

Decision

RIIO-2 NARM Closeout Methodology

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This document sets out our decision on the methodology and reporting requirements we will use to assess Network Asset Risk Metric (NARM) performance at the end of the RIIO-2 price control period.

NARM links network company funding to the delivery of risk reduction through asset management activities. This decision establishes a clear and consistent approach for assessing delivery against baseline risk outputs, accounting for changes in risk outside companies' control, considering evidence for over- and under-delivery, and determining any resulting funding adjustments or penalties. It also provides guidance on the treatment of electricity and gas transmission projects that are delayed beyond RIIO-2 and continue into RIIO-3.

We reached this decision following consultation on 22 May 2026 on our proposed methodology, Regulatory Instructions and Guidance (RIGs), and reporting templates. We carefully considered consultation responses and have made a number of changes as explained in this document. The changes to the methodology will improve clarity, consistency and practical application. Our final methodology maintains the core principles of the RIIO-2 NARM framework while providing greater certainty on reporting requirements and transparency of the assessment processes and the evidence needed to support closeout submissions.

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RIIO-2 NARM Close-out Methodology – Decision

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1. Introduction

Purpose of this decision

- 1.1 This document sets out our decision on the methodology and reporting requirements that will be used to assess NARM delivery at RIIO-2 closeout. After considering the consultation responses, we have decided to implement the methodology set out in the accompanying RIIO-2 NARM Closeout Methodology Guidance. We consider that the final methodology provides a clear, proportionate and appropriate basis for determining RIIO-2 close-out outcomes.
- 1.2 NARM links network company funding to the delivery of risk reduction through asset management activities. This decision establishes the methodology that the Authority will use to assess delivery against Baseline Network Risk Outputs (BNROs), account for changes in risk outside companies' control, assess evidence relating to over- and under-delivery, and determine any resulting funding adjustments or penalties. It also provides guidance on the treatment of electricity and gas transmission projects that are delayed beyond RIIO-ET2 and continue into RIIO-ET3.
- 1.3 This document sets out the Authority's consultation process, consultation responses and decisions. The final RIIO-2 NARM closeout methodology is set out separately in the accompanying RIIO-2 NARM Closeout Methodology Guidance.

Our consultation

- 1.4 On 22 May 2026, we consulted on a proposed RIIO-2 NARM closeout methodology, associated Regulatory Instructions and Guidance (RIGs), and reporting templates. The purpose of the consultation was to provide stakeholders with greater clarity on how RIIO-2 NARM delivery would be assessed at closeout and the information licensees would be required to provide in support of that assessment.
- 1.5 The proposed methodology covered:
 - the Delivery Assessment process;
 - the treatment of Non-Intervention Risk Changes;
 - project status reporting and final delivery positions;
 - the assessment of Clearly Identifiable delivery elements;
 - the treatment of RIIO-ET2 / RIIO-ET3 crossover projects;
 - justification requirements; and
 - the Incentive Value Calculation process.

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- 1.6 The consultation asked stakeholders whether the proposed methodology provided a clear, proportionate and appropriate basis for determining RIIO-2 closeout outcomes.

Consultation responses

- 1.7 We received responses from electricity and gas network companies and other stakeholders. Respondents generally supported the objective of providing a structured and transparent closeout framework but sought greater clarity in several areas, including:
- the treatment of RIIO-ET2 / RIIO-ET3 crossover projects;
 - the identification and assessment of Clearly Identifiable delivery elements;
 - reporting and evidencing requirements;
 - project status definitions; and
 - the treatment of final delivery positions at closeout.
- 1.8 We have carefully considered all consultation responses and have made a number of changes to improve clarity, consistency and practical application. Section 2 summarises the main themes raised by respondents, our decisions, and the changes we have made to the methodology.

Structure of this document

- 1.9 Section 2 summarises the main themes raised by respondents, sets out the Authority's decisions and explains the resulting changes to the methodology.
- 1.10 The final RIIO-2 NARM closeout methodology is published separately in the accompanying RIIO-2 NARM Closeout Methodology Guidance. That document explains how the Authority will assess RIIO-2 NARM delivery at closeout and should be read alongside this Decision.

Context and related publications

- RIIO-2 NARM Closeout Methodology Guidance, which sets out the methodology and reporting requirements the Authority will apply when assessing RIIO-2 NARM delivery at closeout.
- NARM RIGs and reporting templates that support RIIO-2 NARM closeout submissions.
- Relevant RIIO-2 licence conditions, including Special Condition 3.1 on Baseline Network Risk Outputs and Special Condition 9.2 on the Network Asset Risk Metric methodology.

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- NARM Handbook Version 4.0, which sets out the NARM Funding Adjustment and Penalty Calculation Methodology, guidance on over-delivery and under-delivery, Non-Intervention Risk Changes, and the NARM Closeout Report requirements.
- RIIO-2 Final Determinations – NARM Annex, which set out the RIIO-2 NARM arrangements for electricity transmission, gas transmission and gas distribution licensees.

