

Consultation name: Proposed closeout methodology for Network Asset Risk Metric and RIGs: RIIO2

Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

Deadline for responding: 24/06/2026



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24 June 2026

Proposed closeout methodology for Network Asset Risk Metric and RIGs: RIIO2

Thank you for the opportunity to respond to the above consultation¹ SGN have responded where appropriate. SGN is a world class engineering business that designs, builds, operates and maintains energy systems. Our gas network plays a vital role in ensuring energy security and resilience across the UK by efficiently and safely delivering natural and green gas through our three gas networks to six million homes and businesses across South London, the south of England and Scotland, reliably delivering around 18% of the nation's energy demand met by gas.

We welcome the additional guidance provided on the close-out of the Network Asset Risk Metric and recognise that the document is intended to support the assessment of funding adjustments that is transparent and proportionate. However, we have concerns that this consultation has not fully addressed our concerns highlighted in previous consultation, in addition the consultation has introduced further concerns around the timeline of the final determination and the amendments to the RRP RIGs.

As set out in our previous consultation response (dated 3rd July 2024 and 9th May 2025), we remain concerned that the proposed mechanism departs from the original intent of the NARM funding framework, which was designed to avoid the need for excessive ex-post, project-by-project assessment. In its current form, this approach puts majority of deviations (over/under delivery) from BNRO into clearly identifiable which introduces uncertainty regarding the criteria and consistency by which projects will be evaluated.

We understand the requirement to provide cost and risk data at project level to enable Ofgem to assess companies' Clearly Identifiable projects, and we are supportive of this, as evidenced by our Year 4 RRP submission. However, the boarder changes to the NARM RRP, particularly the reordering of N3 tabs, introduce a significant additional workload for SGN. These changes would also require the development of new validation processes to maintain robustness of our submission, which has taken four years to refine for the existing template. We do not consider these changes to deliver any clear benefit and therefore strongly urge Ofgem to revert to the Year 4 submission format (NARM RRP v1.2.1 with a separate N1.5 worksheet).

In addition, the timing of the consultation presents further challenges. The publication of the consultation outcome is scheduled for the end of July which will leave a short period before the close-out submission deadline in end of October. We would like to request that Ofgem accelerate their decision on the outcome of this

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consultation, and the publication of final versions of relevant submission templates, wherever possible to allow networks time to implement necessary changes and prepare justification to support our submission.

We have set out our comments in more detail in the Appendix below. We encourage open communication throughout this process to achieve the best outcome for our customers. Should you have any questions please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "D Handley", is written over a light blue rectangular background.

David Handley

Director of Regulation and Strategy

SGN

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Appendix

- 1. Do you agree with our proposed approach to implementing the RIIO-2 NARM close-out assessment, specifically as set out in Section 3 (Delivery Assessment) and Section 5 (Justification Assessment process and requirements)? In responding, please focus on any specific practical considerations needed to apply the approach consistently at close-out.**

AREAS OF CONCERN

Timeline

We consider the timeline proposed by Ofgem to be disproportionate and note that it defers the final determination that could have material financial implications for network companies. As per the suggested timescales, the close-out Final Determination is not expected until February 2028, with Draft Determinations scheduled for November 2027. This provides Ofgem with almost 12 months to reach an initial determination, while licensees have less than three months to prepare and submit their close-out reports. We would welcome further clarification on the rationale underpinning this timeline.

Subjectivity within the Funding Mechanism, particularly Clearly Identifiable (CI)

We acknowledge that the guiding principles set out in the methodology provide a framework for evaluating Clearly Identifiable (CI) over- and under-delivery elements. However, the practical application of this assessment remains highly subjective. This is particularly evident in relation to the requirement to separate specific projects from wider programmes, where there is limited clarity on how such delineation should be consistently and objectively applied.

The additional cost data requested through the Year 4 RRP was expected to support the development of the funding mechanism and provide company-specific feedback ahead of close-out. While we recognise that the introduction of fixed or sector-specific materiality thresholds may not necessarily provide a clearer or more effective basis for determining CI treatment, we had anticipated receiving more detailed feedback on which projects Ofgem considers would require further justification or evidential support as part of the close-out process based on the Year 4 RRP submissions. The lack of feedback limits transparency on Ofgem's expectations and may contribute to further delays in reaching determinations on GD2 NARM outputs and the associated funding adjustments.

Our specific concerns regarding the proposed guiding principles within the methodology are set out below:

- **Mechanistic distortion** – There is a lack of clarity on how companies should distinguish between an “efficient driver” and a “mechanistic distortion”. Further guidance is required to support consistent interpretation across licensees.
- **Material Contribution** – The definition of what constitutes a “material” contribution, as opposed to a marginal one, is unclear. Clear thresholds or criteria would help ensure consistent application.

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- Attribution and separability – Where over- or under-delivery occurs within a programme, it is unclear how companies should allocate projects to Clearly Identifiable (CI) categories. For example, separating an over-delivered CI project could result in an apparent under-delivery at programme level due to its significant contribution within a mixed programme. Clarification is needed on how such scenarios will be assessed.
- Clearly Identifiable Delivery: screening, qualification, and evidence requirements – There appears to be limited guidance on the screening process beyond the high-level CI criteria set out in the NARM handbook. More detailed direction would support consistent and robust application.

As mentioned above, networks provided additional cost data through the Year 4 RRP to support the regulators development of the close out funding mechanism and facilitate company and sector specific feedback. It is not clear from this methodology how this additional information has been used to provide clarity to networks in the close out process nor have companies received specific guidance related to the additional information provided in their Y4 submissions. It would be useful to understand:

- how the Y4 data was analysed;
- how this informed the final methodology decisions.

Justification Assessment Templates

The methodology states that companies should use the Ofgem CBA template for our CIOD/CIUD and network over/under delivery, however, it is unclear which template version should be used. It would be beneficial if Ofgem could circulate the CBA template they expect us to adhere for a consistent submission between companies.

RRP Template

While we support the provision of the additional information requested in N1.5 to enable Ofgem's assessment of Clearly Identifiable over- or under-delivery, we propose, in the interests of ensuring a robust and efficient closeout submission, to continue using the Year 4 NARM RRP template (v1.2.1) alongside a separate N1.5 document.

The NARM RRP template (RIIO-2-NARM-RRP-DRAFT-Year-5) provided alongside this consultation introduces changes that add complexity to the reporting process without any material benefits. In particular, the reordering of lines within the N3 tabs. This is not simple presentational adjustment; it requires changes to how A3 interventions are mapped which includes development of new processes and associated validation.

SGN considers that greater value would be delivered to both customers and Ofgem by focusing effort on robust output justification rather than implementing template changes at this late stage.

SGN are supportive to review these improvements to the RRP template for RIIO-GD3 RRP submission.