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09 May 2025

Dear Faysal,

Statutory Consultation on issuing updates to Network Asset Risk Metric Handbook

Thank you for the opportunity to comment on Ofgem's proposed changes to the NARM Handbook.

We agree that the drafting updates are in keeping with the previously consulted changes. While the consultation is focussed on specific updates to the Handbook, we have provided wider feedback as part of this response. We welcome the certainty Ofgem previously provided with the setting of the UCR threshold for the Clearly Identifiable assessment criteria but there is wider remaining uncertainty which needs to be resolved.

Most notably, we are still unclear how projects spanning price control periods will be treated. In our conversations, Ofgem has been clear in its commitment to a pragmatic approach but we note that this commitment (to find a pragmatic solution) has not been directly included in any of the accompanying consultations. Instead, Ofgem have only said that projects spanning control periods will be treated through the existing over- and under-delivery mechanism¹. Our response below sets out how a pragmatic approach for dealing with delays in project delivery can be incorporated into this existing CIOD/CIUD mechanism and recommend Ofgem include these proposed amendments into the NARM Handbook.

It is essential that Ofgem considers the circumstances that have resulted in any delivery delay and whether these were in the control of the network companies. We believe this can be achieved with a straightforward approach of re-profiling of RIIO-2 allowances into the RIIO-3 price control period where delays can be justified. The alternative would require support through a flexible approach for the T3 period. To support the implementation of this proposed pragmatic approach, we have included the attached annex which sets out proposed drafting to the NARM Handbook allowing for this assessment and proposed funding adjustments.

We welcome Ofgem's planned increased engagement with licensees as part of setting out the evidence that will be required for the Clearly Identifiable process. It is important that Ofgem elaborate on any justification assessment and remove any assumptions that could be applied to the proposed current drafting. There is currently a risk that assumptions would also be applied to what appear to be key terms within the Handbook. Key terms should be defined in the handbook to avoid differing interpretations.

We would appreciate further support in the application of the worked examples that have been used in the updated Handbook drafting. We offer some practical considerations to ensure they can be best made use of.

¹ 4.28 [Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism](#)

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We welcome the continued opportunity to engage with Ofgem on NARM development and would be happy to discuss the content of this response. Please let me know if I can be any further assistance.

Yours sincerely

Josh Henderson
Senior Regulation Analyst

Annex – SSEN Transmission responses to the Consultation Question

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”? Where you disagree, please clearly set out your reasoning and specify other considerations/factors we should take into account.

We agree that the proposed drafting updates to the NARM Handbook align with previously consulted changes. However, we continue to have other concerns that must also be considered alongside these proposed changes and that refer to the wider NARM policy development. The concern of this consultation, and of the consultation on qualifying criteria², has only considered a narrow, albeit important, aspect of NARM. It has therefore overlooked other concerns which have been raised through other ongoing engagement between Ofgem and TO Licensees. We summarise these below.

While we are satisfied that the UCR threshold of +/-5% as part of ensuring that funding adjustments are possible to ensure proportionality between the work delivered and incurred costs, it will result in a far greater number of projects being assessed as Clearly Identifiable. While a degree of certainty has been provided, other questions have also been created as part of finding this solution.

Funding across regulatory periods

The most obvious gap in the policy remains the treatment of projects spanning price control periods which have been delayed due to factors beyond the control of the network companies. Since the setting of the T2 price control in 2019, there has been a number of global events such as Covid-19, the Russian invasion of Ukraine and the global race to net zero that have led to major challenges and had implications for the delivery of our T2 Business Plan. These challenges include supply chain constraints, extended lead times for key assets, materially increased consenting timeframes, customer driven changes and difficulty securing outages.

As a result, we have a number of T2 NARM projects which can no longer be delivered by the arbitrary T2 Price Control deadline of 31 March 2026 but will be delivered into the RIIO-T3 price control period. We have been consistently transparent with Ofgem regarding our forecasted NARM delivery and have sought clarity on how Ofgem will treat such delays. However, we have been unable to get any form of assurance as to how Ofgem will treat these projects other than a verbal commitment to be “pragmatic” and a statement in the Ofgem Consultation Decision on the “Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism” saying:

“We remain of the view that project delays across regulatory periods should be treated in the same manner as any other type of over- and under-delivery, through the existing mechanisms available.”³

The existing mechanisms would mean Ofgem would look to amend allowances downwards to reflect the under-delivery - either through the Unit Cost of Risk Benefit (UCR) approach or through the Clearly Identifiable Under-Delivery approach. This ignores that fact these outputs are being delivered. It is not acceptable to be in a position where we are left without any allowances associated with that delivery.

