



Making a positive difference
for energy consumers

Gas transporter licence holders,
gas shipper licence holders,
Xoserve

By email

Date: 14 March 2016

Dear colleague,

Improving the end-to-end management and assurance of Project Nexus

As you will be aware, industry is working towards a go-live date of 1 October 2016 for the replacement of central gas systems, generally referred to as Project Nexus. This will facilitate reform of, amongst other things, the gas settlement arrangements. Ofgem agreed this revised implementation date for Project Nexus last year, having earlier established the Project Nexus Steering Group (PNSG), with support from PricewaterhouseCoopers (PwC) to provide better end-to-end oversight of the programme and to improved assurance for the shipper community.

While the PNSG arrangements have undoubtedly had a positive impact on the programme, we remain concerned that the programme is unlikely to be successfully implemented this year without a number of further changes to the end-to-end management of Project Nexus. An implementation problem could have significant impacts on the operation of the market. The effects would be directly felt by consumers, for example they may be unable to switch supplier or face billing issues as shippers are unable to settle their gas volumes. Given this, we consider Project Nexus to be one of the biggest risks to consumers in 2016. As such, we are taking further action to improve the delivery confidence for this important programme. We are focussed on the outcomes for consumers from this programme: success will be the delivery of new end-to-end systems which do not have negative impacts on consumers.

Last week, Ofgem commissioned PwC to undertake a short high-level review of the current status of the programme, including Xoserve's delivery of the new central systems. This review suggests that delivery for 1 October may be achievable, but it is very challenging.

Following this review and with the agreement with Xoserve, Ofgem is taking forward a number of actions to create a programme governance structure which will increase the prospects of delivering the programme successfully:

- **We are taking on the overall sponsorship of the end-to-end programme.** We will be taking the ultimate go/no-go decision and will not allow the new arrangements to go-live until we are confident they do not present unacceptable risk for consumers. Whilst the go live criteria already focus on the critical processes which impact upon consumers, they will be re-visited to ensure that the required outcomes are clear.
- To assist us in this sponsor role, **we have given PwC a new mandate to provide a day-to-day integrated project management function.** This function will ensure there is greater transparency of progress and risks to all relevant parties.
- **We have expanded PwC's independent assurance role to include Xoserve's preparations as well as shippers.** We will ensure appropriate separation between this function and the project management role provided by PwC.

The new arrangements require us to use more of our own resources and we will draw more heavily on PwC as our external advisors. We will also need to review whether the current groups and boards, including the PNSG, need to be enhanced or complemented, to provide more efficient mechanisms to fully engage the right people and facilitate quicker consultation and decision making.

We will be refocussing the scheduled PNSG meeting for 14 March to discuss the new end-to-end programme sponsorship and leadership arrangements, rather than a detailed discussion on the plan for delivering RGMA functionality. We will be scheduling an additional PNSG meeting in the near future to discuss the delivery of RGMA. This will allow additional time for PwC, as part of their new extended assurance role, to ensure the Xoserve delivery plan is sufficiently robust.

If we are to deliver Project Nexus successfully, every party - including all shippers - needs to ensure they progress their own plans in a timely manner. Specifically, we will be looking for active participation in market trials of those aspects of the systems that are available for testing. We recognise there have been challenges in the past which have made it difficult for shippers, GTs, and indeed Xoserve, to plan their resources and engage with the programme. The changes to the programme governance we are making will address these challenges.

Ofgem is redoubling our efforts to oversee the successful delivery of Project Nexus and I am expecting all industry parties to do the same. Project Nexus is a large and expensive programme and it is in everybody's interests to ensure it is delivered as quickly as possible at an acceptable level of risk to consumers.

Yours faithfully,

Rachel Fletcher
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