

## Representation

### Draft Modification Report

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

**Consultation close out date:** 1 April 2014  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** British Gas  
**Representative:** Graham Wood  
**Date of Representation:** 1 April 2014

#### Do you support or oppose implementation?

Oppose

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

Whilst we are cognisant of concerns which have been raised by some parties, relating to risks associated with the implementation of Project Nexus on 1<sup>st</sup> October 2015, British Gas does not believe that any detailed evidence has yet been provided by Xoserve, or any other party, to support the contributing risk factors identified.

Without these risks being properly evidenced and evaluated we continue to be of the opinion that October 2015 should not be discounted at this stage and should remain as the 'target' implementation date, particularly given the ongoing assurances over delivery timescales that we have received during continued dialogue on this issue over the past 12 months.

To help inform a critical decision such as this, it would be helpful to understand the full nature of the risks involved in parallel delivery of EU changes and Project Nexus changes. Further, serious consideration should also be given to the phased implementation of Project Nexus elements, which may provide an alternative de-risking of a 'big-bang' approach in October 2015.

Whilst we consider it important to deliver Project Nexus functionality in full by the previously approved implementation date, due to the earliest possible delivery of full benefits to end consumers, we accept that a phased implementation approach may protect at least some of the benefits associated with an October 2015 implementation.

Therefore, until all risks are evidenced and evaluated and full consideration has been given to the possibility of a phased implementation approach, we believe, at this point, that it would be premature to grant approval of a formal implementation delay.

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

Impacts to Relevant Objective d) Securing of effective competition has not been included within the modification proposal or the modification report. We provide comments on this within the following section.

## Relevant Objectives:

*How would implementation of this modification impact the relevant objectives?*

### *Relevant Objective c) Efficient discharge of the Licensee's obligations*

We do not believe that the risk of failure to implement European CAM Network Code changes has been sufficiently demonstrated or evidenced. We therefore do not believe that the modification proposal furthers this Relevant Objective.

### *Relevant Objective g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Cooperation of Energy Regulators*

Whilst mindful of the requirement to implement the EU CAM Network Code by 1 November 2015, the level of risk associated with delivery has not been sufficiently demonstrated or evidenced. It is still currently possible to implement both Project Nexus and the EU changes by their respective implementation dates of 1 October 2015 and 1 November 2015. We therefore do not believe that the modification proposal furthers this Relevant Objective.

We believe that the following Relevant Objective is also impacted by this modification proposal.

### *Relevant Objective d) Securing of effective competition*

Any delay to the implementation of Project Nexus will have an impact to the significant benefits associated with the changes it introduces and competition between gas suppliers.

We note comments recently published by Ofgem, within their letter dated 6 February 2014 to market participants entitled '*Industry role in creating market conditions necessary to support realisation of the benefits of smart metering*', where Ofgem state that: '*The changes proposed by Project Nexus are critical to deliver a more accurate allocation of costs and to support competition between gas suppliers.*'

## Impacts and Costs:

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

We remain concerned that any implementation delay would seriously impact the benefits of Project Nexus, particularly the benefits to end consumers. The Project Nexus IA concluded that the essential reform that will be introduced will deliver an industry benefit of ~£9m per annum. Therefore each month of implementation delay will impact the delivery of these benefits.

The negative impact to benefits realisation is a critical factor which must be seriously considered.

## Implementation:

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

We do not support the implementation delay sought by this modification proposal and strongly advocate delivery in accordance with the current approved implementation date of 1 October 2015.

## Legal Text:

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

Yes, although we do not support the intent of the modification.

## 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.*

It has recently been stated by Xoserve that opportunities to mitigate risks for an October 2015 implementation are very limited in their nature and their likely effectiveness; however the absence of detailed supporting evidence on the nature of risk and opportunities to mitigate does not adequately demonstrate this. Risks and impacts of delayed implementation also need to be considered and what has not been sufficiently articulated is the level of risk to the industry and consumers, associated with the delay of more robust and equitable gas settlement arrangements and the impact upon competition in the supply market.

As aforementioned, comments recently published by Ofgem<sup>1</sup> noted: *'While this work has been constructive, progress has been slow and gas settlement systems have remained largely unchanged since the start of domestic competition. The changes proposed by Project Nexus are critical to deliver a more accurate allocation of costs and to support competition between gas suppliers.'*

We concur with Ofgem that the delivery of the overall Project has taken a long time to achieve and that potential further delays are unwelcome due to the criticality of the new arrangements and benefits that Project Nexus will introduce. The proposed implementation date of 1 April 2016 would appear to be arbitrary in nature, with no evidence or justification provided within the modification proposal for this date.

In summary we do not support any delay to the implementation of Project Nexus past the current target delivery date of 1 October 2015, until such time that it has been clearly evidenced and demonstrated that this delivery date cannot be achieved by Xoserve, or that the risks or costs introduced are unacceptable to the industry. In the event that there is a justifiable reason for not being able to deliver by 1 October 2015, it would be essential that any delay is minimised, with new dates grounded upon best possible delivery timescales, with all alternative delivery options, such as a phased implementation approach, considered.

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<sup>1</sup> *'Industry role in creating market conditions necessary to support realisation of the benefits of smart metering' dated 6 February 2014*