

Modification proposal:	Uniform Network Code (UNC) 513: UK Link Programme (Project Nexus) – independent project assurance for Users		
Decision:	The Authority ¹ has decided to accept UNC513 ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	23 October 2014	Implementation date:	To be confirmed by the Joint Office

Background to the modification proposal

On 21 February 2014 the Authority directed the implementation of UNC432³ and UNC434⁴. These were two of a suite of UNC modification proposals related to Project Nexus and the replacement of the current UK Link system.

Project Nexus aims to ensure that the systems operated by Xoserve which underpin the competitive gas market meet the current and anticipated business requirements of market participants. The Project Nexus process and systems changes are due to be implemented on 1 October 2015.

The modification proposal

It is important that all UNC parties are prepared for the cut over to the new systems. Initiatives such as the UK Link industry engagement forum⁵ provide visibility on Xoserve's state of readiness. Xoserve has also appointed a third party to assist it with project assurance of its own preparatory activities. Through discussions at the Change Overview Board⁶ and elsewhere, a need has been identified to provide such project assurance on a more holistic basis, incorporating shippers and eventually the independent Gas Transporters⁷.

UNC513⁸ seeks to facilitate the appointment, by Ofgem, of an agent to perform a short-term project assurance role, submitting a report on shipper preparations and the progress they have made against their plans to ensure they are ready for the 1 October 2015 cutover. UNC513 proposes that this report be delivered no later than 1 December 2014. This is considered to be a suitable checkpoint on the status of Project Nexus as Xoserve will have completed its detailed design work.

UNC Panel⁹ recommendation

At its meeting of 5 September 2015 the UNC Panel voted by a majority to recommend the implementation of UNC513.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of Gas and Electricity Markets.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ UNC432: '[Project Nexus - Gas Demand Estimation, Allocation, Settlement and Reconciliation reform](#)'

⁴ UNC434: '[Project Nexus - Retrospective Adjustment](#)'

⁵ www.gasgovernance.co.uk/uklif

⁶ www.gasgovernance.co.uk/cob

⁷ Subject to our acceptance of UNC440: '[Project Nexus - iGT Single Service Provision](#)'

⁸ See: www.gasgovernance.co.uk/0513

⁹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the FMR dated 5 September 2014. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal, which are attached to the FMR¹⁰. The Authority has concluded that:

1. Implementation of UNC513 will better facilitate the achievement of the relevant objectives of the UNC¹¹; and
2. Directing that the UNC513 be made is consistent with the Authority's principal objective and statutory duties¹².

Reasons for Authority decision

We agree with the proposer, respondents and the UNC panel that as UNC513 seeks to gauge the state of industry preparations for modifications that have been approved but are yet to be implemented, it is appropriate to consider its impacts against relevant objective f). We consider UNC513 would of itself have a neutral impact upon the other relevant objectives.

Relevant objective f) Promotion of efficiency in the implementation and administration of the Code

We recognise that the scale, scope and timing of system changes to be made as part of Project Nexus is a challenge to both Xoserve and the shippers with whom they interact. We note that Xoserve has appointed a third party to assist it with project assurance for its own activities, but consider it vital that both sides of any transaction impacted by the Project Nexus changes must be ready for their implementation on 1 October 2015.

We therefore agree that it is important that project assurance extends to shippers' preparations for the cut over to the new business processes and associated systems. Our focus has therefore been on whether UNC513 is an appropriate means of putting such project assurance in place, and whether in doing so it will further the relevant objectives of the UNC.

Scope

UNC513 provides for a one-off snapshot of shipper preparations against their plans to be ready by 1 October 2015. We recognise that this may be of value and would complement the scheduled publication of a report on Xoserve's own preparations and readiness.

However, we consider that there is a need for such a role through to the implementation of the new systems and potentially beyond in addition to the short term report envisaged by UNC513. The discrete work envisaged by UNC513 can be commissioned following a proportionate and therefore relatively expedient process, allowing it to be completed in a comparable timeframe to the Baringa report on Xoserve's preparations. During this time, industry can make progress in agreeing how to provide a longer-term form of assurance

¹⁰ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹¹ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

for the Nexus programme. In this way, commissioning a short term report is complementary to industry putting in place a longer term project assurance function.

Funding

We note that the FMR states only that the costs of UNC513 are expected to be below the OJEU¹³ threshold for single source tendering, being £172,514. While this understandably drew some concern from respondents, comments were focused more on the principle of whether this should be a shipper funded User Pays modification, rather than on the specific costs.

We consider that the proposer was prudent not to prescribe the likely costs of the report and pre-empt any procurement exercise. However, we would expect the costs of such a report to be much lower than the OJEU threshold. Notwithstanding this, we are sympathetic to the comments that holistic project assurance should have been planned and budgeted for from the outset as part of Project Nexus.

As set out in our UNC432 decision, we consider that Project Nexus has been fully funded and that this should reasonably include the provision of project assurance along the lines set out in this proposal. However, it seems that no explicit provision has been made for such project assurance to cover shipper preparations. This is disappointing as effective project assurance would further mitigate some of the outstanding risks and increase the level of confidence of delivery.

Noting the general support for the project assurance role and the likely materiality of costs, we do not consider that the concerns over the funding mechanism for UNC513 outweigh the benefits of the proposed report. However, we would note that the funding and procurement mechanism for this short term report is without prejudice to any future decision on the longer term arrangements. We expect that the relevant industry parties (gas transporters, Xoserve and shippers) should discuss and agree how they will work together – as the parties who will directly benefit from the timely and effective implementation of Project Nexus – to support a project assurance role for this important industry-wide change programme.

Cooperation

We note that the second key aspect of UNC513 was to ensure that shippers cooperate in the production of the report. We agree that such cooperation will be necessary for this exercise to be robust and achieve a true insight into the industry's state of preparations for Project Nexus. Whilst we have some concerns about how enforceable such a UNC obligation would be in practice, we also consider that it will be in the best interests of all shippers to cooperate in the preparation of the report and therefore fully expect them to do so.

Conclusion

We fully support for the principle of project assurance for Project Nexus. Whilst we remain concerned about the ongoing need for such a role beyond the immediate deliverable of the report envisaged by UNC513, we consider that this should nonetheless prove a valuable next step.

¹³ Official Journal of the European Union – this is the publication in which all tenders from the public sector which are valued above a certain financial threshold according to EU legislation must be published.

We will continue discussions with Xoserve, the gas transporters and the wider industry on an enduring project assurance role in the coming weeks. We will also continue to work with the Change Overview Board and other relevant fora to ensure that all parties are fully aware of the challenge ahead of them and are preparing accordingly. To this end, we expect that the report provided through UNC513 will help inform any assessment of whether individual shippers' preparations are adequate and what more could be done to mitigate any risk that they will not be ready to cut over to the new systems.

Whilst we will continue to do what we reasonably can to facilitate industry preparations for Project Nexus, we reiterate the view expressed in our decision to reject UNC491¹⁴ that the risks are for industry stakeholders to manage, not the Authority.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC513: '*UK Link Programme (Project Nexus) – independent project assurance for Users*' be made.

Rob Church
Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose.

¹⁴ UNC491: '[Change Implementation Date of Project Nexus to 1 April 2016](#)'