Dear colleagues,

**Strengthening Project Nexus governance, management and assurance**

The UK Link system, operated by Xoserve for energy settlements, supply point administration and other functions for the GB gas market, is scheduled to be replaced. Project Nexus aims to ensure that the replacement systems meet the current and anticipated requirements of market participants. The new systems are due to be implemented on 1 October 2015.¹

Project Nexus represents a step-change for the gas market. Firstly, ensuring systems can use information from smart and advanced meters will enable more accurate invoicing and settlement. Secondly, incorporation of independent gas transporter into central systems will deliver significant cost savings for the industry and improve standards of service for switching and other functions. Both of these aspects of Project Nexus are expected to strengthen competition and deliver benefits for consumers.

Given the importance of Project Nexus, we expect all parties to make every effort to meet the 1 October implementation date. However, we have received representations from industry that this date is at risk. We are therefore taking steps to strengthen the governance, management and assurance of Project Nexus. Specifically, we will:

- procure on behalf of industry,² project management and assurance manager to provide independent advice, management and assurance on the delivery of Project Nexus; and
- set up a new industry steering group with the mandate to make decisions or recommendations on Project Nexus implementation issues.³

Xoserve will retain overall responsibility for the delivery of Project Nexus.

**Background to Project Nexus**

Project Nexus began with a four-year, industry-wide consultation and discussion process. During this time shippers and networks were asked about their requirements for the new IT

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¹ The implementation date of 1 October is set out in the uniform network code (UNC) following modification 432.
² We consider this to be an integral part of delivery Project Nexus, which itself has been fully funded. Funding for the independent project management and assurance will come from Xoserve/Gas Transporters.
³ The steering group’s terms of reference, which will be published shortly, will set out how the group will make decisions and recommendations.
system. This culminated in a set of Business Requirements Definitions which were subsequently developed into a series of uniform network code (UNC) modification proposals.

The project is now approaching its final stages, which consist of refining the detailed design of the solution, building and testing Xoserve’s systems and, finally, users building and testing their own systems.

**Current status of Project Nexus**

At the end of last year, two project assurance reports highlighted the challenges facing Project Nexus in achieving the 1 October implementation date.

The first, delivered by Xoserve’s advisor, Baringa Partners, assessed the project’s performance in the design phase, the viability of future plans and project risks. This report noted that the Project Nexus solution is incomplete and the project is around two months behind schedule. However, Baringa concluded that the 1 October deadline date was still achievable providing its recommendations were implemented.

The second report, also delivered by Baringa (who were appointed by Ofgem after a competitive process), was written following the approval of UNC Modification 513 which required that an independent assessment of shipper readiness be conducted. Baringa concluded that there was no clear evidence to suggest that shippers would not be ready for implementation on 1 October, though only 18 shippers responded to its questionnaire. Moreover, of those who had responded, only five provided project plans.

In addition to these reports, we have received representations from shippers highlighting the challenges which the project faces in its final stages. These include increased overlapping of project phases and the lack of a comprehensive, overarching project plan incorporating the actions on all relevant parties to ensure 1 October is met.

**Strengthening project management and assurance**

Given the findings of these reports and industry’s concerns, we are taking steps to strengthen the governance, management and assurance of Project Nexus. As the regulator we are well-placed to facilitate this. For the avoidance of doubt, Xoserve will retain overall responsibility for the delivery of Project Nexus and we expect all parties to be fully geared towards the 1 October implementation date.

We intend to establish a Project Nexus implementation steering group with the authority to make decisions and/or recommendations on the most effective way to implement Project Nexus. The steering group will represent a cross-section of industry, including both larger and independent shippers, gas transporters and independent gas transporters. Ofgem and Xoserve will also sit on the steering group.

To support the steering group and inform its decisions on the implementation matters, we will procure, on behalf of industry, a project and assurance manager. We propose this manager’s tasks will include but not be limited to:

- conducting an assessment of Xoserve’s current plans, including the extent to which mitigations have been identified and fully explored;
- using Xoserve’s current plan as an input, creating a new cross-industry plan to fully incorporate all stakeholder deliverables and dependencies for the 1 October date to be met;
- developing a framework for determining whether each of the milestones included within the new project plan has been met, with a framework for considering the “go/no go” decision for 1 October implementation;
• providing project assurance on an ongoing basis against this framework – this will include examination and reporting on all affected parties’ progress and a “go/no go” decision;
• recommending necessary remedial actions for parties to ensure the 1 October deadline remains viable; and
• delivering an assessment of alternative implementation options to maximise benefits if it becomes apparent that the current scope of Project Nexus cannot be delivered in full by 1 October 2015.

Although appointed by Ofgem, the project and assurance manager will report to the steering group.

**Next steps**

We are in the process of seeking nominations for relevant industry parties to sit on the steering group. We will shortly write to all parties setting out the group’s terms of reference and, to confer upon it the necessary authority, will also ask all relevant parties to sign a memorandum of understanding. Both of these documents will be available on Ofgem’s website. We intend for the steering group to be established by the end of February, around the same time that the project and assurance manager will be appointed.

We look forward to your commitment to an effective and timely transition to the new systems, including ongoing co-operation with the steering group and compliance with its decisions.

**Contact**

If you have any comments or questions about this letter please contact Jonathan Dixon via jonathan.dixon@ofgem.gov.uk.

Yours faithfully

**Rob Church**  
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