

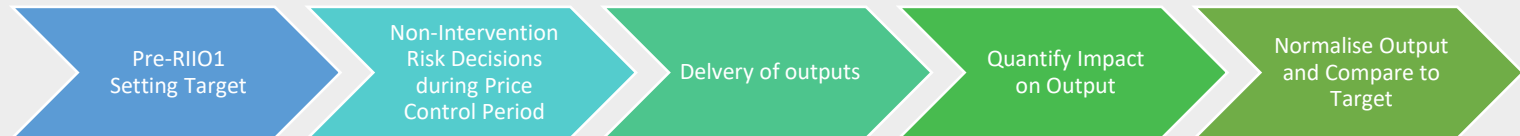
NGET – Consultation Response

Consultation Questions

Questions	NGET Response
Key Issues to Review	
<p>1. Do respondents agree with our proposed approaches to address the areas for review in the methodology? If not, please specify the area(s) where you have an alternative view and the alternative approach you suggest is adopted in order to update the methodology.</p>	<p>NGET is supportive of the overarching principles of the NOMs methodology utilising Monetised Risk at a network level and we broadly welcome the proposed modifications to the methodology. There are some areas detailed in our response below which we believe need addressing prior to the finalisation of the revised methodology.</p> <p>Application of Relevant Risk Changes</p> <p><i>Appropriate Relevant Risk Changes (Normalisations) to consider</i></p> <p>We understand and agree with the need to report Relevant Risk Changes including those already submitted through annual reporting. This aligns with the agreed methodology for rebasing where we utilised the original baseline RIIO-1 plan prior to any changes throughout the price control period.</p> <p>In the consultation, Ofgem state that ‘we expect licensees to clearly outline what they think should be treated as a methodology change’ (3.12). We had interpreted this to be any change which impacts on asset risk throughout RIIO-1 included in the NOMS Methodology and associated documents such as the Network Asset Risk Annex (NARA). This would include changes in end of life scoring processes & deterioration curves which have been further developed over the price control period. We will provide further detail on these changes in the narrative submitted with the data tables at stage 2 of the process.</p> <p>We can appreciate the importance of understanding the actual network risk at the end of the price control period. The RIIO-1 end position will not match the RIIO-2 start position for NGET (3.14 & 3.25), as the RIIO-2 NARM submission is based on ‘Total Risk’ and uses a different cost base for Consequence of Failure. NOMs is assessed on Non-Load related output, for End of Life Risk only, consistent with NOMs principles and the methodology throughout the RIIO-1 price control.</p> <p><i>Order of considering Relevant Risk Changes</i></p> <p>We agree that there is a need to ensure that relevant risk factors are categorised and applied at the appropriate level in order to ensure there are no perverse outcomes (3.17 - 3.20). For NGET the proposed ordering does not cause any issues as long as Deterioration is applied post-normalisation and not as the fourth relevant risk change. If the deterioration is applied earlier, it will create issues in separating out the impact of other subsequent Relevant Risk Factors.</p>

Elements to which Relevant Risk Changes should be applied

NGET's preference would be to apply normalisation to the delivery output rather than normalising the target set in licence condition 2M which are "appropriate network monetised risk targets" (2.13, 3.25 & 3.27). Normalising the delivery output will facilitate a clearer position, as any corresponding narrative describes the RIIO-1 period in chronological order. This would avoid having to construct the narrative around modified RIIO-1 targets. Also, as stated above, the RIIO-1 end position for NGET does not provide the RIIO-2 start position so this should not have a bearing on the choice of where to normalise.

*Treatment of Faster / Slower Deterioration*

We fully support the proposal to consider changes in deterioration as part of delivery against targets as this was part of the RIIO-1 proposals and principles for Transmission companies with absolute targets (3.30 & 3.31).

Approach to deriving associated costs

There are material differences between sectors but also between Electricity Transmission Owners (ETOs) partly due to the large difference in volumes of interventions (3.36). Whilst the project-by-project approach may be appropriate for other ETOs due to the volume of interventions during RIIO-1, it is not a suitable approach for NGET.

We will work with the other ETOs to agree similarities where possible, but it is likely that the NGET methodology proposal submitted as part of stage 1 and 2 will require fundamental differences in approach.

The Materiality Threshold ('Deadband')

As has been agreed throughout the rebasing exercise, we understand and support the requirement to apply a deadband at a network level for risk trading. We support the Ofgem proposal to set it around the absolute risk target for ETOs by 16th September 2021 (3.47 & 3.52). There is a risk that elements of the narrative for the July 31st 2021 submission may not be completed until after the deadband is set; any further narrative required will need to be resolved through the December 2021 submission or SQ process.

