

UNC Modification	At what stage is this document in the process?
<h1>UNC 0760:</h1> <h2>Introducing the concept of derogation for Net Zero innovation into Uniform Network Code (UNC)</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">01</span> Modification         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">02</span> Workgroup Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Modification seeks to introduce derogations for innovation projects related to Net Zero as a concept in the Uniform Network Code (UNC), defining when and how these can be requested, as well as the process around consideration and approval or rejection of derogation requests.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to Self-Governance</li> <li>assessed by a Workgroup</li> </ul> <p>This Modification will be presented by the Proposer to the Panel on <b>18 March 2021</b>. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>
	<p><b>High Impact:</b></p> <p>Gas Transporters (including National Transmission System), Shippers, Central Data Service Provider (CDSP), &amp; 3<sup>rd</sup> parties involved in innovation projects may be consequentially impacted by any derogation requests approved by this framework.</p>
	<p><b>Medium Impact:</b></p> <p>None</p>
	<p><b>Low Impact:</b></p> <p>Suppliers, end consumers</p>

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			 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
Timetable			
<b>The Proposer recommends the following timetable:</b>			
Initial consideration by Workgroup	25 March 2021		
Workgroup Report presented to Panel	15 July 2021		
Draft Modification Report issued for consultation	15 July 2021		
Consultation Close-out for representations	06 August 2021		
Final Modification Report available for Panel	10 August 2021		
Modification Panel decision	19 August 2021		

## 1 Summary

The Proposer has looked to take the best practices from other energy Codes, and Ofgem's derogation process, and has discussed this proposal with a representative from Ofgem. The Proposer has also sought the opinion of the current Uniform Network Code (UNC) Panel Chair, who chairs many other industry Panels, including ones in the financial sector. The Chair has been able to offer valuable guidance based on her experience as to how derogation works in these other sectors.

### What

Currently there is no concept of derogation within the UNC, which means that where innovation projects need to be trialled there either needs to be a Modification to amend the relevant part of the UNC, 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.

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.

### Why

By allowing derogation requests within UNC, it will demonstrate that UNC parties encourage innovation and seek to facilitate this where possible.

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.

A large number of innovation projects and trials relate to facilitating the path to net zero. This is aligned with the Government's 10 Point Plan as well as Licence Conditions in place in RIIO (Revenue=Incentives+Innovation+Outputs) - 2.

Gas Transporters have obligations in the RIIO - 2 Licence amendments and their price control in relation to net zero, and innovation relating to net zero. Currently the innovation projects are hampered by the need to find solutions within the existing Code to allow for trials to take place. This not only restricts the solutions, but causes additional time and cost to the project, whilst not able to trial a complete solution (including changes to Code).

Facilitating innovation projects that further net zero is not only in line with Ofgem's, but also the United Kingdom's, strategic direction.

### How

To introduce the concept of derogation for innovation, and the parameters around how this can be applied for, evidence required, restrictions, and decision-making criteria, into the UNC. The idea is to 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, or
- a regional exclusion.

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

- Modification Rules,
- General Terms A (Dispute Process),
- 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.

## 2 Governance

### Justification for Authority Direction

The Proposer believes that the Modification will cause a material change to the UNC governance procedures or Modification procedures by introduction of the concept of derogation throughout the 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 affect 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.

### Requested Next Steps

This Modification should:

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

## 3 Why Change?

Currently there is no concept of derogation within the UNC, which means that where an innovation project needs to be trialled there either needs to be a Modification to amend the relevant part of the UNC, 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 (eg DCUSA, BSC & SPAA) and therefore it would seem logical that this principle should also exist within UNC.

Currently, innovation projects need to come up with ways to ensure that they stay within the existing Code framework. However for more challenging items, e.g. net zero, this may not always be possible. This 'restriction' can cause lengthy delays to innovation projects whilst they come up with alternative solutions to ensure Code compliance. The other option available to them is to raise a Modification to change existing Code, this is then done without fully knowing whether these changes work to fully facilitate the innovation project's intended outcomes.

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

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

Derogations from Licence or HSE requirements are out of remit of this Modification, however any UNC derogation approved would be deemed to only be valid where the other relevant derogations have also been granted.

All derogations will need to have supporting evidence provided, as per *Derogation Guidance Document*, further changes to which will fall under Uniform Network Code Committee (UNCC) control.

**Below is a brief outline of how this would work in code and the guidance document.**

Derogation requests would need to be submitted to the Joint Office in accordance with the Innovations Derogations Guidance Document, to be circulated to UNC Panel members. Panel members will discuss the request at the first available UNC Panel, following a period of at least ten [10] Business days after submission to the Joint Office.

Panel members have discretion [based on majority] to defer derogation to the next scheduled Panel or Specifically convened Panel for any application/s with a large volume of supporting documentation, or more complex applications.

Derogation requests require a [unanimous] Panel vote in support of implementation to be approved.

Interested Parties have the ability to raise an appeal to The Authority within 15 days of the Panel decision. The Authority have the ability to overrule any Panel decision as the outcome of any appeal.

The derogation will take effect from the agreed date (no earlier than 16 days from date of decision), subject to no appeal raised being upheld, or remain outstanding with The Authority.

Should a derogation request not be approved by Panel, the application can only resubmitted if there is a material change to the proposed derogation request or reasons for rejection have been addressed.

Once a derogation has been 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 (eg location), will be published on the Joint Office website.

