

Representation - Draft Modification Report 0550

Project Nexus: Incentivising Central Project Delivery

Responses invited by: **10 March 2016**

To: enquiries@gasgovernance.co.uk

Representative:	Edward Hunter
Organisation:	RWE npower
Date of Representation:	10 March 2015.
Support or oppose implementation?	Support
Relevant Objective:	f) Positive

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

Project Nexus delivery has already been delayed by a year. This has financial impacts on parties to the UNC who will be required to extend their own internal Project Delivery Programmes. These inefficiencies are costly and feed through to the consumer.

There is clearly no incentive on the Gas Transporters to deliver Project Nexus in a timely manner on the new revised date of the 1st October 2016. This modification seeks to give Industry participants increased confidence in the delivery of Nexus by incentivising the efficiency of Gas Transporters to deliver the UK Link Replacement Programme.

It is clear that this modification is not compensatory in nature and indeed half of the incentive payment will be distributed to an energy charity of choice. The scheme is only activated in event of the failure of the central service provider to deliver the central solution.

Such incentives are common place in many commercial contracts including energy metering contracts as they contribute to ensuring efficiency.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

As soon as possible to give industry parties clarity and assist in removing the undermined confidence in delivery and concerns that have been raised by multiple parties. It is noted that there would be no impact on current FGO developments as these arrangements do not come into place until 2017.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

There are no anticipated costs from the implementation of this modification.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes. Whilst we note that the legal text does not state that Gas Transporters cannot meet the costs of incentive from Transportation allowed revenue, discussion at workgroups agreed that this was not necessary.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

There are a number of explanatory issues that I would like to be taken into account when considering this modification:

Difficulty was encountered valuing the incentive payment to ensure that it is at a suitable level to incentivise delivery. Xoserve were asked to disclose costs that they might recover from their own third party IT service provider in the event of a failure however these were considered commercially sensitive.

PwC have performed an independent assessment of the cost to industry of the failure to delivery Project Nexus. This was assessed at circa £4m per month. In addition it is common practice for commercial contracts to assess damages for non-delivery at approximately 10% of the contract cost. It is common knowledge across the industry that the UK Link Replacement programme is valued at circa £70m.

Based on this information some members of the workgroup decided that the sum of £5m per calendar month capped at 2 months will be sufficient to incentivise delivery and is proportionally representative of the costs incurred by the industry. It is also noted that as this is an incentive payment and not liquidated damages, half of this sum will be donated to a charity. As an incentive payment it is not required to be reflective of loss incurred. Indeed we would suggest that the values proposed are far below those required by Shippers to fund their own programmes and therefore cannot be considered penal in nature.

Please provide below any additional analysis or information to support your representation

None