

National Grid Electricity Transmission plc.

Scottish Hydro Electric Transmission plc.

SP Transmission plc.

National Grid Gas Transmission plc.

Cadent Gas Limited

Northern Gas Networks Limited

Scotland Gas Networks plc.

Southern Gas Networks plc.

Wales & West Utilities Limited

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Date: 18 June 2021

Dear Stakeholders,

Direction on changes to the Network Output Measures (NOMs) Incentive Methodology

On 7 May 2021, we¹ published a consultation² to seek views on proposed changes to the Network Output Measures (NOMs) Incentive Methodology to the Transmission and Gas Distribution licensees listed above.³ As part of the consultation we also sought views on proposed changes to the NOMs Closeout Data Template and the NOMs Closeout Instructions and Guidance. The changes consulted on apply to the three sectors whose RIIO-1 price controls ran for the period 01 April 2013 - 31 March 2021, i.e. Gas Distribution, Gas Transmission and Electricity Transmission. For the Electricity Distribution sector, the RIIO-1 period will continue until 31 March 2023 and subsequent changes to its methodology will be addressed through a future consultation.

We received ten responses to the consultation. Following consideration of those responses, we have decided to make the proposed changes to the RIIO-1 NOMs Incentive Methodology ("the Methodology") together with some additional changes. We also have made further modifications to our consulted version of the RIIO-1 NOMs Closeout Data Template ("the Template") and the RIIO-1 NOMs Closeout Instructions and Guidance ("the Guidance") data

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

² <https://www.ofgem.gov.uk/publications-and-updates/riio-1-noms-incentive-mechanism-consultation>

³ The terms "NGGT", "ETO", "GND" and "licensee" are used interchangeably in this document. They refer to the onshore gas transmission network operator (National Grid Gas Transmission plc.), electricity transmission network operators (National Grid Electricity Transmission plc (NGET), Scottish Hydro Electric Transmission plc (SHET), SP Transmission plc (SPT)), and gas distribution network operators (Cadent Gas Limited, Northern Gas Networks Limited (NGN), Scotland Gas Networks Plc (owned by SGN), Southern Gas Networks Plc (owned by SGN) and Wales & West Utilities Limited (WWU)).

template and associated guidance after considering the consultation responses received. The latest version of the Methodology (v2.2, both clean version and track-changed version showing tracked changes from the version we consulted on), as well as the Template (v1.3) and Guidance (v1.2, both clean version and track-changed version showing tracked changes from the version we consulted on) are published alongside this decision letter.

This letter, the accompanying Appendices and logs summarise: the background to our consultation; the responses received; our views on those responses; and, our decision and reasons for that decision.⁴

Consultation and responses received

We received nine responses from network companies and one response from a non-network company.

We have summarised the responses and our views on each of those in a separate Excel spreadsheet ("RIIO-1_NOMs_Closeout_Consultation_Response_Log") which is published alongside this letter. The full responses have been published alongside this document.

For the Methodology, a summary of changes from the consulted version is provided in Table 1 in Appendix 1. For the Template, the tab '0.6_Template_Version_History' in the updated Template published alongside this letter provides details of changes from consultation. For the Guidance, we have made modifications to the consulted version based on the consultation responses, and the changes are summarised in Table 2 in Appendix 2.

Our Decision

Having considered the responses received, we have decided to make some additional changes on the consulted version of the Methodology. We also have made further modifications to the version of the Template and the Guidance that we consulted on. The latest version of the Methodology (v2.2, both clean version and track-changed version showing tracked changes from the version we consulted on) as well as the Template (v1.3) and Guidance (v1.2, both clean version and track-changed version showing tracked changes from the version we consulted on) are published alongside this decision letter. This decision will apply to the Transmission and Gas Distribution licensees listed above.

⁴ Please refer to the separate Excel spreadsheet ("NOMs_Closeout_Reponse_Log") published alongside this letter for the summary of the consultation responses and our views on each of those responses.