Whilst a derogation is live, any specific Meter Point Reference Numbers (MPRNs) that are included in the trial will have a flag in Data Enquiry Service (DES) to indicate that they are part of an Innovation Trial. For the avoidance of doubt, should a derogation be granted that covers an MPRN, but the MPRN is not actually part of the trial, the flag will not be active.

Without the concept of derogations within the UNC, multiple innovation projects could be delayed or abandoned as there could be no effective way to trial the benefits without needing Code changes. Gas Transporters have obligations in the RIIO - 2 licence amendments and their price control in relation to net zero, and innovation relating to net zero. Currently the innovation projects are hampered by the need to find solutions within existing code to allow for trials to take place. This not only restricts the solutions, but causes additional time and cost to the project, whilst not able to trail a complete solution (including changes to Code). These potential innovation projects and trials relate to facilitating the path to net zero and could be considered of national importance.

Facilitating Innovation projects that further net zero is not only in line with Ofgem's, but the United Kingdom's strategic direction. With the Prime Minister including in The Ten Point Plan for a Green Industrial Revolution *'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.

## 4 Code Specific Matters

### Reference Documents

All areas of the Uniform Network Code and its related documents.

Data Services Contract

### Knowledge/Skills

Comprehensive understanding of the Uniform Network Code and related documents.

An understanding of the concept of Derogation, within energy or other industries, would be helpful.

## 5 Solution

### Business Rules

1. A derogation request may only be submitted where is related to a project, trial or demonstration that is directly relating to net zero ‘non commercial research’, as defined by Imperial College London,
2. Applications for derogations can only be made by valid UNC licenced parties Applications for derogations will only be deemed valid applications when made in accordance with the *Innovation Derogation Guidance Document (see appendix 1) as implemented with this Modification and published on the Joint Office of Gas Transporters website.*
3. The following areas are out of scope for derogation applications
  - a) Modification Rules
  - b) General Terms A (Dispute Process)
  - 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
4. Derogation requests would need to be submitted to the Joint Office, to be circulated to UNC Panel members. Panel members will discuss the request at the first available UNC Panel, following a period of at least ten [10] days after submission to the Joint Office
5. 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.
6. 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 or of supporting nature, or more complex applications.
7. Panel members have discretion to request additional supporting information, where deemed relevant, [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 (Panel have the discretion to manage this by arranging an extraordinary Panel meeting)

8. Derogation requests require a [unanimous] Panel vote in support of implementation to be approved.
9. The Authority have the ability to overrule any Panel decision within 15 days of Panel decision.
10. 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.
11. 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.
12. Authority appeal process is aligned with Modification Rules (MR) 13.5 – 13.11
13. Approved derogation requests will only be deemed to be valid once any other required and relevant licence, or mandated body, derogation has also been granted.
14. 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 (eg location), will be published on the Joint Office website no sooner than the business day following the business day in which the notice in Business Rule 15 has been sent.
15. 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.
16. An approved Derogation may be used in its entirety, or used in a limited capacity by the application party (eg 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**

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.

## Cross Code Impacts

Whilst this Modification does not directly impact any other Codes, derogation requests received may impact areas of Code that the Independent Gas Transporters (IGT) UNC points to, and/or derogations may be more effective if they do not have additional constraints of needing to specifically exclude IGT sites, therefore the IGT UNC may wish to consider a similar, aligned Modification, to allow derogation within the IGT UNC

Should this Modification be implemented, applications for derogation may need to be made across multiple Codes for the same project, any Cross Code impact across these derogation requests should be noted and managed on a case by case basis, and the proposer would be expected to identify these in their application.

## EU Code Impacts

Whilst we do not believe that this proposal impacts any EU energy code, individual derogation requests raised, should this Modification be implemented, might. Any impacts would need to be identified by the proposer and stated in the derogation request.

## Central Systems Impacts

Whilst this Modification itself does not have a direct impact on the CDSP, any individual derogations requested following the implementation of this Modification may have consequential impacts.

The CDSP may need to create a process for parties to enquire and receive information about the potential system impacts of any derogation request they are wishing to submit, as well as the CDSPs capability to facilitate required changes. The impact of each derogation request will depend on the area of Code and ultimately whether the derogation request is approved or not.

There is the potential ability for a flag to be utilised at MRPN level to indicate if a site is currently subject to a derogation applying.

## Joint Office Impacts

Creation and maintenance of page and register on the [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk) website.

Administration of applications and decisions, including critical friend role.

## 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) Coordinated, 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.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or	None

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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 Co-operation of Energy Regulators.	None

Currently under UNC there is no ability to allow derogations from sections of Code, which often restricts innovation projects and related trials. A large number of innovation projects relate to working towards net zero, which Gas Transporters have specific Licence Conditions under RII02 to deliver. This Modification helps facilitate this and furthers Relevant Objective *c) efficient discharge of the licensee’s obligations*.

This mechanism will allow parties to apply for derogations making non-compliance visible, and also t the impacts on other parties are known and considered, as well as the actions the applying party is taking to mitigate these. Therefore, by ensuring these are considered, and by adding transparency, this furthers f) *promotion of efficiency in the implementation and administration of the Code*.

## 8 Implementation

It is proposed that this Modification is implemented at the earliest opportunity upon the direction of the Authority.

## 9 Legal Text

### Text Commentary

To be provided

### Text

To be provided

## 10 Recommendations

### Proposer’s Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply;
- Refer this proposal to a Workgroup for assessment.