

Stage 01: Modification

At what stage is this document in the process?

0550:

Project Nexus – Incentivising Central Project Delivery.

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

This Modification proposes an implementation backstop date for Project Nexus together with incentive payments from Gas Transporters should this date be further delayed.



The Proposer recommends that this modification should be assessed by a Workgroup













High Impact: Shippers and Transporters.



Medium Impact: None



Low Impact: None

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8 Recommendation	7		telephone: 07788 309163
About this document:			Transporter:
This modification will be presented by the proposer to the Panel on 20 August 2015. The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.			National Grid Distribution
The Proposer recommends the following timetable:			
Initial consideration by Workgroup	08 September 2015	chris.warner@nationalgrid.com	
Workgroup Report presented to Panel	15 October 2015		07778 150668
Draft Modification Report issued for consultation	15 October 2015	Systems Provider:	
Consultation Close-out for representations	05 November 2015	Xoserve	
Final Modification Report presented to Panel	06 November 2015		
UNC Modification Panel recommendation	19 November 2015	commercial.enquiries@xoserve.com	
			
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1 Summary

Is this a Self-Governance Modification?

Self Governance procedures are not requested as this modification is likely to have a material impact on the commercial activities connected with the shipping and transportation of gas since it introduces financial liabilities on transporters and is expected to require financial transactions between industry parties.

Is this a Fast Track Self-Governance Modification?

Fast Track does not apply because this is not a housekeeping matter.

Why Change?

It is clear to industry parties that Project Nexus will not be delivered on the current implementation date of 01 October 2015. Despite a considerable hiatus whilst the project is re-planned, concern exists that the functionality to implement Modification 0434 Retrospective Adjustments will not be available in good time, and there is no provision in the UNC to incentivise Transporters to deliver all of the functionality (UNC Modification 0432 – Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform and 0434 Project Nexus Retrospective Adjustment) in a timely manner.

Solution

This modification seeks to introduce a backstop date for Project Nexus Go-live in order to give the industry more assurance that core delivery will be achieved and incentivise the delivery by the Transporters Agent. This backstop date will be the Project Nexus Go-live date as at the implementation date of this modification

It is proposed that liquidated damages will be applied to the Gas Transporters if they fail to deliver the Nexus solution to the revised timeline and budget. This incentive will take the form of payment to Shippers who have met both the initial and the revised implementation dates (as noted in the PWC report).

Relevant Objectives

This proposal has a positive impact on Relevant Objectives c), d) and f). We believe that an appropriate financial incentive will reduce risk to consumers of cost over-runs and therefore improve competition. Any further delay or failure will result in extra costs for Gas Shippers and Suppliers who will need to test, develop and implement the solution thus increasing costs whilst extending the length of internal delivery programmes.

Implementation

This Modification needs to be implemented at the earliest possible date following Authority Decision.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This Modification Proposal impacts the industry programme for replacement of UK-Link systems, since it defines a backstop implementation date.

2 Why Change?

Modification 0434 – Project Nexus, Retrospective Adjustment was signed off by Ofgem with an implementation date of the 1st Oct 2015. (Nexus Go-Live) and the industry and the Transporter's Agent have been working towards this implementation date. It has since become apparent that Nexus full functionality inclusive of Retrospective Adjustments and Unique Sites cannot be delivered by Xoserve by 1st October 2015. Following the appointment of PwC by Ofgem as Nexus Programme Assurance Manager it appears that not all Shippers would have been ready for implementation of the Nexus solution by 1st October 2015. In addition, PwC had significant concerns over the Transporter's Agency approach to market trials and testing and the lack of any contingency planning and the level of parallelism. The programme has therefore been subject to a lengthy delay whilst firm delivery dates that enable robust testing and market trials are developed by the Transporters Agent.

