




| Final Modification Report   | At what stage is this document in the process?   |
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| <h1>IGT160:</h1> <h2>Introducing the concept of a derogation into the IGT UNC for innovation projects</h2>  | <div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div> |
| <p><b>Purpose of Modification:</b></p> <p>This Modification seeks to introduce a framework for derogations 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. This includes changes from IGT154<sup>1</sup> in accordance with Ofgem’s rejection letter.</p> |  |
|    | <p>Panel considered this Modification on 27<sup>th</sup> May 2022.</p> <p>The Panel unanimously recommended implementation.</p>  |
|    | <p>High Impact:<br/>None</p>   |
|    | <p>Medium Impact:<br/>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:<br/>UNC – this Modification Proposal is linked to UNC0800</p>   |

<sup>1</sup> IGT154 – Introducing the concept of a derogation into the IGT UNC for Net Zero innovation project

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**Any questions?**

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## Timetable

|  |                             |
|--|-----------------------------|
| <b>Modification timetable:</b>   |                             |
| Initial consideration by Workgroup   | 10 <sup>th</sup> March 2022 |
| Amended Modification considered by Workgroup   | 14 <sup>th</sup> April 2022 |
| Workgroup Report presented to Panel  | 29 <sup>th</sup> April 2022 |
| Draft Modification Report issued for consultation  | 29 <sup>th</sup> April 2022 |
| Consultation Close-out for representations   | 18 <sup>th</sup> May 2022   |
| Variation Request presented to Panel   | -                           |
| Final Modification Report available for Panel  | 20 <sup>th</sup> May 2022   |
| Modification Panel decision  | 27 <sup>th</sup> May 2022   |
| <p>Version 1 of the Workgroup Report was considered by Panel on 25<sup>th</sup> March 2022. The Panel agreed to send the Modification back to Workgroup for further consideration. The timetable above reflects the path following this send back.</p> |                             |

## 1 Summary

This Modification Proposal is linked to [UNC0800](#)<sup>2</sup> 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.

[UNC0760](#)<sup>3</sup> and IGT154 received unanimous support from their respective Modification Panels last year. Ofgem however rejected the proposals due to two specific concerns: governance relating to approval and appeals and timing of derogations from other codes and standards (specifically safety related). Due to the nature of these concerns and in accordance with their own procedures, Ofgem were required to reject the proposals, although they would have preferred to send them back.

In their rejection letter, Ofgem advised that they 'welcome the proposal to include a new section of the IGT UNC that would allow derogation requests' specifically mentioning this in relation to 'Net Zero innovation projects to be made', Ofgem have indicated that they would like to receive a new proposal as soon as possible, and have asked is there is any way that this can be treated as if it is a send back (they note that this decision is ultimately up to the Code Administrator and Panel members).

Please note that [various documentation](#) has been change marked throughout the journey of IGT160 to help show changes to the solution agreed by the Workgroup and the Proposer as the Modification developed. Please reach out to the Code Administrator if you would like to discuss these changes further.

### 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) & Retail Energy Code (REC) 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.

Currently the concept of a derogation exists in other codes, with each code having specific cases where a party is eligible to apply. Without the concept of derogation, and a framework that lays out how this works, within both the IGT UNC and UNC, there is no opportunity for derogation for any reason. Creation

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<sup>2</sup> 0800 - Introducing the concept of a derogation framework into Uniform Network Code (UNC) (Authority Direction)

<sup>3</sup> 0760 - Introducing the concept of a derogation framework into Uniform Network Code (UNC)

of the derogation framework should allow for different types of derogation categories ‘Use Cases’ to be defined as they are required by industry.

The Ofgem Sandbox exists in relation to licence derogations, and needs individual codes to also grant derogation where any project in the Sandbox impacts code, This is therefore restricted to codes that have the concept of Derogation, Ofgem have stated that the sandbox is currently aimed at electricity, and this is being addressed, however any changes are at least a number of years away, and therefore they can see there is a current and future need for derogations to be a concept within the UNC

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’.

## How

UNC Modification 0800 will, if implemented, introduce the concept of derogations as a framework within the UNC. It will set out the parameters around how derogations can be applied for, the evidence required, restrictions and decision-making criteria. There will be separate use cases for derogations, with each one being defined within the UNC. It will allow UNC parties to apply for a derogation, under the relevant use case which the derogation request qualifies under for their organisation, which may be for one, or a combination, of:

- a limited time or a specific outcome goal
- a specific area of code
- a regional exclusion

UNC Modification 0800 will also introduce the ‘use case’ of Net Zero Innovation under the derogation framework.