² [Consultation on the qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery, under the NARM Funding Adjustment and Penalty Mechanism | Ofgem](#)

³ Paragraph 3.64 of Ofgem’s decision on the “[Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism](#)”: https://www.ofgem.gov.uk/sites/default/files/2024-11/Decision_on_Threshold_for_NARM_Clearly_Identifiable_Over_or_Under_Delivery.pdf

We are therefore proposing the following toolkit to allow Ofgem to robustly assess TO delivery, and ensure TOs continue to receive the funding required to deliver these essential Non-Load works:

1. The NARM Handbook should include clarity on re-profiling of existing T2 allowances into T3 for delayed projects. This does not request any change to the overall RIIO-2 allowance but simply moves some of the existing T2 allowance into the T3 period.
2. We have deferred some of our T2 NARM projects into our T3 business plan. If Ofgem approves these projects in its RIIO-T3 determinations, we will hand back the T2 allowances in full. This removes any risk of double funding.
3. If Ofgem determines a delay is not justified it can still decide against the re-profiling of T2 allowances into the T3 price control period and instead claw back allowances either partially, or in full. This would then require a T3 Non-Load Related Re-opener to consider requested T3 allowances to deliver the remainder of T2 NARM projects.

For point 1 above, we have proposed amendments to the Draft NARM Handbook v4.0 in the attached annex which would allow Ofgem to fully assess our T2 Delivery and justification. This proposed drafting provides the option to re-profile RIIO-2 allowances into the RIIO-3 period for projects where delivery has been delayed beyond the end of the RIIO-2 period. We believe these amendments are reflective of Ofgem's decision on "Funding across regulatory periods" and provides comfort on how Ofgem may treat these RIIO-2 NARM project delays at Close Out.

Changes to project scope

We welcome the drafting updates that consider a project's reduced technical specifications. However, there is still uncertainty about how this will support Ofgem's interest in a pragmatic approach. The issues log previously provided mentions clarifying the pragmatic approach⁴ but only refers to planned engagement and working groups. This does not clarify what the approach will be, nor does it provide a schedule for working groups with agendas. In comparison, the schedule for NOMs implementation included nearly weekly calls between Licensees and Ofgem. A similar schedule for NARM policy development would be a significant, but justified, change from the current routine of working groups.

Delivery justification

In our response to the policy consultation last year we agreed with the need to define the remaining Clearly Identifiable criteria. This is another avenue where licensees should understand what is required of Ofgem's full assessment and decision-making process.

Ofgem appears to acknowledge that more detail is needed on the evidence required for a delivery element going through the Clearly Identifiable process and notes the intended engagement with licensees⁵. The lack of further detail at this point in the control period continues to cause uncertainty. It potentially allows for a very late reveal of what evidence licensees are required to have at their disposal and ready for any Ofgem assessment. It is essential TOs are given clarity as soon as possible to minimise areas of contention at the end of the price control period.

Licensees still face the risk of Ofgem making an ex-post assessment to decide on the efficiency of work already delivered. We will not know what would be considered efficient spend until any work had been completed. Licensees are therefore exposed to material risk of receiving less funding than spent. Ofgem's intended updates to the Handbook would also be an appropriate avenue for the criteria of what is considered an efficient spend.

⁴ Issues 4 and 36

⁵ Issue 40 of the Issue Log: [Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism | Ofgem](#)

Proposed drafting updates to Section 7.12 h and i, refer to an independent justification assessment but with little clarity as to what is meant by an independent assessment. This could be taken to mean independence in terms of the authority or decision maker, or it could be taken to mean that the assessment is separate from the more mechanistic review of delivery. Either interpretation requires assumptions that could otherwise be avoided if the term 'independent justification assessment' was fully defined in the Handbook drafting.

Document drafting and defined terms

The drafting is also reliant on other terms that do not have any reference or definition within the Handbook. Assessments are informed by 'delivery elements' but without an immediate reference of what these consist of. There is some reference to this within the Issues Log of 8 November 2024⁶ but without defining it directly. Another definition of delivery element is also given in response to Issue 4 of the Log as a 'delivery element' being 'the element of a project/project of work' that is under/over-delivered' but has not been included in the Handbook where it will directly inform these assessments. This appears to create another potential point of contention for any assessment that could be addressed ahead of that point.

