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By email:

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Dear Faysal,

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

This response is from SP Transmission (SPT) which holds the electricity transmission licence for south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola Group. Thank you for the opportunity to respond to the consultation on Proposed closeout methodology for Network Asset Risk Metric and RIGs: RIIO2.

While we acknowledge enhancements to the proposed closeout methodology since the draft shared earlier this year, we remain concerned about the overall closeout process. While the updates provide some additional structure to the close-out process, we remain concerned that several key areas lack sufficient definition, particularly in relation to the treatment of expenditure, delivery beyond the RIIO-T2 period, and the application of the methodology within the reporting templates.

We note the following consultation question:

“Q1. 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.”

Our response is structured into key themes which are covered in the following sections.

Delivery Assessment (Section 3)

Approach to CI materiality

The introduction of guiding principles for determining which projects “may warrant consideration as Clearly Identifiable at close-out” in paragraph 3.7 appears to be contrary to the Qualifying criteria for consideration as Clearly Identifiable Over-Delivery or Under-Delivery as set out in Section 10 of the NARM Handbook v4.0¹. The NARM Handbook sets out a four point criteria for both Over-Delivery and Under-Delivery which is deterministic in nature. The guiding principles in the Proposed Guidance for the NARM RIIO-2 Close-out Methodology are more qualitative in nature, with no defined threshold for what may be considered as contributing to “mechanistic distortion”, having a “material contribution” or how “proportionality” should be assessed.

¹ <https://www.ofgem.gov.uk/sites/default/files/2025-06/NARM-Handbook-v4.0.pdf>

In their decision on defining the Threshold for Justifying Clearly Identifiable Over or Under Delivery² The Authority identified in paragraph 2.10 that “... there is a lack of correlation between baseline funding and network risk output, owing to the ‘automatic’ funding adjustments being anchored to a single baseline UCR within the overall risk sub-category; and as such, a separate bespoke adjustment should be considered that is more reflective of the project-specific risk outputs and costs. It is in these cases that the ‘clearly identifiable’ mechanism is applied.”

As previously noted³ SPT remain of the view that the Clearly Identifiable Over or Under Delivery is a fundamental part of the NARM Funding Adjustment and Penalty Mechanism which protects consumers’ interests and ensures appropriate allowances for network companies to deliver work.

We do however recognise that there is a case for a varying degree of documented justification and complexity in allowance assessment for projects to take account of the magnitude of the associate risk and cost and/or allowance. We believe this is consistent with paragraph 3.20 of the decision². We believe this assessment is already accounted for within the NARM Handbook where paragraph 5.12 details “Any delivery considered to qualify as Clearly Identifiable Over-Delivery or Clearly Identifiable Under-Delivery will be subject to a bespoke assessment of the efficient cost based on consideration of the fundamental underlying project components.” Failure to follow an identification process as defined in the NARM Handbook risks giving rise to inconsistencies in reporting of projects across licensees and unintended assessment outcomes.

Project Status Definition

We note that ambiguity may still arise in the application of project status definitions in more complex delivery scenarios. For example, where a project initially classified as “Delayed” is subsequently re-profiled with the intention of delivery in RIIO-T3, it is not clear whether classification as “Deferred” is consistently appropriate. This would be particularly notable in instances where no risk reduction had been delivered in RIIO-2.

Establishing the Final Delivery Position for RIIO-T2

We note the clarification that project delivery may be recognised as part of the final delivery position up to the point of the close-out submission, rather than being strictly limited to 31 March 2026. This aligns with the position set out in Final Determinations and provides greater clarity on the intended scope of the close-out process. We believe that this position provides a pragmatic approach which balances regulatory scrutiny with a streamlining of the close-out process.

