



Gazprom Energy
Bauhaus, 5th Floor
27 Quay Street
Manchester

T 0845 230 0011
F 0845 230 0022
E enquiries@gazprom-energy.com
W www.gazprom-energy.com

Representation

Draft Modification Report

Modification 0432 Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform & Modification 0434 - Project Nexus – Retrospective Adjustment

Consultation Close out date: **6th January 2014**

Respond to: enquiries@gasgovernance.co.uk

Organisation: Gazprom Marketing & Trading Retail Limited (GM&TR)
Trading as Gazprom Energy

Representative: Steve Mulinganie
Regulation & Compliance Manager

Date of Representation: **6th January 2014**

Do you support or oppose implementation?

We would give QUALIFIED SUPPORT for 0432 & 0434 as both modifications are interlinked.

Please summarise (in one paragraph) the key reason(s) for your support/opposition

Gazprom Energy has expended significant resources participating in the development of the NEXUS proposals and believes the proposed changes will support the broader Industry changes arising from the Smarter Markets initiative.

However such a major Project as NEXUS will require significant commitment in both systems development and personnel and as such will need all market participants to have a clear baseline and robust industry plan under which to commit those resources. In this light we would note the need for ensuring that broader industry changes are appropriately scheduled during the NEXUS project life. As such we have become increasingly concerned over a number of issues both within the direct control of NEXUS and external to it which have the potential to increase the overall project risk and threaten a successful implementation of both NEXUS and those other initiatives.

As noted whilst some of these issues are within the direct control of NEXUS, others will need to be managed at an industry level and, to date, no such vehicle with appropriate oversight and decision making powers exists to undertake this critical role.

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The following list represents those primary concerns which we believe need to be taken into account when considering the overall plan for delivering NEXUS:

1. Lack of holistic Industry program management.

The introduction of Nexus will require significant commitments of resource from industry participants and its scheduling needs to be considered in the context of other market changes which, even if not directly impacting NEXUS, will indirectly impact participants' finite resources. We have yet to see a strategy implemented for overall program management with clear Terms of Reference setting out how issues will be addressed and decisions made and prioritisation and scheduling undertaken in a fair and transparent manner.

2. The delay of 12 months to the roll out of Smart Metering program.

The delay to the Smart Metering programme means that the roll out of smart metering, which provides the enabling technology required in order to access many of the benefits in project NEXUS has been impacted. Based on current industry information 99.6% of domestic meters remain traditional meters. This delay has meant the start-up of full market rollout is now closely aligned with the proposed NEXUS Go-Live and any issues arising from the introduction of these new technologies, systems and processes will not have had to chance to be understood, considered or resolved prior to NEXUS implementation.

3. Extension of Advanced Metering arrangements until April 2016 (from April 2014).

This reflects the delays in accessing Smart Metering technologies and the associated delays experienced in the domestic market rollout. As noted in [2] above this means the rollout of functionality needed to access the benefits of much of project NEXUS will be delayed.

4. Proposed Go-Live for the Data Communication Company (DCC) scheduled for September 2015.

Gazprom Energy is particularly concerned with the close proximity for the DCC and NEXUS Go-Live which are now less than 1 month apart.

We believe this close proximity of 2 major industry programs introduces an unacceptable risk to both projects. As such and recognising that smart & advanced rollout are enabling technologies for NEXUS it seems obvious that from a scheduling perspective that DCC Go-Live should not be delayed any further and that NEXUS Go-Live should be rescheduled such that these two major programs are phased appropriately.

5. Lack of clarity on the impact of the removal of RBD in the SSP sector.

Gazprom Energy has asked at several meetings for modelling / analysis on the impact of the removal of RBD and the introduction of individual meter settlement. In the light of the lack of smart metering being rolled out in the domestic market (the Q4 2013 rollout level is 0.4%) it remains unclear what the impact of smearing factors introduced in NEXUS will be on smaller market participants in the short to medium term.

Without these enabling technologies in place we are concerned that infrequent reads will continue to dominate the majority of the domestic market for many years potentially leading to volatility in reconciliations which could create cash flow & credit issues for all market participants and in particular for smaller suppliers.

We are also interested in understanding the impact of an exit from recession on AQ's and the potential for AQ's moving from generally being higher than actual consumption to being lower as the economy picks up. Whilst the introduction of rolling AQ may reduce the risk associated with this concern the ability for market participants to access rolling AQ is of course dependant on accessing more frequent meter reads. In the absence of more frequent data it is unclear to what extent rolling AQ will benefit SSP's.

Overall we believe it is important that we understand if any of the proposed changes could have an unintended and adverse consequence on smaller market participants and as noted we have not seen any modelling or analysis on these issues.