Yours sincerely,

Min Zhu

Deputy Director, Networks

18 June 2021

Appendix 1: Overview of changes to the Methodology versus the version published for consultation

Having considered the responses received, we have decided to make some additional changes on the consulted version of the Methodology. For the detail of our views to consultation responses, please see the separate Excel spreadsheet log ("RIIO-1_NOMs_Closeout_Consultation_Response_Log ") which has been published along this letter.

Table 1 below summarises our additional changes to the consulted version of the NOMs Incentive Methodology.

Table 1: Overview of changes to the Methodology versus the version published for consultation

Area of the Methodology	Changes	Cross-reference to track-changed guidance
Section 1: NOMs Incentive Methodology		
Section 1.1 - Introduction	No change	N/A
Section 1.2 – What are Network Output Measures	No change	N/A
Section 1.3 – How have NOMs been set out in licences?	Replace "remunerate" with "reward"	Section 1.3
Section 1.4 – Methodology scope	No change	N/A
Section 1.5 - Issues to be resolved later	Updated text to reflect decision to set deadband post Stage 1/2 submission.	Section 1.5
Section 2: General principles of the NOMs		
Section 2 – General principles of the NOMs	No change	N/A
Section 3: The NOMs Incentive Assessment Process		
Section 3.1 - Background	No change	N/A
3.2 - Stage 1: Licensees submit Relevant Risk Changes and impact on performance against targets	Update to "Pre-RIIO-1 work"; Replace "Load-related (network growth) asset additions" with "Impact of Change in Asset Base over RIIO-1"	Section 3.2
3.3 - Stage 2: Licensees submit RIIO-1 performance report	Add sentence "RIIO-1 NOMs Closeout Submission Guidance, Chapter 8 sets out the accompanying narrative requirements"	Section 3.3
3.4 - Stage 3: Ofgem assess Relevant Risk Changes & review	No change	N/A

of performance report		
3.5 - Stage 4: Ofgem assess delivery against monetised risk target	Add sentence "For licensees that Ofgem has judged to have delivered on target (i.e. within the materiality threshold), the assessment process stops here."	Section 3.5
3.6 - Stage 5: Licensees provide justification of over-delivery or under-delivery	Add sentence "Licensees judged to have delivered on target (i.e. within the materiality threshold) at Stage 4 are not required to make a submission at Stage 5."	Section 3.6
3.7 - Stage 6: Ofgem assess justification of over-delivery or under-delivery	No change	N/A
3.8 - Stage 7: Ofgem determines value of incentive for over-delivery or under-delivery	No change	N/A
Section 4: Interaction with other licence mechanisms		
Section 4 – Interaction with other licence mechanisms	No change	N/A
Section 5: Timeline for evaluation exercise		
Section 5 - Timeline for evaluation exercise	Change to timeline to add in September 'checkpoint'.	Section 5
Appendix 1: Performance Report	Update to "Pre-RIIO-1 work"; Replace "Load-related (network growth) asset additions" with "Impact of Change in Asset Base over RIIO-1"; Some detail on narrative requirements moved to Chapter 8 "5. RIIO-1 Delivery" sub-section of Guidance document. Remove requirements of "Proposed methodology for calculating costs associated with over- or under-delivery" – replaced with reference to guidance document.	Appendix 1
Appendix 2: Justification of over-delivery or under-delivery	No change	N/A
Appendix 3: Worked Examples	No change	N/A
Appendix 4: Summary of key parameters for CBA submission	No change	N/A

Appendix 5	No change	N/A
Appendix 6	No change	N/A
Appendix 7	Replace "Load-related (network growth) asset additions" with "Impact of Change in Asset Base over RIIO-1"; Add term "Pre-RIIO-1 work true-up"	Appendix 7

Appendix 2: Overview of changes to the Guidance versus the version published for consultation

Based on the consultation responses, we have made modifications to the consulted first version of the Template and the Guidance. The tab '0.6_Template_Version_History' in the updated Template published alongside this letter provides details of changes from consultation, and the changes to the Guidance are summarised in Table 2 below.

