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cc. Gas Industry Colleagues

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Dear Rob,

Gas Industry Change Overview Board: Risks arising from the Simultaneous Delivery of Project Nexus and EU Third Package Systems Delivery

At this week's first meeting of the Gas Industry Change Overview Board (COB), which superseded the Xoserve Senior Stakeholder Forum, the main topic for discussion was the potential impact on each programme of having both the Project Nexus (Nexus) and EU Third Package (EU) implementation dates in close proximity (around October 2015). In particular, discussions focused on the risks relating to the systems development programmes.

This letter sets out the issues discussed and, in the absence of a clear consensus among members of COB, seeks a view from Ofgem on the priorities for these important deliveries. Ofgem is asked to note that supplier contracts are due to be signed on the 24 March 2014 and any comment would be welcomed ahead of this.

Background

The meeting of the Xoserve Senior Stakeholder Forum (SSF) in October 2013 considered industry preferences for target go live dates for a range of significant deliverables, in particular where the discretion sat within industry / Ofgem's remit. A number of potential risks to delivery and associated with delivery were identified. It was noted that a target go live date of 01 October 2015 would be included in the Nexus modifications, acknowledging that all parties would continue to assess the level of risk associated with that delivery target. Given the criticality of central systems and the particular potential for conflicting priorities associated with delivery of EU and Nexus modifications, Xoserve took an action to report back to the next SSF with the latest on its view of risk.

In response to the UNC Modification 0432 and 0434 Consultations, several respondents raised concerns with the multiple changes targeted for delivery in 2015, both because of ability to meet that target and the potential risks associated with a number of significant changes at or close to the same time and at the start of the winter period.

At the SSF Meeting in February 2014 the Forum reflected on the scale of change faced by the industry and the nature of the risks associated with simultaneous delivery. As they had committed to do at the October Forum, Xoserve set out the results of its initial analysis of EU, combined with Nexus, and explained that, to meet a common 2015 delivery, there would be interdependency between delivery of these two changes. In light of Xoserve's input and the Modification 0432/0434 Consultation responses of a number of parties, it was agreed that further cross-industry views on the risks and benefits of a range of delivery options would be gathered in a more structured way in order to assess the pros and cons of retaining the common 2015 target.

To facilitate this assessment process, all parties were invited to respond to a questionnaire exploring the risks, dependencies and benefits of four delivery options¹.

The value of the SSF was more formally recognised at February's SSF meeting and the Xoserve Forum was 're-branded' as the Gas Industry Change Overview Board (COB) for subsequent meetings under chairmanship of the Joint Office, with supporting publication

¹ <http://www.gasgovernance.co.uk/COB/030314>

services on the Joint Office website. This group met on 03 March, with its principal item of business being to explore the range of industry views gathered through the Delivery Options Questionnaire, with a view to submitting a report to Ofgem reflecting the views of the COB.

Industry responses received, along with a summary document, are also published on the Joint Office website.²

COB Meeting 03 March '14

Summary of Delivery Options Questionnaire responses

At the meeting debate was commenced through sharing a one page summary of the eight responses, setting out that six supported delivery option 2B - "EU followed by Nexus" (noting that one of these six responses was from ICoSS, who represent a number of parties) with two favouring option 1A - "concurrent delivery of Nexus and EU for 01 October 2015". None promoted either of the options 1B (concurrent delivery later than October 2015) or 2A (Nexus followed by EU).

Three attendees explained that they had been unable to respond to the questionnaire, but supported option 1A.

Xoserve's response had set out a number of risks associated with targeting option 1A and had strongly recommended adoption of option 2B as a more secure planning basis for successful delivery of EU and Nexus requirements.

A number of respondents, in addition to setting out their own position, had provided observations on Xoserve's response, which formed part of the subsequent debate.

COB Discussions

There was extensive discussion regarding a number of aspects of the delivery options and respondents' positions. The principal areas of debate were:

- (a) Confirmation of the mandatory nature of the EU change
- (b) Why, if EU and Nexus changes are targeted for the same delivery date, their delivery becomes linked for Xoserve;
- (c) Whether there are options not to link them whilst retiming the common delivery target;
- (d) The nature and scale of risks to delivery for 2015;
- (e) The expected implications of deferral of either deliverable into 2016; and
- (f) The potential implications of delivery of all envisaged changes in a short period during 2015.

The key points covered under each of these areas are set out below:

Confirmation of the mandatory nature of the EU change

Both NTS and Ofgem confirmed there is a legal obligation on the UK to deliver the changes to Gemini to support the EU changes and that Ofgem have no powers to change the EU dates. Ofgem advised that failure to meet the required dates could result in enforcement actions against the UK potentially running to seven figure sum fines.