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

- Modification Rules, (including rules around derogations (once added))
- Part A (disputes)
- any part of the UNC covered by a live Significant Code Review (SCR)
- any part of the UNC that by a derogation being granted, would impact the ability of Suppliers or end consumers to switch
- any bilateral agreements that are enabled or governed by the UNC (e.g. NExAs).

This modification is intended to ensure that where a derogation to the UNC affects an IGT network and the ‘Use Case’ exists in the IGT UNC, 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 their organisation, which may be for one, or a combination, of:

- a limited time
- a specific outcome or goal
- a specific area of code
- a geographic area

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

- Part L (Modification Rules and including rules for derogations (once added))
- Part K (General)
- any part of the IGT UNC covered by a live Significant Code Review (SCR)
- any part of the IGT UNC that by a derogation being granted, would impact the ability of Suppliers or end consumers to switch
- any bilateral agreements that are enabled or governed by the IGT UNC.

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 Sandbox<sup>4</sup>, but that a derogation to the IGT UNC can only be requested by a Party.

## 2 Governance

### Justification for Urgency, Self-Governance or Fast Track Self-Governance

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.

UNC0800 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

As far as possible this Modification should follow the same timeline as UNC0800 and be considered by the authority at the same time.

### IGT160 Workgroup Comments

#### March 2022 Meeting

The Workgroup discussed the Proposers view that this Modification should proceed under Authority rules. The Workgroup agreed with the proposers view on materiality.

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<sup>4</sup> [Energy Regulation Sandbox: Guidance for Innovators | Ofgem](#)

## April 2022 Meeting

The Workgroup reconsidered the governance route taking the following into account:

- changes agreed to the solution with regards to UNC Derogations being applicable under the IGT UNC; and
- differences between IGT154 and IGT160.

The Workgroup agreed that IGT160 should still proceed to the Authority for decision for the reasons previously given. Views on changes to the solution and the differences between IGT154 and IGT160 can be found in Section 5 of this document.

## Panel Comments (May 2022)

The Panel unanimously agreed that this Modification should proceed to the Authority for decision.

## 3 Why Change?

Currently there is no concept of derogation within the UNC or IGT UNC, which means that where, for example, an innovation project needs to be trialled there either needs to be a Modification to amend the relevant part of the code(s), which changes this for all on a non-time-limited basis, or the trial needs to be amended or have additional unnecessary parameters to allow it to proceed, which in turn may hamper the ability for an accurate assessment of the validity of the outcomes.

Derogations already exist as a mechanism within Ofgem's Licence Conditions and other Codes (e.g. DCUSA, BSC & REC) and therefore it would seem logical that this principle should also exist within IGT UNC.

The Ofgem Sandbox exists in relation to licence derogations, and needs individual codes to also grant derogation where any project in the Sandbox impacts code, This is therefore restricted to codes that have the concept of Derogation, Ofgem have stated that the sandbox is currently aimed at electricity, and this is being addressed, however any changes are at least a number of years away, and therefore they can see there is a current and future need for derogations to be a concept within the IGT UNC and UNC.

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 met<sup>5</sup>.

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

<sup>5</sup> [PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs](#)

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.

## 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 0800Innovation Derogations Guidance Document v1.0 \(mod 0800\)](#)

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

## 5 Solution

Please note that [various documentation](#) has been change marked throughout the journey of IGT160 to help show changes to the solution agreed by the Workgroup and the Proposer as the Modification developed. Please reach out to the Code Administrator if you would like to discuss the changes further.

### Business Rules

#### Application of Derogations to the UNC to the IGT UNC

1. An approved and implemented derogation to the UNC will be automatically effective in the IGT UNC.

#### IGT UNC Derogation Framework

1. A derogation request for the IGT UNC, may only be submitted where it is related to a derogation 'use case' as defined in the IGT UNC to the extent that it applies to one or more IGT networks and meter points, provided the derogation 'use case' under which it was submitted exists within the IGT UNC.
2. Applications for derogations can only be made by valid IGT UNC licenced parties. Applications for derogations will only be deemed valid applications when made using the derogation application form (with all section completed and with appropriate accompanying evidence) as set out in *the Derogation Guidance Document*.