Table 2: Overview of changes to the Guidance versus version published for consultation

Area of the Guidance	Changes	Cross-reference to track-changed guidance
Section 1: Introduction and general requirements		
Section 1.4 General requirements	No change	N/A
Section 1.4 Provision of monetised risk data	No change	N/A
Section 1.4 Provision of cost data	No change	N/A
Section 1.5 Structure of this document	No change	N/A
Section 1.6 – 1.7 Publication	No change	N/A
Section 2: 'Admin Section' Worksheets		
Section 2.2 0.1_Submission_Info	No change	N/A
Section 2.2 0.2_Contents	No change	N/A
Section 2.2 0.3_Reference	No change	N/A
Section 2.2 0.4_LkUp	No change	N/A
Section 2.2 0.5_Submission_Version_History	No change	N/A
Section 2.2 0.6_Template_Version_History	No change	N/A
Section 2.2 0.6.1_Consultation_Responses	New tab "0.6.1_Consultation_Responses" added	Section 2.2
Section 3: 'Performance Section' Worksheets		
Section 3.3 1.1_Performance_Absolute_Target	No change	N/A
Section 3.3 1.2_Performance_Relative_Target	No change	N/A
Section 4: 'Submission Summary Section' Worksheets		
Section 4.2	No change	N/A

2.1.1_Targets_Pre_Norm		
Section 4.2 2.1.2_Targets_Post_Norm	No change	N/A
Section 4.2 2.1.3_Targets_Volumes	No change	N/A
Section 4.2 2.2.1_Delivery_Pre_Norm	No change	N/A
Section 4.2 2.2.2_Delivery_Post_Norm	No change	N/A
Section 4.2 2.2.3_Delivery_Volumes	No change	N/A
Section 4.2 2.3_Expenditure_Summary	No change	N/A
Section 5: 'Stage 1/2 Submission Section' Worksheets		
Section 5.4 3.1_Targets_[ET, GT, or GD]	Replace "2.1_RebasedTargets_Volumes" with "2.2_RebasedTargets_Monetised"	Section 5.4
Section 5.4 3.1.1_Targets_Volumes_[ET, GT, or GD]	Replace "2.2_RebasedTargets_Monetised" with "2.1_RebasedTargets_Volumes"	Section 5.4
Section 5.4 3.2_Delivery_[ET, GT, or GD]	Update to descriptions of Section A, B & C under general requirements; Add paragraph of "Submission dates" under general requirements.	Section 5.4
Section 5.4 3.2.1_Delivery_Volumes_[ET, GT, or GD]	Update to descriptions of Section A, B & C under general requirements	Section 5.4
Section 5.4 3.3.1_Normalisations_Targets (all sectors)	Add "Pre-RIIO-1 work true-up"; Replace "Load-related (network growth) asset additions" with "Impact of Change in Asset Base over RIIO-1"; Add new paragraph under general requirements. Added general requirements in regards to overall outcome of normalisations. Added additional detail on 'Covered by Other Mechanisms'.	Section 5.4
Section 5.4 3.3.2_Normalisations_Delivery (all sectors)	Worksheet reactivated to allow entry for 'Covered by Other Mechanisms' only.	Section 5.4
Section 6: 'Stage 5 Submission Section' Worksheets		
Section 6.3 4.1.1_Expenditure_Allowed	No change	N/A
Section 6.3 4.1.2_Expenditure_Outturn	No change	N/A
Section 6.3 4.2_OD_and_UD_Factors	No change	N/A

Section 6.3 4.3_OD_and_UD_Associated_Costs	No change	N/A
Section 7: Supporting Data Worksheets		
Section 7.1 Purpose	No change	N/A
Section 7.2 – 7.4 Instructions for using supporting data worksheets	No change	N/A
Section 8: Accompanying narrative requirements		
Section 8.1 – 8.2 Purpose	No change	N/A
Section 8.3 – 8.4 General Requirements	No change	N/A
Section 8.5 – 8.6 Stage 1/2 Submission Narrative Requirements	Some detail on narrative requirements moved from Appendix 1 of main Methodology document to “5. RIIO-1 Delivery” sub-section.	Section 8.5.5
Section 8.5 – 8.6 Stage 1/2 Submission Narrative Requirements	Change to item d under “7. Methodology for deriving associated costs”	Section 8.5.7
Section 8.7 – 8.9 Stage 5 Submission Narrative Content	No change	N/A