The interaction between this clarification and the terminology used throughout the methodology could be considered ambiguous in parts. As a non-exhaustive list, reference is made to delivery “achieved by the end of the RIIO-ET2 price control period”, “delivered by close-out”, “complete by the end of Year 5” and “delivered within RIIO-ET2”. While these may be intended to reflect a common concept, it is not clear whether they imply a single delivery boundary or distinct cut-off points. This creates uncertainty in relation to the treatment of projects completed after 31 March 2026 but prior to close-out submission. Further alignment of the terminology, or additional narrative, would be beneficial in further clarifying the intention.

While we welcome the clarity on the final delivery position within the consultation document, we would welcome further detail on how this should be reported, specifically within the RIGs and associated

² <https://www.ofgem.gov.uk/sites/default/files/2025-06/Decision-on-NARM-Handbook-Updates-Threshold-for-justifying-Clearly-Identifiable-and-Related-Amendments.pdf>

³ https://www.ofgem.gov.uk/sites/default/files/2025-06/SPT_Response_Statutory%20Consultation%20on%20Network%20Asset%20Risk%20Metric%20handbook%20clearly%20identifiable%20threshold-20250627112340.pdf

NARM RRP data templates. Of particular significance is the reporting year which should be assigned to interventions completed between 1st April 2026 and the NARM RIIO-2 Close-out submission. Table NI.1 is set up to bring LTRB and intervention volumes for regulatory years 2022 to 2026, which is auto populated from elsewhere within the reporting pack. A reporting year of 2027 for those interventions post 1st April 2026 would therefore not appear in the intervention summary and provide an incomplete picture of the reported RIIO-T2 performance. If a reporting year of 2026 was used this would result in additional interventions being brought in, which would result in a misalignment between the NARM RRP template and the CV RRP, which is expressly identified as unacceptable within the NARM RRP RIGs for table NI.1. We would welcome the evolution of the NARM RRP template to capture a delivery year of 2027 against interventions which relate to RIIO-2 delivery performance completed from 1st April 2026 onwards. We believe this would provide suitable visibility on the works completed, while allowing suitable reconciliation.

Treatment of NARM RIIO-T2/RIIO-T3 Crossover Projects (Section 4)

We note the clarification that RIIO-T2 under-delivery and eligibility for RIIO-T3 carryover are to be treated as separate considerations. This provides useful confirmation that justified under-delivery does not confer eligibility for carryover, and that the two assessments operate independently.

However, the consultation does not provide clarity on how efficiently incurred RIIO-T2 expenditure will be treated where delivery of LTRB occurs in RIIO-T3. This principally arises from the definition within SPT licence Special Condition 3.10 which only makes provision for allowance in RIIO-3. In particular, there is no clear mechanism set out which ensures cost recovery in such circumstances, nor any explanation of how projects which do not meet the criteria for carryover will be treated. We therefore remain concerned that the absence of a defined approach to the treatment of costs across the RIIO-T2 / RIIO-T3 boundary introduces uncertainty in the recovery of allowances for justified investments.

Justification Assessment Process (Section 5)

CI Screening and Justification Pack

We note reference to “a standardised CI Screening and Justification Pack”. It is not clear if this is an Ofgem provided template which has not yet been published, intended to be captured within the RRP reporting template or should be provided as part of the close out submission in some other manner. Further clarification on this, and suitable template, would be welcomed to promote consistency.

Allowance Adjustment

We note the clarification that delivery performance is to be assessed at Risk Sub-Category level (or network level), with project-level information used to support explanation of delivery drivers. We also recognise the improvements in transparency associated with the clearer BNRO to ONRO reconciliation and the structured treatment of NIRC and CI.

While these changes improve understanding of delivery performance, they do not extend to the determination of efficient allowance. In particular, the methodology does not set out how project-level costs will be reconciled with aggregated licence-level allowances, nor how such comparisons will be undertaken in practice.

Furthermore, the treatment of indirect costs, which are not reported at project level but form part of the total allowance, remains unclear, as does the level of granularity expected within the assessment. We remain of the view that, without further definition in these areas, there is a risk that allowance adjustments will be determined on a basis that is not fully transparent or replicable by licensees.

Yours sincerely,

Gareth Ramsay
Transmission Network Risk Manager