3. The derogation may only apply to the applicant party, or where the derogation is in relation to specific MPRNs, any IGT UNC Parties associated with the MPRNs within the scope of the derogation]
4. The following areas of the IGT UNC are out of scope for derogation applications:
  - a) Part L - Modification Rules and including rules for derogations (once added)
  - 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
  - e) any bilateral agreements that are enabled or governed by the IGT UNC
5. Derogation requests should be submitted to the Code Administrator. The Code Administrator will review the application as a 'critical friend' and will then circulate to IGT UNC Panel members, Pipeline Operators, Pipeline Users, the CDSP and to Ofgem. Panel members will discuss the request at the first available IGT UNC Panel, following a period of at least eight business days after submission to the Code Administrator.
6. There will be an initial Panel meeting to approve the derogation to be sent for industry consultation, with a second panel meeting to discuss responses received to consultation and vote on approving the derogation request. A representative of the submitting party must be present at each of the relevant Panel Meetings to present a summary of the request and answer any questions Panel may have.
7. At the initial Panel meeting the Panel should consider whether::
  - a) The derogation application is complete and contains sufficient information to enable industry parties to meaningfully comment
  - b) The derogation is compliant with the relevant Use Case
  - c) The derogation is to an out of scope area of the IGT UNC
  - d) The applicant has provided evidence that all necessary interactions with HSE have taken place and been satisfactorily concluded. This must (at a minimum) include the applicant's safety assessment which must demonstrate that the derogation does not adversely impact on:
    - o the safe management of Gas flow through a network;
    - o the arrangements to minimise the risk of a Gas supply emergency;
    - o the arrangements for dealing with Gas supply emergencies; and
    - o the arrangements for dealing with reported Gas escapes and incidents

'Gas' as defined in the Gas Act.

For the avoidance of doubt, it is up to the proposer to confirm that it has complied with all relevant safety requirements. The Panel shall not be required to independently verify any statement or representation made by the applicant Party regarding health and safety matters contained in the Derogation Application.
  - e) Any other derogations that are (in the applicant's opinion) required, have been applied for and not rejected.



- f) The derogation is materially different from a previous request that was rejected (either by Panel (as in BR7a) or by the Authority) or has been amended to address the reason for the rejection of, the original application).
  - g) Whether a derogation is appropriate in the circumstances or whether a modification proposal would be more suitable
8. The Panel will then determine (by majority):
- a) Whether to reject the derogation request as non-compliant
  - b) Whether to request additional consultation questions be added to the consultation response form
  - c) Whether further information is required from the Proposer (aligned to IGT UNC Part M paragraph 18.7(f)) which will defer any vote to send the derogation proposal for consultation until the next Panel, or the first Panel no less than eight Business Days after the Code Administrator has received the relevant responses as requested by Panel.
  - d) Whether to defer consideration of the derogation to a future meeting
9. Once the consultation has completed, the Panel will consider consultation responses and determine whether to recommend approval of the derogation to Ofgem. Where consultation responses have highlighted issues not previously considered, Panel members have discretion to request additional supporting information, based on a majority vote in favour and to re-issue the derogation for further consultation if they consider the information to have a material effect on the proposal. 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, or the first Panel no less than eight Business Days after the Code Administrator has received the relevant responses as requested by Panel. Panel may also choose to defer their decision to a future meeting.
10. Derogation requests will be subject to Authority determination. The Panel shall vote to recommend implementation by a simple majority. The Panel recommendation will be based on an assessment of the following factors:
- Impact on consumers – the extent to which the non-compliance impacts on consumers, for example through increased costs, or risks of failure of supply
  - Competition – for example, any competitive advantage that may arise from granting the Derogation
  - Other parties affected by the non-compliance, including where relevant, but not limited to
    - Central Data Systems Provider (CDSP)
    - Large distribution network operators
    - Other IGTs
    - Gas Shippers
  - Health and safety and the associated risk management and mitigation measures including approved derogation from HSE or other standards as appropriate.
11. The Authority may choose to approve or reject the derogation request or return it to the applicant for more information ('send back'). In the event the derogation is 'sent back', it shall be reviewed by the Panel before returning it to the Authority to ensure the revised derogation request meets Ofgem's criteria.
12. The derogation will take effect from the date directed by the Authority and will operate for the duration stated in the derogation application, unless the Authority determines otherwise.

