
UNC Workgroup 0550 Minutes
Project Nexus: Incentivising Central Project Delivery
Friday 04 December 2015
31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alex Ross Shaw	(ARS)	Northern Gas Networks
Andy Miller	(AM)	Xoserve
Angharad Williams	(AW)	National Grid NTS
Angela Love	(AL)	ScottishPower
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON UK
Colin Blair*	(CBI)	ScottishPower
David Mitchell	(DM)	Scotia Gas Network
Edd Hunter	(EH)	RWE npower
Erika Melen*	(EM)	Scotia Gas Networks
Hilary Chapman	(HC)	Xoserve
Lorna Lewin	(LL)	DONG Energy
Phil Lucas	(PL)	National Grid NTS
Richard Pomroy	(RP)	Wales & West Utilities
Sue Hilbourne*	(SH)	Scotia Gas Networks
Suketa Hammond*	(SHa)	Ofgem

**via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0550/041215>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 January 2016.

1.0 Review of Minutes and Actions

1.1 Minutes (06 November 2015)

The minutes of the previous meeting were approved.

2.0 Workgroup Report

2.1. Amended Modification

Following the previous Workgroup discussions EH had provided an amended draft modification proposal (v3.0) for further discussion, and explained the changes made.

The Workgroup reviewed the changes made to the various sections of the modification and EH noted the suggestions / comments for further consideration.

Section 1 Summary

In considering this section, it was suggested that whatever statements are present in the relevant objectives within this section should also be present (mirrored) within the main Section 4 Relevant Objectives.

Section 2 Why Change?

It was felt by some parties that this section lacked (a complete) history especially when bearing in mind previous Workgroup discussions and agreements around the proposed process and associated timelines (inc. Ofgem appointment of PwC etc.).

Whilst some parties also questioned the need to refer to the Xoserve internal delivery programme, others believed that it is within context on the grounds that we have already witnessed a project delay of one year and that the project has progressed beyond a 'gentleman's agreement' approach. It was noted that part of the problem stems from trying to work backwards from a fixed end date – it was noted that PwC refer to this as being the first time a true project plan had been in place.

LJ suggested that whatever statement is agreed upon, it needs to be accurate and fair and suitable for inclusion within the Workgroup Report.

New Action 0550 1201: Xoserve (AM) to provide a history narrative for inclusion within an amended modification and subsequent Workgroup Report.

Section 3 Solution

It was observed that regardless of what statements are included within this section, it would actually be the Courts that ultimately decide whether something is deemed as a penalty or compensation at which point EH agreed to reconsider the current statement(s). He also indicated that based on the feedback, he would look to extract some of the wording from this section and drop it into the '*Why Change?*' section as background information.

In considering the statement '*It is proposed that Gas Transporters will be invoiced on a monthly basis....., by Xoserve on the following month*', the Workgroup queried whether or not this was advocating a single snapshot or rolling basis style of approach. LJ suggested that it is based on market share at the start of the Gas Day as at 01 October 2016.

Focusing on the 'For the avoidance of doubt the Modification proposes that the Gas Transporters meet the costs of any incentives from shareholders and not through transportation allowances' statement, CW suggested that this is not actually needed on the grounds that this is a 'bottom line' Transporter requirement and does not fall under the Price Control (re-opener) mechanism, especially as Ofgem would be highly unlikely to agree to any pass through aspects.

LJ pointed out that it is up to the Proposer to consider the points put forward and decide whether or not to amend the solution section accordingly. However, the Workgroup Report is able to identify and capture the views of other parties.

In moving on to consider the new 'Business Rules', AL requested that references to the Agent / Agents should be removed as it is the Transporters who are liable before pointing out that completion of Xoserve's internal UAT is now looking like being end of February 2016, rather than 31 December 2015 as currently stated. AL also voiced her concern around the capping of the Transporter Incentive Payment at two months as in essence this would potentially mean that once the two months had passed, the 'industry' would have no incentive, other than to raise another liabilities related modification.

