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Non-confidential

Dear Rob,

Project Nexus: consultation on options for a successful implementation

Gazprom Marketing & Trading Retail Limited (“**Gazprom Energy**” or “**we**”) hereby submits its response to Ofgem’s letter on Project Nexus dated 2nd June 2016.

In order to ensure that Gazprom Energy has been fully engaged with Nexus (the “Project”), we have invested heavily in systems development, attended directly many industry forums and funded our trade association (ICoSS) to also attend key stakeholder meetings including sitting on the Project Nexus Steering Group (PNSG). We have both bilaterally and through our trade association repeatedly expressed concerns over Xoserve’s inability to manage the Nexus Project successfully and in particular their continuing stewardship of the Project following last year’s 12 month delay.

We welcomed, albeit later than we would have liked, Ofgem taking over of the Project sponsorship to drive its delivery. We note that since Ofgem have taken stewardship of the Project that industry confidence in a viable delivery has increased and accordingly market participants have continued to re-double their efforts for achieving the 1st October 2016 Go Live date. We are therefore disappointed, in light of the lack of show stoppers being evident, that Ofgem have expressed a minded to position in support of “Option C” which introduces a further delay of up to 6 months to the Project.

In relation to the question set out in your letter:

Do you agree that the Authority should re-plan the approach to go-live and agree to “continue with a programmed delay”, with a new implementation date between 1 February 2017 and 1 April 2017?

We do not agree with the Authority and our preference is for Project Nexus to be implemented on 1st October 2016 as currently required under Uniform Network Code

Only recently at the senior stakeholders meeting on 19th May Chris Murray (CEO of Xoserve) specifically stated that "no showstoppers" existed for Xoserve to go live on 1st October.

In response, Chris Murray (Xoserve) expressed the following:

Xoserve does not foresee show stoppers but sees manageable risk to the central system.

Market participants have already had to incur considerable extra costs arising from the previous delay of 12 months, and any decision for further delays should be put in the context of this significant extra time already given to market participants to be ready.

We also note we already have to bear the work around costs associated with the deferral of the Retrospective Asset Update Functionality (RASP) to October 2017.

A number of shippers, including Gazprom Energy, have already indicated that they are confident that they can be ready for 1st October on the basis that: -

- Critical flows (Change of Supplier etc.) are proven for both Xoserve and Shippers
- Xoserve state no showstoppers exist
- The IT solution in the Market Trials Environment is materially complete
- We are confident that by the end of June/July we will fully complete Market Trials
- Meter Asset Data will continue to flow independently of Xoserve via existing RGMA arrangements to Suppliers
- Meter Reading information will continue to flow independently of Xoserve via existing Meter Reading Arrangements to Suppliers
- Therefore consumers can be billed and Change of Supplier (CoS) can be achieved

On this basis we can see no impediment to the Project going live on 1st October 2016.

Whilst we of course agree with Ofgem that consumers must not suffer any undue detriment, if no show stoppers exist and critical flows are proven, then no such undue detriment should arise. Indeed, by delaying Go Live the industry is prolonging the sub optimal legacy arrangements, which causes detriment to all customers by denying them access to the direct and indirect benefits arising from the timely implementation of the Project.



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As noted any potential detriment to consumers arising from some market participants not being ready to Go Live must be balanced against the greater overall benefits for the whole of the market that arise from implementing the Project in a timely manner (albeit already 12 months late).

Gazprom Energy has already committed significant resources to be ready for 1st October 2016 implementation. We fail to understand, in the absence of any show stoppers, why we should continue to bear additional costs waiting for those who are not ready for Go Live. Moving the Go Live date again will lead to further significant additional costs being incurred by market participants who are ready to go live on the 1st October.

Perversely such an approach will reward those who may have failed to commit the same level of resources to support the 1st October. This illogically penalises market participants who have taken all reasonable steps to be ready for 1st October, against those who have failed to do so.

As Ofgem themselves have noted we should not be setting the Go Live decision, in the absence of showstoppers, on the basis of accommodating those market participants who are not ready. If we do so then the Project could be subject to further future slippage as no incentive exists on those parties to achieve the agreed industry timelines. If we run at pace of slowest, in the absence of any proven show stoppers, and require a “no risk” model for implementation then we will be unlikely to see implementation in the near future.

Any decision making must be undertaken in an open, fair and transparent manner with clear and unambiguous justification provided to all market participants. Submissions provided as part of this industry consultation must be subject to appropriate oversight and verification to ensure that any decisions that are made are done so based on the most accurate unbiased information. Where possible as much information as possible associated with this consultation, including this response, should be publicly available to all relevant market participants.

Ofgem’s final decision must clearly and unambiguously set out the rationale for its approach and provide clear justification and as much supporting evidence as possible to provide market participants with as much insight as possible for the decision. We note and welcome Ofgem’s commitment throughout the stewardship of the Project to being as open and transparent as possible.



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Finally having undertaken this review of the Project and recognising the significant delays to the Project to date and the additional uncertainty and costs created by the review itself we would expect any decision to be robust and unlikely to need to be revisited.

In summary, in light of the fact that Xoserve have already indicated that no showstoppers exist and they can achieve 1st October, and a number of market participants have already proven critical work flows, Gazprom Energy strongly believes that the Project should proceed with Go Live on 1st October.

We hope you find our comments useful and should you wish to discuss any aspect of this response please contact Steve Mulinganie, Regulation & Compliance Manager on 0799 097 2568 or steve.mulinganie@gazprom-energy.com

Yours

Kurt Pedersen

CEO Gazprom Energy