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By email to jonathan.dixon@ofgem.gov.uk

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Dear Jon,

Project Nexus: consultation on options for a successful implementation

Thank you for the opportunity to respond to your consultation in relation to options for the successful implementation of Project Nexus.

Summary of our response

In summary, we consider the industry should continue to drive for a 1 October 2016 go-live as per the current implementation plan. We believe driving for earlier delivery is in the best interests of customers and, while we appreciate this timeline will be challenging for all industry participants, we consider this is still achievable as no current issues or material risks have been identified that would have an adverse impact on customers.

Should Ofgem consider a go-live date of 1 October 2016 is not achievable, then we would favour Scenario B as set out in your consultation paper, that promotes a go-live between 1 October to 1 December 2016.

SGN would be willing to work with Ofgem in implementing Nexus via a programmed delay between 1 February and 1 April 2017 (Scenario C in the consultation paper), but this would be our least preferred option in the event that go-live cannot be achieved during 2016.

We do not consider a revised go-live date of June to August 2017 (Scenario D) is acceptable to consumers or is necessary given the current status of the Nexus implementation plan.

It is also important for Ofgem to recognise there are wider implications for delaying the Nexus go-live date beyond 1 October 2016 on other programs of work. This includes the Funding, Governance and Ownership (FGO) review of Xoserve.

We set-out our rationale for reaching our position in respect of each scenario in more detail below for your consideration, together with our observations on the wider implications Ofgem should consider prior to deciding on any delays to a 1 October 2016 go-live date.

SGN's views on the viability of Scenario A - continue to drive for a 1 October 2016 go-live as per the current published implementation plan

We consider there are no major 'show stoppers' for achieving a 1 October 2016 go-live date. Driving for earlier delivery is in the interests of customers. The key risks associated with this scenario are known and maintaining this date will minimise cost impacts and avoid the additional implementation risks associated with a mid-winter deployment, gas year reconciliation, FGO rework/impact and ensure the future programme of change is not delayed.

It is important to recognise the level of operational business as usual activity during October is significantly less than in the winter months. For this reason, SGN will be able to operate with a greater margin of safety during the full system outage required for implementation and in the event of system instability for a period after implementation.

In our view, Ofgem should ensure all industry participants continue to progress, and where necessary increase, their level of engagement to minimise the known risks. In addition, improvements can and should be made to facilitate better cross industry co-ordination and appropriate programme control is enforced in relation to regression, code release, and clear G/NG stage gates.

SGN's views on the viability of Scenario B - continue to drive for a 1 October 2016 go-live with an option of a two month contingency

As noted above, if Ofgem considers Scenario A is not achievable then this scenario would be the next best option. This scenario gives us the advantage of being able to ensure there are no open issues that would have any material impact on customers.

Our main concern with this scenario is that it starts to introduce the associated risks with an autumn implementation date and additional complexity regarding gas year reconciliation.

It is unlikely that we will have adverse conditions which will significantly impact uncontrolled gas escapes, but it is likely there will be increased risk to electricity supply companies due to autumn storms which may negatively impact the wider programme and put this at risk.

We consider this scenario will also result in increased costs to the industry by imposing a delay to the 1 October go-live date for Nexus that all companies have budgeted against in the current financial year. As no cost benefit analysis has been undertaken to establish this potential additional cost, it is difficult to quantify the effect such a delay will have for industry participants.

SGN's views on the viability of Scenario C – continue with programmed delay out to February/April 2017

While we understand the reasons for Ofgem identifying this scenario as their preferred option, our main concern is that only a limited amount of analysis has been carried out on the potential impacts of implementing an extended delay given the time available. This scenario also adds additional costs that we believe are not in the best interests of customers. To fully understand and evaluate the potential impacts of this scenario, in our view more planning and detail is required before a fully informed decision can be taken.

We expect this scenario will have a significant direct and indirect cost impact on all industry participants. These will be as a result of the additional time and activity that will be required to accommodate any further delays, the implications of a go-live in the middle of a gas year, and the potential re-work which may be required on the FGO programme.