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2. Consultation responses and our decision

We received responses from electricity and gas network companies and other stakeholders on the proposed RIIO-2 NARM closeout methodology, associated RIGs, and reporting templates. Respondents generally supported the objective of providing a consistent framework for assessing RIIO-2 NARM delivery at closeout but sought greater clarity in several areas, including the treatment of crossover projects, the identification and assessment of Clearly Identifiable delivery elements, reporting requirements, project status definitions, and evidencing expectations. Having considered the consultation responses, we have made a number of changes to improve clarity, consistency and practical application. In other areas, we have retained the proposed approach where we continue to consider it appropriate and proportionate. This section summarises the main themes raised by respondents and our decisions

2.1 Respondents broadly supported the development of a structured closeout methodology and welcomed greater clarity on the assessment process.

Consultation responses focused on five themes:

- treatment of RIIO-ET2 projects that continue into RIIO-ET3;
- identification and assessment of Clearly Identifiable delivery elements;
- reporting and evidencing requirements;
- treatment of project status and final delivery positions; and
- implementation of the closeout assessment process.

2.2 After reviewing the consultation responses we have made targeted changes where we consider these improve clarity, consistency or proportionality while remaining consistent with the objectives of the NARM framework.

Clearly Identifiable delivery elements

Consultation response

2.3 Several respondents, including NGET, SSEN, SPT, SGN, Cadent and NGT, sought greater clarity on the relationship between the qualifying criteria for Clearly Identifiable delivery elements set out in the NARM Handbook “the Handbook” and the guiding principles included in the methodology. Respondents expressed concern that the guiding principles could be interpreted as creating a second set of qualification tests or introducing additional requirements beyond those established in the Handbook. Respondents also sought greater clarity on the process through which proposed Clearly Identifiable delivery elements would be identified, screened, justified and assessed at closeout.

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- 2.4 We have decided to proceed with our proposed approach, however, we agree that the relationship between the Handbook qualifying criteria and the guiding principles should be clearer. We have therefore decided to amend the methodology to make explicit that licensees should first apply the qualifying criteria set out in the Handbook when determining whether a delivery element may be considered Clearly Identifiable. We have also clarified that the guiding principles are intended to support licensees in exercising judgement when determining which delivery elements warrant nomination and explanation as Clearly Identifiable at closeout and do not introduce additional qualification tests. These changes are reflected in Section 3 of the accompanying RIIO-2 NARM Closeout Methodology Guidance.
- 2.5 The methodology sets out the process for assessing proposed Clearly Identifiable delivery elements through the CI Screening and Justification Pack, UCR screening requirements, interaction with Non-Intervention Risk Changes, and supporting evidence requirements. We consider that these provisions provide a clear framework for identifying, evidencing and assessing potential CI delivery elements at closeout.

Project status definitions and final delivery position

Consultation responses

- 2.6 Respondents sought greater clarity on the application of project status definitions, particularly the distinction between delayed and deferred projects, treatment of partially delivered projects, and the treatment of projects completed after 31 March 2026 but before the closeout submission date.
- 2.7 Several respondents also highlighted potentially inconsistent terminology relating to delivery timing, including references to projects delivered "in RIIO-2", "by closeout", and "at the end of Year 5".

Decision

- 2.8 We agree with respondents that greater clarity is beneficial.
- 2.9 We have therefore introduced standardised project status definitions and clarified the distinction between delayed, deferred, delivered and not delivered projects. We have also clarified that project status classifications are intended to support consistent reporting and assessment at closeout and do not determine funding adjustments, justification outcomes, CI eligibility or crossover treatment.
- 2.10 In addition, we have clarified that project status classifications should reflect the position of a project at the point of closeout submission and that projects completed after 31 March 2026 but before the closeout submission date may be reported as delivered where the relevant delivery and associated risk reduction can be evidenced. This reflects the Final Determinations position to allow project

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delivery to be finalised beyond 31 March 2026 up to the point of closeout submission, while maintaining a bounded closeout process.

- 2.11 These changes are reflected in the ‘Project status definitions’ and ‘Establishing the Final Delivery Position for RIIO-2’ subsections of the accompanying Guidance.

Reporting, evidence and traceability requirements

Consultation responses

- 2.12 Respondents sought greater clarity regarding reconciliation of outputs, supporting evidence requirements, and the relationship between workbook values, narrative explanations and supporting evidence. In particular, respondents highlighted the importance of maintaining a clear audit trail between Baseline Network Risk Outputs, Non-Intervention Risk Changes, Clearly Identifiable delivery elements and the final outputs used for assessment.

Decision

- 2.13 We agree that effective assessment depends on clear traceability between reported outputs, supporting narrative and underlying evidence.
- 2.14 We have therefore decided to strengthen the methodology by introducing explicit reconciliation requirements between BNRO and Final ONRO and by clarifying evidence traceability expectations. The methodology now requires a clear and auditable BNRO-to-Final-ONRO reconciliation, consistency between workbook values and narrative explanations, and the provision of a scheme-level evidence index linking evidence to specific projects, adjustments and justification claims.
- 2.15 We believe these changes improve comparability across submissions and support efficient assessment of closeout reports.
- 2.16 These changes are reflected in Sections 3 and 5 of the accompanying Guidance.

