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Submitted by email to:
assetriskresilience@ofgem.gov.uk

Dear Asset Risk Resilience team,

Thank you for the opportunity to respond to the proposed T2 NARM closeout methodology. While the mechanisms set out in the proposal broadly reflect those presented in previous versions of the NARM Handbook, it is important that licensees are able, through this consultation, to provide comment and clarify expectations on how the methodology will operate in practice. This consultation also provides a key opportunity to resolve any remaining points of uncertainty before the closeout process is implemented.

We have used this opportunity both to set out our views on the proposed approach and to highlight specific areas where further clarification is required. Where appropriate, these points are supported by further detail in the accompanying appendices where specific clarification is also requested from Ofgem.

We broadly agree with the proposed approach to implementing the T2 NARM close-out assessment, including the structure of the delivery and justification assessments, which align with the principles and mechanisms established in the NARM Handbook. However, as T2 close-out represents the full application of these processes, there is increased importance in ensuring clear and consistent interpretation across supporting documentation. In particular,

- the treatment of crossover projects requires additional attention, as this has not been addressed in prior working versions of the NARM Handbook, which remains the primary reference point for explaining the operation of the NARM special licence conditions.
- further clarity is required on reporting expectations and the treatment of key interactions, including reconciliation, evidence requirements, and crossover projects.

Addressing these areas will support consistent application, minimise the need for iterative clarification during the assessment process, and enable efficient delivery for both licensees and Ofgem.

Yours sincerely,

Josh Henderson
Regulation Manager

SSEN Transmission response to the proposed T2 NARM closeout methodology

Treatment of crossover projects and interaction with the non-load re-opener

The inclusion of guidance on the treatment of T2 to T3 crossover projects is a helpful addition, particularly given that this was not explicitly covered in Handbook v4.0. However, the practical application of this guidance is closely linked to the operation of the non-load re-opener under Special Condition 3.10, and further clarification would support a consistent and workable approach.

The proposed framework introduces a clear dependency between completion of the close-out process and the ability to access funding through the RIIO-T3 non-load re-opener. However, it is not clear how justified under-delivery identified at close-out will translate into the reprofiling of allowances into T3, including the process by which projects are incorporated into Appendix 4 of SpC 3.10 and associated outputs are established. Clarification on the role and timing of the materiality threshold within the re-opener, particularly where projects are assessed on an aggregate basis, would also support a shared understanding of how the mechanism is intended to operate in practice.

There remains uncertainty as to whether the crossover arrangements provide an equivalent route to securing cost-reflective allowances. Our understanding is that the crossover condition will act primarily to mitigate disallowances arising from the FAPM, rather than enabling a re-assessment of allowances based on efficient outturn costs. This creates a risk that, where the non-load re-opener is not accessible or sufficient, there is no clear mechanism to ensure that funding outcomes appropriately reflect efficient delivery.

With this approach, timely completion of the close-out process is critical to optimising the use of the non-load re-opener window. The indicative timeline set out in the consultation extends close-out decisions into early 2028, while applications under the non-load re-opener are restricted to a fixed window in October 2028. This leaves a relatively narrow period between final close-out determinations and the deadline for re-opener submissions.

This sequencing challenges the time available for licensees to fully understand how projects have been assessed at close-out, including the treatment of delayed delivery and the basis for any funding adjustments, before determining whether a re-opener application is required. Given the role of close-out outcomes in informing eligibility and justification, this compressed window presents a material risk that licensees are unable to secure appropriate and cost-reflective funding in a timely and effective manner. Constrained timeframes may limit the ability to develop and evidence re-opener applications, increasing the risk that efficient costs associated with delayed delivery are not appropriately reflected.

This risk can be mitigated by ensuring the T2 NARM close out process progresses in a timely manner, minimising any potential delays and seeking opportunities to streamline the process where appropriate.

Clearly identifiable (CI) identification and screening

We understand the proposed approach to clearly identifiable (CI) elements as comprising two distinct stages.

1. A principles-led identification stage, in which potential CI elements are identified based on asset-level understanding, engineering judgement and the underlying drivers of risk, without the application of a defined materiality threshold.
2. A screening and quantification stage, where identified elements are assessed based on their quantified impact, including through the application of the defined +/-5% Unit Cost of Risk (UCR) threshold, to determine whether adjustments are reflected in the reconciliation outputs.

However, it is not clear how these stages are intended to operate in sequence. There is a risk that the screening threshold becomes the primary mechanism applied in practice, effectively replacing the principles-led identification stage. This could result in CI elements only being considered where they exceed the threshold, rather than being identified in the first instance based on the underlying principles. Differing interpretations of how judgement should be applied, as well as the threshold measure could result in inconsistent identification across licensees. This risks both under-identification of relevant CI elements, particularly in edge cases, and reduced comparability across submissions.

Clarifying the sequencing and relative role of identification and screening would support a more consistent and robust application of CI treatment at close-out.

Treatment of indirect costs and interaction with UCR

To ensure the correct expectations through the close-out process, clarity is required on the treatment of indirect costs within the NARM framework in relation to the Unit Cost of Risk (UCR) calculation and delivery performance.

There may be variations in indirect cost allocations that are reflected within UCR outputs. It is important such variations are not interpreted as delivery underperformance or underspend, rather than a function of cost methodology as this could distort the assessment of delivery efficiency.

