Network Code governance procedures or the Network Code modification procedures'.

In addition, whilst this Modification does not have a material impact on competition or operation of the pipeline system, should this Modification be approved then derogations of material impact may be requested for consideration, therefore the Proposer believes this consequential impact supports the proposal that this Modification should be sent for Authority Direction.

UNC0760 will also be considered by the Authority.

Requested Next Steps

This modification should:

- be assessed by a Workgroup
- be considered a material change and not subject to Self-Governance

¹ [Energy Regulation Sandbox: Guidance for Innovators | Ofgem](#)

As far as possible this Modification should follow the same timeline as UNC0760 and be considered by the authority at the same time.

3 Why Change?

Facilitating Innovation projects that further net zero is not only in line with Ofgem's, but the United Kingdom's strategic direction. The Prime Minister, in his Ten Point Plan for a Green Industrial Revolution included 'Hydrogen: Working along-side partners in industry aiming to generate 5GW of low carbon hydrogen *production capacity by 2030 Together this will develop resilient supply chains, support jobs and position UK companies at the forefront of an exciting growing global market, as well help things like industrial processes, industrial heat, power, shipping and trucking to make the shift to net zero.*' His pledge in support of Hydrogen as a green energy '*by a range of measures, including a £240 million net zero Hydrogen Fund*' can only be achieved by industry working together to facilitate the associated innovation projects that would allow targets including a hydrogen heating trials by 2023, and a hydrogen town by the end of the decade, to be met².

Derogations already exist as a mechanism within energy licences and in other Codes (e.g. DCUSA, BSC & SPAA) and therefore it would seem logical that this principle should also exist within UNC and IGT UNC.

Without the concept of derogations within the UNC and IGT UNC, multiple innovation projects could be delayed or abandoned as there may be no effective way to trial the benefits without needing Code changes. Continued compliance with the UNC and IGT UNC is not only a code obligation but also a licence obligation and is the responsibility of each relevant party, as such Ofgem may take enforcement action and consequently issue an order and/or impose a penalty. However, there may be occasions when there is a specific, justified requirement for not complying with a particular paragraph or paragraphs of a Code whilst carrying out an innovation trials, pilots or demonstrations. In this case a derogation, limited in location and timescale, is likely to be the most economic and efficient mechanism to enable such trials. Should the trial be successful a more permanent solution should then be sought by the relevant party.

Large Gas Transporters have licence obligations in relation to delivery of innovation relating to net zero, and whilst there are no such obligations on IGTs, impeding the delivery of innovation projects which are designed to support the UK in reaching 'Net Zero' would be inappropriate. Therefore, ensuring that any derogations granted to the UNC are reflected in the IGT UNC will both support the Large Transporters in meeting their licence obligations and the UK as a whole in meeting Net Zero.

Going forward, IGTs may develop their own innovation projects that they wish to trial, these may not require a derogation from the UNC, just the IGT UNC and therefore it is proposed that as part of this change a process for derogating from the IGT UNC is developed and implemented.

² [PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs](#)

4 Code Specific Matters

Technical Skillsets

None specifically, although an understanding of the concept of Derogation, within energy or other industries, would be helpful.

Reference Documents

[UNC Modification 0760](#)

[Innovation Derogations Guidance Document v1.0](#)

[PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs](#)

5 Solution

Business Rules

1. An approved derogation to the UNC will be automatically effective in the IGT UNC (IGT's have a voting seat at the UNC Panel and will therefore be able to veto any derogations (*assumes requirement for a unanimous vote from UNC Panel is retained*)). [May need something in the UNC Mod to ensure any affected IGTs are notified]
2. A derogation request for the IGT UNC, may only be submitted where it is related to a project, trial or demonstration that is directly relating to net zero 'non-commercial research', as defined by Imperial College London,
3. Applications for derogations can only be made by valid IGT UNC licenced parties. Applications for derogations will only be deemed valid applications when made in accordance with [*the Innovation Derogation Guidance Document (to be created)*] as implemented with this Modification and published on the IGT UNC website.
4. The following areas of the IGT UNC are out of scope for derogation applications:
 - a) Part L - Modification Rules
 - b) Part K – General
 - c) Live Significant Code Review
 - d) Any part of Code that should a derogation be granted, would impact a supplier's, or end consumer's, ability to switch
5. Derogation requests should be submitted to the Code Administrator, to be circulated to IGT UNC Panel members. Panel members will discuss the request at the first available IGT UNC Panel, following a period of at least ten [10] days after submission to the Code Administrator.
6. A representative of the submitting party must be present at the relevant Panel to present a summary of the request and answer any questions Panel may have.
7. Panel members have discretion [based on majority] to defer derogation to the next scheduled Panel (excluding extraordinary Panel) for any applications with a large volume of supporting material, or more complex applications.

