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National Gas Transmission plc's response to Network Asset Risk Metric and RIGs: RIIO2 consultation

Dear Mark

This is National Gas Transmission's (NGT) response to the Ofgem statutory consultation on the Regulatory Instructions and Guidance (RIGs) for Year 5 Network Asset Risk Metric (NARM) reporting and the proposed guidance for the NARM RIIO-2 Close-out Methodology, published on 22 May 2026.

NGT's response is in relation to the proposed updates to the RIGs as well as the proposed updates to the NARM Regulatory Reporting Pack (RRP).

We are also responding to the NARM Close-out Methodology with regards to close-out reporting at the end of RIIO2. NGT has previously provided feedback on this topic, and this response builds on that earlier engagement.

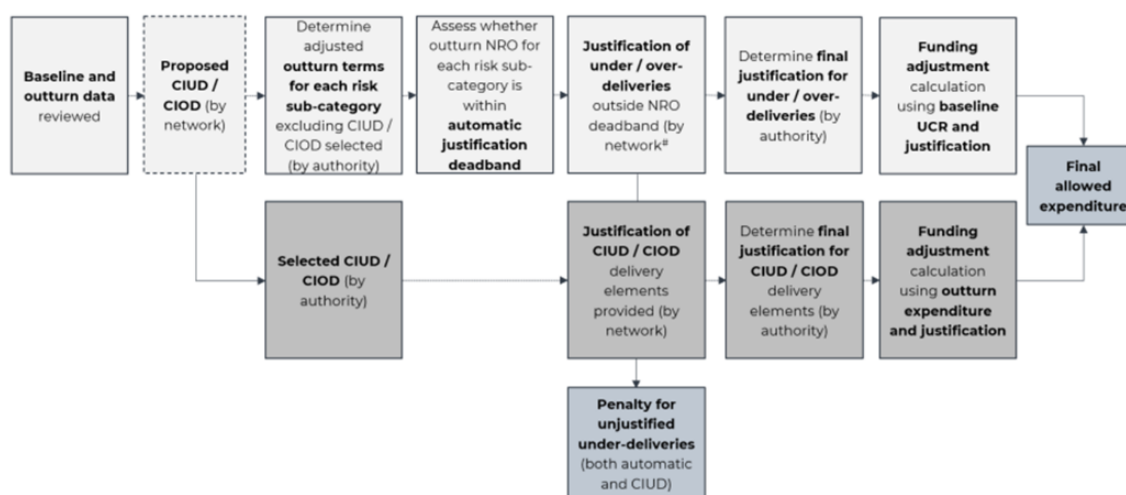
Following our review of the NARM RIGs and RRP updates, NGT confirms that it has no comments and agrees with Ofgem's proposed updates. NGT is confident that the final NARM's submission for RIIO-2 will be submitted on time and fully comply with the outlined guidance.

Our previous response dated 8 May 2025 to the CLOUD consultation, raised concerns that the proposed changes to the CIOD/CIUD allowance adjustment mechanism represented a late and significant departure from the original RIIO-2 Asset Health and NARM framework, introducing disproportionate financial uncertainty and potential penalties for NGT. These concerns remain, particularly regarding how the mechanism would apply to volume-based NARM targets (specific only to NGT), where natural variation in intervention scope, LTRB, and costs within the same UID category means that applying a Unit Cost of Risk (UCR) threshold could bring around 98% of the Asset Health programme into scope for ex-post review, undermining the intended incentive framework and creating practical challenges for the NARM LTRB target.

NGT's assessment and Close-out position of NARMs performance are based on the model outlined in the consultation regarding the Clearly Identifiable Over or Under Delivery (CLOUD) mechanism. Following the assessment of our Outturn Network Risk Outputs (ONRO), we presented a proposal to Ofgem on 19th March 2026 suggesting a more holistic interpretation of

delivery performance and the assessment of the Unit Cost of Risk (UCR) deadband. National Gas proposed that interventions which would not meet the UCR deadband when assessed in isolation should instead be considered alongside other interventions where risk trades have been made. This approach recognises that delivery decisions are often optimised across a portfolio rather than at an individual intervention level. By grouping activities under delivery themes such as valves or pipelines, the assessment would better reflect the efficiencies and trade-offs achieved, providing a more representative view of overall network risk management and performance and align with Ofgem's approach to defining Risk Sub-Categories in their RIIO-3 Final Determinations.

Consultation - Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism



We therefore welcome Ofgem's pragmatic, principles-based approach to materiality set out in paragraphs 3.4 to 3.8 of the consultation, which align with our proposed delivery theme approach. However, Ofgem's reliance on an undefined "materiality" test to determine which programmes are subject to adjustment lacks transparency, leaving NGT with limited visibility and exposing it to significant uncertainty over final financial outcomes until after the RIIO-T2 close-out.

Furthermore, following the review of the NARM Close Out Methodology, we require **Section 4 'Treatment of RIIO-ET2 NARM Projects Delayed into RIIO-ET3'** to be reviewed and amended to ensure that it captures the equivalent Gas Transporter licence condition. The draft version of the guidance only pertains to the Electricity Transmission operator and refers to the licence condition 3.10. This requires updating to reflect Special Condition 3.28 of NGT's licence and also, include specific reference to Gas Transmission.

We take this opportunity to reiterate our response to the T2/T3 Crossover submission guidance consultation with regards to NARM –

- Within the NARMs output section of the table in paragraph 4.1, NGT considers the wording "and the Authority considers that the delivery is still beneficial for consumers despite the delay" and "(taking account of the benefits delivered)" unnecessary. NARMs

are assessed on a monetised risk basis under Special Condition 3.1 and the NARM Workbook. We propose deletion of this wording.

- Within the NARMs output section of the table in paragraph 4.1, it is unclear what Ofgem means by "on an anticipatory basis". NGT considers that the drafting of this paragraph can be significantly simplified and also corrected to remove reference to PCD in respect to NARMs.

We propose the fourth paragraph of the NARMs output section of the table is revised to "Where the GT2/GT3 crossover adjustments mechanism applies to NARMs, Ofgem will amend Appendix 1 and Appendix 3 of Special Condition 3.28 of NGT's licence accordingly."

We would be happy to discuss any of the above points with Ofgem in a bilateral call at their convenience to ensure we are of a mutual understanding.

Yours sincerely



Tony Nixon

Regulation Director