

Consultation

Statutory Consultation on issuing updates to Network Asset Risk Metric Handbook

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Response deadline:	9 May 2025
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This statutory consultation relates to our¹ proposals to amend the Network Asset Risk Metric (NARM) Handbook. Our policy decision set out our minded-to position to amend the upper and lower threshold values for the Unit Cost of Risk (UCR) in determining whether a delivery element qualifies as a Clearly Identifiable Over or Under Delivery under the Network Asset Risk Metric (NARM) Funding Adjustment and Penalty Mechanism. We would like views from licensees and network customers, particularly those with an interest in NARM. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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.

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1. Introduction

Background

- 1.1 Gas and electricity network companies are required to provide safe, secure, reliable and efficient energy network services. They are funded to carry out activities such as the replacement or refurbishment of assets in order to ensure that the risks to consumers associated with network failure are maintained within reasonable bounds. We developed the NARM framework to allow us to quantify the benefit to consumers of these asset management activities.
- 1.2 Each company maintains a NARM Methodology which details how they calculate Monetised Risk on their network. Monetised Risk is generally determined through multiplication of the probability of asset failure by the monetised value of the consequences of the failure (e.g. the value of interruption to supply, or cost of damage to the environment, etc.). Monetised Risk is the primary measure for defining the outputs and setting allowances associated with asset management activities.
- 1.3 The network companies' RIIO-2 business plans contained a range of proposed investments, some of which deliver Monetised Risk benefits (mainly replacement and refurbishment of existing network assets), and others that do not deliver a Monetised Risk benefit (such as installation of new network assets, or investment in non-network assets, or network assets not covered by the NARM Methodology).
- 1.4 We used a range of techniques, including econometric and engineering assessments, in determining which investments should be funded during RIIO-2 (through baseline funding), which investments should be subject to uncertainty mechanisms (such as volume drivers), and which investments should be disallowed completely.
- 1.5 The mechanism by which network companies are held to account for their Baseline Network Risk Outputs (BNRO) delivery during RIIO-2 is known as the NARM Funding Adjustment and Penalty Mechanism. Under this mechanism, some financial adjustments and penalties are applied depending on the network company's delivery versus their BNRO and the extent to which any over-delivery or under-delivery is deemed to be justified.

- 1.6 Our decision on how the NARM Funding Adjustment and Penalty Mechanism should be applied is set out in our RIIO-2 Final Determination NARM ANNEX². We explained that companies will be expected to justify deviation in delivery from their output targets. However, we also introduced a deadband around the BNRO within which justification will not be required and we set out the size of the deadband for each of the sectors: $\pm 2\%$ for ET and $\pm 5\%$ for GT and GD.
- 1.7 Separately, we introduced an additional element to the NARM Funding Adjustment and Penalty Mechanism for Clearly Identifiable Over or Under Delivery (CIO/UD). This mechanism is designed to provide bespoke funding adjustments in the case of over- or under-deliveries that would not be appropriately compensated through the automatic funding adjustment mechanism.
- 1.8 The NARM Handbook sets the guidance and qualifying criteria for CIO/UD; however, there are elements of the CIO/UD guidance which were not fully developed, owing to the need for us to conduct further assessments.

What are we consulting on

- 1.9 In July 2024, we conducted a policy consultation on the proposed amendments to the CIO/UD guidance provided in the NARM Handbook³. This was followed by our policy decision in November 2024,⁴ which set out our minded to position on the CIO/UD thresholds we consider appropriate in enabling the CIO/UD element of the NARM Funding Adjustment and Penalty Mechanism to effectively mitigate against the risk of non-cost reflective losses and gains. Our policy decision also related to several additional amendments, which are detailed in Section 2 of this consultation.
- 1.10 The NARM handbook forms part of Special Condition 3.1 (Baseline Network Risk Outputs) and as such forms part of the licence of network companies. Before making material amendments to the NARM Handbook a statutory consultation is required

² https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_narm_annex_revised.pdf

³ This CIO/UD consultation document provides the background to this assessment (including the full rationale and analysis behind our proposed amendments) [Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism](#)

⁴ Section 2 of our decision document provides a summary of the responses we received to the consultation; along with how this has informed our policy decision: [Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism | Ofgem](#)

- 1.11 In accordance with Special Condition 3.1.17 (SpC3.1.17)⁵ of the Transmission and Gas Distribution licences, we are consulting on amendments to the NARM Handbook.

Next steps

- 1.12 We welcome further stakeholder views on the proposals set out in this document and the accompanying draft NARM Handbook by 9 May 2025. Subject to the responses received to this consultation, we intend to publish a decision on these proposals in July 2025.