6. The proposed smearing of unallocated energy across the whole market as a function of throughput.

Due to repeated concerns about the simplistic smearing factors created under Project NEXUS and the arbitrary removal of the AUGE process, Gazprom Energy was forced to raise a modification to re-establish an AUG process within NEXUS. We were particularly disappointed that having raised the issue repeatedly the issue remained unresolved and that whilst all the other NEXUS modifications were raised centrally by one party the AUGE modification had to be raised directly by ourselves.

At this time the proposal is yet to be fully developed and the current arrangements enshrined within this Modification remain a retrograde step from the current arrangements. We are also aware that concerns have also been raised about the ability to put in place contractual arrangement in time to meet the proposed Go-Live date should a "new" AUGE arrangement be required.

Based on the above status and uncertainty we would like to see the implementation of project NEXUS rescheduled to allow this critical issue to successfully be developed such that market participants are clear as to how the new market arrangements will operate and how this risk will be managed post NEXUS implementation.

7. The impact of European Changes into the UK Market.

We are aware, and a number of parties have repeatedly highlighted at meetings, the number of changes flowing from Europe which may impact on the existing UK Market operation and which may require enabling changes to existing systems e.g. changes to gas day, impact of CAM etc.

Overall we believe it is important that we understand if any of the proposed changes could have a material impact directly or indirectly on project NEXUS and we have not seen any analysis on these issues to date.

8. Changes required to GEMINI as a result of Project NEXUS.

We would note that we have yet to see the analysis of any changes needed to GEMINI as a result of implementation of NEXUS and in particular the anticipated go live date of the start of the Gas Year and any impact of the moratorium on change to GEMINI during winter operation.

Again the close association with the proposed go live date of the 1st October and the GEMINI moratorium from October to April introduces a significant risk if any changes to GEMINI are required and the delivery date on NEXUS was to slip by even 1 day!

9. The output from the Change of Supplier Expert Group (CoSEG)

This Ofgem led industry Group is looking at potential short and long terms changes to enhance the CoS process. The output from such initiatives may have a direct or indirect impact on the NEXUS project and at present it is unclear what risks these pose on the integrity of the NEXUS project as currently defined.

10. The potential for Registration to be centralised under DCC.

This decision has a major impact on existing industry systems for both central service operators and market participants and it seems risky to commit to significant systems changes and costs under Project NEXUS without understanding if centralisation of registration is the preferred solution and if so how this affects market participants.

11. The introduction of REMIT and the implications for market participants on reporting requirements.

Whilst this project does not have a direct impact on NEXUS the resource requirements necessary to meet the obligations to register (Q1/2 2014) and report (2015) will have an impact on market participants' overall resources in terms of managing multiple projects in parallel.

12. The future arrangements for Xoserve.

We have concerns that introducing changes to the structure of Xoserve during the delivery phase of NEXUS creates significant risk to the project and the successful introduction of those changes to Xoserve achieving real value.

By placing the NEXUS contracts ahead of introducing changes to Xoserve we risk "hamstringing" the new business making it a "hostage to fortune" to the old businesses decisions. We would also risk losing the benefits of the new business bringing it skills and knowledge to the table. We therefore believe that changes to Xoserve should be prioritised such that the new arrangements should be place before locking the industry into arrangements which will define Xoserve's central services for many years to come.

Summary

As noted, on the basis of the points set out above, we are only able to give **QUALIFIED SUPPORT** to the modification proposals. We believe the issues highlighted above raise sufficient material risk that the proposed implementation date of 1st October 2015 should be reviewed and rescheduled by a minimum of 12 months we would therefore propose a revised implementation of the project to post October 2016.

The industry should work together under robust centralised program management to further de-risk NEXUS to ensure that any agreed date can be delivered without introducing further unacceptable risks to the market as a whole.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

We believe the concerns raised above in our previous answer should be set out clearly in the final modification report

Self-Governance Statement:

Do you agree with the Modification Panel's decision that this should not be a self-governance modification?

Yes

Relevant Objectives:

(How would implementation of this modification impact the relevant objectives)?

We agree with the Positive benefits set out in the report

Impacts and Costs:

What analysis, development and on-going costs would you face if this modification were implemented?

The changes represent a significant commitment in terms of funding and resourcing and we would need to incorporate it into our own project management process.

As previously noted this project forms one of a number of industry and internal projects which we are managing and fundamental to understanding the impact and costs is the level of parallel industry change and the robustness of any agreed industry Go-Live date

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

As noted, on the basis of the points set out above, we are only able to give QUALIFIED SUPPORT to the modification proposals. We believe the issues highlighted above raise sufficient material risk that the proposed implementation date of 1st October 2015 should be reviewed and rescheduled by a minimum of 12 months we would therefore propose a revised implementation of the project to post October 2016.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

We have not reviewed the legal text in detail



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Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasize.

No

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