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Dear Faysal,

**National Grid Electricity Transmission plc (NGET) response to Ofgem's consultation on issuing updates to Network Asset Risk Metric Handbook published on 3 April 2025**

This letter represents NGET's response to Ofgem's consultation on the proposed modifications to the Network Asset Risk Metric Handbook published on 3 April 2025.

We provided our response to Ofgem's consultation on the threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism on 16 August 2024. Our response summarised our key concerns with some of the proposals.

Notwithstanding our feedback provided in August 2024, this response to the proposed updates to the NARM Handbook concerns whether the changes to the NARM Handbook match our understanding of Ofgem's "Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism" decision. To this end, we agree that the draft NARM Handbook v4.0 provided in this consultation mostly aligns with the amendments confirmed through the decision however there are some important inconsistencies.

We set out in the following sections some fundamental concerns with the process as defined in the draft NARM Handbook v4.0. In our view, it does not fully reflect the process we have discussed in working groups and that is captured in working documents (such as spreadsheets and examples shared by Ofgem). We also capture some more minor drafting points which require correction.

**Main consultation document**

In relation to the table in paragraph 2.1 of the main document<sup>1</sup> which summarises the proposed amendments to the NARM Handbook:

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<sup>1</sup> [Consultation on issuing updates to Network Asset Risk Metric Handbook](#)

NARM Handbook reference	Proposed Amendments	Our comments
<b>10.5 (4) and 10.7(4)</b>	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 subcategory	10.5(4) and 10.7(4) reflect the proposed amendment. However, there is an inconsistency in the drafting with 10.5(4) referencing 'outturn UCR' and 10.7(4) referencing 'UCR'.
<b>7.12</b>	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 RIIO-2 close-out.	Para 7.12 explains the Authority's Delivery Assessment, and which values it will determine for each risk category. However, it makes no mention of the different basis of reporting (programme or project) dependent on sector. This distinction does not come through elsewhere in the Handbook and therefore needs to be added before publication.
<b>10.5 (2)</b>	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	The wording gives effect to this. However, we identified in our letter of 16 August 2024 that the qualifying criteria for Clearly Identifiable Over-Delivery needed a fifth criteria or to be redrafted to fully reflect the intent as shared by Ofgem in its email dated 14 March 2025, otherwise the outcome of the application of these criteria is illogical. Please see further details below.
<b>7.14 (b) and Table 5: Clearly Identifiable Over Delivery and Under-Delivery terms</b>	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	We agree that the Handbook aligns with the proposed amendments.
<b>7.14 (g)</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.	We agree that the Handbook aligns with the proposed amendments. We have, however, noted in the final bullet point of this letter that there are formulae that need updating in the Funding and Penalty Mechanism Calculator and that we would welcome publication of the amended Calculator.
<b>Appendix 4</b>	Updated worked examples: Appendix 4 has been updated with worked examples to help illustrate some of the main aspects relevant to the	We do not understand some of the worked examples in Appendix 4. For example, in Example 1 (the Justified over delivery scenario) it is not clear why Project 3 is coming through

NARM Handbook reference	Proposed Amendments	Our comments
	implementation of the NARM Funding Adjustment and Penalty Mechanism methodology	<p>as clearly identifiable under delivery. We have attempted to transpose example 1 of the draft handbook v4.0 into NARM Workbook 3.1. But we have been unable to replicate the example. In the NARM Handbook, appendix 4 example 1. "CIXod = -0.7 in this example". However, NARM workbooks calc 3.1 indicates CIXod evaluates to -0.2.</p> <p>Ofgem should share the Excel files containing its worked examples to provide absolute clarity on the workings. This would also ensure there is a consistent understanding of the implementation of the NARM Funding Adjustment and Penalty Mechanism methodology between Ofgem and Licensee's (ET, GT and GD).</p>