13. An approved derogation request will only be valid once the Authority have approved all derogations within their remit. In these circumstances, the applicant must notify the IGT UNC Panel once they have received all required approvals and to confirm the start date. The IGT UNC Code administrator will notify market participants and publish this information on the IGT UNC website.
14. A derogation must contain either a fixed end date, or contain a backstop date: at either point the derogation will cease to be valid. The Authority have the ability to impose their own backstop date, in which case this will supersede any stipulated end or backstop date provided by the proposer.
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, duration of derogation, and any other specific conditions (e.g. location), will be published on the IGT UNC website.
16. A notice of rejection or approval of derogation, including the information included in Business Rule 15, or where applicable a notice of rejection of derogation, will be issued to the applying party as soon as practicable after the Authority decision.
17. An approved derogation request will only be valid once any other required and relevant licence, or mandated body, derogation has also been granted (or determined not to be relevant). Safety related matters must be satisfactorily concluded before Panel can make a recommendation to the Authority. Where additional derogations are required, the applicant must notify the Code Administrator once they have received all required approvals and to confirm the start date. The Code Administrator will notify market participants and publish this information on the IGT UNC website.
18. An approved derogation may be used it 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).
19. For the avoidance of doubt, any party holding an approved derogation is required to comply with all other provisions of the IGT UNC and with all conditions and mitigating actions set out in their derogation application (and supporting documents).
20. An approved derogation may be varied by submission of a new derogation request via the IGT UNC Code Administrator clearly showing it is intended to supersede the original derogation, along with clear change marking of differences to approved derogation. For the avoidance of doubt, should the new derogation request be rejected, the original, approved derogation will remain effective.
21. Once a derogation is in operation, the party who requested the derogation shall report progress to the Panel every [6] months. Upon expiry of derogation period (or achievement of the derogation goal), the party shall provide a report to the panel setting out the actions taken to ensure compliance with the enduring Code provisions.
22. The Panel may request that the Authority rescind a previously granted derogation, in the following circumstances:
  - (a) There is no apparent progress toward the derogation goal
  - (b) The derogating party is in breach of the conditions of the derogation

in which case the derogation shall cease following a decision from the Authority and the derogating party should return to complying the IGT UNC.

## Adding Derogation Use Cases

1. For the avoidance of doubt: A new derogation use case may be added to the IGT UNC by raising a code modification, which would follow normal process.

## Net Zero Innovation Use Case

1. A derogation request may only be submitted where is related to a project, trial or demonstration that is directly relating to an innovation project to achieve 'Net Zero' as defined in Special Condition 1.1 of the Gas Transporter Licence:

Net Zero Development means a change in circumstances related to the achievement of the Net Zero Carbon Targets that is:

- (a) a change in national government policy (including policies of the devolved national parliaments);
- (b) a change in local government policy;
- (c) the successful trial of new technologies or other technological advances;
- (d) a change in the pace or nature of the uptake of low carbon technologies; or
- (e) a new obligation arising from the agreement of a Local Area Energy Plan or an equivalent arrangement.

## IGT160 Workgroup Comments

### March 2022 Meeting

The mitigation to the IGT UNC representatives who are also UNC representatives to ensure their views are taken into consideration through the UNC development processes. All Derogations requests will be subject to Authority direction this indicates that IGT UNC parties would have some protection as the Authority would not be expected to approve something with significant implications or discriminatory outcomes. The Workgroup discussed that this Modification is 'stand-alone' and that Derogations can still be implemented in the IGT UNC without them being raised in the UNC respectively. It would therefore only be a Derogation that had an impact on IGT networks.

The Workgroup agreed that the Solution facilitates that intention of the Modification.

### April 2022 Meeting

#### Impacts of UNC Derogations

The Proposer provided an update on the Modification, noting further conversations they have had with another party. The Proposer advised the Workgroup that the IGT160 solution would currently allow for UNC Derogations to automatically apply under the IGT UNC where there is an impact on one or more IGT UNC sites. They added that concerns had been raised regarding this and that they therefore had two options for the Workgroup to consider which would look to amend the arrangements for the automatic application of UNC Derogations:

1. Remove the automatic application of UNC Derogations all together; or
2. Amend the provisions to only allow for a UNC Derogation to apply under the IGT UNC where the use case for said Derogation also exists within the IGT UNC.

A question was raised regarding whether a change to the equivalent UNC Modification was also required to allow for the chosen option to be taken forward. The Code Administrator confirmed that the provisions that allow for the automatic application of UNC Derogations only sit within IGT160 and no change was required to the UNC Modification.

