National Grid Gas plc ("NGGT")

Date: 26 January 2023

Direction to approve modifications to National Grid Gas Transmission's Network Asset Risk Metric (NARM) Methodology under Special Condition (SpC) 9.2 of its Gas Transporter licence

1. National Grid Gas plc, 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 "Gas Act").

2. The Licensee has in place a NARM Methodology in accordance with Special Condition 9.2.3 of the Licence.

3. On 24 May 2021 the Licensee published proposed modifications for consultation with other Network Licensees[1] and with any other interested parties. The consultation closed on 21 June 2021, a period of 28 days in compliance with SpC 9.2.8(a).

4. On 1 September 2021, the Licensee submitted its proposed modified NARM Methodology to the Authority for approval along with other documentation required under SpC 9.2.8(b) to 9.2.8(i).

5. The Authority reviewed the Licensee's submissions, and on 15 November 2022 published a consultation on its minded-to decision to approve the Licensee's modified NARM Methodology, providing reasons for its minded-to decision in Chapter 2 of the consultation document.

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[1] Network Licensee means the holder of a licence granted under section 7 of the Gas Act 1986 or section 6(1)(b) or (c) of the Electricity Act 1989. Paragraph 9.2.8(b) of SpC 9.2 requires the Licensee to "consult with other Network Licensees to which a condition of equivalent effect to this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make any representations on the proposed modification".

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6. The Authority received one response during the 28-day consultation period, which ended on 13 December 2022. The Authority has taken that response, which does not affect its minded-to position into consideration in reaching its decision on the Licensee's proposed amendments to its NARM Methodology. A summary of the response and of the Authority's views is set out in Appendix 1.

Now Therefore –

7. Pursuant to Part C of Special Condition 9.2 of the Licence, the Authority hereby approves the modified NARM Methodology (version 4) published on the Authority's website alongside this direction for the reasons set out in Chapter 2 of its November 2022 consultation and in Appendix 1.

8. This document constitutes notice of the Authority's reasons for the Direction as required by section 49A of the Act.

9. The modified NARM Methodology (version 4) will come into effect from 27 January 2023.

Jourdan Edwards

Duly authorised on behalf of the Authority
26 January 2023

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Appendix 1

NGGT's consultation response

Question 1: Do you agree with our assessment of the modifications to NGGT's NARM Methodology?

We agree with Ofgem's assessment of our NARM Methodology. We would like to note that the updates carried out for moving from our NOMs to our NARM Methodology between 2018 and 2021 have been mainly completed retrospectively. Our NARM Methodology submitted to Ofgem for approval in 2021 formed the basis of setting our RIIO-2 Baseline Network Risk Outputs (BNRO) and no rebasing of our RIIO-2 targets is required at this stage. The methodology was used to support our regulatory reporting submission for the first year of RIIO-2 (2021/22), which was submitted to Ofgem in October 2022.

Question 2: Do you consider there are further modifications to NGGT's NARM Methodology that could be made which would better facilitate the achievement of the NARM Objectives?

As stated in chapter 3 of Ofgem's consultation document, following the review of the NGGT NARM Methodology against Ofgem's 51 criteria, we have already implemented the category 1 modifications and have submitted the NARM Methodology for review to Ofgem at the end of November 2022. We are currently working through the category 2 modifications and some further updates we are aiming to implement ahead of the RIIO-3 business plan submission. These updates will potentially include moving to different asset definitions (Equipment Units as of ISO14224) as well as including at the moment undervalued costs around Gross Value Added (GVA) for the economic output lost due to loss of gas supply, cold weather fatality (loss of life risk due to domestic supply loss downstream), market impacts (NBP (National Balancing Point) shocks due to supply constraints driven by asset outage) and consequence valuations (such as cost of carbon). This work follows the Ofgem criteria to achieve greater alignment with other sectors and will better facilitate the achievement of the NARM objectives. We aim to consult on the category 2 (and category 1) modifications and further methodology developments in late 2023 and then submit the revised methodology to Ofgem for approval. We welcome the close working collaboration with Ofgem leading up to the next NARM Methodology iteration ahead of the commencement of the next price control period (RIIO-3).

The Authority's views on the response

Regarding NGGT's response to question 1, we also consider that no rebasing is necessary given that the current BNROs for RIIO-2 have been set on the basis of the revised NARM Methodology.

Regarding NGGT's response to question 2, we are satisfied that NGGT has formulated a suitable NARM Methodology development plan and welcome the details of specific modifications it expects to propose at a later date. We also welcome the ongoing engagement with NGGT in order to develop its NARM Methodology to ensure that it continues to better facilitate the achievement of the NARM Objectives, in accordance with SpC 9.2.6.

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