

Networks Price Control - Asset Risk and Resilience
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National Grid Electricity Transmission plc (NGET): Response to Ofgem's consultation notice dated 22 May 2026 under Standard Condition B15 on proposal to modify the Network Asset Risk Metric (NARM) RIIO-2 Regulatory Instructions and Guidance (RIGs) and proposed Guidance for the Network Asset Risk Metric (NARM) RIIO-2 Close-out Methodology.

We welcome the opportunity to respond to Ofgem's consultation published on 22 May 2026 on the proposed guidance for the RIIO-2 NARM close-out methodology and the proposed modifications to the Regulatory Instructions and Guidance (RIGs).

We support the objective of establishing a clear and consistent methodology for assessing RIIO-2 NARM delivery at close-out and agree with the three-stage framework of Delivery Assessment, Justification Assessment and Incentive Value Calculation.

However, we are concerned that the current proposals do not yet provide the level of clarity needed for licensees to prepare, evidence and deliver the RIIO-2 NARM close-out requirements in a proportionate and efficient way. In particular, further clarity is required on the:

- practical application of the methodology;
- supporting evidence expectations;
- operation of the reporting templates;
- treatment of deliverables as 'Clearly Identifiable' (CI); and
- interaction between close-out and related RIIO-3 processes.

It should be remembered that the RIIO-2 NARM framework was intended to provide licensees with the flexibility to amend their plans in light of changing factors and retain relative certainty of funding; the CI framework was only intended to be applied by exception. Ofgem's 2025 consultation fundamentally changed this position such that the vast majority of changes are now treated as CI.

Therefore, we remain concerned that the proposed implementation of the CI rules will mean that asset investment decisions made during RIIO-2 (including decisions within expected delivery parameters) are largely subject to ex-post bespoke assessment. This creates an unanticipated and significant resource and evidence burden for licensees, increasing funding uncertainty for decisions made to maintain network resilience.

Finally, many of the points raised in this response are consistent with feedback NGET has provided previously through prior engagement on the development of the close-out approach, and it is disappointing that this has not been reflected in the consultation materials.

The clarifications required are summarised below with further detail provided in Appendix A, supported by the accompanying 'T2 NARM RRP26 Issues Log (NGET)'.

NGET's feedback has been summarised into six main areas as below:

1. Ofgem assessment approach. The proposed methodology does not clarify the CI assessment process and how Ofgem will determine what is justified.

- Ofgem should provide more detail on how it will determine whether under- and over-delivery were justified for CI deliverables.

2. Clearly Identifiable treatment. The proposed approach to CI identification is unclear and creates uncertainty for networks on how rules-based tests and judgement-based assessment criteria will be combined in practice.

- Further clarity is needed on the process for identification of CI items, including how the proposed rules-based tests and judgement-based assessment criteria interact in practice. This could be achieved by Ofgem applying its proposed rules to NARM RRP25 data so that licensees can see it working in practice on real projects.
- Ofgem should clarify how CI treatment will apply to site-based schemes or programmes with mixed delivery outcomes, including whether assessment should be at site, asset or component level, or by reference to net delivered risk output.
- Ofgem should confirm that baseline projects or programmes that deliver their Baseline Network Risk Output are exempt from CI treatment, unless there is a clearly identifiable change in scope or delivery outcome that justifies separate CI assessment. We believe this to be the case, but the proposed guidance is ambiguous.

3. Evidence requirements and proportionality. The evidence requirements remain a major practical consideration for close-out. The methodology does not yet clearly distinguish between evidence required at Risk Sub-Category level and evidence required for individual projects or CI deliverables.

- Further clarity is needed on the evidence required at Risk Sub-Category level versus individual project or CI-item level, to avoid duplication and ensure the evidence burden is proportionate. (It should be remembered that, at the start of the RIIO-T2 period, CI projects were meant to be the exception rather than the norm. The Ofgem methodology change introduced in 2025 means that CI is now the norm.)
- Ofgem should confirm that licensees may rely on reasonable alternative evidence where contemporaneous evidence exists but does not map directly to the proposed close-out evidence categories.
- Ofgem should support pre-submission engagement on representative evidence examples, so that expectations on content, depth and format can be calibrated before full close-out submissions are prepared.