A question was raised regarding whether the UNC Derogation process considers impacts on IGTs. The Proposer advised that it was their understanding that IGT consideration was being included in the

guidance documentation for the equivalent UNC Modification. The Code Administrator suggested that any specific conditions that parties felt needed to be included in the UNC Derogation process be raised as part of UNC0800.

A question was raised regarding the views of impacts downstream and whether a UNC Derogation party could fully understand the scope of impacts. It was noted that Distribution Networks (DNs) are entitled to know information about their own distribution areas but not others. The Derogation party would be able to engage with IGTs on their network to better understand an impact where there may be one.

The Workgroup considered whether the identification of impacts could be an issue for the IGT UNC Derogation process as well. It was recognised that it is possible to have nested IGTs and have impacts downstream of an IGT. It was noted that an IGT can see other IGTs nested downstream which means they can communicate the Derogation and identify potential impacts.

The Workgroup considered the responsibility of communicating Derogations, recognising that the full downstream picture may not be available. It was suggested that each party notified of a Derogation should look downstream where they can and pass the message on.

The Workgroup considered the options put forward by the Proposer and agreed that applying Derogations where a use case exists in both the IGT UNC and the UNC would be a sensible approach.

#### Differences between IGT154 and IGT160

The Proposer reminded the Workgroup of the differences between IGT154 and IGT160, providing additional context on the following areas:

- **Derogation Party (BR3)**
  - Changed to ensure that where an IGT has requested a derogation, said derogation will also apply to impacted parties (e.g. Shippers who are shipping to the effected network). This means that multiple derogations will not have to be raised and allow for efficiencies.
- **Circulation of Information (BR5)**
  - Changed to further clarify the parties that Derogation requests should be circulated to so that all interested parties receive the information.
- **Panel Considerations at Initial meeting (BR7)**
  - **Health and Safety:** Ofgem want to ensure that that the Health and Safety Executive (HSE) has seen evidence that a Derogation party has considered the implications of their derogations on the factors set out under BR7. As Panel are not qualified to assess health and safety considerations the Modification and drafting has been worded in such a way as to ensure the Panel are not required to assess what has been provided. The provisions for health and safety have been worded in such a way so that it does not require the HSE to approve evidence provided by a Derogation Party as they do not “approve”. The content included in BR7 has been based on wording provided from the HSE.
  - **Inclusion of hydrogen:** “Gas as defined in the Gas Act” has been added in to ensure the inclusion of hydrogen.
  - **Multiple Derogations:** Changed to ensure that a Derogation party provides evidence with regards to other required derogations (i.e. that they have been applied for and not rejected).

- **Amendments after rejection:** Changed to clarify that where a Derogation is materially different from a previous request that was rejected and its been amended, that it has been amended to address said rejection.
- **Authority Send Back (BR11)**
  - Change allows the Authority to send a request back to an applicant, directly or via the Panel.
- **Backstop Date (BR14)**
  - Change allows Ofgem to impose a backstop date that may be different to the date requested by the applicant.
- **Multiple Derogations (BR17)**
  - Ensures that an approved Derogation will only be valid once all relevant Derogations have been approved. Also ensures that health and safety related matters are satisfactorily concluded before Panel make a recommendation to the Authority.

The Workgroup considered the differences between IGT154 and IGT160, with some members advising that the changes seemed sensible. No further comments were raised, and the Workgroup agreed that no further work was required on the Modification and that the solution delivers the intent of the Modification.

### Panel Comments (May 2022)

The Panel unanimously agreed that no further work was required by the Workgroup on this Modification.

## 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.

Additionally, derogations allow for temporary changes to specific parts of code under set parameters, this should cause less impact to the market, and therefore consumers, than a full modification change that affects all parties, allowing for more controlled and monitored temporary change.

| 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              |
| <p>Reduced environmental damage</p> <p>The use case to which this proposal specifically relates, 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.</p>   | Positive          |
| <p>Improved quality of service</p> <p>This modification introduces the concept of derogations and additional use cases are likely to be introduced which will relate to improvements to quality of service for consumers.</p>   | Positive          |
| <p>Benefits for society as a whole</p> <p>Facilitating innovation of all types 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.</p> | Positive          |

### Cross-Code Impacts

This modification is related to UNC Modification 0800 and should ideally follow a similar timetable.

