

UNC Workgroup 0550 Minutes
Project Nexus: Incentivising Central Project Delivery
Friday 04 September 2015
31 Homer Road, Solihull, B91 3LT

Attendees

| | | |
|----------------------------|--------|----------------------------|
| Adam Carden | (AC) | SSE |
| Alex Ross Shaw | (ARS) | Northern Gas Networks |
| Andrew Margan | (AM) | Centrica |
| Andy Miller | (AM) | Xoserve |
| Angela Love | (AL) | Scottish Power |
| Bob Fletcher (Chair) | (BF) | Joint Office |
| Carl Whitehouse | (CW) | First Utility |
| Chris Warner | (CW) | National Grid Distribution |
| Colette Baldwin | (CB) | E.ON UK |
| Colin Blair | (CB) | Scottish Power |
| Edward Hunter | (EH) | RWE npower |
| Erika Melen | (EM) | Scotia Gas Networks |
| Hilary Chapman | (HC) | Xoserve |
| Karen Visgarda (Secretary) | (KV) | Joint Office |
| Kiran Samra | (KS) | RWE npower |
| Robert Wigginton | (RW) | Wales & West Utilities |
| Roberta Fernie* | (RF) | Ofgem |
| Sean McGoldrick | (SMcG) | National Grid Transmission |
| Steve Mullingan | (SM) | Gazprom |

**Via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/0550/040915

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 January 2016.

1.0 Outline of Modification

EH introduced the Modification 0550 – Project Nexus Incentivising Central Project Delivery and explained that the proposal was to fix a delivery date or ‘back stop date’ to give some assurances that should the date be changed again, Shippers would be compensated for failure deliveries by Transporters.

AM stated that as Xoserve would not be directly impacted by Modification 0550, representatives were attending the meeting in an observer capacity only, as they had some concerns over the terminology.

CW introduced the Terms of Reference (TOR) and BF stated that two further questions had been asked by the Panel, which were:-

Q1. Review previous industry precedent (electricity industry)?

Q2. How will damages or losses be identified or proven?

AL stated she had been trying to find out further information regarding Question 1 and the operational processes within the electricity industry, however this was not generally

available in the public domain. AL confirmed she would seek further guidance from Ofgem.

Action 0101: AL to investigate the precedents within the electricity industry by contacting Ofgem direct.

RW stated he felt the Terms of Reference seemed vague, specifically surrounding the area of the PWC implementation plan. CW stated that Modification 0548 had introduced obligations into Code for Shippers to use Best Endeavours to support testing. SM also stated that this was already in the modification and the date for implementation is set in Code, so if there was a failure to meet the date, another modification would have to be raised. No other comments regarding the Terms of Reference were then raised.

CW overviewed the Legal Text presentation for Modification 0550 – ‘Project Nexus Incentivising Central Project Delivery’. CW explained that Modification 0550 is going against the usual precedents in Code for managing contractual relations and associated performance incentives. Hence the need for the process to be formalised in the Code in significant detail. CW then overviewed the core areas for discussion with the Workgroup which were:-

- Scope of Modification
- Independent Assessment
- Quantification of damages
- Relevant Objectives
- Precedent

Scope of Modification

CW stated that further detail was required within Modification 0550 and that the obligations needed to be defined. EH confirmed he would make the amendments to the modification to clarify the Transporter obligations. SMcG suggested that the liability in actual fact, would sit with the Transporters and not with the proposed source of the problem or delay. General discussion then took place and SM stated he could not see how a Shipper could cause a delay to the delivery of central systems on an individual basis. AL stated PWC have a strict entry and exit criteria for testing to ensure all parties were performing in the required manner. Both CB and SM stated that if a Shipper was not ready for entry, then they could not participate and hence would not affect on the Central System Delivery.

CW stated that the modification refers to the Back Stop Date of 01 October 2016 and he stated that this date is ‘hard coded’ as the implementation date. CW also stated the modification makes reference to Modifications 0432, and 0434, although there is no mention of Modification 0440. CW stated that the components would get delivered and the only risk is surrounding Modification 0434, which is currently being addressed. EH stated he would include Modification 0440 in the proposal for Modification 0550.

Independent Assessment

CW raised the point regarding the appointment of an assessor. He wanted to know how that would work in practice and at what point would the appointment be made. He also raised the question regarding if a Transporter was appointing their own assessor, surely that would be counter productive and biased. SM stated that the process needed to be kept simple, especially surrounding the paying of incentives due to delivery failure. General discussion took place regarding this topic and AL stated that reference Modification 0548 could be used and that PWC had been appointed by Ofgem so were providing a degree of independent assessment. AL also stated that PWC are presently investigating cost and assessments with regards to system delivery failures and the

associated impact on the industry as a whole. CW asked the question if an assessor was appointed, at what stage would that take place.