4. T2/T3 Crossover projects funding principles. The proposed treatment of projects that straddle the RIIO-2 and RIIO-3 boundary remains unclear.

- Additional clarity is needed to address the lack of consistency across all documents referencing the RIIO-T2/T3 crossover process, which has created uncertainty of funding and potential Licence implications where project funding and deliverables could be split across two RIIO-T3 Special Conditions (SpCs) with multiple processes running concurrently. In particular, the interaction with SpC 3.23 (ET2/ET3 Crossover adjustments) is not referenced in the methodology.
- The reference to non-delivery by close-out and treatment of 'edge' projects needs clearly defining with dates as this could be interpreted in differing ways.
- Using SpC 3.10 (Non-load Re-opener and Price Control Deliverable) for funding of NARM crossover projects introduces a funding risk as this licence condition excludes funding for T2 spend and has a £53.5m materiality threshold. Ofgem should confirm how the T2 spend and spend below the materiality threshold is funded through the close-out process. The guidance should also set out whether funding and outputs for deliverables will be added to SpC 3.10 as a direct consequence of the T2 NARM close-

out process (regardless of the total value vs the materiality threshold), because this is not currently clear.

5. Project Status definitions and partial delivery. The proposed standardised project status definitions are helpful, but require further clarity to avoid overlap between delayed and deferred projects and to ensure partial delivery is treated consistently with delivered risk output. There are established delivery statuses already defined in the PCD Reporting requirements and methodology and alignment across processes could remove some ambiguity and improve clarity.

- If 'deferred' remains as a status, Ofgem should clarify the distinction between 'delayed' and 'deferred' projects, including the circumstances in which each status should apply and how these definitions should be used in the close-out workbook and supporting narrative.
- The methodology should explicitly address partial delivery, recognising the delivered element while assessing any undelivered elements through the appropriate over-delivery, under-delivery and CI framework.

6. RIGs, templates and submission timetable. The RIGs, templates and reporting timetable need to be fully aligned with the final closeout methodology to ensure licensees can reconcile closeout inputs, template formulae and submission requirements with confidence.

- Confirmation is required that the NARM RRP submission deadline has been revised to align with the 31 October 2026 closeout submission date, as agreed at the NGET/Ofgem Bilateral meeting on 25 February 2026.
- It should also be noted that the requirement in the next steps section of the consultation to submit a close-out report (by 31 October 2026) "in accordance with Part D of Special Condition 3.1.12" does not directly apply to NGET. This is because Special Condition 3.1.12 of the T2 licence has now expired and no longer applies and Special Condition 3.1 of the T3 licence does not apply at all to NGET. NGET will therefore submit the close-out report by this date under the expired provisions of the T2 licence but Ofgem should note that there is no such requirement on NGET to do so in the current T3 licence.
- Ofgem should confirm the intent and impact of the proposed template formulae changes, including whether changes to the N3.xx and N2.1 tabs could materially affect the funding mechanism or reported output delivery position.

We welcome continued engagement with Ofgem to resolve these issues before final publication of the methodology. Addressing the points above would materially improve the workability, transparency and proportionality of the RIIO-2 NARM close-out process, while supporting outcomes that protect consumers and recognise efficient delivery decisions made during RIIO-2.

Yours sincerely,

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(by email)

Appendix A: Detailed thematic response

A1. Ofgem assessment approach

The consultation states that ‘any delivery considered to qualify as Clearly Identifiable Over-Delivery or Under-Delivery will be subject to a bespoke assessment of the efficient cost based on consideration of the fundamental underlying project components’ (Ofgem, Proposed Guidance for the Network Asset Risk Metric RIIO-2 Close-out Methodology, 22 May 2026, paragraph 2.19.1(b)). However, the consultation does not provide sufficient information on how that bespoke assessment will operate in practice. This creates uncertainty for NGET on how CI items will be assessed and valued within the close-out process.