The Workgroup agreed that the UNC should look at how downstream impacts can be identified/considered for UNC Derogations as this Modification allows for UNC derogations to apply to IGT sites.

While IGT160 will not have a direct impact on the REC it may be possible that a derogation raised to the IGT UNC may also require a derogation to the REC.

|       |                                     |
|-------|-------------------------------------|
| UNC   | <input checked="" type="checkbox"/> |
| REC   | <input checked="" 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.

## IGT160 Workgroup Impact Assessment

### March 2022 Meeting

The Workgroup discussed how consumers will be affected by the processes being implemented in this Modification. The Workgroup noted that this Modification will pave the way for innovators to come into the market and that trialling is a very important aspect of assessing impacts, both positively and negatively on consumers. For instance a Derogation could be ended if negative impacts on consumers were found and therefore the effects should be relatively short term and ringfenced. The Workgroup equally discussed that Derogations could find unintended benefits for consumers that can be potentially rolled out across the wider industry if discovered.

The Workgroup also discussed the elements of curtailing ‘commercial gain’ which is an element of UNC0800 has not been included in IGT160. This has diverged due to the realisation that many parties will pursue Derogations for a period to refine a process to ensure that it would run smoothly and could support a commercial decision in the future. Again, the ability to trail this would be a benefit to the potential risk on parties.

The Workgroup also included that a comment recorded in previous minutes suggests the concept of a ‘Sandbox’ was in other codes, however, this Modification seemed to achieve the same aim via different means.

The Workgroup also acknowledged that although the aim of this Modification was to allow parties to use this process as a means to aid Net-Zero, it could be adopted for other purposes and be more widely utilised.

The increased focus on safety and security of supply, ensures the possible detrimental outcomes for consumers have been considered and any risks mitigated.

### April 2022 Meeting

The Workgroup reconsidered the impacts, taking the changes agreed to the solution and IGT154 / IGT160 differences into account.

The Workgroup agreed that an amendment should be made above to highlight that downstream impacts on IGTs should be considered as part of the UNC Derogation process as this Modification allows for UNC Derogations to apply to the IGT UNC (subject to the relevant use case existing in both codes).

The Workgroup also agreed that there may be an indirect impact on the REC as it is possible for a REC derogation to be triggered by a IGT UNC derogation.

The Workgroup agreed that no further changes were needed and that no further work was required by the Workgroup.

### Panel Comments (May 2022)

The Panel unanimously agreed that no further work was required by the Workgroup on this Modification.

## 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              |



|  |          |
|--|----------|
| <p>(B) Co-ordinated, efficient and economic operation of</p> <ul style="list-style-type: none"> <li>(i) the combined pipe-line system; and/or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters</li> </ul>   | Positive |
| <p>(C) Efficient discharge of the licensee’s obligations</p>   | None     |
| <p>(D) Securing of effective competition:</p> <ul style="list-style-type: none"> <li>(i) between relevant shippers;</li> <li>(ii) between relevant suppliers; and/or</li> <li>(iii) between DN operators (who have entered into transportation agreements with other relevant gas transporters) and relevant shippers</li> </ul> | None     |
| <p>(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</p>  | None     |
| <p>(F) Promotion of efficiency in the implementation and administration of the Code</p>  | Positive |
| <p>(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</p>   | 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) by

- a) removing the requirement to modify the IGT UNC to enable trials for innovation projects, which by their nature may not progress further and therefore result in a requirement for further modifications.
- b) allowing parties to apply for derogations and thus making non-compliance visible; it will allow the impacts on other parties to be known and considered and the actions the applying party is taking to mitigate these.

## IGT160 Workgroup Comments

### March 2022 Meeting

The Workgroup agreed with the Proposer’s views that this Modification has a positive impact on Relevant Objectives (B) and (F) for the reasons stated above.

### April 2022 Meeting

The Workgroup agreed, having rereviewed the differences between IGT154 and IGT160 and considering the agreed changes to the solution, that this Modification has a positive impact on Relevant Objectives (B) and (F) for the reasons previously given.



## Panel Comments (May 2022)

The Panel unanimously agreed that IGT160 has a positive impact on Relevant Objectives (B) and (F) for the reasons provided above by the Proposer and the Workgroup.

## 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.

### IGT160 Workgroup Comments

#### March 2022 Meeting

The Workgroup agreed that this Modification could be implemented in the next scheduled code release following an Authority decision.

