

**Reference**

Cadent response to NARM Handbook Consultation

**Date**

9<sup>th</sup> May 2025

**Cadent Gas Limited**

Pilot Way Ansty Park

Coventry CV7 9JU

United Kingdom

[cadentgas.com](https://cadentgas.com)

**Faysal Mahad**

NARM Team

OFGEM

10 South Colonnade

Canary Wharf

London

E14 4PU



Email: [AssetRiskResilience@ofgem.gov.uk](mailto:AssetRiskResilience@ofgem.gov.uk)

Dear Faysal,

**Statutory Consultation on issuing updates to Network Asset Risk Metric Handbook**

I am writing in response to Ofgem's consultation on the "Statutory Consultation on issuing updates to Network Asset Risk Metric Handbook" published on the 3<sup>rd</sup> April 2025.

While we acknowledge that the handbook updates align with the previous consultation proposals, we still find the proposals to be impractical. They add further uncertainty to the framework, create regulatory risks for investment decisions made under the current arrangements, and potentially incentivise network companies to make sub-optimal asset health decisions.

Upon reviewing the summary of proposed amendments in Table 1 and the V4 Draft NARM Handbook, we noticed that some references appear to be incorrectly aligned. We have made assumptions about the correct references and highlighted these in the table in the annex of this letter. Please inform us if our assumptions are incorrect, and we will provide the necessary feedback.

The annex to this letter contains detailed responses to specific proposals outlined in this consultation. However, I have summarised our key points below.

**1. Further clarity required (Specifically for GDNs)**

Ofgem has confirmed that initial consultations focused on addressing windfall gains and losses in the electricity sector. However, the resulting changes have created uncertainty regarding allowances for Gas Distribution Networks, especially concerning the level of reporting aggregation or disaggregation for clearly identifiable over and under delivery. Clarity is needed on the definitions of risk sub-categories between the NARM handbook and NARM RRP, as well as the extent of UCR comparison from baseline to outturn.

**2. Increases in regulatory burden and uncertainty**

As previously stated in our consultation response to "Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism," the proposed changes will significantly increase the amount of ex-post

**Cadent Gas Limited**

Registered Office: Pilot Way Ansty Park

Coventry CV7 9JU United Kingdom

Registered in England and Wales No.10080864

**National Gas Emergency Service**

0800 111 999\* (24hrs)

\*Calls will be recorded and may be monitored



regulatory assessment and burden required within the NARM framework. This is in addition to already complex and burdensome setting, reporting, and close-out processes.

### **3. Delay to and timing of consultation**

Whilst we recognise the challenges in identifying a proposal to finalise the CIOD threshold element of the NARM framework, to consult and make considerable adjustments to the handbook to facilitate the CIOD threshold of the funding mechanism in year five of a five-year price control period, is disappointing. The application of these changes will create different outcomes for investment decisions made under the original framework that companies have been working to, creating uncertainty on allowances.

We are committed to collaborating with Ofgem in future working groups to address the issues highlighted in this letter. Our goal is to ensure that Gas Distribution Networks can accurately quantify the impacts on the original plans compared to the proposed adjustments outlined in the consultation.

In the meantime, please do not hesitate to contact me should you wish to discuss any areas of our response.

Yours sincerely

[By email]

**Ross Wilson**

Asset Investment Manager – Risk & Modelling



## Questions

### Question 1: 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”?

Whilst we agree that the handbook updates align to the previous consultation proposal we maintain that the proposals consulted upon in “Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism” are not workable as they introduce further uncertainty to the framework, regulatory risk to investment decisions made under the existing arrangements and potentially perverse incentives for network companies to make sub-optimal asset health decisions.

Further clarity is required on the elements stated within this annex to ensure Gas Distribution Networks can fully quantify impacts to original plans versus the proposed adjustments outlined within the consultation.

#### Annex: Cadent responses to specific consultation proposals and questions

Proposed Amendments	NARM Handbook reference (V4 Draft)	Assumed actual reference (V4 Draft)	Cadent Comments
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)	Correct reference	<p><b>Need for clarity</b> in this due to a contradiction in terminology between NARM handbook and NARM RRP document. NARM Handbook section 4.6 outlines that Risk Sub-Category is at a Network level for GDNs however NARM RRP sheet tab N0.7 Lookup References states that Risk Sub Categories for GDNs is at an asset level (bullet points below outline this). Does this mean that we are to aggregate all delivery elements (programmes of work) to a risk sub category (asset class) to ascertain a UCR for CIOD/CIUD purposes? This goes against NARM working group interactions whereby CIOD/UD would be detailed at individual project elements and compared to network UCR. Further clarity is required so GDNs know to what level CIOD / CIUD is being assessed.</p> <p>GDN Risk Sub-Categories in NARM RRP (N0.7 Lookup References):</p> <ul style="list-style-type: none"><li>• LTS Pipelines</li><li>• Mains</li><li>• Services</li><li>• Risers</li><li>• Filters</li><li>• Slamshut / Regulators</li><li>• Pre-heating</li><li>• Odourisation &amp; Metering</li><li>• Governors</li></ul>
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	7.12	Correct reference	<p><b>Need for clarity</b> in this section. Section 7.12 (b) details that CIOD assessments are made at an aggregated risk sub-category level for the delivery elements within the risk sub-category. Confirmation required on how this works for</p>



for GD and GT. As outlined to Licensees, detail guidance and templates will be provided by Ofgem ahead of RIIO-2 close-out.			GDNs based on the point raised against paragraph 10.5 (4) above.
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)	Correct reference	<b>We do not agree with the approach.</b> The level to which the reduction in scope should be outlined by a percentage. A project could have more than 1000 interventions for GDNs. A reduction in scope could mean 999 interventions delivered meaning this project now becomes eligible for clearly identifiable over delivery
Clarification on the CIOD 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	Assumed to be 7.12(b) and Table 5: Clearly Identifiable Over-Delivery and Under-Delivery terms	<b>We would agree</b> with how this has been written if we are correct in assuming that this is in reference to 7.12 (b).
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)	Assumed to be section 7.12 (g, h & i)	<b>Need to clarify</b> if we are correct to assume this is a reference to section 7.12 (i). Detail is not provided outlining how the assessment to outline the justification percentage is undertaken. What thresholds need to be met and what information is required to demonstrate that 100% of any over/under delivery is justified?  How is the weighting undertaken? Can a calculation and example be provided for GDNs so it is clear whether this is against asset categories (NARM RRP reference) or network levels (NARM handbook reference)? Is the weighting to be undertaken based on risk contribution or on allowance?
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	Correct reference	<b>Need for clarity</b> on what column or specific number within the example tables is being used to determine CIOD / CIUD. Section 10.5 details that the threshold for consideration of CIOD/CIUD is greater than 105% of baseline UCR or less than 95% of baseline UCR. Example 1 has projects 1 and 3 included as clearly identifiable based on alignment to total baseline UCR but in this case project 4 should be as well.  The same goes for examples 2 and 3.  In example 3 there is an additional project added that was not within the baseline. How is this project added to the NARM outturn position and additional allowance granted? Further detail on this and the assessment criteria is required