In order to be transparent, Ofgem should provide further clarity on the assessment process for CI items, including how it will determine whether delivery is justified and how efficient costs will be assessed, so that licensees can prepare proportionate submissions without either under-evidencing material items or committing disproportionate effort to evidence that may not be relevant. More broadly, the methodology should explain how Ofgem will translate qualitative and quantitative evidence into the Justification Percentage (JUS) for over-delivery and under-delivery assessments. This is central to the financial outcome of close-out and should not operate as a “black box”.

A2. Clearly Identifiable treatment

The proposed methodology retains the 95% to 105% Unit Cost of Risk (UCR) test for CI treatment, but also includes additional considerations around mechanistic distortion, material contribution, attribution and separability, proportionality, and clarity of underlying drivers.

However, in order to be transparent, Ofgem should provide further clarity on how the UCR test and the additional qualitative considerations are intended to operate together in practice. Without this clarity, there is a risk that networks may apply different interpretations when determining CI items. This is particularly important given that the 95% to 105% UCR range represents a narrow tolerance, meaning that a material number of standard Asset Health investments will fall outside the range and therefore potentially be treated as CI. We note this could be achieved by Ofgem applying its proposed rules to NARM RRP25 data so that licensees can see it working in practice on real projects.

In addition, our understanding (based on prior Ofgem working-level correspondence) is that CI over-delivery and under-delivery are fundamentally mechanisms for dealing with over-delivery or under-delivery of Network Risk Output, rather than UCR deviation in isolation. In that context, where a baseline project or programme delivers its Baseline Network Risk Output, we would not expect CI over-delivery or CI under-delivery to arise solely because the outturn UCR differs from baseline. However, this principle is not expressly stated as a standalone rule in either the published NARM Handbook v4.0 or the proposed RIIO-2 close-out methodology. Instead, it appears only by implication through the definitions of Over-Delivery and Under-Delivery, the Chapter 10 CI qualifying criteria, and the worked examples. We therefore believe that the final close-out methodology should make this point explicit. We note previous correspondence with Ofgem on the 14 March 2025 also confirmed this point.

Scale and proportionality of CI treatment

At a broader mechanism level, NGET is concerned that the application of the 95% to 105% UCR test may result in a significant proportion of NGET's NARM delivery elements being classified as CI. Based on current internal analysis, this could include a material share of the NGET NARM portfolio and potentially more than half of relevant delivery elements. If that position is confirmed, CI treatment would not operate only as a targeted route for a limited number of clearly separable delivery elements; it would instead become a major component of the close-out assessment. This would mean that a significant proportion of NGET's NARM delivery would be subject to ex-post bespoke assessment and justification. NGET recognises that CI treatment has an important role, but such an outcome raises a broader question as to whether the balance between automatic funding and bespoke assessment remains consistent with the intended principles of NARM, including proportionality, transparency, like-for-like comparability and the use of NARM as a decision-support framework for asset health investment.

We are not seeking to reopen the CI threshold through this consultation however, where CI captures a substantial share of the portfolio, the final methodology should recognise this practical implication by placing greater emphasis on proportionality, grouping of common drivers, clear decision rules and transparent assessment criteria. This is necessary to ensure that the close-out process remains workable.

Site-based schemes and mixed delivery outcomes

For site-based schemes or programmes, in a CI over-delivery and CI under-delivery circumstance where scope has evolved during RIIO-T2, we are seeking further clarification. For example, a site-based scheme may include assets that were in the Final Determination baseline but were not delivered, assets that were delivered differently to the baseline, and additional assets that were added during RIIO-2. In such cases, a UCR test of CI over-delivery and CI under-delivery criteria could produce apparently counterintuitive results if individual components are assessed in isolation, even where the overall scheme has delivered material risk reduction and consumer benefit. This may be a unique situation to NGET which direct engagement with Ofgem could clarify.

A3. Evidence requirements and proportionality

We support the principle that material over-delivery or under-delivery outside the deadband should be justified, and that CI items should be supported by evidence demonstrating separability, attribution, delivery drivers and efficient cost. We also welcome Ofgem's recognition that Cost Benefit Analysis (CBA) may not always be feasible and that alternative forms of justification, such as legal, safety or operational constraints, may be appropriate in some circumstances.