#### April 2022 Meeting

The Workgroup considered the impact of this Modification being implemented after the equivalent UNC Modification and agreed there is a small risk of a derogation being raised that could impact the IGT UNC. Given that this risk is small, the Workgroup agreed that IGT160 can be implemented in the next IGT UNC Release rather than on the same day as UNC0800.

### Panel Comments

The Panel unanimously agreed with the proposed implementation approach, noting that while UNC0800 will be implemented on a different date to IGT160 it is not an issue as the solution being introduced by this Modification stands alone and is not reliant on UNC0800.

## 9 Legal Text

### Text Commentary

The legal text for IGT160 can be found on the IGT UNC website, [here](#).

The draft Innovation Derogations Guidance Ancillary Document can be found on the IGT UNC website, [here](#).

### IGT160 Workgroup Comments

#### March 2022 Meeting

The Workgroup agreed that the legal text drafting and Ancillary Document facilitate the solution.

#### April 2022 Meeting

The Workgroup considered amendments to the legal drafting to facilitate changes to the solution agreed in the meeting. A member suggested a different approach to the proposed drafting changes, suggesting that the amendments were made to last paragraph of Part O 2.3.1 rather than adding in a new bullet. The proposer and Workgroup agreed with this approach and the amendments to the legal drafting.

Subject to the changes agreed in the meeting being made, the Workgroup agreed that the drafting facilitated the intent of the solution.

## Panel Comments

The Panel unanimously agreed that the legal text delivers the intent of the Modification.

# 10 Consultation

Panel invited representations from interested parties by 18<sup>th</sup> May 2022. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

| Representations were received from the following parties: |          |                              |  |
|---|----------|------------------------------|--|
| Organisation  | Response | Relevant Objectives          | Key Points   |
| Northern Gas Networks                                     | Support  | -                            | <ul style="list-style-type: none"> <li>As proposer of the linked UNC modification, 0800 Introducing the concept of a derogation framework into Uniform Network Code (UNC) (Authority Direction), I offer support for this IGT UNC modification proposal.</li> <li>This proposal should allow derogations, and specifically Net Zero Innovation Use Case derogations, to be applied for under UNC and, where approved, to automatically apply to the IGT UNC. This should allow relevant IGT sites to be easily included, from a governance perspective, in trials and projects relating to Net Zero Innovation.</li> </ul>   |
| Indigo Pipelines  | Support  | B - positive<br>F - positive | <ul style="list-style-type: none"> <li>We support this proposal to introduce the concept of derogation from specific parts of Network Code to enable parties to trial innovations.</li> <li>We agree with the proposer that this modification requires Authority Consent as it has a material impact on Code.</li> <li>We agree with the proposer that this modification has a positive impact on Objective B by enabling innovative approaches to operating networks to be trialled, also Objective F by creating the conditions whereby Code does not need to be revised for each individual trial.</li> <li>Next Release after Authority decision. IGT 160 is associated with UNC 0800, and whilst we should aim to align implementation as far as practicable, they are not co-dependant.</li> </ul> |

|                        |         |                              |   |
|------------------------|---------|------------------------------|---|
|                        |         |                              | <ul style="list-style-type: none"> <li>We are satisfied that the legal text will deliver the intent of the modification</li> </ul>  |
| Energy Asset Pipelines | Support | B - positive<br>F - positive | <ul style="list-style-type: none"> <li>As proposer of this modification we fully support this being implemented as it will give a framework for derogations in the IGT UNC to mirror that which is expected to be implemented in the UNC Thus enabling IGTs to develop innovation projects and to support the delivery of Net Zero. We note that this Modification is a development of IGT 154, which was rejected by Ofgem and has been changed in line with Ofgem’s requests to enable the to approve the Modification.</li> <li>EAP agree that this modification should not be a self-governance modification as it would result in a material change to the code, including changes to the Modification Rules and therefore should be sent for Authority Direction which is also the case for UNC0800.</li> <li>We consider that this change would have a positive effect on relevant objectives (B) and (F).<br/><br/>Facilitates co-ordination and co-operation between GDNs and IGTs and between different IGTs by ensuring that any innovation trials within a geographic area that includes one or more IGT networks are able to incorporate those networks and therefore has a positive impact on relevant objective B.<br/><br/>Removes the requirement to make enduring changes to the IGT UNC to support localised and time limited trials and therefore having a positive impact on relevant objective F by promoting efficiency in the implementation and administration of the Code.</li> <li>For modification IGT160 we confirm that we will not incur additional development or ongoing costs.</li> <li>As this modification requires no system changes EAP agree with the lead time proposed can be implemented in the next IGT UNC release and does not need to be implemented on the same day as UNC0800.</li> <li>Agree with Legal Text.</li> </ul> |

## Summary of responses

There were 3 responses to the IGT160 consultation, 2 received from IGTs and 1 received from a DN.

