



Making a positive difference
for energy consumers

The Joint Office, gas
transporters, gas shippers, gas
suppliers, Xoserve and other
interested parties

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Dear Stakeholders

Decision to defer implementation of Project Nexus to ensure a successful implementation

On 2 June we issued a consultation on options for a successful implementation of Project Nexus.¹ That letter sought industry views on the four implementation options developed by PwC, and on our minded-to position of supporting option C – *continue with programmed delay* with a target date of between 1 February and 1 April 2017. That letter also set out our success factors for effective delivery of Project Nexus.

After reviewing responses to the consultation we have decided to pursue option C as we believe this option provides for the earliest delivery of Project Nexus in line with our success factors.

We remain disappointed that Ofgem has had to step in to take on an active sponsorship role for Project Nexus; a programme for which industry is responsible for delivering. Moreover, we are disappointed that it has again proven necessary to reassess progress against the programme milestones and take the decision to delay implementation and, therefore, the delivery of consumer benefits arising from Project Nexus.

However, in our opinion, the risks to consumers of pursuing a 1 October 2016 go-live are too significant for us to allow industry to continue targeting that date. There was no new evidence identified through the consultation which ruled out option C as a viable scenario.

Summary of consultation responses

We are grateful to industry for their response to our 2 June consultation. We received 27 responses in total, with the majority supportive of our minded-to position.² The breakdown of responses is as follows:

- 17 respondents gave outright support for option C
- 4 respondents supported option A – to continue with go-live date of 1 October 2016
- 2 respondents supported option A but stated that they would support option C if, after a thorough assessment, PwC did not consider 1 October was viable
- 2 respondents gave outright or qualified support for option D

¹ The terms "the Authority", "Ofgem" and "we" are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority

² All the responses can be found at <https://www.ofgem.gov.uk/publications-and-updates/project-nexus-consultation-options-successful-implementation>

- 1 respondent did not give a preference to any option stating that they required further detailed planning with industry before they could state a preference
- Xoserve stated "we consider that we would be able to deliver a central systems solution against any of the scenarios, but recognise that a closer target date limits the opportunity to meet all of the Ofgem success factors." They also stressed the importance of maintaining momentum.

In annex 1 to this letter we summarise the key themes from the responses and set out our views against these.

Our decision

As stated above we have decided to pursue option C – continue with a programmed delay.

Like all those involved in Project Nexus we want it to be implemented as soon as possible and are frustrated with having to defer go-live, particularly after already having to delay the project by a year due to a lack of readiness across industry. However, as we stated in our 2 June letter, we will only allow the new UK Link system to go-live when we are confident that consumers will not be negatively impacted by it.

Our view, which was backed by a significant majority of respondents, is that Option C will provide sufficient time to allow for a successful implementation while not losing the considerable momentum that has been built up by Xoserve and participants over the past few months. In addition we consider that this approach is in line with the CMA's final remedy on Project Nexus, which recommends that Ofgem only implements once we are satisfied doing so will not pose risks to customers.

We also note that Xoserve, in its response, recognised that continuing with an October 2016 delivery deadline would not allow for our success factors to be met. Xoserve considered that it would create uncertainty as a firm delivery date cannot be fixed until a number of risks are retired in July and August. Xoserve also recognise that option B – with the option of delaying go-live until December 2016 – would only give limited time to drive up solution quality and mitigate risks.

Next steps

A consistent message from a number of respondents was that the programme needs to determine a new fixed date for go-live as soon as practically possible; and that this date must be supported by detailed planning with industry.

We firmly agree with this view and we have instructed PwC to work with Xoserve to take forward detailed planning in July as a priority. Respondents gave a range of helpful steers in their submissions about activities the detailed plan should include. We have summarised these in annex 2.

To ensure that the new implementation plan is considered credible by both Xoserve and market participants, the planning process through July will involve a series of working sessions with both Xoserve and market participants resulting in sign off of the revised plan at Project Nexus Steering Group on 1 August. Further details are set out in annex 3. Once the new implementation date is agreed, the Authority will issue a determination to give it effect.

Industry must not view this delay as an opportunity to take a step back. The deferred implementation dates under option C are predicated on good progression through market trials and resolution of identified defects. Any loss of momentum now may jeopardise even those new dates. To this end we urge all parties to engage in market trials and robustly test their systems. This is key to ensure delivery at the earliest opportunity.

Finally, it is industry which remains responsible for the delivery of the new systems under Project Nexus, with Ofgem playing a facilitative sponsorship role. In this light, we are exploring whether additional regulatory obligations could usefully support industry to deliver the new implementation date once it has been set.

Yours faithfully

Rob Salter-Church
Partner, Consumers & Competition

ANNEX 1 – Arguments made by those in support of 2016 implementation (October or December)

The UK Link system will be ready to go-live on 1 October

Some respondents argued that there are no showstoppers preventing a 1 October 2016 go-live. In particular they argued that the IT solution in Market Trials is materially complete and all critical flows had been proven.

Our view

The systems being replaced by Project Nexus underpin fundamental consumer-facing processes and functions, including change of supplier and shipper invoicing. It is unacceptable for significant numbers of consumers to be negatively impacted by Project Nexus, therefore these processes and functions must operate effectively from “day 1”. As respondents noted there has so far been a lack of a fixed solution in market trials and so it has not been possible to complete initial and regression testing in a stable environment. Without these key stages, we cannot have confidence that the systems have been properly tested and that errors have not been introduced during the testing period, such that previous tested critical flows continue to work. Option C would allow for additional regression testing to mitigate this risk.

Furthermore, gas day testing is currently scheduled to be completed very close to 1 October. Learning from other SAP IS-U implementations is that this could leave insufficient time to resolve issues that, if we are to be informed by experience, are likely to arise. This creates a risk of a late delay to the go-live date, to which market participants have informed us will be difficult for them to respond.