This also occurs in section 10.6 with references to delivery element and ex-post efficiency assessment appearing but without any accompanying definition being provided in the glossary or anywhere else within the Handbook.

For this to be addressed we would expect a formal definition to be produced for inclusion in the Handbook. This would also require being shared with Licensees to provide the opportunity to reviewed with the opportunity to challenge and refine. The Handbook should be used as the source of understanding how these assessments will be made and requires inclusion of relevant defined terms.

Worked examples

We welcome Ofgem's attempt to clarify the worked examples to assist Licensees with understanding how the complete assessments will be made. However, we have found some of the same issues as with the previous drafts. In particular, it remains unclear how the final figures have been arrived at with the information used earlier in the example. This continues from the feedback we provided in November 2024 and following requests on 10 December 2024 and 18 February 2025 ahead of NARM WG13 for such examples to be elaborated on.

Examples 1 and 3 refer to Justified Over-Delivery scenario. Without any accompanying narrative, it's unclear why there are two examples for this same scenario. It would be helpful to have accompanying narrative to demonstrate how the examples have been calculated. This might be another way of providing clarity on the workings of each example and allow that to be applied to real projects. Our understanding has also been hampered by the previously used pdf format. Presenting these with an excel file could have been looked at to show how these different figures interacted with, and informed, each other. We encourage Ofgem to hold a workshop to talk through these

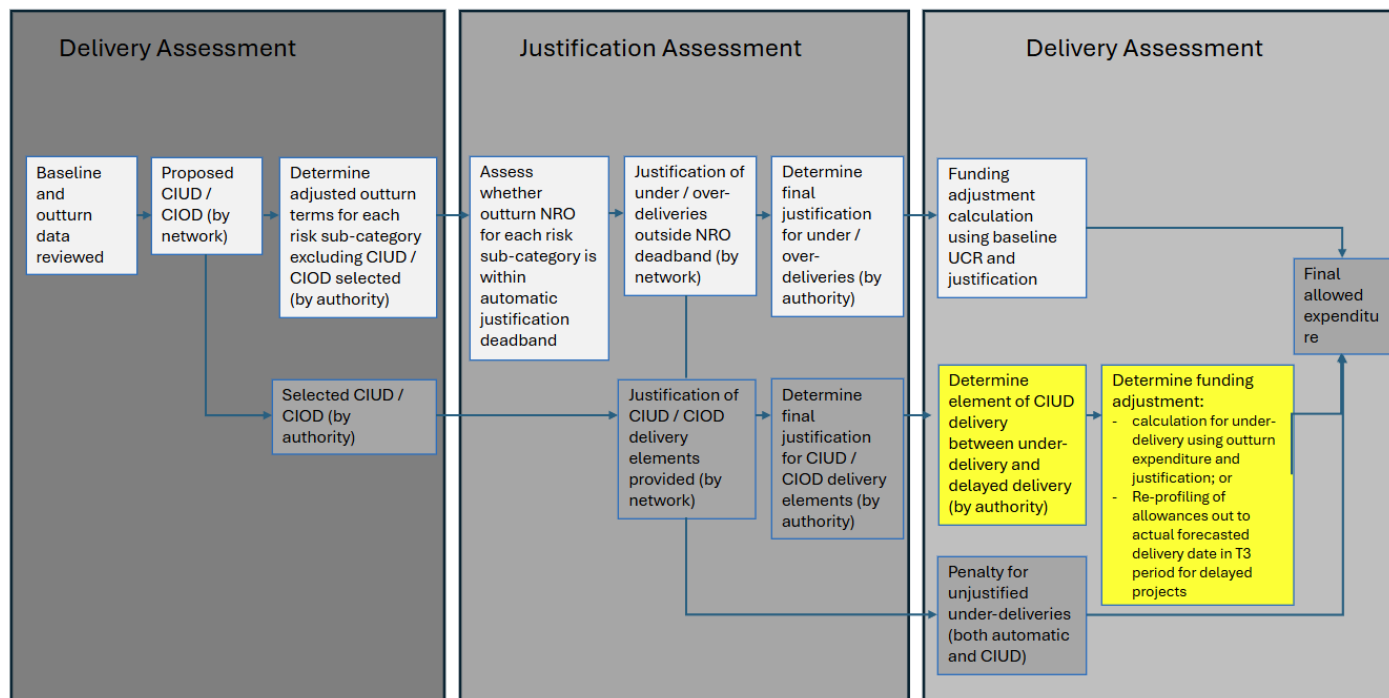
⁶ Issues 6 and 28: The intent of the terminologies is as follows:

