

**National Grid Electricity Transmission plc ("NGET")**  
**SP Transmission plc ("SPT")**  
**Scottish Hydro Electric Transmission plc ("SHET")**

Email: Neill.Guha@ofgem.gov.uk

Date: 1 April 2022

**Direction under paragraph 3 of Standard Licence Condition B15  
(Regulatory Instructions and Guidance) of the Electricity Transmission  
licence in relation to Network Asset Risk Metric (NARM) reporting  
requirements**

1. Each of the companies to whom this Direction is addressed (each a "Licensee" and together the "Licensees") is the holder of an Electricity Transmission licence (the "licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act").
2. The Regulatory Instructions and Guidance (the "RIGs") are the primary means by which the Gas and Electricity Markets Authority ("the Authority")<sup>1</sup> directs the Licensees to collect and provide information to enable it to administer the conditions of the licences and, where not referenced in the licence, the RIIO-2 Final Determinations.<sup>2</sup>
3. On 20 November 2021, the Authority published a notice consulting on its proposals to modify the NARM RIGs.<sup>3</sup> The proposals included a NARM Regulatory Reporting Pack (the "NARM RRP") data template that specified the required format of the Licensees' annual NARM data submissions. The consultation requested that any representations on the proposed modifications be made on or before 22 December 2021.

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<sup>1</sup> The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day-to-day work.

<sup>2</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

<sup>3</sup> [Consultation on RIIO-2 Regulatory Reporting Requirements Relating to Network Asset Risk Metric \(NARM\) | Ofgem](#)

4. The Authority received eight responses to the consultation. A summary of the responses and our views thereon is in Appendix 1. Our detailed comments are provided in the issues log published alongside this Direction.
5. The Authority has made a number of changes to the NARM RIGs and NARM RRP as a result of the consultation responses. The version number of the RIGs and associated documents has been updated to reflect the version with the modifications made (v1.2). The modifications to the NARM RRP template are noted in the "N0.4 Template Version History" tab of the RRP and changes to the NARM RIGs are shown in a tracked changed version of the document, which has been published alongside this Direction.
6. The reason for this Direction is to introduce the reporting requirements set out in the NARM RIGs which will enable the Authority to monitor the Licensees' delivery of their RIIO-2 NARM outputs, help identify emerging issues related to NARM, inform future development of NARM methodologies, and inform future price controls.

**Now Therefore –**

7. Pursuant to paragraph 3 of Standard Condition B15 of the Electricity Transmission licence, the Authority hereby modifies the NARM RIGs and RRP data tables in the manner specified in the attached Schedule.
8. The following documents come into effect on 2 April 2022 and apply to information required for the regulatory reporting year 1 April 2021 to 31 March 2022:
  - the RIIO-2 – NARM Regulatory Instructions and Guidance: Version 1.2
  - the RIIO-2 – NARM Reporting Template: Version 1.2
9. This document constitutes notice of the Authority's reasons for the Direction as required by section 49A of the Act.

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**Jourdan Edwards**  
**Deputy Director, Networks**  
**Duly authorised on behalf of the Authority**  
**1 April 2022**

**National Grid Gas plc**

Email: Neill.Guha@ofgem.gov.uk

**Direction under paragraph 3 of  
Standard Special Condition A40  
(Regulatory Instructions and Guidance) of the Gas Transporter licence in  
relation to Network Asset Risk Metric (NARM) reporting requirements**

Date: 1 April 2022

10. The company to whom this Direction is addressed (the "Licensee") is the holder of a Gas Transporter licence (the "licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act").
11. The Regulatory Instructions and Guidance (the "RIGs") are the primary means by which the Gas and Electricity Markets Authority ("the Authority")<sup>4</sup> directs the Licensees to collect and provide information to enable it to administer the conditions of the licences and, where not referenced in the licence, the RIIO-2 Final Determinations.<sup>5</sup>
12. On 20 November 2021, the Authority published a notice consulting on its proposals to modify the NARM RIGs.<sup>6</sup> The proposals included a NARM Regulatory Reporting Pack (the "NARM RRP") data template that specified the required format of the Licensees' annual NARM data submissions. The consultation requested that any representations on the proposed modifications be made on or before 22 December 2021.
13. The Authority received eight responses to the consultation. A summary of the responses and our views thereon is in Appendix 1. Our detailed comments are provided in the issues log published alongside this Direction.