Consultation stages

- 1.13 This publication follows the July 2024 policy consultation where feedback and comments have been carefully considered and taken into account as set out in our policy decision which followed in November 2024 providing our minded to position.
- 1.14 We invite stakeholders to submit comments on any aspect of this consultation on or before 9 May 2025. Following this statutory consultation, we will review and consider responses received from stakeholders on the proposed amendments to the NARM Handbook prior to a decision being reached and published in July 2025.

How to respond

- 1.15 We want to hear from anyone interested in this consultation. Please send your response to AssetRiskResilience@ofgem.gov.uk.
- 1.16 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.17 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 1.18 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your

⁵ Special Condition 3.1 Part E: NARM Handbook

response confidential, please clearly mark this on your response and explain why.

- 1.19 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.20 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.21 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 1.22 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

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Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Summary of proposed amendments to NARM Handbook

2.1 The following table summarises the amendments this statutory consultation seeks to make to the NARM Handbook. A detailed summary of our proposed amendments to the NARM Handbook as set out in our policy consultation and decision documents are also further summarised below.

Proposed Amendments	NARM Handbook reference
UCR threshold for clearly identifiable, Over-Delivery and Under-Delivery: Sets the proposed threshold clearly identifiable, Over-Delivery and Under-Delivery at 95% and 105%, respectively, of a given risk sub-category	Para 10.5 (4) and 10.7(4)
Selection of projects for clearly identifiable mechanism: Clarifies that outturn NROs and costs should be provided on a project-by-project basis for ET and a programme-by-programme basis for GD and GT. As outlined to Licensees, detail guidance and templates will be provided by Ofgem ahead of RII0-2 close-out.	7.12
Clarification to qualifying criteria for clearly identifiable mechanism: Amends the second qualifying criterion for Clearly Identifiable Over-Delivery to ensure projects achieving an NRO over-delivery through a reduction in the scope of a baseline project and fewer physical asset interventions are captured as CI	10.5 (2)
Clarification on the CIOOD term and justification for clearly identifiable delivery elements: Clarifies that the 'delivery element' separated out is the portion of NRO representing an under- or over-delivery relative to BNRO, including the associated work and costs	7.14 (b) and Table 5: Clearly Identifiable Over-Delivery and Under-Delivery terms
Clarification on determining the justification percentage JUS: proposes the justification percentage for each project (or programme of work) should be weighted by its relative justified contribution to the NRO over- or under-delivery.	7.14 (g)
Updated worked examples: Appendix 4 has been updated with worked examples to help illustrate some of the main aspects relevant to the implementation of the NARM Funding Adjustment and Penalty Mechanism methodology.	Appendix 4

Table 1: Summary of the proposed amendments to the NARM Handbook

Questions

Q1. Do you agree that the draft NARM Handbook aligns with our amendments proposed under the document titled "Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism"?⁶ Where you disagree, please clearly set out your reasoning and specify other considerations/factors we should take into account.

2.2 The following paragraphs further summarise our proposed amendments to the NARM Handbook as set out in the policy consultation and policy decision document, setting out our minded to position. They provide the nature of the amendments, and further revisions we made resulting from consultation feedback. Further details on the amendments can be found in the aforementioned documents.

Assessment process and proposed UCR threshold

- 2.3 The first part of our consultation sought views on our assessment process and our proposed UCR threshold of +/-5% of baseline UCR as a criterion for determining clearly identifiable over and under-deliveries.
- 2.4 All respondents agreed with the position set out in our consultation, that the evidence demonstrates a poor correlation between funding and network risk outputs, and they agreed that the potential impacts on funding outcomes vary significantly. Some respondents also highlighted the challenge they envisage relating to setting a low UCR threshold i.e. larger percentage of their works would be considered as CI.
- 2.5 After considering the responses, we stated that we are minded-to to proceed with the proposed UCR Thresholds of +/-5%. We believe that this low threshold is necessary to ensure that funding adjustments reflects the actual work undertaken and the associated costs incurred.
- 2.6 We stated that we recognised the potential for a larger percentage of works to be considered as CIO/UD, as a result of setting a low UCR threshold. However, on the basis of RIIO-2 evidence, we believe that this is necessary to ensure

⁶ [Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism | Ofgem](#)

funding adjustments are appropriately aligned with physical work delivered and costs incurred.

Additional considered amendments to the NARM Handbook

- 2.7 We also proposed several amendments to the NARM Handbook, stating that these were necessary to enable the UCR thresholds for clearly identifiable over-deliveries and under-deliveries to take effect appropriately, and to ensure the intended functioning of the NARM Funding Adjustment and Penalty Mechanism more broadly.
- 2.8 After reflecting on the respondents' views, we decided to proceed to statutory consultation with the proposals. However, we believe some proposals required further clarification on intent or practical implications, which we detail in the following paragraphs.