NTS believe that the joint delivery of EU and Nexus changes presents an unacceptable level of risk to their ability to meet their Licence obligations to deliver EU-mandated change. Members noted that there are currently no Modifications approved to enact the EU Regulations.

Why, if EU and Nexus changes are targeted for the same delivery date, their delivery becomes linked for Xoserve

Xoserve explained that whilst the detailed analyses of changes for both sets of requirements have yet to be concluded, it is clear that there would be a need to change programme code in the Gemini IT system to give effect to both EU and parts of the Nexus settlement changes. Managing changes with different business drivers impacting elements of the same system would require combination of the development activities to support a single coordinated release; this would require common development and deployment.

² <http://www.gasgovernance.co.uk/COB/030314>

On the basis that agreement to an April 2016 target for the Nexus mods is not attractive to some parties, Xoserve was asked when the latest date would be that a call could be made to identify a revised date, having continued with the October 2015 target until then.

Xoserve explained that there are decision points with different drivers and implications. The most immediate implication is that in the absence of agreement otherwise, Xoserve will contract with its providers in late March 2014 on the basis of the 01 October 2015 implementation and will continue to work with industry on that basis. A decision after the end of March to re-phase could potentially have commercial implications for Xoserve and would be expected to impact the broader industry, on the basis that they would have geared up accordingly – the later any decision the more significant the likely implications. Members reiterated that any delay to Nexus would erode the benefits due to customers, as highlighted in Modifications 0432\0434

It was also noted that a key consideration might be the point at which, having embarked on the delivery with a common 2015 target, the EU and Nexus elements could be separated such that the statutory EU requirements could be met. In the absence of more detailed analysis and design, this date cannot be definitively identified, although Xoserve suggested it will probably be during Q2 2014. An important consideration is that if Nexus and EU are separated at a later date having first endeavoured to deliver both for October 2015, there is a risk that the re-planned delivery for Nexus may be later than April 2016 – it would depend on circumstances that prevailed at the time of the decision.

Whether there are options not to link them whilst retaining the common delivery target

Xoserve explained that there are not viable options to deliver the changes separately on an October 2015 common target. In theory an approach could be taken to mitigate the risk of a common delivery failing of running three parallel developments (one for each individual change and one for the combination) and deciding on which code to deploy at the latest possible moment. The issue with such an approach would be the bandwidth of Xoserve, its providers and the user community to parallel run such a programme through all phases, placing demands on multiple development and testing environments and resources across the community – the establishment of such a parallel development risk mitigation approach could in itself crystallise the risk of delay. Members asked whether Xoserve could obtain more resources to deliver simultaneous programmes. Xoserve explained that there wasn't time to develop people to have the required expertise and system understanding.

The nature and scale of risks to delivery for 2015

A number of participants expressed the view that they did not envisage material conflicts or risks in delivering the necessary changes for the full range of change for 2015 within their organisations. Conversely, some Members, including representatives of the shipper community from ICoSS, expressed concerns with the scale of change that would be required of their businesses to accommodate the full range of change. There was also concern expressed regarding the impacts of embarking on a 2015 plan that, at some point in the delivery cycle, moved to a revised delivery plan.

Xoserve explained that, even though the EU requirements are currently less clearly defined, they have a high level of confidence, given experience, that an autumn 2015 target could be achieved for EU change alone. The group requested a percentage level of confidence should be documented in this letter. Xoserve, whilst stating that this may be of limited value as it merely places a numerical assessment against a qualitative view of risk that has already been clearly expressed, states an 80% confidence of delivery of EU change as a stand-alone project.

Xoserve explained that the Nexus settlement deliveries are reliant on multiple factors and stakeholders including, at its core, delivery of the whole UK Link replacement, which is a major implementation programme with a SAP design at its heart. Xoserve explained that their bidders had provided best case examples of near comparable SAP programmes of this scale with timescales from conclusions of analysis to 'go live' of 21 months, although 24 months minimum is more typical. The COB acknowledged that these timescales were realistic and reasonable; there is extensive experience across the industry of SAP implementations and no members disputed these typical timescales, with one attendee expressing the view that 24 months would be ambitious. Members asked whether a phased approach would be possible;

Xoserve stated that their service provider had advised it would be not be. This was also the view of the other bidders in the procurement process. Xoserve also noted that there was zero time contingency in the delivery plan as is being developed.