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<sup>4</sup> The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day-to-day work.

<sup>5</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

<sup>6</sup> [Consultation on RIIO-2 Regulatory Reporting Requirements Relating to Network Asset Risk Metric \(NARM\) | Ofgem](#)

14. The Authority has made a number of changes to the NARM RIGs and NARM RRP as a result of the consultation responses. The version number of the RIGs and associated documents has been updated to reflect the version with the modifications made (v1.2). The modifications to the NARM RRP template are noted in the "N0.4 Template Version History" tab of the RRP and changes to the NARM RIGs are shown in a tracked changed version of the document, which has been published alongside this Direction.

15. The reason for this Direction is to introduce the reporting requirements set out in the NARM RIGs which will enable the Authority to monitor the Licensees' delivery of their RIIO-2 NARM outputs, help identify emerging issues related to NARM, inform future development of NARM methodologies, and inform future price controls.

#### **Now Therefore –**

16. Pursuant to paragraph 3 of Standard Special Condition A40 of the Gas Transporter licence, the Authority hereby modifies the NARM RIGs and RRP data tables in the manner specified in the attached Schedule.

17. The following documents come into effect on 2 April 2022 and apply to information required for the regulatory reporting year 1 April 2021 to 31 March 2022:

- the RIIO-2 – NARM Regulatory Instructions and Guidance: Version 1.2
- the RIIO-2 – NARM Reporting Template: Version 1.2

18. This document constitutes notice of the Authority's reasons for the Direction as required by section 38A of the Act.

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**Jourdan Edwards**  
**Deputy Director, Networks**  
**Duly authorised on behalf of the Authority**  
**1 April 2022**

**Cadent Gas Limited**  
**Northern Gas Networks Limited**  
**Scotland Gas Networks plc**  
**Southern Gas Networks plc**  
**Wales & West Utilities Limited**



Making a positive difference  
for energy consumers

Email: Neill.Guha@ofgem.gov.uk

Date: 1 April 2022

**Direction under paragraph 3 of Standard Special Condition A40  
(Regulatory Instructions and Guidance) of the Gas Transporter licence in  
relation to Network Asset Risk Metric (NARM) reporting requirements**

19. Each of the companies to whom this Direction is addressed (each a "Licensee" and together the "Licensees") is the holder of a Gas Transporter licence (the "licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act").

20. The Regulatory Instructions and Guidance (the "RIGs") are the primary means by which the Gas and Electricity Markets Authority ("the Authority")<sup>7</sup> directs the Licensees to collect and provide information to enable it to administer the conditions of the licences and, where not referenced in the licence, the RIIO-2 Final Determinations.<sup>8</sup>

21. On 20 November 2021, the Authority published a notice consulting on its proposals to modify the NARM RIGs.<sup>9</sup> The proposals included a NARM Regulatory Reporting Pack (the "NARM RRP") data template that specified the required format of the Licensees' annual NARM data submissions. The consultation requested that any representations on the proposed modifications be made on or before 22 December 2021.

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<sup>8</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

<sup>9</sup> [Consultation on RIIO-2 Regulatory Reporting Requirements Relating to Network Asset Risk Metric \(NARM\) | Ofgem](#)

22. The Authority received eight responses to the consultation. A summary of the responses and our views thereon is in Appendix 1. Our detailed comments are provided in the issues log published alongside this Direction.

23. The Authority has made a number of changes to the NARM RIGs and NARM RRP as a result of the consultation responses. The version number of the RIGs and associated documents has been updated to reflect the version with the modifications made (v1.2). The modifications to the NARM RRP template are noted in the “N0.4 Template Version History” tab of the RRP and changes to the NARM RIGs are shown in a tracked changed version of the document, which has been published alongside this Direction.