Shippers have been requested by Ofgem to deliver their own internal Nexus solutions for the 1st October 2015. However, the uncertainty and delays have placed significant risk and financial burden on Gas Shippers in the form of extended major change programmes. In addition at this time there is little confidence amongst Shippers that any revised date proposed will be achieved by the Gas Transporters. It could therefore be the case that Shippers have their own internal systems ready and the Transporters Agency have not delivered the system solution. (UNC Modification 0432 – Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform and 0434 Project Nexus Retrospective Adjustment)

A key part of the RIIO process is ensuring the incorporation of incentives within the price control structure that deliver value for customers. It is the view of RWE that any further delay to the Nexus programme will inflict unnecessary further costs on consumers particularly as significant changes are expected across the industry over the next five years.

3 Solution

To incentivise and increase the probability of Gas Transporters delivering the system solution efficiently it is proposed to introduce the concept of Liquidated damages into the Uniform Network Code to compensate Shippers and ultimately their customers if delivery is due to a specific failure by the Gas Transporters assessed independently. This will be achieved by amending section V, 8.4 of the Uniform Network Code to include liquidated damages assessed at a daily or weekly rate to be defined by the UNC Workgroup.

It also introduces a backstop date for Project Nexus Go-live in order to give the industry more assurance that core delivery will be achieved and incentivise the delivery by the Transporters Agent. This backstop date will be the Project Nexus Go-live date as at the implementation date of this modification

User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	N/A
Proposed charge(s) for application of User Pays charges to Shippers.	N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	N/A

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Whilst somewhat mitigating the risk of Project Nexus not being delivered this modification promotes efficiency in the implementation and administration of the code and reduces Gas Shippers', and ultimately their customers', exposure to costs associated with any failure to deliver functionality.

By increasing the probability of timely delivery this modification may also decrease the volume of inaccurate data entered into Settlement.

5 Implementation

An early decision date by the Authority would provide certainty to the industry as the expected delivery of Project Nexus on 1st October 2016. This modification is relevant to the implementation of the UK Link Replacement programme (which incorporates the changes required for 'Project Nexus') as it would mitigate a significant programme delivery risk.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification is relevant to implementation of the UK Link Replacement programme.

Pre Project Nexus Implementation

This modification is required to be implemented in advance of the Project Nexus Implementation Date to give increased certainty of the Project Nexus Go-Live Date.

Post Project Nexus Implementation

Implementation of this modification is not proposed to occur following the Project Nexus Implementation Date.

7 Legal Text

The proposer has provided the following Suggested Legal Text to introduce Liquidated Damage payments and will welcome the Transporters view on how best to apply the backstop date in the code.

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION V - GENERAL

8.1 Limitation of liability

8.1.1 Subject to the further provisions of this paragraph 8, each Party agrees and acknowledges that:

(a) **no Party shall be liable to any other Party for loss arising from any breach of the Code, a Framework Agreement or an Ancillary Agreement, other than (but without prejudice to any other provision of the Code or an Ancillary Agreement which excludes or limits liability in respect of any breach) for loss directly resulting from such breach and which at the relevant date was reasonably foreseeable as not unlikely to occur in the ordinary course of events from such breach in respect of:**

(i) physical damage to the property of any other Party; and/or

(ii) the liability (in law) of any other such Party to any other person for loss in respect of physical damage to the property of such person;

(b) **Subject and without prejudice to paragraph 8.1.1 (c) no Party shall in any circumstances be liable** in respect of any breach of the Code, a Framework Agreement or any Ancillary Agreement to any other Party for:

(i) any loss of profit, **loss of revenue, loss of use, loss of contract, loss of goodwill, or increased cost of working**; or

(ii) any indirect or consequential loss; or

(iii) except as provided in paragraphs 8.1.1(a)(ii) and 8.1.5, loss resulting from the liability of any other Party to any other person howsoever and whensoever arising.

(c) in the event of non delivery of Project Nexus caused by any act, omission, default or failure of the Transporter's Agent Liquidated damages payments will be permissible at [£x per day.]

8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and
- Determine that this modification should progress to Workgroup assessment.