Interested parties and
stakeholders

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Date: 23 January 2023

Dear colleague,

Decision on Modifications to National Grid Gas Transmission's Network Asset Risk Metric (NARM) Methodology

This letter sets out our decision on the modifications proposed by National Grid Gas Transmission (NGGT) to its NARM Methodology.

On 15 November 2022 we initiated a consultation on a number of modifications proposed by NGGT to its NARM Methodology seeking the views of interested parties in relation to whether or not the modifications would better facilitate the achievement of the NARM Objectives[1]. The consultation closed on 13 Decemeber 2022 and we received one response, from NGGT, which is published on our website[2].

Our decision

Our minded-to position is set out in Chapter 4 of the consultation document.[3] Having considered the response to our consultation and the NARM Objectives laid out in Special Condition (SpC) 9.2.5 of NGGT's Gas Transporter Licence, we have decided to confirm our minded-to views on the suitability of the proposed NARM Methodology modifications and approve them without amendment for the reasons given in Chapter 2 of our November 2022 consultation document.[4] This will involve the approval of the modified version of the NARM Methodology by direction and the publication of said methodology on the Authority's

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[1] The NARM Objectives are set out in SpC 9.2.5 of NGGT's Gas Transporter Licence (National Grid Gas Plc - Special Conditions Consolidated)
[2] www.ofgem.gov.uk
[3] Consultation on Modifications to NGGT's NARM Methodology | Chapter 4: Consultation Proposal Summary
[4] Consultation on Modifications to NGGT's NARM Methodology | Chapter 2: Modifications to NGGT's NARM Methodology

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website[2]. The direction to approve the modifications can be found alongside this publication.

Background

In 2018, we outlined development work that we expected NGGT to undertake to improve its Network Output Measures (NOMs) Methodology, which became its NARM Methodology on 1 April 2021 per SpC 9.2.4. The methodology modifications that we consulted on in November 2022 were proposed by NGGT following that development work, to which NGGT added some further changes resulting from the adoption of new metrics in RIIO-2 e.g., Long Term Risk Benefit[5] (LTRB), and Unit Cost of Risk Benefit[6] (UCR).

Our assessment of the proposed modifications

Our initial assessment of NGGT's proposed modifications is set out in Chapter 2 of our November 2022 consultation and followed extensive engagement with NGGT, Ofgem engineers and other subject matter experts. The primary consideration when assessing the proposed modifications was whether or not the changes would better facilitate the achievement of the NARM Objectives. We assessed each of the modifications against SpC 9.2.5 to determine whether in our view there would be benefit in its adoption. Our initial assessment, as reflected in our minded-to position, is unaffected by the response to this consultation, which we have taken into consideration in reaching this decision.

Summary of NGGT's consultation response

We received one response to our consultation which was from NGGT.[7] In its response, NGGT stated that it agreed with Ofgem's assessment of its revised NARM Methodology. It noted that it had elected to apply the NARM Methodology submitted for approval in 2021 as the basis of its current Baseline Network Risk Outputs[8] (BNROs) and that therefore no rebasing of the RIIO-2 targets would be required. It also notes that it had elected to use the revised NARM Methodology to support its regulatory reporting submission for the first year of RIIO-2.

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[5] The Monetised Risk Benefit measured over a defined period of time greater than one year from a given start date and equal to the cumulative Single-Year Monetised Risk values over the defined period. More information can be found within the NARM Handbook (https://www.ofgem.gov.uk/sites/default/files/2022-02/NARM%20Documents%20-%20Zip%20File.zip)

[6] The average cost of delivering a single unit (one Risk Pound, R£1) of Monetised Risk Benefit for a given intervention in an asset or group of assets. More information can be found within the NARM Handbook (https://www.ofgem.gov.uk/sites/default/files/2022-02/NARM%20Documents%20-%20Zip%20File.zip)

[7] NGGT's response to our consultation can be found on our publication setting out our minded-to views on the proposed modifications (https://www.ofgem.gov.uk/publications/consultation-modifications-national-grid-gas-transmissions-network-asset-risk-metric-narm-methodology)

[8] The cumulative total of the benefit in monetised risk for all items allocated to 'NARM Funding Category A1' in the licensee's Network Asset Risk Workbook. More information can be found within the NARM Handbook (https://www.ofgem.gov.uk/sites/default/files/2022-02/NARM%20Documents%20-%20Zip%20File.zip)

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We agree that, in the circumstances described in NGGT's consultation response, rebasing is not required in this case as NGGT has elected to set the BNROs using the version of the methodology that facilitates the assessment of LTRB i.e. the revised methodology.

Reasons for our decision

We consider that the modifications proposed better facilitate the achievement of the NARM Objectives for the reasons laid out in detail in support of our minded-to position in Chapter 2 of our November consultation document. Therefore, we do not intend to depart from our minded-to position to approve the proposed modifications to NGGT's NARM Methodology.

Yours sincerely,

Jourdan Edwards

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