CW suggested that as the modification makes specific reference to PwC's RASSP report, permission from PwC should be sought in order to do so. He then explained that, based on the current business rules, it is his opinion that National Grid Distribution would struggle to prepare the legal text.

When asked whether or not the reference to £4m - £6m is actually needed, or what would be expected to happen should the project be delayed by one day (but incur a months penalty) for example, EH agreed to give the matter some more thought.

AM highlighted that whilst Xoserve may advise Transporters that the actual implementation date might be two days late for example, the system can be delivered at any time during the month and not just on the first day of the month – CB requested that this potential fact be raised as a risk at the next PNUNC meeting. LJ suggested that it might be prudent to consider future proofing this by adopting a pro-rata solution.

It was suggested that how you define the payment (i.e. as a penalty or not) would potentially influence views on whether the costs are reasonable or not. When asked, EH confirmed that the use of the £4m - £6m range was his idea and agreed that if needed, a 'fixed' figure (supported by a view on the percentage impacts) of £5m / month would / could be more appropriate – it was felt that getting this information correct would be important for the forthcoming consultation phase.

Discussion briefly focused on whether it would be appropriate to assume that one Transporter is more culpable than another, based on their voting rights on the Xoserve board. It was noted that regardless of 'share holdings', the Transporters remain liable. Responding, EH indicated that he remains happy with what he has already defined as it is based, he believes, on discussions undertaken during previous Workgroup meetings.

When AM voiced concerns around how Xoserve would be expected to invoice the Transporters when there is no existing provision for such an action within the GT – Xoserve contract, EH agreed to remove the reference (inc. references to invoicing) as it was suggested the modification only really needs to highlight that Transporters are liable.

Section 5 Implementation

Some parties were of the view that the new addition which reads '*risk of additional cost to Gas Shippers if they.....that vulnerable customers also benefit from the Transporter Incentive Payment*' should be amended at the least with the reference to the internal delivery programme should removed.

2.2. Solution, including Business Rules

A. How would 'transporter failure' be defined

B. How would the incentive 'pot' be determined, and

C. How would the incentive 'pot' be allocated to shippers

When LJ suggested that it felt like questions B (£5m / month for two months pro-rata to allow for later tweaking) and C (Supply Point market share based) had already been answered during discussion of item 2.1 above, those in attendance agreed.

In looking to consider question A, EH confirmed that he expects that liabilities would be 'triggered' as at 01 October 2016. When CW made reference to established milestones that came about after approval of UNC modification 0548 (Urgent) 'Project Nexus – deferral of Implementation Date', LJ pointed out that it could be rightly argued that some of the trigger dates associated to 0548 are irrelevant in respect of this modification – the consensus being that the trigger dates in this modification remain 'fit for purpose'.

LJ suggested that the legal text requirement for this modification is broadly similar to 0548, except it is simply 'flipped around'. He then suggested to the Proposer that the new modification milestones must tally with the project plan in order to address tensions between this modification and 0548 by simply making reference to the

Code plan, as identified in (0548) legal text. When asked, LJ confirmed that governance of changes to the (PwC) project plan is via PNSG vires. Whilst some parties believe that referencing this within this modification is weak, LJ suggested that care is needed to avoid undermining Ofgem-proposed governance. CW suggested that the modification simply needs to make reference to 01 October 2016 within the business rules.

When asked what the Workgroup thought would happen in the event that all three key milestone dates are missed, but Project Nexus is implemented on 01 October 2016, those in attendance felt that nothing would happen (i.e. no liabilities would be triggered / incurred).

In considering how shippers would actually prove (project delivery) failure, it was suggested that this would be based around the existing project plan 'key' milestone criteria. In essence, if any or all milestones are not met, the liabilities are triggered – in short the modification has to define how Transporter failure will be assessed and measured, and EH was encouraged to discuss this with the Transporters and to seek a broad view from PwC. Some parties believed that demonstration of failure is potentially system or exit criteria related. It was felt that 'industry' GO / NO GO criteria maybe different to any Xoserve GO / NO GO aspects. It was suggested that there might be benefit in seeking a view on this from Baringa and making sure a reference to this fact is included within the modification, although some parties remained concerned that any view from Baringa may not be a truly independent one. One suggestion put forward was to consider utilising a 'P1 defects outstanding' based approach as a means to identifying when a liability is triggered.