We do not consider the FGO arrangements will impact Xoserve systems to any great extent, although new customers will need to be set up with associated credit arrangements. Our main concern is the way in which the UNC modifications have been written in that they are predicated on FGO following Nexus and it would be a major exercise to reverse this, if indeed it is possible, in the time available.

In terms of the work that is required on Xoserve systems to implement the work for the priority customers that is due for delivery in June 2017, delay to Nexus to February/April 2017 would make delivery of this challenging. As this is to be implemented across both gas and electricity markets, there may be additional constraints on electricity industry participants that we are not best placed to comment on.

During implementation SGN will have to operate using its manual DR procedures. DR and Business continuity are primarily based upon system resilience. That is to say we have duplicate systems in two separate data centres with dual resilience in all parts of our IT infrastructure. In the event of an unplanned system outage or failure, we aim to maintain system availability. During this implementation we will have to take a full system outage, and there is the risk of system issues post implementation.

We of course do have plans for complete system outages, but these are only to be used as a last resort. From a safety point of view, the least risk mode of operation when dealing with adverse weather conditions in winter is for full system availability to be maintained during this period.

Due to the increased number of gas escapes and peak in operational activity during traditional winter months, SGN does not carry out significant IT changes during the winter period. Our analysis indicates we deal with between 10% and 50% more gas escapes and incidents over a winter period depending upon weather conditions in any given year. Historically there has been an informal industry arrangement for a change moratorium from 31 October to 31 March for this reason.

Part of the consideration relating to any implementation date other than 1 October is the concern that we will be implementing part way through a gas year. As an industry we will need to understand the potential impacts and issues this could have.

If Scenario C is chosen we would expect Ofgem to be accountable for planning, programme delivery and co-ordination across the industry. We would expect this to include:

- An agreed contingency date in addition to a go live date so that detailed planning, resources and booking can be carried out in advance;
- An agreed date for a post live defect release so that testing of fixes and resources can be arranged in advance;
- Opportunity to make improvements to the programme testing approach (such as a review of complexity of scenarios, partnering arrangements for joint testing, test data, improved code version and defect management);
- Co-ordination between the various parallel streams. Bulk data load is happening in parallel with four dress rehearsals and regression testing and requires the following:
 - confirmation that this is viable from a resource, system environment and co-ordination point of view;

- understanding how issues identified in one of these workstreams can be handled if they impact another (such as a data issue found in regression which could impact data load or a defect in regression which changes the implementation approach); and
 - the scope of the proposed dress rehearsals will need to be clarified and agreed. Clarity is needed on if these will be testing data migration, code implementation, go live process, or all three; and
- The regression testing approach needs to be clarified and an approach considered that would need to include (but not be limited to):
 - industry co-ordination/pairing;
 - entry and exit criteria;
 - clear go/no go (GONG) milestones within the plan;
 - a regression test cycle carried out using data which has been migrated using the same process that will be used in production; and
 - for regression to be valid, a stable code base is required. Agreement is needed on how code changes/defect fixes will be managed during the regression window. Best practice is for the code used in regression to be the final version for release to production, and code should only be changed if a high severity defect is identified which is deemed a “show stopper” for go-live.

SGN's views on the viability of Scenario D - revised approach with programmed delay out to June/August 2017

With the exception of the risks associated with a winter implementation, we consider all of the issues attributed to Scenario C are applicable to this scenario but with a more significant impact to the FGO programme.

In addition, this scenario will result in significant amounts of re-plan, and disruption in the change programme scheduled for implementation post Nexus and winter. In addition to the increased cost this will drive, it will further delay critical industry and public changes such as the priority services register.

This option will also have the greatest increase in cost and funding arrangements, and these will need to be clarified by Ofgem.