RIIO-ET2 / RIIO-ET3 crossover projects

Consultation responses

- 2.17 Electricity transmission respondents sought greater clarity on how delayed RIIO-ET2 NARM projects that continue into RIIO-ET3 would be treated. Respondents requested clarification on the relationship between the RIIO-ET2 closeout assessment and any subsequent RIIO-ET3 funding mechanisms, including the interaction with Special Conditions 3.10 and 3.23.¹
- 2.18 National Gas Transmission also requested that the methodology recognise the equivalent GT2/GT3 crossover arrangements under Special Condition 3.28 of its

¹ Special Condition 3.10 (Non-load Re-opener) and Special Condition 3.23 (Load Related Re-opener and Volume Driver) of the RIIO-ET3 Electricity Transmission licence. See the RIIO-ET3 Electricity Transmission licence available on Ofgem's website.

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licence.² We have amended Section 4 of the accompanying Guidance to identify the relevant Gas Transmission route and to clarify that any assessment will be undertaken in accordance with the applicable licence requirements and sector-specific crossover guidance.

Decision

2.19 We agree that additional clarity is required on how these projects will be treated. We have therefore expanded the crossover section of the methodology to provide greater detail on:

- how delayed projects will be assessed at RIIO-ET2 closeout;
- the relationship between the closeout assessment and any subsequent RIIO-ET3 consideration;
- the information licensees must provide in support of crossover assessments; and
- the role of the relevant sector specific RIIO-3 licence mechanisms.

2.20 The RIIO-ET2 closeout assessment and any subsequent RIIO-ET3 consideration are separate but connected decisions. In practice, the Authority intends to present its provisional conclusions on both matters through the NARM Closeout Draft Determinations. These will set out the proposed RIIO-ET2 delivery and funding position, identify any incomplete projects considered suitable for further treatment within RIIO-ET3, and explain the proposed RIIO-ET3 licence route. Licensees will have an opportunity to respond before the Authority reaches its Final Determinations.

2.21 Identification of a project for further RIIO-ET3 consideration does not, by itself, determine the amount or form of any RIIO-ET3 adjustment. Any adjustment will remain subject to the applicable licence requirements and project-specific evidence.

2.22 These changes are reflected in Section 4 of the accompanying Guidance.

Proportionality of evidencing requirements

Consultation responses

2.23 Several respondents expressed concern that the level of evidence and justification required for proposed Clearly Identifiable delivery elements could be disproportionate, particularly given the number of projects that may satisfy the CI qualifying criteria following retention of the 5% threshold.

² Special Condition 3.28 (GT2/GT3 Crossover adjustments) of National Gas Transmission plc's Gas Transporter licence. See also the GT2/GT3 Crossover Submission Requirements and Guidance Document available on Ofgem's website.

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Decision

2.24 After carefully reviewing the responses received, we have decided to retain our proposed approach. We consider that the methodology strikes an appropriate balance between providing the Authority with sufficient information to assess proposed Clearly Identifiable delivery elements and allowing licensees flexibility in how they present and support their submissions. The methodology requires sufficient evidence to enable robust assessment while allowing licensees to exercise judgement regarding the level of detail provided, consistent with the guiding principles set out in the ‘Consideration of Year 4 RRP evidence and approach to CI materiality’ subsection of the accompanying Guidance.

Related documents and reporting requirements

2.25 We have finalised modifications to the NARM Regulatory Instructions and Guidance and associated reporting templates, which we have published alongside this document. The documents outlined at the start of this Decision, under ‘Context and related publications’, form the basis of licensees’ closeout submissions and should be read alongside the accompanying Guidance.

Conclusion

2.26 After reviewing the consultation responses, we have decided to proceed with the proposed RIIO-2 NARM closeout methodology, subject to the amendments explained in this Decision.

2.27 The final methodology is set out in the accompanying RIIO-2 NARM Closeout Methodology Guidance. It should be read alongside the NARM Handbook, relevant licence conditions, RIGs and associated reporting templates.

Next steps

2.28 Licensees are required to submit NARM Closeout Reports in accordance with the relevant licence requirements and the NARM Handbook. The accompanying RIIO-2 NARM Closeout Methodology Guidance sets out the methodology that the Authority will use to assess submissions and the information licensees must provide to support the closeout process.

2.29 Following submission of the NARM Closeout Reports, the Authority will undertake the Delivery Assessment, Justification Assessment and Incentive Value Calculation described in the accompanying Guidance.

2.30 We will then consult on Draft Determinations before publishing Final Determinations and implementing any resulting funding adjustments or penalties through the relevant price control mechanisms. We will continue to engage with licensees throughout the closeout process.