#### Comments on Draft NARM Handbook v4.0

- Paragraph 5.4 states that "The precise approaches that Ofgem will use to carry out its assessment under the NARM Funding Adjustment and Penalty Mechanism, including licensees' submission requirements and timeframes for implementation, will be set out and consulted on ahead of RIIO-2 closeout." Given that we are now in Year 5 of RIIO-T2 and T2 close-out is imminent, Ofgem should now clarify when this consultation will be conducted.
- Paragraph 5.3 and Figure 4 are inconsistent. The paragraph refers to the third stage as being "Incentive Value Calculation" but the Figure shows it as "Delivery Assessment". In reality, neither description is correct. It should read "Funding Adjustment Calculation".
- Figure 4 is incorrect and does not reflect the process flow as discussed in working groups and set out in Ofgem's spreadsheet. For example:
  - The second box states "**Proposed CIUD / CIOD (by network)**" but in reality Ofgem has indicated a process which includes a mandated test of whether  $ONRO = BNRO$  for each Delivery Element in NARW (unless, presumably, the outturn NRO for each risk sub-category is within the Deadband). If  $ONRO$  does not equal  $BNRO$ , then the next test is whether the UCR of the Delivery Element is within 5% of the average UCR for the asset sub-category. If so, the funding adjustment would be automatic. If not, then an intervention is considered Clearly Identifiable. None of this is reflected in Figure 4.
  - As a point of principle, this second box seems wrong. Our reading of this is that it implies that Licensees should propose whether something is CIUD / CIOD. It is not clear to us why licensees should have to propose this – in our view it should be a matter of fact, i.e. maths? We think that what is intended here is that the mathematical process applies to anything that meets the

two deadband tests i.e. both that the outturn UCR  $\pm$  5% of baseline UCR and that the Baseline Network Risk Outputs adjusted for Non-Intervention Risk Changes is within 2% of the Outturn Network Risk Output adjusted for the determined clearly identified over or under delivery. TOs then need to go and justify those delivery elements which fall outside of the 2% deadband which is what the second big box of Figure 4 - Justification Assessment - outlines. Based on this understanding, Figure 4 represents an oversimplification of the process described elsewhere in the Handbook. We would suggest Figure 4 is updated to capture the entirety of the process to ensure consistency and remove any scope for misinterpretation of the intended process. In the process described in Figure 4 it is not clear to us what happens if a Delivery Element ought to be CIUD / CIOD but a Licensee decides not to declare it as such; please can Ofgem clarify what would happen in this situation?

- The fourth box is a decision, but there is only one route out of it. It states, “Assess whether outturn NRO for each risk sub-category is within **automatic justification deadband**”. The flow then continues to “Justification of under / over deliveries” but that assumes an answer of “no”. If the outturn NRO for a risk sub-category is within the automatic justification deadband, then there should be an arrow bypassing the justification of under / over delivery, etc., and terminating on “Final allowed expenditure”.
- If Figure 4 is updated to reflect the identification of CIOD / CIUD projects, then Paragraph 5.11 must also be updated. Currently, it does not reflect the revised process for identifying Clearly Identifiable Delivery Elements that Ofgem has been discussing with Licensees during 2024 and 2025.
- In our consultation response of 16 August 2024, we highlighted that there was an inconsistency in definition as to what constituted a ‘delivery element’, i.e. projects/schemes/programmes of work. There remains some inconsistency in the draft NARM Handbook v4.0 – for example paragraph 5.11 refers to ‘Delivery Element (e.g. projects)’, paragraph 10.1 ‘delivery elements (projects/schemes/programmes)’ and paragraph 10.3 ‘delivery elements of projects’. This implies that delivery elements could be entire projects or sub-sets of them. It would be helpful if Ofgem clarified what ‘Delivery Element’ is intended to cover. We would suggest this could be achieved by adding ‘Delivery Element’ as a defined term in the NARM Glossary at Appendix 1.
- There remain inconsistencies in the capitalisation of Delivery Element throughout the document (i.e. Delivery Element, delivery element, Delivery element). If these are intended to refer to the same definition of Delivery Element, capitalisation should be consistent throughout the document. This question of consistency of capitalisation also applies to ‘clearly identifiable’.
- There are other references in the document to ‘elements’ where we presume the intention is that these are referenced as ‘delivery elements’. If this is correct could Ofgem ensure that these are updated in the revised Handbook. These are:
  - Paragraph 5.11 – ‘Ofgem’s decision on any **elements** to be treated as Clearly Identifiable...’
  - Paragraph 10.2 – ‘A separate adjustment for clearly identifiable **elements**....’
  - Example 1; paragraph 1.4 – ‘.....as clearly identifiable **elements** and goes through a bespoke assessment’.
  - Example 3, paragraph 1.9 – “.....is clearly identifiable **elements** and goes through a bespoke assessment’.
- 7.12 h) states that the justification percentage is to be determined through an independent justification assessment. We could not find reference to this independent assessment in last year’s

consultation. Please can Ofgem confirm the process for carrying out this assessment? For example, if it is 'independent', who will be undertaking this assessment?