This decision is being made too early

Some respondents argued that any decision to defer go-live should be taken at the latest possible moment to give 1 October 2016 every opportunity of being met.

Our view

It is clear from responses to the consultation that many industry parties agree with PwC’s independent assessment that continuing with a 1 October 2016 go-live is highly unlikely to meet our success factors. Therefore continuing with this date would delay what is increasingly becoming seen as inevitable. If we do not believe 1 October can be met then it is our responsibility to determine a new date and communicate that with industry as soon as possible to give industry parties the certainty they require to plan and complete their own builds. Furthermore, we are concerned that parties may not be inclined or incentivised to drive towards an implementation date which they have already concluded to be untenable.

Delaying go-live further will be too costly for shippers and consumers

Some respondents argued that the costs resulting from further delays and postponing the consumer benefit from Project Nexus can be avoided by pursuing a 1 October 2016 implementation. Some argued that, as critical processes have been proven, there is no need to shoulder these extra costs.

Our view

It would be unacceptable to us for consumers to endure inaccurate or late bills, or a poor switching experience, as a result of Project Nexus. As stated above we do not believe that critical processes have been proven. Therefore we consider that the risks to consumers are

too great. Furthermore if a 1 October 2016 go-live was pursued and the system was faulty as a result of defects having not been resolved, it would result in significant post-implementation costs which could well outweigh the costs of a delayed go-live, particularly if any such faults impacted the accuracy of gas/energy volume allocation.

Annex 2 – Comments on the revised plan

In their submissions, a number of respondents provided views on key activities they believe the revised, industry-wide plan, needs to include. We have summarised these activities below and passed the submissions to PwC so they can review them in greater detail as they develop the plan.

- **a fixed final date** – nearly all respondents requested that the go-live date is fixed as soon as possible
- **sufficient time to undertake market trials against a fixed code base** – a number of industry parties called for sufficient time to test their systems against a stable central system and called for clarity over when full functionality will be delivered into Market Trials; PwC is working with Xoserve to provide this certainty
- **regression testing** – parties requested for regression testing to be done against the finalised system code and called for greater detail on this testing, particularly: prescribed tests, entry and exit criteria and clarity over issue/defect management
- **dress-rehearsal** – parties requested more information on industry dress rehearsals, particularly its scope and governance
- **translation plan and cut over** – some respondents asked for a more detailed transition plan, including details of the cut-over activities
- **data cleanse** – there were some calls for greater clarity on the plan and requirements for data cleanse activities
- **contingency** – some respondents called for a contingency date to be given alongside the revised go-live and others called for contingency to be included in the plan
- **go/no go (GONG)** – respondents requested further information on what the final GONG criteria is and how parties will be assessed against these and how such assessments will be validated
- **post-implementation planning** – parties called for greater detail on the plan for hypercare following a decision to implement.

As well as commenting on the detail of the plan, respondents also commented on risks and potential impacts of deferring go-live until next year. They requested that these be considered and that mitigations, if required, are developed. These issues include:

- **risks of a winter go-live** – a range of respondents asserted that the risks to go-live are greater in winter. these risks include:
 - settled volumes are higher in winter meaning that if allocation is incorrect it will have a more significant impact on parties
 - the need to have up-to-date information on vulnerable consumers but there is a risk this may not be available if key systems are down due to Project Nexus
 - if there are outages in winter, the least risky way to operate is to have full system availability which could be compromised by Project Nexus.
- **implementation coinciding with Funding, Governance and Ownership (FGO) arrangements** – respondents stated that the new arrangements need to be in place before Xoserve's new funding and governance arrangements come into force on 1 April. They also considered that if the new UK Link system is not live by this date then FGO Phase 2 implementation may need to be deferred.
- **interaction with other projects** – respondents highlighted that there are a number of other change projects scheduled for 2017, including implementation of the Priority Service Register, continuing roll-out of smart metering and implementation of CMA remedies.

Annex 3 – Overview of detailed planning

The planning scenarios contained within the 2 June consultation set out an implementation window for all of the scenarios with the exception of Scenario A, the current implementation plan. Now that Ofgem has decided to pursue option C, further planning with both Xoserve and market participants is required to establish the new Project Nexus implementation date.

The planning process will result in:

- a milestone plan on a page with c. 30 milestones – each milestone will have a defined owner identifying who owns the plan for delivering the milestone and will be responsible for delivering the milestone itself
- dependencies & assumptions underpinning the milestone plan
- risks linked to milestones.

Together, these will form the basis for progress reporting going forward.

The planning activities will be as follows:

- Prior to 4 July – develop a strawman version of the plan.
- w/c 4 July – Xoserve and PwC to engage with Programme Managers to discuss strawman plan and, where appropriate, with the Market Trials Working Group (MTWG) and Transition Progress Group (TPG) to review and refine the plan and capture and confirm planning assumptions and dependencies³
- w/c 11 July – engage with the Data Management Group (DMG) to define and agree what market participant activities regarding their data should be included within the milestone plan and to capture and confirm planning assumptions and dependencies
- w/c 18 July – all-hands planning workshop open to Project Nexus Delivery Group (PNDG) members to review the consolidated draft plan and associated dependencies and assumptions. Further review with the MTWG, TPG and DMG to consider feedback from the all-hands workshop
- 26 July – revised plan presented to PNDG for review and approval
- 1 August – Project Nexus Steering Group (PNSG) sign off revised plan

As well as these activities we expect that Xoserve and industry parties will develop their own detailed plans during the process. These detailed plans will need to be aligned to the milestones in the overall industry plan. The development of these detailed plans by Xoserve and participants will be key to validating the overall industry plan.

³ Time and venue to be confirmed