Evidence scope and proportionality

The evidence requirements in Section 5, however, remain a major practical concern. The proposed methodology refers to a broad set of evidence types, including quantification and attribution, forecasting limitations, early notification, changes in intervention plans, engineering rationale, CBA, broader impacts and stakeholder engagement. These categories are understandable in principle, but the methodology does not sufficiently distinguish between evidence required at Risk Sub-Category level and evidence required at individual project or CI-item level. Nor does it explain how Ofgem will apply proportionality where the number of relevant assets or schemes is high, where several assets share the same underlying justification, or where the relevant delivery decisions were made earlier in RIIO-2 before the current close-out evidence expectations had been fully developed.

Retrospective evidence expectations

A further concern is that the detailed evidence expectations for close-out are being specified after many of the relevant RIIO-2 delivery decisions and underlying events have already taken place. NGET will provide robust contemporaneous evidence wherever it is available, but there may be cases where the precise level or type of evidence now envisaged by the methodology was not captured at the time because the relevant processes, templates or evidence expectations had not yet been defined. For example, where a NARM intervention was not delivered because of an outage cancellation or change in outage availability, the operational reason for the decision may have been known and acted upon at the time but may not have been recorded in a form that maps directly to the close-out evidence categories now proposed.

Ofgem should therefore apply the evidence requirements proportionately and should not apply retrospective evidence standards in a way that materially disadvantages efficient and justified decisions made during RIIO-2. In practice, this means Ofgem should confirm that licensees may rely on reasonable alternative evidence where a clear and auditable basis for the delivery decision and associated risk or cost outcome is provided.

Grouped evidence and evidence hierarchy

NGET requests that Ofgem accepts the principle of grouped evidence as part of the close-out assessment, where multiple assets, projects or CI items are affected by the same underlying justification. This could include common supplier cost increases, outage access constraints, asset

condition drivers, scope changes or other shared delivery drivers. In these circumstances, licensees should be able to provide a single grouped justification, supported by an indexed schedule of affected assets and appropriate cross-references to supporting evidence, rather than duplicative project-level narrative for each asset. This would preserve traceability, reduce duplication and ensure that the level of evidence requested is proportionate to the materiality and complexity of the issue being assessed.

Pre-submission engagement and representative examples

Given the potential scale of close-out evidence required, NGET considers that pre-submission engagement with Ofgem will be essential. We would welcome the opportunity to share a small number of representative evidence examples or test cases with Ofgem before preparing the full close-out submission, so that expectations on content, depth and format can be calibrated in advance. This would reduce the risk of inefficient effort, avoid unnecessary duplication, and support a higher-quality close-out submission. Rather than requiring a rigid evidence template, Ofgem should provide indicative examples of proportionate evidence for different types of change and engage with licensees on representative examples before full submission.

A4. T2/T3 Crossover projects funding principles

Whilst we welcome the intent to provide funding for projects that cross over the RIIO-T2/T3 price control boundary and acknowledge that there has been consideration of the process for managing these projects, the proposed methodology does not provide the required level of clarity and creates funding uncertainty when considered alongside other RIIO-T3 documentation and processes.

Timing risk and projects completing during assessment

The proposed methodology (para 4.2) states: *'Where a project is delayed and the associated Network Risk Output has not been delivered by close-out, the Authority will assess that project through the RIIO-ET2 NARM Funding Adjustment and Penalty Mechanism (FAPM), in line with the methodology set out in this document.'*

It is not clear what is meant by 'not delivered by close-out'. In particular, is the close-out date referred to 31 October 2026 (the date of the close-out submission) or a date within the close-out assessment process (Nov-26 to Oct-27). Given this ambiguity we request that Ofgem clarify the definition of the close-out date for such purposes.

NARM RRP26 forms the basis of the T2 close-out submission and represents the position as at 31 March 2026 in line with Ofgem's Regulatory Instructions & Guidance. The close-out date will definitely be after 31 March, so our working assumption is that close-out will be based on a forecast of the costs and outputs for projects due to complete by the close-out date. We request that Ofgem confirm this in the methodology document and explain how this will work practically given that reporting is as at 31 March 2026.