- 7.12 i) describes a process for weighting a justification percentage by its outturn NRO for each subcategory but does not provide the formulae that would be used. Please can the formulae be included to demonstrate how the justification percentage would be weighted by the outturn NRO?
- 10.1 and 10.2 confirm that non-Clearly Identifiable projects will not require ex-post assessment but any identified as Clearly Identifiable will be evaluated ex-post. Our expectation is that approximately half of our funding for T2 NARM projects will qualify as Clearly Identifiable and therefore we are concerned about the scale and efficiency of the ex-post assessment process and potential impact on timings for RIIO-T2 closeout; this was not envisaged at the start of RIIO-T2 when ex post assessment was expected to be required in 'rare cases' (paragraph 4.1 in NARM Handbook version 1.3 published 18 February 2021 refers). This part of the process needs to be improved for RIIO-T3 because it effectively means that Licensees have no certainty of funding until (potentially) some years after the end of the price control period. Changes to investment plans will always occur as interventions are re-optimised to reflect external changes (such as changes to customer-driven works); this is an enduring feature that is in the interest of consumers and customers. Licensees are currently being asked to routinely invest at risk. As a minimum, the amount of funding adjustments that can be automatic needs to be increased for RIIO-T3, e.g. by using a more cost-reflective funding adjustment than the currently used UCR.
- Paragraphs 10.5 and 10.7 do not reflect what we understand the process to be. We identified in our letter of 16 August 2024 that the qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery both needed a fifth criteria added namely:
  - 'Delivery of a higher level of Network Risk Output than a Baseline Network Risk Output' (paragraph 10.5); and
  - "Delivery of a lower level of Network Risk Output than a Baseline Network Risk Output" (paragraph 10.7).

Without these additions (or similar improvements to the drafting), a project which delivers an ONRO equal to BNRO but at a different cost to that allowed can qualify as 'Clearly Identifiable', and a project which over-delivers network risk (ONRO > BNRO) could be classed as Clearly Identifiable Under-Delivery or one which under-delivers risk (ONRO < BNRO) could be classed as Clearly Identifiable Over-Delivery. All of these are illogical outcomes, and Ofgem clarified that this was not the intent in its email dated 14 March 2025 and accompanying spreadsheet 'CIOD-CIUD permutations'.

- Whilst the NARM handbook has been updated, Appendix 3 refers to the 'Funding and Penalty Mechanism Calculator' published on Ofgem's website. This has not been updated to reflect the change in assessment being carried out at a project level, rather than a risk sub-category level. The following formulae require updating in the calculator and we would welcome publication of the amended calculator:
  - 7.13 concerning final allowed expenditure: NARM handbook 7.12(k) asks for sum of delivery elements within subcategory and has UCR final allowance per risk subcategory "j". The NARM workbook sheet 2.1 for final allowance (cells F152, 153) refer to NXP.BLF (cell F113) which is at an overall network level.

- NARM workbook sheet 2.1 cell F165 seems to refer to a network level UCR rather than category specific UCR (via F144 and F147).
- NARM workbook sheets 3.5.1 and 3.5.2 are not populated with formulae to implement NARM handbook 10.5.4 or 10.7.4.
- NARM workbook sheets 3.5.1, no box for "efficient costs, on the UD scenario". Is col I, J supposed to be CIXod and CIOod respectively?
- NARM workbook sheet 3.5.2, is the efficient costs box supposed to be the difference between baseline and outturn?
- NARM workbook sheet 2.1, cell F78. Why is output outturn reduced by the difference in CI? The output outturn is the output outturn- by reducing is it "double counting" the change in outturn?

In summary, although we agree that the Handbook reflects the methodology except for the points raised in this response, we continue to be concerned by the move to what amounts to a predominantly ex-post assessment approach for NARM. In our view, the framework could be simpler and more streamlined for T3 if UCAs instead of UCRs are used which would allow a more cost reflective funding adjustment.

We hope that you find this response useful and constructive. If you would like to discuss or clarify anything in this letter, please do not hesitate to contact either myself, Michelle Clark ([michelle.clark@nationalgrid.com](mailto:michelle.clark@nationalgrid.com)) or Aisling Rapier ([aisling.rapier@nationalgrid.com](mailto:aisling.rapier@nationalgrid.com)).

Please note that nothing in this response is confidential, so it can be published in full.

Yours sincerely,

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(by email)