Responding to a request made at the meeting, Xoserve have indicated that such timescales make certain assumptions which themselves each have their own risk profile, including:

- (i) Stability of requirements
- (ii) Timely feedback on customisation
- (iii) Fit for purpose data
- (iv) Agreement on file formats
- (v) Engagement on testing
- (vi) Development of associated process/systems

There are risks against all of these, e.g.:

- (i) Ofgem's decision letter on Modifications 0432 and 0434 indicating further potential evolution of requirements in the next 18 months. CoSEG's ongoing deliberations.
- (ii – v) Xoserve advised that to meet the 2015 date there would be greater pressure for industry stakeholders to accept the "out of the box" SAP functionality (minimising customisation) and to accept consequential process changes, and / or there would be a greater dependency on timely resolution of matters raised with stakeholders. Experience, not least with developing the industry requirements through the project Nexus consultation exercise, is that such industry agreement is not often readily reached in a timely manner. The positions set out by stakeholders at this stage in the programme do not auger well for a wholly constructive and cooperative approach to cross-industry timely issues resolution.
- (vi) SAP on its own is challenging, but there are other impacted systems and some of these are outwith Xoserve's control.

As a consequence of the above risk drivers around the UK Link Programme (UKLP), Xoserve has a relatively low level of confidence that Nexus can be delivered for October 2015. Xoserve explained that they operated their sourcing process on the basis of October 2015 and have selected the System Integrator with the best proposal for this date, although their level of confidence is tempered by the fact that, to use the words of Xoserve's independent client side adviser, the bidder has 'planned backwards', giving lower level of confidence in the delivery plan. In terms of a percentage probability of success for October 2015 Xoserve has stated 'around 50%'. Subsequently the bidder has been requested to factor in the EU change, which they are currently assessing the impact of.

The expected implications of deferral of either deliverable into 2016

The COB was divided re whether it was acceptable to proceed with the common delivery target date of October 2015, principally because different parties are exposed to different expected risk impacts and benefits. Some members were keen to maintain the October 2015 target on the basis that, for them, they foresaw a deferral to April 2016 for Nexus as guaranteeing deferral of Nexus benefits to consumers and that to target and fail had material consequences.

Other members were concerned that the October 2015 target approach imposes the Nexus programme risks on statutory EU change and consequently advocated de-risking, with the Nexus date being revised to April 2016.

With respect to the implementation dates, it was also noted that normal procedure for discussing any changes to approved dates would be at the UNC Committee although, given the materiality, this was unlikely to be the best route for these changes.

Summary

In summary, the group's discussions confirmed that, faced with an option of retaining a higher risk target of delivery of both EU and Nexus for October 2015, versus a plan to deliver EU in 2015 and Nexus in April 2016, there was not consensus.

Xoserve stated that that if the both EU and Nexus continue to be targeted for October 15 then there is a very high risk the combined programme will fail to deliver on time and that delivery of both will move to April 16 at the earliest, although there may be other scenarios with more significant time implications.

Option	Benefits if achieved	Cost if not achieved	Implication of approach	Current Confidence Level of Success
1A EU and Nexus linked	Compliance with EU. Nexus in, benefits from October 15	Non-compliance with EU. Nexus benefits delayed. Industry costs of recovering position	Very high likelihood of delayed delivery.	50%
2B EU and Nexus de-linked	EU in for October 15 Nexus benefits from April 16	Non-compliance with EU, delayed Nexus benefits, costs of recovery	Almost certain delivery of EU for October 15 Less likelihood of further delayed Nexus delivery Loss of Nexus benefits for 6 months	80%

The potential implications of delivery of all envisaged changes in a short period during 2015

Regardless of the feasibility of delivery, a number of participants voiced concerns with the scale of change the industry would be required to absorb in a short period at the beginning of the 2015-16 winter period. The observation was made that during winter, all matters associated with gas are tighter, with limited room for error or problems and to introduce such a suite of change at that time would be ill-advised, particularly given the expectation that in order to achieve that date, opportunities for data preparation and testing of new processes and systems would be cut to the minimum.

The consequence of failure of either delivery was seen to be significant; either a failure to comply with EU Regulations or a delay to consumer benefits, or both.

In accordance with the wishes of the COB members, I would request that Ofgem consider the issues raised in this letter and, at the earliest possible opportunity, provide a view as to which delivery option should prevail. In the interim, please be assured that all efforts are being made to deliver both EU and Nexus implementation dates.

Yours sincerely,

Les Jenkins (by email)

Chair, Gas Industry Change Overview Board