24. The reason for this Direction is to introduce the reporting requirements set out in the NARM RIGs which will enable the Authority to monitor the Licensees’ delivery of their RIIO-2 NARM outputs, help identify emerging issues related to NARM, inform future development of NARM methodologies, and inform future price controls.

**Now Therefore –**

25. Pursuant to paragraph 3 of Standard Special Condition A40 of the Gas Transporter licence, the Authority hereby modifies the NARM RIGs and RRP data tables in the manner specified in the attached Schedule.

26. The following documents come into effect on 2 April 2022 and apply to information required for the regulatory reporting year 1 April 2021 to 31 March 2022:

- the RIIO-2 – NARM Regulatory Instructions and Guidance: Version 1.2
- the RIIO-2 – NARM Reporting Template: Version 1.2

27. This document constitutes notice of the Authority’s reasons for the Direction as required by section 38A of the Act.

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**Jourdan Edwards**  
**Deputy Director, Networks**  
**Duly authorised on behalf of the Authority**  
**1 April 2022**

## **Schedule to the Authority's Direction dated 1 April 2022**

The RIIO-2 – NARM Regulatory Instructions and Guidance: Version 1.2 and the RIIO-2 – NARM Regulatory Reporting Pack Template: Version 1.2 are available on the Authority's website<sup>10</sup>.

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<sup>10</sup> [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

## **Appendix 1**

### **Summary of consultation responses to the proposed NARM RIGs and NARM RRP for RIIO-2, and the Authority's views**

On 21 November 2021, we published a consultation on the proposed NARM RIGs and NARM RRP for RIIO-2. This consultation set out the proposed reporting templates and accompanying guidance. We highlighted that these templates were an evolution of the data submission that were used by the licensees when submitting the RIIO-2 Business Plans, and which we used to inform the setting of allowances and outputs for the RIIO-2 price control period. We sought feedback on the form and content of the RIGs and RRP and more generally on how we intend to monitor performance during the RIIO-2 period.

We received eight responses to this consultation which raised a number of points relating to the reporting requirements. We address the main points below, and our comments on detailed points raised by respondents are contained in the issues log published alongside this document. The respondents also highlighted a number of technical issues contained within the template and guidance. These included the correction of formulaic errors, updates to data categorisation, references, clarifications and proposed changes and additions to data input within the RRP. We have addressed these detailed technical and functional matters and they are reflected in the final published versions of the documents.

#### **Data complexity, granularity, and transparency**

A number of respondents raised concerns over the size, complexity and granularity of data of the new NARM RRP, which they believe is not required to track and provide an overview of Licensees' performances against outputs.

During the consultation period, we engaged with the Licensees to refine the reporting requirements and to increase auto-population of data. We also worked through the issues logs received from Licensees to address formulaic errors, data omission, and areas where the level of detail needed further refinement. The NARM RIGs document has also been updated to reflect comments received and updated guidance has been included across all relevant worksheets. We consider the level of data required to be provided by the Licensees to be appropriate currently but will keep it under review.

#### **Timing of NARM RRP submission**

In the consultation, we outlined our intention to align the NARM RRP submission date with the July 2022 submission of the Cost and Volume RRP. Most respondents were of the view



that such alignment would place a significant burden on the Licensees to develop and populate the data requirements robustly for both RRP in the lead up to the July submission.

We acknowledge respondents' concerns and have therefore decided to set the deadline for the NARM RRP submission as 16 October 2022.

### **Alignment of data between Cost and Volume RRP and NARM RRP**

In the consultation, we proposed to seek to align data between the Cost and Volume RRP and the NARM RRP. Respondents made comments on the functionality of the interface sheet and on specific issues of alignment related to certain asset categories. We have addressed these issues in the issue logs.

We still intend to engage with Licensees over the coming weeks with the aim of resolving any remaining alignment issues as soon as possible.

