

Representation

Draft Modification Report

0491 – Change Implementation Date of Project Nexus to 1st April 2016

Consultation close out date: 01 April 2014

Respond to: enquiries@gasgovernance.co.uk

Organisation: ScottishPower Energy Management Limited

Representative: Angela Love

Date of Representation: 01 April 2014

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

ScottishPower is extremely disappointed that Xoserve have only recently started to flag concerns about delivery of Project Nexus and the concurrent scheduling of changes to Gemini to meet the European Network Code requirements, in particular as both of these changes have been known about for many years. If Project Nexus is delayed until 2016 we would query whether it is an efficient investment of customer's money to replace the UKLINK system, when dual fuel governance and smart metering developments might facilitate the early development of common registration and settlement for gas and electricity.

ScottishPower is not convinced by the assertion of the Proposer that there is a high risk of failure associated with the currently proposed joint implementation of Project Nexus delivery and implementation of changes to Gemini to meet European Network Code requirements. In particular, whilst Xoserve have said that they are concerned with their ability to deliver both projects for 1st October 2015, their preferred Systems Integrator has asserted a higher degree of confidence of delivery.

Overarching these points, we are particularly concerned that any delay to Project Nexus will mean customers (mainly domestic) will lose the multi-million pound benefits expected from Nexus¹ and will continue to see domestic consumers picking up costs that should not be attributed to them. The Proposer suggests that the delayed implementation date for Project Nexus could be April 2016, but it is unclear the rationale for this date. Indeed we are particularly concerned that Xoserve have ruled out their ability to parallel develop each of the

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¹ See footnote two for links to Xoserve's Cost Benefit Analysis reports

Projects, yet the Proposer seems to believe that Project Nexus could be delivered within 6 months of the EU Network Code changes. Xoserve have however advised that it would be the same resources which would have to deliver both projects and therefore it seems unfeasible that delivery could be achieved by April 2016. From a process point of view, given the strategic nature of Project Nexus and the multi-million pound benefit to domestic consumers we find it unacceptable that a decision to change the implementation date further would be delegated to the Uniform Network Code Committee, when Ofgem have already agreed the implementation date (October 2015).

Are there any new or additional issues that you believe should be recorded in the Modification Report?

There are a number of areas of concern we have, which we believe should be recognised in the Modification Report. These concerns fall into distinct categories: the assumed risk of failure outlined by the Proposer; ability of Xoserve to meet a later implementation date of April 2016 and the process by which an alternative implementation date would be fixed.

Assumed risk of failure outlined by the Proposer

- We remain concerned that there is an assertion that there can be no changes to the Gemini system within the winter period, thus driving the Proposer to suggest a decoupling of the two projects and an implementation date of April 2016 for Project Nexus. Whilst we have asked for details of where this condition is set down and for president to be demonstrated this have not been forthcoming.
- The Proposer outlined in MOD491 that there is a “high risk of failure associated with the currently proposed joint implementation” for the two projects, but we have not seen detail to substantiate this assertion. Xoserve did produce an options paper, but the figures outlined within the risk matrix were not explained or substantiated in detail. Indeed there has been no tangible evidence of the need for delay since Ofgem agreed an October 2015 implementation date for MODs 432 and 434.
- The Proposer highlights that Xoserve are not confident of being able to deliver both projects for October 2015, however Xoserve’s preferred System’s Integrator is confident of delivery and has a lot of experience in this area (as was set out by Xoserve at the Change Overview Board held on 3rd March 2014). We would question why the Proposer or Xoserve would not have faith in their preferred System’s Integrator’s expert opinion or at least aspire to the agreed delivery date.
- At the Change Overview Board on 3rd March a couple of I&C Shippers were concerned that by pursuing a 1st October 2015 implementation date for Nexus together with the EU Network Code changes at the same time could carry reputational risk for the industry. We are not convinced that this is a valid concern, in particular as the fall back position for Project Nexus, if the project was not able to be implemented on 1st October, would be to continue with the existing arrangements (as is proposed in MOD491). Therefore the only risk would be that settlement reform benefits would not be realised for customers, not any customer service impact, as had been suggested.