Quantification of damages

CW stated that where damages are payable how would Shippers be assessed with regards to their exit and entry criteria's to receive compensation payments. SMcG stated that PWC will only high-level the readiness of the Shippers and will not 'drill down' to that Shipper's specific system delivery readiness. AL stated that PWC do have audit rights and so will be able to assess the readiness of the Shipper. General discussion took place with regards to the readiness status of the Shippers and the associated impacts on the overall Central System Delivery. BF stated that within the Modification 0550 that the wording should be changed to state the only date is the 'initial' date and not use the 'back stop date' as he felt that this could lead to confusion. EH agreed and would amend the wording accordingly – this wording was amended in the Terms of Reference.

CW stated that the methodology needs further detail surrounding the Shippers validation process when making a claim to the Transporters, and how it would work in practice, together with a demonstration of liability and actual loss. General discussion took place surrounding the various impacts of the claim process and the potential causes for the delay with the associated proof, of the impact to the Central System Delivery. Both AL and CB stated there is no mandate to test, although this may change, as Modification 0531 is still live. Discussion took place regarding a reciprocal arrangement where the loss has to be demonstrated, much like in any existing industry bilateral IT contract.

BF proposed that the Shippers should consider this reciprocal arrangement, and discuss this with their own IT departments regarding the existing IT contracts. General discussion took place regarding 'daily liquidated damages' and the need for a simple and clear process to be followed with regards to a claims procedure in connection with the associated costs. AM stated that some organisations had already 'ring fenced' their Nexus costs and so the costs were already known. SM stated again the need for simplicity regarding the incentive test and date test, e.g. if the Shipper failed the required test, then they would not be eligible for compensation.

Action 0102: Parties to consider the wording and content with regards to a reciprocal arrangement, as a large cost would impact on the Shippers due to any delay.

Relevant Objectives

CW proposed Modification 0550 needed more detail and he stated that in the wording *"By increasing the probability of timely delivery this modification may also decrease the volume of inaccurate data entered into Settlement."* needed the words 'inaccurate data' changed as there should be no inaccurate data. EH confirmed he would alter this accordingly.

SMcG stated there was a question with regards to Modification 0491 as this is not linked to the Nexus implementation date change. AL stated that if the Nexus date was delayed, then no new modifications would be raised.

Precedent

CW wanted to reiterate National Grid Distributions concern regarding how this message may be received by the industry as a whole, with regards to penalties and how this may change the dynamics and relationships between the Transporters, Shippers and Xoserve. AL stated this could also have an impact on the voting rights too, particularly when considering a post FGO world. SM proposed that the Shippers are not looking for a 'windfall payment' and they would certainly not be profiting from any delay. General discussion took place with regards to what the impact of delay was with SMcG stating that Transporters have already incurred significant costs due to the implementation date being

put back for a year, which is currently being absorbed by the Transporters. This is clearly affecting their bottom line, but they understood it is an industry required change.

CW felt that if this was included in the Code then every other contract would need to be considered post, particularly FGO.

AL asked if Modification 0550 was not in existence what else could/would the Transporters do instead. CW stated this was a valid point and that Transporters should look to provide some assurance measures around project delivery. AL stated Transporters need help to build the confidence level for the Shippers, especially due to the fact 'critical lead people' within both the Xoserve had changed, who had previously taken key driver roles within the project as a whole. CW proposed to look at this area with the Transporters and provide a more detailed plan for the Shippers. AL posed the question regarding if the IGT's would be paid, if there were a Central System delivery failure, as this is not covered in Modification 0550. CW stated this would have to be investigated further.

Action 0103: CW to work with the Transporters to look at the information to be given to the Shippers to provide clarity, transparency and confidence regarding future planning.

Action 0104: EH to re look at Modification 0550 and adapt/update accordingly to include the amendments as proposed by the Workgroup.

2.0 Initial Discussion

2.1. Initial Representations

None received.

2.2. Issues and Questions from Panel

None raised.

3.0 Next Steps

BF confirmed that this Modification 0550 would be discussed in the meeting on 20 October 2015.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

| Time / Date | Venue | Workgroup Programme |
|-------------------------------------|-------------------------------------|---|
| 10:30 Tuesday 20 October 2014 | 31 Homer Road, Solihull, B91 3LT | Detail planned agenda items. <ul style="list-style-type: none"> • Amended Modification • Consideration of Business Rules • Consideration of User Pays • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts |

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| | | <ul style="list-style-type: none"> • Consideration of Legal Text • Development of Workgroup Report |
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Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|-------------------|---------------------|-------------------|--|---------------------------------|----------------------|
| 0101 | 04/0915 | 1.0 | AL to investigate the precedents within the electricity industry by contacting Ofgem direct. | ScottishPower (AL) | Pending |
| 0102 | 04/09/15 | 1.0 | Parties to consider the wording and content with regards to a reciprocal arrangement, as a large cost would impact on the Shippers due to any delay. | All Shippers | Pending |
| 0103 | 04/0915 | 1.0 | CW to work with the Transporters to look at the information to be given to the Shippers to provide clarity, transparency and confidence regarding future planning. | National Grid Distribution (CW) | Pending |
| 0104 | 04/09/15 | 1.0 | EH to re look at Modification 0550 and adapt/update accordingly to include the amendments as proposed by the Workgroup. | (RWE npower) (EH) | Pending |