

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



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



High Impact: Shippers and Transporters.













Medium Impact: None



Low Impact: None

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

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About this document:		Transporter: National Grid Distribution
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.		 chris.warner@nationalgrid.com
The Proposer recommends the following timetable:		 07778 150668
Initial consideration by Workgroup	08 September 2015	Systems Provider: Xoserve
Amended Modification considered by Workgroup	20 October 2015	 commercial.enquiries@xoserve.com
Workgroup Report presented to Panel	21 January 2016	Additional contacts: Steve Nunnington
Draft Modification Report issued for consultation	22 January 2016	 steve.nunnington@xoserve.com
Consultation Close-out for representations	12 February 2016	
Final Modification Report presented to Panel	15 February 2016	 0121 623 2563
UNC Modification Panel recommendation	18 February 2016	

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 MODs 432, 434 and 440](#) 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 go live date of Project Nexus is 1st Oct 2016.

Relevant Objectives

This proposal has a positive impact on Relevant Objectives [\(e\), \(d\) 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. In addition any delay to the implementation of the programme will result in further lost benefit to consumers (in line with those expected and expressed in support of the Nexus suite of modifications).

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 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. 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. 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. It could therefore be the case that Shippers have their own internal systems ready and the Transporters Agency have not delivered the UK Link Replacement system solution. ~~(UNC Modification 0432—Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform and 0434 Project Nexus Retrospective Adjustment and 440 Project Nexus iGT Single Service Provision):~~

~~A key part of the RHO 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 and therefore there should be some incentives introduced in this area.~~

3 Solution

To incentivise and increase the probability of Gas Transporters delivering the system solution efficiently 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 and the delivery date is not achieved. The incentive payments are to be assessed at a weekly rate to be ~~defined by the UNC Workgroup~~ 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 per month.

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

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 calculated by Xoserve the following month.

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

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.	NonePositive
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.	NonePositive
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-	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.

[Gas Transporters are obligated under the UNC to deliver the UK Link replacement programme.](#)

[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 ~~ensure~~ [contribute to ensuring that](#) the benefits associated with this are delivered efficiently.

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 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.