SGN's views on the wider implications for delaying the Nexus go-live date beyond 1 October 2016

The FGO programme was established to define and deliver a blueprint for the future funding and governance of the Central Data Services Provider (CDSP) for the gas industry, in line with Ofgem's FGO review conclusions in October 2013. This essentially means amending relevant regulatory and code arrangements, and delivering a fully cooperative model for the CDSP which retains the integrated systems and services that Xoserve delivers as the gas transporter (GT) Agency.

Standard Special Licence Condition (SSC) A15A is proposed to come into force on 1 April 2017 to coincide with the start of the new financial year and to replace the current SSC A15. Standard Special Licence Condition A15A places obligations on GTs only to deliver phase 2 of FGO by this date. If the Nexus go-live date was moved to February/April 2017 under Scenario C and was successfully delivered, there would of course be no impact. However, if there was a subsequent delay or a 'No Go' decision, this would have serious consequences to the FGO programme (this would also be the case

with Scenario D). While Ofgem has amended GT licence conditions to state delivery of FGO by 1 April 2017 (or such later date as the Authority may direct), the following impacts need to be considered:

1. The intention is that funding of the CDSP will change from 1 April and come from all the constituent users and not just the GTs. This will include iGTs who only on successful completion of Nexus implementation will be a party to the UNC. If Nexus was not delivered by 1 April 2017, then Xoserve would have a shortfall in funding that would need to be met;
2. The constitution of Xoserve is changing to recognise the shift from being a transporter only agent to a mutual body, known as the CDSP. This includes changes to the Articles of Association and these would again have to be changed to reflect the implications of any delay to Nexus beyond 1 April 2017. Without this, shareholders in Xoserve would have no clarity over their rights or obligations under Company Law; and
3. The Articles also reflect that shareholders will no longer be able to receive dividends from the CDSP. If the Authority directed that funding continued by the GTs for an interim period, then this should also be reflected in the need to continue with the rights to dividends being distributed.

The FGO programme has been progressed under the assumption that Nexus will have been delivered by 1 April 2017. While there are no significant IT system impacts to FGO, there is a significant impact on how the FGO code and governance framework has been developed as it has been based on post Nexus code, and on the basis that the constituent groups that apply to the code also have representation on the board of the CDSP. One of the outcomes of this is to bring iGTs into the UNC through delivering a single supply point for the industry, following delivery of Nexus. If Nexus is not implemented before 1 April 2017 then the consequences to the code are likely to be as follows:

- code amendments that have been written over a period of nine months would need to be undone and re-worked on Code that excludes Nexus modifications – specifically, Mod 440 re iGT Single Service provision would need to be unwound, as would Mod 432 Gas Demand Estimation, Allocation, Settlement and Reconciliation reform, Mod 434 Retrospective Adjustments;
- iGTs and Shippers would not be eligible to sit on the Xoserve Board if it remains a transporter Agent rather than a CDSP; and
- the additional costs to the industry for effectively stopping and re-starting the programme at a future date will be significant. It is not simply a deferral date it is a rework of company structure, rules and principles.

We would also note that, running parallel to this consultation, is a consultation regarding the future funding of FGO by GTs through the RIIO price control. This too would need to be reconsidered as the current aim is to reduce GT funding based on the introduction of the new FGO arrangements. If this was delayed the amount of this reduction would need to be reconsidered.

Furthermore, if any delay to Nexus results in a decision to delay FGO for a year because of the intricacies of having a mid-financial year change, then additional consideration needs to be made on the benefits of the FGO programme in relation to the Faster Switching Programme and timings. This would be in addition to any subsequent findings from the Competition and Markets Authority (CMA) report that is due for release at the end of June, in particular with regards to whether Xoserve as a service provider should be a licenced party. If this is the case, then the whole purpose of FGO will change.

We trust the above response will aid and assist Ofgem when reaching its decision on confirming a date for Nexus implementation.

Should you require any further information with regards to this response then please do not hesitate to contact me at paul.mitchell@sgn.co.uk .

Yours sincerely,

Paul Mitchell
Regulation Manager