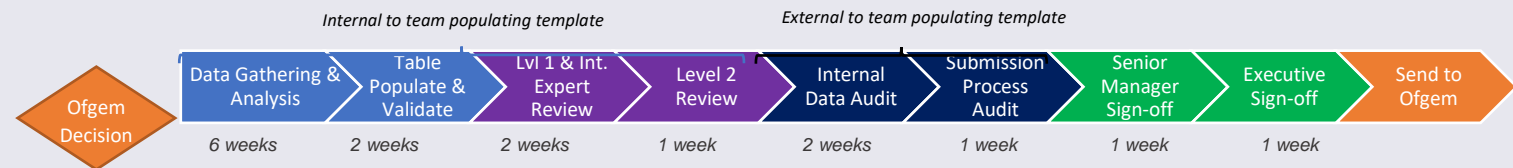
	<p>Interactions with other mechanisms</p> <p>Prior to moving to monetised risk and NOMs Methodology Issue 18, NGET has treated Load Related (LR) replacement of assets which were part of the original Non-Load Related (NLR) business plan as 'Ghost Assets'. On these Ghost Assets the risk at the point of replacement was held for the remainder of the period to avoid windfall benefit of LR replacements from assessment of NLR activity. This may no longer be required as these assets can be normalised out through the same method as Load Related Additions.</p> <p>The Ofgem proposal suggests that these assets can be addressed through Relevant Risk Changes (3.62) but clarification is required to explain if the assets' risk should be fully excluded or held as per previous versions of the methodology. NGET's preference would be to fully exclude these assets through the same Relevant Risk factor used for reporting Load Related (network growth) asset additions.</p> <p>Timeline</p> <p>We support the staged approach set out by Ofgem with allowed and incurred expenditure data to be provided as part of Stage 5 (3.73) but further discussions are required on the associated cost methodology before the Closeout Data Template format can be agreed for capturing associated costs of over-delivery and under-delivery.</p>
<p>2. Are there are other areas of the methodology that require changes that have not been outlined in Section 3?</p>	<p>No other areas requiring change were identified during our review of the consultation material.</p>
<p>Summary of proposed changes to the methodology</p>	
<p>3. Do you agree with the proposed modifications to the NOMs Incentive Methodology?</p>	<p>We are supportive of the changes to the NOMs Incentive Methodology. Further amendments and clarifications are required to address the points raised in question 1.</p>
<p>4. Do you have any views on the accompanying RIIO-1 NOMs Closeout Data Template and associated guidance?</p>	<p>A revised RIIO-1 NOMs Closeout Data Template (version 1.1) was sent out by Ofgem after the start of the consultation; our comments are based on this latest version. From the limited testing we have been able to carry out the template appears to be working correctly.</p> <p>On six worksheets within the data template and twice in the guidance document there is a minor mistake referencing RIIO-2 instead of RIIO-1 in the headings e.g. "Total Network Asset Base (i.e. asset base at end RIIO-2)"</p> <p>Minor improvements could be made to reduce the duplication of data entry such as for the 'Without intervention' information which could be pulled through from the first entry point, but our view is that it fundamentally looks to be capturing and calculating information correctly.</p>

Next Steps

5. Do you have any views on the timelines set out in the NOMs Incentive Methodology, including the nature of the data to be submitted by licensees at relevant assessment stages?

It is our view that the proposed timelines do not work. The current submission deadline of 31st July 2021 for stages 1 and 2 will not provide sufficient time to carry out the required levels of review and assurance prior to submission. Further time will be required to assess the decision following consultation and implement any changes which deviate from the consultation template and methodology.

As stated in our working level discussions, we would expect to follow a process outlined in Ofgem Data Assurance Guidelines for a data submission of the complexity and significance of the RIIO-1 NOMs Closeout. It takes a minimum of 16 weeks to fully develop and assure a submission to a satisfactory standard from receiving the methodology and template (timeline shown below). This timeline is built assuming material rework is not required and does not need to pass back through previous stages.



NGET had sight of early revisions of the template prior to consultation and has started to gather and analyse data (stage 1) in readiness of the Ofgem decision. However, we will not be able to complete the data gathering and analysis until after this decision. The amount of work required to complete the analysis will be dependent on the complexity and scale of changes following consultation.

Since the launch of the consultation there has been further communication from Ofgem to state that the additional information required for the 'Total Network Asset Base' has a submission deadline of 14th September. This provides a welcome extension for this data but does not address the underlying issue of a very short timeframe from the final decision on the Incentive Methodology and the Stage 1 & 2 submission.

The proposed timescales currently have the outcome of Ofgem's Stage 4 assessment of delivery being finalised one day before the over/under-delivery justification submission required for Stage 5 which is reliant on the outcome of previous stage. We welcome the opportunity to work collaboratively with Ofgem throughout the assessment period up until December and, in the event of the assessment outcome deviating from the initial anticipated position, to reach a pragmatic understanding to ensure there is sufficient time to alter our stage 5 submission.