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The ability of Xoserve to meet a later implementation date of April 2016

- Neither Xoserve or the Proposer have provided any evidence that decoupling Nexus from the EU Network Code change would ensure an April 2016 delivery time for Nexus. We would therefore like to see the Project Plan that supports this assertion, in particular given our next point.
- Xoserve have said that they do not believe that there are experienced resources available in the market to be able to increase their delivery capability. In addition they have said that parallel running of the projects could not be achieved due to this constraint. Our concerns here are two-fold:
 1. We are unconvinced that there are not resources available in the market to increment Xoserve's existing resources and are concerned that Xoserve do not appear to have "market tested" this assumption. Undoubtedly there would be a cost for such resource, but we believe that the industry and Ofgem should be given an insight into why Xoserve have reached this conclusion in particular as any delay will result in lost customer benefit. Even if resources could be secured at a higher cost this should be made clear to Ofgem and the industry so that an informed decision in relation to implementation can be made.
 2. In respect of parallel running, if Xoserve believe that there is such a constraint within their business that parallel running could not be done – we would querying how Nexus could be developed separate from the EU Network Code change, but still be delivered within 6 months of October 2015. Again we would like to see a detailed project plan from Xoserve to support this assumption, which was outlined in Xoserve's change option paper and is suggested by the Proposer.

Process by which alternative implementation date would be fixed

- We do not agree with the Proposer that any further change to the implementation date for Nexus would be for the Uniform Network Code Committee (UNCC) to agree, due the different commercial positions represented in the Committee. Indeed at the Xoserve Change Overview Board in March it was suggested by National Grid Distribution and discussed by the Board that it would be inappropriate for the UNCC to preside over any change to the implementation date, given the strategic nature of the change and the customer benefits that are anticipated from the Project. We believe, as was discussed at the Change Overview Board, that any further change to the implementation date of Nexus should be enacted through a modification proposal. This would then give Ofgem a role in determining a revised implementation date, should they direct having had the opportunity to consider the evidence presented, to overturn the date that they have already advised that Project Nexus should be introduced i.e. 1st October 2015. We therefore find it strange that considering the statement made in the Proposal regarding the role of the UNCC to agree any further change to the implementation date for Nexus that the Proposer is using the modification route at this stage.

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- Again before the implementation date is set to either April 2016 or a later date we would expect that Xoserve set out in detail a plan for delivery and outline why any delay is necessary, together with any mitigating actions and details of what can be done to ensure that delivery is not delayed for a prolonged period of time.

We also note that the Modification does not recognise that the proposal, if accepted, would have a material impact on SSP Shippers and their customers.

Self Governance Statement:

Do you agree with the Modification Panel's decision that this should not be a self-governance modification?

We agree with the Proposer that this MOD does not meet the criteria for self governance, although we would highlight that the Proposer has not recognised the financial risk to SSP Shippers and their customers of a delay to Project Nexus.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We believe that implementation of this Modification does not further any of the relevant objectives and would have a detrimental impact on Relevant Objective D.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

Impact of introducing this modification - Project Nexus comprises three main modifications – MOD432, 434 and 440, of which the first two have already been accepted by Ofgem with a 1st October 2015 implementation date. Through cost benefit analysis Xoserve have said that MOD432 would see £2.9m per annum benefit (and an ongoing £14.5m benefit over 5 years), MOD434 would see £2m benefit per annum and MOD440 would have between £25.79m and £37.665m over 5 years (and a one off benefit of between £2.14m and £3.74m)². By taking a straight average of these figures for year 1 it could be assumed that a delay of 6 months to Project Nexus would result an impact to the SSP market of between £5m and £6m.

Costs of not introducing this modification - Whilst National Grid Transmission has said that there is a risk of infraction proceedings from the European Union, if the European Network Code changes are not introduced for 1st November 2015, we understand that the potential for this is low.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We believe that Xoserve should be pursuing the implementation of both Project Nexus and the European changes for 1st October 2015 and would expect them to flag when, and if, any milestones have not been met and would jeopardise the delivery of either project. At that stage we would then expect to be presented with

² MOD432 - <http://www.gasgovernance.co.uk/sites/default/files/Final%20Benefits%20Case%20Consultation%20Report%200432%20v2.0.pdf>
MOD434 - <http://www.gasgovernance.co.uk/sites/default/files/Final%20Consultation%20Report%20final%200434.pdf>
MOD440 - <http://www.gasgovernance.co.uk/sites/default/files/Consultation%20report%20Nov%202013%20v4%20tkd%20to%20v3.pdf>

detail of what the issues are, what mitigation can be considered and for the industry and Ofgem to decide on the appropriate course of action. Further we believe that the course of action pursued should have at front of mind the customer benefits of the Project Nexus and take account of the implications of not meeting any requirements from the European Union, liaising with DECC as appropriate and necessary.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We see no issue with the legal text.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

We would highlight the expected benefits that will be delivered by Project Nexus, of which we have provided detailed information to Ofgem of what this means for ScottishPower.