8. Panel members have discretion to request additional supporting information, based on a majority vote in favour. Where this cannot be provided at the time by the proposer, this process would result in the deferral of the vote to approve the derogation request to the next scheduled Panel meeting.
9. Derogation requests require a [unanimous] Panel vote in support of implementation to be approved.
10. The Authority has the ability to overrule any Panel decision within 15 days of Panel decision.
11. The derogation will take effect from the agreed date (no earlier than 16 days from date of decision), unless overruled by the Authority, or subject to an active appeal to the Authority.
12. Should a derogation request be rejected by Panel, then there is no right of appeal to Panel, nor can the application be resubmitted without it containing material changes.
13. Authority appeal process is aligned with Part L paragraph 30
14. Approved derogation requests will only be valid once any other required and relevant licence, or mandated body, derogation has also been granted.
15. Once a derogation request has been rejected or approved the derogation details, containing name and type of party that applied, the areas of code that the derogation applies to, length of derogation, and any other specific conditions (e.g. location), will be published on the IGT UNC website no sooner than the business day following the business day in which the notice in Business Rule 15 has been sent.
16. A notice of rejection or approval of Derogation, including the information included in Business Rule 14, or where applicable a notice of rejection of Derogation, will be issued to the applying party as soon as practicable.
17. An approved Derogation may be used in its entirety, or used in a limited capacity by the application party (e.g. a derogation may be approved for 4500 meter points, however only 2500 meter points may actually be part of the trial).

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This Modification proposal itself does not impact the current SCR. The Modification proposal, should it be implemented, excludes any areas of Code relating to any live SCR from being included in a derogation request.

Consumer Impacts

What is the current consumer experience?

As there is currently no derogation process, innovators may have been unable or unwilling to develop and trial projects relating to gas networks therefore stopping projects that would benefit consumers.

What would the new consumer experience be?

Facilitating innovation should benefit end consumers of all types, as innovation projects are in general about either improving the end consumer experience, or at least facilitating this through the supply chain, or directly relating to net zero, which has long term benefits for not only industry as a whole and the end consumer, but also environmental ones.

Allowing derogation for Gas Transporter or Shipper innovation projects would also facilitate improvements that could then be built upon by the Supplier and rest of the energy supply chain, which should result in further improvements for the end consumer.

Impact of the change on Consumer Benefit Areas

Area	Identified Impact
Improved safety and reliability	None
Lower bills than would otherwise be the case	None
Reduced environmental damage This proposal is designed to facilitate innovation projects which support the UK's pathway to Net Zero, therefore it is expected to have a positive impact on the environment.	Positive
Improved quality of service	None
Benefits for society as a whole Facilitating innovation is expected to have an overall positive impact on the UK economy, both in terms of creating new jobs within the UK and also in developing skills and knowledge that can be exported.	Positive

Cross-Code Impacts

This modification is related to UNC Mod 0760 and should ideally follow a similar timetable.

UNC	<input checked="" type="checkbox"/>
REC	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input type="checkbox"/>

Environmental Impacts

This proposal is designed to facilitate innovation projects which support the UK's pathway to Net Zero, therefore it is expected to have a positive impact on the environment.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
(A) Efficient and economic operation of the pipe-line system	None
(B) Co-ordinated, efficient and economic operation of (i) the combined pipe-line system; and/or (ii) the pipe-line system of one or more other relevant gas transporters	Positive
(C) Efficient discharge of the licensee's obligations	None
(D) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation agreements with other relevant gas transporters) and relevant shippers	None
(E) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers	None
(F) Promotion of efficiency in the implementation and administration of the Code	Positive
(G) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Cooperation of Energy Regulators	None

This proposal is expected to have a positive impact on relevant objective B by ensuring that any innovation trials within a geographic area that includes one of more IGT networks are able to incorporate those networks.

It is also expected to have a positive impact on relevant objective F but removing the requirement to modify the IGT UNC to enable trials for innovation projects, which by their nature may not progress.

8 Implementation

This modification can be implemented in the next IGT UNC release following approval by the authority as in itself, it does not require any system or process changes.

9 Legal Text

Text Commentary

To be provided.

Suggested Text

To be provided.

10 Recommendations**Proposer's Recommendation to Panel**

Panel is asked to:

- Refer this proposal to a Workgroup for assessment.