In attempting to summarise discussions, LJ suggested that two ideas around what constitutes a Transporter failure seem to have developed, based around a discussion with Baringa and adoption of a P1 defects style approach as at a 'fixed point' date.

LJ pointed out that where the system does not go live on 01 October 2016, the proposed liabilities scheme would be triggered, however, should subsequent investigations reveal that the failure was not down to the Transporters, then NO liabilities would be placed upon them. It was noted that Shipper failure to be ready is part of the GO / NO GO industry criteria, as it presents a fundamental market risk. In trying to assess what would be expected to happen should the industry decide that certain elements of Project Nexus delivery are delayed (i.e. a split delivery date), it was noted that should this split date be attributed to Transporters, the case is proven and liabilities triggered. It was felt that this is a good commercial question that the Proposer would need to consider, especially aspects relating to the high risk RAASP report aspects. On behalf of Ofgem, SH suggested that they (Ofgem) are looking for delivery of the 'core' Project Nexus elements. LJ suggested that a good starting point would be to examine the 'core definition' levels 3 and 4 in the project plan, regardless of whether these are RAASP related or not.

LJ reiterated that it was incumbent on the Proposer to determine how 'Transporter failure' could be determined, and that this needed to be documented in a way that could be converted into legal text suitable for insertion into the Code. As it stands, legal text cannot be written until the modification is amended.

2.3. Relevant Objectives

LJ reminded those present that until the modification solution is clarified, the relevant objectives cannot be truly 'bottomed out'. LJ then suggested that in its current guise, the modification lacks a reason statement (inc. a reference to project delivery on time) to support why it actually further relevant objective f).

EH to consider the suggestions and provide some options for discussion at the next meeting.

2.4. Impacts

In light of discussions elsewhere in the meeting, further consideration of this item was deferred until the 14 December meeting.

2.5. Other questions

When asked whether or not Xoserve has a view on how the mechanics behind the liabilities invoicing aspects would actually work, AM responded by suggesting that Xoserve would need to consider developing a solution in the form of a Transporter Ad-hoc invoice. If the solution does not involve provision of an ad-hoc invoice, a charge would need to be levied. Whilst some parties believed that this should be included within the modification's solution section, others preferred adoption of a less prescriptive approach.

2.6. Progress on the Workgroup Report

LJ indicated that he would look to include statements around the SCR switching impacts within the Workgroup Report in due course. Thereafter, CW indicated that he would seek to prepare and draft the legal text only once clarity and stability of the Solution had been achieved in a revised modification.

3.0 Next Steps

The Proposer will consider further amendments to the modification as suggested in discussions and provide a revised draft (v2.2) for consideration at the next meeting on 14 December 2015.

Some Participants felt that it was important to pursue early submission of the Workgroup Report, since Project Nexus Market Trials had started and an incentive scheme would help to focus on the desired behaviours early enough to make a difference. EH committed to developing his proposal further, including the required Business Rules, to a stable position in time for the next meeting on 14 December, with the intention that a formal request for Text could then be made at the December Panel and the report finalised during January 2016 (potentially with a short-notice submission to January Panel). LJ observed that this timeline was extremely stretching and possibly no longer realistically achievable.

4.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00, Monday 14 December 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • <i>Development of modification</i> • <i>Review of legal text</i> • <i>Development of Workgroup Report</i>
10:00, Wednesday 13 January 2016	To be confirmed	<ul style="list-style-type: none"> • <i>Completion of Workgroup Report</i>

Action Table (04 December 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1201	04/12/15	2.1	To provide a history narrative for inclusion within an amended modification and subsequent Workgroup Report.	Xoserve (AM)	Pending