### **Future use and assessment of RRP data**

Some respondents queried how data collated through the NARM RRP is intended to be used and sought clarification of this use for the development of RIIO-3.

We have set out the purposes of NARM annual reporting in more detail in Chapter 1 of the RIGs.

We will continue to engage with Licensees on the data we receive in order to refine reporting requirements and to ensure that the NARM RIGs and NARM RRP are appropriate and fit for purpose.

### **Cadent alternative RRP proposal**

Cadent did not provide an issues log with its response, rather Cadent proposed that the NARM RRP should contain only the data required to form views of Licensees' delivery of their NARM outputs. This proposal assumes the NARM RRP serves a sole purpose, however, the NARM Handbook<sup>11</sup> outlines four main purposes of annual reporting, which are:

1. the collection of outturn and forecast data which Ofgem can use to take a view on the likely end of period outcome of the NARM Funding Adjustment and

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<sup>11</sup> The current version of the NARM Handbook is available here: <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-1-april-2022>

Penalty Mechanism. This means that each network company's annual reporting would include its best forecasts of data that will be provided as part of its NARM Closeout Report;

2. helping to identify emerging issues that might need to be addressed ahead of the next price control period or at RIIO-2 closeout;
3. the collection of data and information to inform future development of the NARM Methodologies and NARM mechanisms in future price controls; and
4. the collection of data that will be needed to facilitate the robust assessment of the network companies' RIIO-3 business plans.

The NARM RRP has been developed with these four purposes in mind. We have included these purposes in the NARM RIGs for reference, as well further explanation of purpose number four.

### **Auditability and robustness of data**

Licensees are required under Standard Condition B23 (electricity transmission) and Standard Special Condition A55 (gas transmission and gas distribution) to have in place and implement robust data assurance systems and processes for their regulatory submissions. The Data Assurance Guidance (DAG) sets out the detailed requirements in this regard.<sup>12</sup>

NGN suggested that, due to the potential increased burden on Licensees under the DAG to assure the data, NARM reporting requirements should be reduced to levels requiring less assurance. While we appreciate there is a change from RIIO-1 to RIIO-2 NARM reporting requirements, we do not agree that requirements under the DAG should dictate the nature or extent of any regulatory reporting requirements. The DAG is not intended to drive or curtail data reporting requirements but is to ensure that licensees have sufficient systems and processes in place to assure the data that they submit is accurate and reliable.

### **SHET general NARM concerns**

SHET raised general concerns regarding the NARM mechanism. Its concerns relate to the suitability of NARM in relation to its network in the north of Scotland. SHET made similar points in its response to the 15 December 2021 statutory consultation on proposed changes

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<sup>12</sup>The latest version of the DAG was published on Ofgem's website on 17 November 2021: <https://www.ofgem.gov.uk/publications/decision-amend-data-assurance-guidance-submissions-electricity-transmission-electricity-system-operator-gas-distribution-and-gas-transmission>

to the RIIO-2 licence conditions.<sup>13</sup> In our subsequent decision (published on 3 February 2022<sup>14</sup>), we indicated that we would be happy to discuss with SHET why in its view the methodology that it has developed does not address the specific characteristics of its network. Since that decision, we have been working with ET, GT, and GD licensees to review and develop their NARM methodologies. We would welcome further engagement with SHET on its NARM methodology to ensure it facilitates the achievement of the NARM Objectives.<sup>15</sup> In our view, robust annual reporting will help with the future development of the NARM methodologies.

## **Going Forward**

We will continue to work constructively with Licensees to embed the RIIO-2 reporting requirements and to develop the NARM RRP and RIGs further to improve data quality and transparency.

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<sup>13</sup> <https://www.ofgem.gov.uk/publications/statutory-consultation-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-0>

<sup>14</sup> We published the licensees' issues logs alongside our decision on the licence modifications. See the NARM issue logs for SSENT <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-1-april-2022>

<sup>15</sup> The NARM Objectives are set out in Special Condition 9.2 of the ET, GT and GD licences.