

Representation - Draft Modification Report 0550

Project Nexus: Incentivising Central Project Delivery

Responses invited by: **10 March 2016**

To: enquiries@gasgovernance.co.uk

Representative:	Angela Love
Organisation:	ScottishPower Energy Management Ltd
Date of Representation:	10 th March 2016
Support or oppose implementation?	Support
Relevant Objective:	f) Positive

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

ScottishPower has been fully engaged in the development of MOD550 and is supportive of the proposal to incentivise the Gas Transporters to deliver Project Nexus by the Implementation Date of 1st October 2016. ScottishPower believes that without this Modification there is little incentive on the Transporters to deliver Project Nexus by that date. Even after the re-baseline of the Project under Modification 0548, when an additional 12 months was agreed by Ofgem, concerns remained that the Transporters would be unable to deliver the functionality required within the UNC, related to Modifications 0432, 0434 and 0440. Subsequently Modification 0573 was proposed by National Grid to de-scope Retrospective Adjustment of Asset and Supply Point (Modification 0434) by twelve months, as the Transporters' Agent advised that they would be unable to deliver this for 1st October 2016.

All such delays result in additional costs to Shippers through the requirement to prolong their Nexus programmes and moreover result in lost benefits to consumers, through no fault of their own. ScottishPower therefore believes that it is imperative that the Transporters be incentivised to deliver Project Nexus in the agreed timelines. For many months Shippers have requested that the central Nexus programme, run by the Transporters' Agent, be incremented with resources to ensure that the implementation date could be met. However Shippers were continually told by the Transporters' Agent that resource could not be found, yet following the instigation of this proposal multiple resources were secured.

There are a number of other areas where there are emerging concerns over the Transporters' Agent's readiness, which could put the implementation date in jeopardy, including the readiness of the Review of Gas Metering Arrangement (RGMA) flows, the ERR/FRJ rejection files and Unique Sites. All of these issues have been flagged at a late stage and to date the only solutions being put forward by the Transporters Agent in this regard is for Shippers to either constrain their timeframe for their own tests, de-scope arrangements or for manual workarounds to be developed. A Shipper also raised Modification 0531 in February 2015 to act as a contingency to address any issues or additional slippage to the plan, yet despite this modification being developed for 12 months, the Transporters have not yet detailed any plans to extend the closing date of the testing environment, nor sufficiently substantiated why this cannot be done.

If Ofgem approves this Modification, ScottishPower believes that it would make the Transporters consider alternative approaches and become innovative in seeking solutions to their current problems. ScottishPower also believes that the Transporters would take a more robust approach to the programme, in planning resources, identifying and notifying any issues at the earliest opportunity and considering risks/mitigation actions, which do not continue to purely seek compromise from Shippers programmes.

ScottishPower would also like to highlight a concern that the Transporters seek to deliver bare minimum functionality as “core”, having already de-scoped retrospective adjustment and with the possibly of Unique Sites also being de-scoped. The main concern ScottishPower has is that what is referred to as “core” by the Transporters is ever changing and diminishing and could begin to have no resemblance to the changes agreed under the UNC. Such changes also have an impact on this Modification Proposal and the scope of it.

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

We believe that this Modification proposal should be implemented as soon as possible following an Authority decision, to ensure that the Transporters are incentivised to deliver Project Nexus for 1st October 2016 and that no further customer benefit is lost and Shippers do not incur any further additional costs from a pro-longed programme.

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

None

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

Yes we are happy that the Legal Text will deliver the intent of the Solution

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.*

No

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

Through the development of this proposal it appears that there are liability regimes within the contracts that the Transporters’ Agent has with its service providers, who are delivering the Nexus solution for them. Therefore the industry is in a position that, if Project Nexus is delayed, the Transporters could receive payments from services providers, whilst Shippers, and more importantly customers, have additional costs and lost benefits. Whilst the Transporters have argued that it is unfair to try and introduce incentives part way through the development programme, it would appear perverse that the Transporters could benefit from any delay, when such delay is impacting their customers and end consumers. In addition it is arguable, without this modification proposal, what incentive there is on the Transporters to deliver on time, when they stand to receive liability payments. ScottishPower notes the new arrangements proposed under the Funding, Governance and Ownership arrangements for Xoserve, but would highlight that this proposal seeks to ensure that Transporters are directly liable for payment of this incentive arrangement and the Proposer was clear that any monies to be paid by the Transporters should come for their shareholders. Shippers were advised by Transporters during the development of this proposal that this did not need to feature in the Business Rules, as

Ofgem would not allow the Transporters to recover such sums through transportation. Similarly Shippers were advised that no invoicing of Transporters had to feature in the solution.

Shippers did request details of the liability payments that are in the contracts between their service providers and the Transporters' Agent, but were advised that this information could not be provided due to commercial sensitivities.

The Transporters may argue that the incentive payment is not a calculated value, however as noted above Shippers were unable to get information on the liability arrangements that are in place with third party service providers, nor were they able to use information gathered within the assurance work or get details on the full cost of the central solution. It is worth noting that the incentive arrangement is capped at £10m (a maximum of 2 months incentive at £5m/month) and is a fraction of the assumed overall programme cost.

The Proposer also included provision that 50% of any incentive payment levied would go to charity to try in some way to recompense customers. This proposal, we understand, was used as it is akin to enforcement practice.

Transporters suggested through the development of this proposal that they have a best endeavours obligation to deliver Project Nexus and that this proposal would not see them or their Agent act any differently. However, as noted above additional resources have been placed on the central delivery programme, since the instigation of this Modification. In addition Transporters did on a number of occasions say that they might look to implement Project Nexus mid-month, if it meant that they would avoid the incentive payment – despite this being problematic from an energy balancing/settlement perspective. This would obviously be a change in behaviour.

Similarly Transporters asked during the development of this proposal what else they could be expected to have done in relation to the programme to mitigate delays. As outlined above, ScottishPower and other Shippers has been calling for additional resources to be deployed on the programme for a considerable time. Indeed since 2013 ScottishPower has also called for open and transparent discussion with Shippers on progress of the central solution, and most notably for a full end-to-end Project Plan to be provided. This has still not been done. In addition Modification Proposal 0531 is seeking an additional test period, as a mitigation measure and there has not been support from the Transporters in this regard.

We note the need for a Modification to be accepted by Ofgem, which can attribute any proposed delay to Transporter failure, as a means of triggering the scheme. The trigger point was debated at length in the discussions of this proposal and due to there being no entry/exit criteria for the Transporters' Agent it was seen that this was the only route open to determine Transporter responsibility. It is therefore worth highlighting that for the scheme to work any change to the Project Nexus Implementation Date (PNID) should only be through a Modification and not by Ofgem Direction and that Ofgem will clearly need to state if they believe the delay is the result of the Transporter(s).

ScottishPower would like to point out that this Modification only has the potential to incentivise delivery of the central Project Nexus solution for 2 months post October 2016 and is therefore concerned that if the Transporters are not going to meet the PNID by more than 2 months there is no incentive to deliver it quickly thereafter.