Selection of projects for clearly identifiable mechanism

- 2.9 We proposed updating the NARM Handbook to require licensees to report outturn Network Risk Output (NRO) and costs on a project-by-project basis (or programme of work basis for gas) in the NARM Closeout Report. This would enable Ofgem to review all projects and determine which should be processed through the 'clearly identifiable' mechanism.
- 2.10 Some respondents supported the proposal, agreeing that licensees should report NRO and costs on a project-by-project basis. They noted that the current NARM RRP already provides the required data. However, other respondents believed it should be at licensees' discretion to evaluate work for the CIOD/CIUD mechanism. They expressed concerns about the Authority selecting which projects are considered for CI and sought clarity on how the deadbands and reporting requirements would work.
- 2.11 We propose that outturn NROs and costs should be provided on a project-by-project basis for ET and a programme-by-programme basis for GD and GT. This level of detail is necessary for appropriate funding adjustments and to determine which delivery elements should go through the 'clearly identifiable' mechanism. This amendment will work within the current arrangements, and we have ensured this is clear in the draft NARM Handbook published alongside this consultation.

Clarification to qualifying criteria for Clearly Identifiable mechanism

- 2.12 We proposed amending the second qualifying criterion for Clearly Identifiable Over-Delivery to ensure projects achieving an NRO over-delivery through a reduction in the scope of a baseline project and fewer physical asset interventions can still qualify. We clarified that this criterion would not apply if the over-delivery resulted from a reduced technical specification.
- 2.13 Most respondents understood the rationale and agreed that fewer physical assets leading to higher risk benefits should be assessed through the Clearly Identifiable mechanism. However, some respondents raised concerns about the impact on their ability to risk trade and the clarity of application for Gas Transmission, where NARM targets are based at the UID level.
- 2.14 We have decided to revise the proposal following feedback to avoid uncertainty for gas companies and ensure consistent funding changes. The exception to the second over-delivery criterion will include scope reduction for Gas Distribution and Transmission companies. This amendment clarifies that it applies only to cases where the final delivered assets are a subset of those at baseline and does not mean any project deviating from scope would go into the CI mechanism. This change does not impact deadbands and justification requirements.

Clarification on the CIOOD term and Justification for clearly identifiable delivery elements

- 2.15 We proposed modifying the NARM Handbook to clarify that it is the over- or under-delivery element that must be separated from the outturn Network Risk Output for the 'automatic' funding adjustment mechanism, rather than the entire project. We also proposed clarifying that projects processed through the 'clearly identifiable' mechanism would still undergo the same justification process as those processed through the 'automatic' mechanism.
- 2.16 While there was support for the intent, respondents also sought clarification on what "element" must be separated out, asking whether it referred to volume, risk benefit, or both.
- 2.17 We clarified that the 'delivery element' separated out is the portion of NRO representing an under- or over-delivery relative to BNRO, including the associated work and costs. This element would be assessed through the CI Mechanism, rather than the entire project. The over- or under-delivery element is always defined with respect to network risk output, not volumes. The NARM Funding Adjustment and Penalty Mechanism is based solely on changes in

network risk output. We have subsequently provided worked examples to companies and those contained in Appendix 4 of NARM Handbook, published alongside this consultation, have been updated.

Clarification on determining the justification percentage JUS

- 2.18 We proposed that each project-specific justification percentage (JUS) be weighted by its relative efficient incurred costs to determine the expenditure-weighted share of NRO over- or under-delivery that is justified for a given risk sub-category.
- 2.19 Some respondents queried how Ofgem would determine which costs are considered efficient. They questioned why assessment of JUS was retained at a sub-category level, given the move away from assessing performance at that level. Some respondents proposed JUS should be weighted by project allowance, either baseline or final, and sought confirmation that justification is only required when outturn NRO exceeds the pre-defined percentage of BNRO for any risk sub-category.
- 1.1 On reflecting on the responses, we acknowledged the problems with moving to a justification percentage for a given risk sub-category that is weighted by the relative efficient incurred costs of each project. We also recognised that this may be of less benefit than originally envisaged, as the value of JUS is still multiplied by the difference between outturn NRO and BNRO, which as our analysis has shown is not well correlated with funding.
- 1.2 On balance, therefore, we propose that weighting the justification percentage for each project (or programme of work) by its relative justified contribution to the NRO over- or under-delivery is the most practical way forward for now. This approach is consistent with the broader framework, and any non-cost-reflective funding adjustments that could arise through this approach will be limited by the +/-5% UCR threshold to qualify for the 'clearly identifiable' mechanism. The draft NARM Handbook has been updated to reflect this.

Appendices

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Appendix 1 Privacy notice on consultations

Delete this box when producing your document.

Instructions: Please edit the content of the generic privacy notice provided below to take account of the specifics of your consultation.

Contact the Data Protection Officer dpo@ofgem.gov.uk if you are unsure about any of the information to be provided to those responding to your consultation.

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".