- Project - this is a piece of work for which a baseline network risk output and associated cost are defined in NARM.
- Programme of work - as far as NARM is considered this is synonymous with a 'project'. For gas licencees, my understanding is that a baseline network risk output and associated cost are defined for each 'programme of work', rather than individual projects within that programme of work. What gas companies refer to as individual projects (e.g., a single unit of work within a wider programme of work) has no meaning from a NARM perspective - I think this has been a source of confusion in the past.
- Delivery context - in the context of NARM, delivery element means something very specific. It is not the same as a programme of work. It represents the portion of a project (or what gas licencees would refer to as a programme of work) that is under- or over-delivered. It is specifically used in the context of over- and under-deliveries. There is no delivery element at baseline.

calculations in real-time to show their full operation and offer licensees the chance of understanding how these apply to their range of projects.

Annex: Handbook drafting – Delayed project assessment

Figure 4 - NARM Funding Adjustment and Penalty Mechanism Implementation Overview



Incentive Value Calculation

6.12. In calculating the value of the incentive under the NARM Funding Adjustment and Penalty Mechanism, Ofgem will:

1. Determine the licensee's final allowances to reflect the licensee's level of delivery relative to its BNRO as well as the associated cost of delivery. Ofgem will use two valuation approaches:
 - a. Any delivery considered by Ofgem not to qualify as Clearly Identifiable Over-Delivery or Clearly Identifiable Under-Delivery will be assessed using a Unit Cost of Risk Benefit (UCR) approach. This assessment is carried out for each portion of delivery, i.e.,
 - Baseline (all cases)
 - Justified Under-Delivery (if relevant)
 - Unjustified Under-Delivery (if relevant)
 - Justified Over-Delivery (if relevant)
 - Unjustified Over-Delivery (has a value of zero)

The UCR for each Delivery Element is calculated by applying a Delivery Adjustment Factor (DAF) to the difference between the initial UCR (that was determined at RIIO-2 Final Determinations) and the licensee's outturn UCR. For RIIO-2 the DAF has been set to zero for all Risk Sub-Categories, so the result is the UCR to be applied to actual delivery will be equal to the initial UCR set at RIIO-2 Final Determinations. Ofgem will gather evidence throughout RIIO-2 as part of the NARM RIGs reporting and Cost RIGs reporting to decide whether a DAF of zero is appropriate for future price controls.

- b. Any delivery considered to qualify as Clearly Identifiable Over-Delivery or Clearly Identifiable Under-Delivery will be subject to a bespoke assessment of the efficient cost based on consideration of the fundamental underlying project components. Ofgem will determine the elements of the CIUD / CIOD which are (i) under-delivery; and (ii) delayed delivery.
- i. For an under-delivery element, the adjustment of BNRO (i.e. claw-back) will be valued equal to the assessed value of that specific element/project we made at RIIO-2 Final Determinations. This may also include addressing partial delivery of a specific element or project; and
- ii. For delayed delivery, the allowances provided as per the RIIO-2 Final Determinations will be re-profiled out to the actual delivery date in the RIIO-3 period, in proportion with the licensee's updated cost profiles provided as part of its justification.

These assessments will result in a final allowance for each Risk Sub-Category, which is calculated as follows¹²:

$$\left[\begin{matrix} \text{Final} \\ \text{Allowance}^* \end{matrix} \right] = \left[\begin{matrix} UCR \times NRO \\ \text{(For each portion of delivery)} \end{matrix} \right] + \left[\begin{matrix} \text{Adjustment for Clearly Identifiable} \\ \text{Over Delivery and Under Delivery} \end{matrix} \right]$$

+ [Re-profiling of allowances into RIIO-3 for Clearly identifiable Under Delivery due to delays]

* For a given Risk Sub-Category

- 2. Determine the value of any applicable penalty for Unjustified Under-Delivery. Any Unjustified Under-Delivery will be subject to a penalty. The penalty will be equal to 2.5% of the clawed back allowance associated with the Unjustified Under-Delivery.

Both the funding adjustment and penalty will be applied in the next price control through the Price Control Financial Model (PCFM) or its equivalent for RIIO-3.