

0550:

Project Nexus – Incentivising Central Project Delivery.

This Modification proposes to introduce incentive payments from Gas Transporters to Shippers should the implementation of Project Nexus be further delayed beyond 1st October 2016

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

	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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About this document:

This modification was presented by the Proposer to the Panel on 20 August 2015. The Panel agreed with the Proposer's recommendation that this modification should be referred to a Workgroup for assessment.

The Proposer recommends the following timetable:

Initial consideration by Workgroup	08 September 2015
Amended Modification considered by Workgroup	20 October 2015
Workgroup Report presented to Panel	21 January 2016
Draft Modification Report issued for consultation	22 January 2016
Consultation Close-out for representations	12 February 2016
Final Modification Report presented to Panel	15 February 2016
UNC Modification Panel recommendation	18 February 2016

 Any questions?

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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 the potential for financial payments by the 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?

Project Nexus has already been delayed until 1st October 2016, requiring a significant replanning exercise by the industry. The Proposer remains concerned there is no provision in the UNC to incentivise Transporters to deliver all of the functionality required for the UK Link Replacement Programme (UNC Modification 0432 – Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform, 0434 Project Nexus Retrospective Adjustment and 0440 Project Nexus iGT Single Service Provision) in a timely manner. At the same time, Shippers are investing heavily in a programme to deliver their internal Nexus solutions by 1st October 2016 and any delay to delivery of the central programme will result in costs to their business, with the need for their programmes and resource requirements to be extended.

Solution

This modification seeks to give the industry more assurance that delivery of the UK Link Replacement programme will be achieved by 1st October 2016, and further incentivise the delivery by the Transporters Agent. The solution seeks to introduce incentive payments from the Gas Transporters to Gas Shippers in the event that the Project Nexus Go-live date is delayed further by non delivery of the UK Link central system industry solution detailed in the modifications above. For clarity the [Project Nexus Go Live date](#), ([applicable for this Modification](#)) is 1st Oct 2016.

Relevant Objectives

This proposal has a positive impact on Relevant Objective f). We believe that an appropriate financial incentive will reduce risk to consumers of cost over-runs and therefore improve competition. [Any increase in Project costs we believe will be reflected within Transportation costs](#). Any further delay, [over and above the current one-year delay](#), or failure will result in extra costs for Gas Shippers and Suppliers who will need to [keep resources](#), [test environments and support arrangements in place to test](#), develop and implement the solution [beyond the 1st October Go Live date](#).

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 [relates to](#) the industry programme for replacement of UK Link systems, since it defines a backstop implementation date. [It does not however propose any changes to the functionality or the proposed solution and therefore should have no impact on the existing approved Project Nexus Modifications](#)

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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 had been working towards this implementation date. It then became apparent that Nexus full functionality inclusive of Retrospective Adjustments and Unique Sites could not be delivered by Xoserve 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. In the Xoserve internal delivery programme. The programme has therefore been subject to a one-year delay to enable robust end to end testing and market trials, which were not set out by Xoserve as part of the original programme plan and undertaken before Nexus Go Live date. At the same time the Transporters Agent revealed that there were a significant number of file format changes that need to be incorporated in the solution before baselining could take place.

Shippers were 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 limited confidence amongst Shippers that any revised 1st October 2016 date will be achieved by the Gas Transporters for delivery of the central solution. It could therefore be the case that Shippers have their own internal systems ready and the Transporters Agency have not delivered the central UK Link Replacement system solution.

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3 Solution

To incentivise and increase the probability of Gas Transporters delivering the central system solution efficiently and on time it is proposed to introduce a payment incentive scheme to compensate Shippers if non-delivery is due to a specific failure by the Gas Transporters (or their Agent or their Agent's service providers) and the delivery date is not achieved. The incentive payments are to be assessed at a monthly rate to be based upon PwC's independent assessment of the cost to Gas Shippers of extending their internal development programmes. The PwC RASSP report has assessed that the cost of the delay to the Industry is [£4m - £6m] per month.

<http://www.gasgovernance.co.uk/sites/default/files/RAASP%20Impact%20Assessment%20v1.0%2003%20September%202015.pdf>

The proposer acknowledges that this value is the only one available to assess the cost to the industry of Project Nexus delay and is not considered accurate by some parties. The intention of this modification is to provide a suitable value for an incentive payment. Due to the nature of an incentive payment it is not required to be an accurate or genuine pre-estimate of Gas Shipper loss. It is provided to incentivise delivery and is not required to compensate Gas Shippers for loss however in this case the proposer feels that this value is relevant and reasonable and is believed to be roughly 10% of the costs of the initial delivery programme previously estimated at £70m

It is proposed that Gas Transporters will be invoiced on a monthly basis based on their shareholding in Xoserve. The funds collected to be redistributed amongst Gas Shippers based on market share meter

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point count calculated by Xoserve the following month. For the avoidance of doubt the Modification proposes that the Gas Transporters meet the costs of of any incentives from shareholders and not through transportation allowances.

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The incentive payments will be capped to a period of [two] months.

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Business Rules

- 1.) This modification puts a number of Industry milestones in place for the delivery of Project Nexus. The following system trials need to be undertaken and completed in accordance with the following timetable on a best endeavours basis.
 - Opening of L3 testing on 1st Feb 2016.
 - Opening of L4 testing on 1st Feb 2016
 - Completion of Xoserve's internal UAT by 31st Dec 2015.
 - Delivery of the UK link replacement programme on the 1st Oct 2016. Any delay to this delivery that results in Gas Shippers extending their internal delivery programmes through circumstances beyond their control (unless defined as a Force Majeure event) will result in the enactment of the payment scheme detailed in this modification.
- 2.) A Transporter Incentive Payment of [£4m - £6m] per calendar month (or part of) will be paid to the Transporters Agent by Gas Transporters based upon their shareholdings within Xoserve.
- 3.) 50% of the Transporter Incentive Payment will be redistributed to Gas Shippers by Xoserve based on Gas Shippers proportion of MPRN meter counts.
- 4.) 50% of the Transporter Incentive Payment will be paid to a Fuel Poverty Charity of Ofgem's designation prior to the apportionment to Gas Shippers.
- 5.) The Transporter Incentive Payment will be capped at [two] months.

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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

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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.	None
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.	None
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 1st October 2016.

Gas Transporters are obligated under the UNC to provide processes and services. "Their chosen way to do this is via the UK Link system. Through discussion with Ofgem under the Price Control the Transporters highlighted that the lifespan of the current UK Link system was limited and the current solution would be unable to cope with smart metering data. Therefore it was agreed that a new UK Link replacement system (Project Nexus) could be developed and funded through the Price Control

The UK link system has been identified as aged and requiring significant upgrading or replacement to continue to service the Industry effectively.

The UK Link solution is required to facilitate the Industry roll out of Smart metering and contribute to ensuring that the benefits associated with this are delivered efficiently.

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5 Implementation

An early decision date by the Authority would provide [greater confidence](#), 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 [risk of additional cost to Gas Shippers if they are required to run their internal delivery programme for a longer period](#). [Including a charitable donation within this modification will ensure that vulnerable customers also benefit from the Transporter Incentive Payment.](#)

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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, [but does not have any bearing on the Modification already approved by Ofgem](#).

Pre Project Nexus Implementation

This modification is required to be implemented in advance of the Project Nexus Implementation Date to give increased [probability that the Gas Transporters will meet](#) 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.

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7 Legal Text

The proposer will welcome the Transporters provision of Legal Text.

8 Recommendation

The Proposer invites the Workgroup to:

- Agree that this modification should be issued to Consultation.

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