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Dear colleague,

Decision on Modifications to the RIIO-2 Network Asset Risk Metric (NARM) Methodologies for Gas Transmission (GT), Gas Distribution (GD) and Electricity Transmission (ET)

This letter sets out our decision on the modifications proposed by the Gas Transmission (GT), Gas Distribution (GD) and Electricity Transmission (ET) sectors to their RIIO-2 Network Asset Risk Metric (NARM) Methodologies. On 20 February 2026, we published a consultation on a number of modifications to NARM methodologies proposed by all three sectors seeking the views of interested parties in relation to whether or not the modifications would better facilitate the achievement of the NARM Objectives.¹ The consultation closed on 20 March 2026, and we received five responses. All non-confidential responses will be published on our website.²

Our decision

Our minded-to position was set out in Chapter 3 of the consultation document.³ Having considered the responses to our consultation and the NARM Objectives laid out in Special Condition (SpC) 9.2.5 of the relevant Licences, we have decided to confirm our minded-to views on the suitability of the proposed NARM Methodology modifications and approve them without amendment for the reasons given in Chapter 2 of our February 2026 consultation document. This will involve the approval of the modified version of the NARM Methodology

¹ The NARM Objectives are set out in SpC 9.2.5 of the Gas Transporter Licence and of the Electricity Transmission Licence

² www.ofgem.gov.uk

³ [RIIO-2 Network Asset Risk Metric methodologies audit | Ofgem](#)

by direction and the publication of said methodology on our website. The direction to approve the modifications can be found alongside this publication.

Background

NARM provides a consistent and transparent approach for estimating monetised risk and the risk benefit of asset interventions, enabling Ofgem to set and assess Baseline Network Risk Outputs (BNROs). All licensees must maintain a NARM Methodology that facilitates the NARM Objectives and keep it under continuous improvement, as required under SpC 9.2.6.

In early RIIO-2, Ofgem undertook a cross-sector review of all NARM methodologies against detailed criteria including technical robustness, transparency, alignment, uncertainty treatment, long-term risk assessment and stakeholder engagement. This review identified improvement areas that were grouped into:

- Category 1: short-term improvements focused on transparency, documentation structure, and completeness.
- Category 2: medium-term improvements including alignment, modelling refinements, calibration updates, long-term risk assessment improvements and consequence valuation

The modifications that we consulted on in February 2026 were proposed following Ofgem's review.

Our assessment of the proposed modifications

Across GD, GT and ET, the submitted modifications:

- Fully implement the agreed Category 1 improvements
- Make substantial progress on Category 2 development items
- Improve transparency, clarity, and document structure
- Strengthen long-term risk assessment approaches
- Enhance calibration, testing and validation
- Improve alignment within and across sectors

Our initial assessment of the proposed modifications is set out in Chapter 3 of our February 2026 consultation. The primary consideration when assessing the proposed modifications was whether or not the changes would better facilitate the achievement of the NARM Objectives. We assessed each of the modifications against SpC 9.2.5 to determine whether in our view there would be benefit in adopting these changes. Our initial assessment, as reflected in our minded-to position, is unaffected by the response to this consultation, which we have taken into consideration when reaching this decision.

Summary of consultation responses

We received five responses, all from network companies (National Grid Electricity Transmission, Northern Gas Networks, Scotia Gas Networks, Scottish Hydro Electric Transmission, and Cadent) and there was unanimous agreement with Ofgem’s assessment of the proposed modifications. Respondents agreed that the changes improve transparency, strengthen modelling.

A small number of respondents raised points of detail. One TO sought confirmation that the full set of modifications it submitted—some of which were not individually referenced in our consultation summary—would be approved. We note that the consultation covered updates to the latest versions of the methodologies; however, because many companies submitted updates spanning two versions, the consultation summary necessarily presented these proposals at a high level. We can confirm that our decision to approve the proposed amendments covers all versions submitted to us for approval.

Another distribution-sector respondent highlighted the importance of avoiding duplication between methodology documents and emerging information-gathering requirements. We agree and note that the RIIO-3 NARM development workplan explicitly aims to rationalise documentation and reduce duplication.

Reasons for our decision

We consider that the modifications proposed better facilitate the achievement of the NARM Objectives for the reasons laid out in detail in support of our minded-to position in Chapter 3 of our February consultation document. Therefore, we do not intend to depart from our minded-to position to approve the proposed modifications to the NARM Methodologies for GT, GD and ET.

In addition to these RIIO-2 modifications, licensees will continue the jointly agreed programme of methodology development during RIIO-3, focusing on longterm risk refinement, modelling alignment, improved deterioration modelling, and digitalisation-led enhancements.

Yours sincerely,

Pete Wightman