Although implicitly stated in the above extract, Ofgem should explicitly state that crossover projects delivered by the close-out date will not have their allowances adjusted through the FAPM / T2 NARM close-out process. Instead, they will be assessed ex post and funding added to SpC 3.10 as part of the close-out process (please see next section).

Funding gap and interaction with RIIO-3 mechanisms

Where Ofgem determines that a delayed NARM project continues to provide consumer benefit and should be taken forward into RIIO-3, it is important that the associated allowance and output treatment is clear and practically deliverable.

The proposed methodology (para 4.6) states that *'the allowances and outputs determined at RIIO-ET2 close-out may be listed in Appendix 4 to Special Condition 3.10 of the licence as NARM crossover projects'*. However, this Licence condition is limited to spend post 1st April 2026 and has a materiality threshold of £53.5m. The methodology should therefore explain how efficient expenditure incurred in RIIO-T2 or spend that is below the materiality threshold will be treated when outputs are added to Special Condition 3.10 Appendix 4.

In particular, it is not clear at what level the materiality threshold applies and therefore Ofgem should clarify whether the non-load Re-opener materiality threshold applies at individual project level, at sub-risk category level, or to the total value of NARM crossover items. Please note that if it is applied at anything less than the total value, it is unlikely that any projects or programmes will be funded and this is counter to Ofgem's commitments made at RIIO-T3 Final Determinations.

We therefore request that Ofgem provides more clarity in the close-out methodology confirming the funding route for efficient spend incurred in T2 and spend which is below the materiality threshold for Special Condition 3.10 when projects are added to Appendix 4 following close-out assessment. In particular, the guidance should also state that *'the allowances and outputs determined at RIIO-ET2 close-out will be listed in Appendix 4...'* because, if they are not then it is not clear what the alternative regulatory treatment will be.

Finally, Ofgem should confirm whether efficient RIIO-2 spend on delayed projects is assessed and recognised through CI under-delivery treatment, the RIIO-2 FAPM process, the RIIO-3 non-load Re-opener route, or a combination of these mechanisms. The interaction between FAPM clawback and any subsequent RIIO-T3 allowance should be transparent and written down clearly so that projects are not systematically under- or over-funded.

Interaction with the wider ET2/ET3 crossover framework

We also note that Ofgem has published ET2/ET3 crossover guidance linked to Special Condition 3.23 in the T3 Licence, which sets out the principles, methodology and process for assessing RIIO-ET2/ET3 crossover adjustments and includes a section on NARM. However, the NARM close-out consultation does not reference these guidelines, only acknowledging interaction with Special Condition 3.10.

Ofgem should therefore clarify how the proposed NARM crossover treatment interacts with the wider ET2/ET3 crossover framework under Special Condition 3.23 to remove any ambiguity and potential for misinterpretation of funding routes.

Worked examples

To provide clarity and remove any ambiguity in methodology, we request that Ofgem includes worked examples for the following scenarios for delayed NARM projects that:

- have not delivered the full RIIO-2 output by 31 March 2026, but are expected to deliver before the close-out date (please note point raised above in relation to clearly defining this date);
- have not delivered the full RIIO-2 output by 31 March 2026, but are expected to deliver during Ofgem's close-out assessment period and before the close-out Final Determination;
- have not delivered the full RIIO-2 output by 31 March 2026 and are expected to deliver after the close-out Final Determination.

The examples should show the treatment of BNRO, ONRO, CIUD, efficient RIIO-2 cost, any clawback, any penalty, and the resultant Appendix 4 funding values for RIIO-3 allowance. This would materially improve the workability and transparency of the methodology and support consistent interpretation by Ofgem and licensees.

A5. Project Status definitions and partial delivery

The proposed standardised project status definitions are helpful, but further refinement is required to avoid overlap between "delayed" and "deferred". In particular, the distinction between delayed and deferred projects should be clearer, and the methodology should explicitly address partial delivery. Many NARM schemes may involve multiple assets, delivery stages or intervention components, and a simple status label may not capture the extent to which risk output has been delivered, remains deliverable, or has changed in scope. There are established delivery statuses already defined in the PCD Reporting requirements and methodology and alignment across processes could remove some ambiguity and improve clarity.