All respondents supported the implementation of the Modification and that it should be treated as an Authority Decision Modification.

2 respondents agreed that this Modification would have a positive impact on Objective B (Co-ordination, efficient and economic operation of the pipeline system) and Objective F (Promotion of efficiency in the implementation and administrator of the Code). 1 respondent did not provide any views against the objectives.

2 respondents agreed that the Legal Text delivers the intent of the Modification. 1 respondent did not comment on the Legal Text.

2 respondents agreed with the implementation approach and that IGT160 should be implemented in the next available IGT UNC release following Authority decision.

It is recommended that all consultation responses are looked at individually. All response to the IGT160 consultation can be found [here](#).

## Panel Comments

The Panel considered the views expressed by the consultation respondents and agreed that no new issues had been raised and that no further work was required.

## 11 Panel Discussions

### Determinations

The Panel unanimously agreed;

- that this Modification should proceed to the Authority for decision;
- having considered the views expressed by the consultation respondents that no new issues had been raised and that no further work was required by the Workgroup on this Modification;
- that IGT160 has a positive impact on Relevant Objectives (B) and (F) for the reasons provided by the Proposer and the Workgroup;
- with the proposed implementation approach, noting that while UNC0800 will be implemented ahead of IGT160 it is not an issue as the solution being introduced by this Modification stands alone and is not reliant on UNC0800;
- that the legal text delivers the intent of the Modification; and
- a recommendation to the Authority that this Modification should be implemented.

## 12 Recommendations

### Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This Modification should proceed to consultation for a three week period in order to align it to the schedule of the UNC equivalent Modification.

### Panel Discussions (25<sup>th</sup> March 2022)

A Panel member advised that they had discussed the Modification with the Proposer and raised concerns that the solution may not be robust enough, highlighting that if a derogation under the UNC were to automatically apply to IGT sites (as per IGT160), a consequential impact may not be picked up and could be detrimental. They added that the solution for IGT160 is a framework and includes the first use case only and that as the use cases are to be in code, new use cases should require a Modification in order to be added. Meaning that if a new use case was added to the UNC it could be added to the IGT UNC via another Modification. However, with the way the wording is set out in the legal text, a derogation would apply to all IGT UNC sites where it was applicable regardless of the use cases.

The member expressed a view to have the Modification sent back to Workgroup to consider this further and to also consider adding wording in so that each use case needs to be raised with regards to its own merit in the IGT UNC and that UNC derogations do not automatically apply to IGT UNC sites. They concluded that the Proposer confirmed that if the Modification was sent back, they would support the decision, noting that the implication of doing so means that IGT160 will be out of sync with UNC0800. The member advised that whilst this would be the case they don't feel the two Modifications need to be implemented at the same time as their solutions are stand alone.

It was noted by another member that, if we do not automatically apply a UNC derogation, there may be a need in future for two derogations to be raised and the effort of progressing two should be considered. Though this could also be mitigated using templates and standard wording. Another member added that we are likely to see fewer derogations and it is not impossible for a derogation in the IGT UNC to have consequential impacts on other parties.

### Panel Recommendations to Workgroup

The Panel unanimously agreed that the Modification be sent back to Workgroup to:

- address concerns regarding the automatic application of UNC derogations on IGT sites, noting that the risk of derogations is unknown until said derogations are raised; and
- to further consider the fundamental differences between IGT154 and IGT160.

### Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- this Modification should proceed to consultation for a 2.5 week period in order to minimise the timing difference to the schedule of the UNC equivalent Modification and based on level of engagement on UNC0800 consultation.

## **Panel's Recommendation to Interested Parties**

The Panel have unanimously recommended that this report be issued to consultation for 2.5 weeks to ensure that this Modification remains as aligned as possible to the progression of the UNC equivalent Modification (UNC0800).

The Panel asks all parties to consider whether they wish to submit views regarding this Authority Decision Modification.

## **Panel Recommendation to Authority**

The Panel unanimously voted to recommend to the Authority:

- that Modification IGT160 should be implemented.