NGET considers that Ofgem should clarify the role of project status definitions within the close-out assessment. In our view, project status should operate as a reporting and explanatory classification

within the close-out workbook, with close-out outcomes continuing to be based on the quantitative assessment of delivered risk output.

Where a project is partially delivered, the methodology should recognise the delivered element and explain how this should be reflected in the justification requirements for CI treatment and Risk Sub-Category over-delivery or under-delivery. For example, a project may be close to completion and have delivered most of its BNRO but still be classified as CI because remaining delivery extends into RIIO-3. In those circumstances, the same project may also contribute to under-delivery at Risk Sub-Category level, creating a risk that licensees are required to justify the same underlying delivery position twice. Ofgem should therefore apply a proportionate approach to justification and make clear how partially delivered schemes should be evidenced without duplication.

A6. RIGs, templates and submission timetable

Template workability and reconciliation

We recognise the need to modify the NARM RIGs and reporting templates so that they support RIIO-2 close-out submissions, including reporting of delivery against BNRO, Non-Intervention Risk Changes, normalisation adjustments, methodology or data changes, CI over-delivery and under-delivery, and supporting commentary. We support improvements that increase clarity, consistency, usability and auditability of the submitted data, and we agree that the NARM RRP data should be capable of reconciliation to relevant Cost and Volumes RRP information.

Template formula changes and reconciliation

In the proposed NARM RIGs templates, there appear to be changes to the formulae for handling Normalised Baseline Outputs in cells H17 and H18 of the N3.xx tabs, with consequential changes to other formulae in N3.1.

Initial testing using last year's RRP output in this year's template indicates that these changes affect the N2.1 tab, including calculated values in columns D, E and AQ relating to reported performance for Normalised Baseline Outputs, Outturn / Forecast Output Delivery, and intervention volumes.

It is unclear why these changes have been made to the formulae for the final year of RIIO-T2 reporting as NGET would not expect the value to change from Year 1 to Year 5. Details of the formulae changes and associated queries have been added to the NGET NARM RRP Issues Log. We would welcome an updated issues log from Ofgem confirming the intent of these changes as they could have a material impact on the funding mechanism.

Submission deadlines for NARM RRP and Close-out requirements

It should be noted that the requirement in the next steps section of the consultation to submit a close-out report (by 31 October 2026) "in accordance with Part D of Special Condition 3.1.12" does not directly apply to NGET. This is because Special Condition 3.1.12 of the T2 licence has now expired and no longer applies and Special Condition 3.1 of the T3 licence does not apply at all to NGET. NGET will therefore submit the close-out report by this date under the expired provisions of the T2 licence but Ofgem should note that there is no such requirement on NGET to do so in the current T3 licence.

Furthermore, it is not explicit whether this obligation replaces the existing NARM Regulatory Reporting Pack (RRP) submission deadline of 16 October 2026 or introduces a separate submission. Based on previous discussions with Ofgem (Ofgem/NGET bilateral meeting on 25 February 2026), our expectation had been that the NARM RRP submission date would be aligned with the close-out requirements and therefore moved to 31 October. As the Notice refers specifically to submission of "NARM close-out information by 31 October 2026" without confirming any change to the RRP timetable, we request that the Authority explicitly confirm whether: (i) the RRP submission date will be revised to 31 October, or (ii) licensees should plan for two separate submissions in October 2026.

NARM methodology and NARA version control

Ofgem has published its decision on the RIIO-2 NARM methodology amendments, approving the submitted methodology versions with effect from 26 March 2026. NGET has written separately to

Ofgem seeking clarification on the applicable NARA version for RIIO-2 close-out. The decision could be interpreted as approving NARA v7 for close-out purposes, whereas NGET understand that RIIO-2 close-out should be assessed using NARA v6.1. Ofgem should therefore confirm explicitly that RIIO-2 close-out will be based on NARA v6.1.