To mitigate this, it should be clear which cost categories are intended to inform NARM performance assessment and which should remain within broader financial reporting frameworks. We consider that financial reporting of indirect costs should be addressed through the wider RIIO-T2 close out process, rather than within the NARM close out, which should maintain focus on assessing risk reduction.

A clear expectation of how indirect costs are treated within UCR calculations, including whether and how they should be normalised or excluded, would support more consistent interpretation of performance and reduce the risk of mischaracterising efficient delivery outcomes.

Alignment between Handbook requirements and close-out guidance

A key consideration is the relationship between the requirements set out in the NARM Handbook and those presented within the close-out guidance. The Handbook provides a detailed set of requirements for close-out reporting and justification, which appear broadly consistent between Handbook v4.0 and the draft update published in December 2025. In contrast, the close-out guidance refers to ‘minimum’ commentary and reporting requirements.

This reflects a clear inconsistency between the guidance and the Handbook that requires resolution. While the guidance frames its requirements as a minimum baseline, its structure and prompts are likely to drive the format and content of submissions in practice. In contrast, the Handbook establishes more granular and comprehensive expectations for evidence and assessment. These two signals are not aligned. One implies that compliance with a high-level framework is sufficient, while the other requires a more detailed standard.

There is a risk of submissions that are compliant with the guidance on face value, but which do not fully reflect the underlying scope of information required to support a complete assessment under the NARM framework. This ambiguity creates uncertainty for licensees and may lead to inconsistent or incomplete submissions. Ofgem should therefore resolve this misalignment by clearly setting out a single, coherent expectation for the scope, structure, and standard of close-out submissions.

This also introduces potential ambiguity in how the hierarchy between the Handbook and the close-out guidance is intended to operate. It is important that reporting requirements are proportionate and do not introduce unnecessary burden, but they must also be sufficiently comprehensive to meet the prescribed information requirements set out in the NARM framework. Without a clear articulation of how the guidance aligns with, or maps to, the full scope of Handbook requirements, there is a risk of inconsistent interpretation across licensees.

The consequence is a risk of under-reporting relative to the full scope of information expected under the Handbook, where licensees interpret the guidance as defining the expected level of submission. It would therefore be helpful for Ofgem to clarify the intended relationship between the Handbook and the close-out guidance, and to ensure that requirements are expressed consistently or with a single and comprehensive reference point.

Given the number of interdependent documents that underpin the NARM framework, it is also important that there is a clear and consistent hierarchy between the licence, Handbook and supporting guidance, including the consistent use of defined terms. For example, section 4.9 of the close-out guidance refers to 'Information Required to Assess Carry Over Projects', which we have interpreted as referring to crossover projects. If this is the case, aligning terminology and ensuring a single authoritative reference point for requirements would reduce the risk of misinterpretation and support a more consistent approach to implementation across licensees.

Reconciliation and evidence alignment

The proposed approach places significant reliance on the reconciliation from BNRO to final ONRO as the foundation of the Delivery Assessment and the subsequent application of justification and incentive mechanisms. In parallel, there is a strong emphasis on the need for alignment between the NARM workbook, supporting commentary and underlying evidence.

While both elements are clearly defined within the framework, their effectiveness in practice depends on how reconciliation outputs and supporting evidence are constructed, structured and presented across licensees. The reconciliation requires a clear and auditable separation between delivery effects, non-intervention risk changes and the removal of clearly identifiable elements, with the resulting outputs directly informing the assessment of performance. This in turn requires a high degree of internal consistency and traceability between narrative, data and underlying evidence.

Even where the underlying requirements are understood, variability in how these elements are applied in practice can create challenges for assessment. Differences in how reconciliation outputs are presented, how adjustments are categorised, and how supporting evidence is linked to those outputs can reduce comparability across submissions and make it more difficult to assess delivery on a like-for-like basis.

This also has implications for Ofgem's ability to undertake a consistent and efficient assessment. Where reconciliation outputs and supporting evidence are not structured or evidenced consistently, it may be more difficult to trace adjustments from the NARM workbook through to supporting material, increasing reliance on interpretation and follow-up queries. In turn, this increases assessment complexity and can introduce a risk of variation in how judgement is applied across licensees.

To support more consistent implementation and improve the efficiency and robustness of the assessment process, it is important Ofgem clarify how reconciliation outputs, supporting commentary and underlying evidence are expected to be structured and linked.

Treatment of Transmission Connection Assets

A further area requiring clarification is the treatment of Transmission Connection Assets, where a true-up mechanism will be required to reflect their distinct delivery and cost recovery arrangements. As currently presented, it is unclear how any divergence between forecast and outturn positions will be reconciled at T2 close-out. In the absence of a defined true-up mechanism, there is a risk that efficient costs associated with connection delivery are not appropriately reflected in funding outcomes.

There is an existing true up process (Special Condition 3.37) for load projects which could easily be adapted to apply to non-load projects. This would ensure that outturn positions for Transmission Connection Assets are appropriately taken into account and avoid any windfall gains or losses that could occur without a true up process.

Reporting templates and implementation dependencies

A practical consideration is the dependency on finalised reporting templates. Licensees have already started mapping close-out requirements against internal reporting approaches in order to prepare for submission. To ensure that this work is appropriately targeted and avoids unnecessary rework, it would be helpful to understand whether standardised templates will be issued, the extent to which they will prescribe the format and content of submissions, and whether they are intended to have primacy over licensee-developed approaches. Given the pace of delivery, there is a limited window for Ofgem to take a position on standardised templates. Any late introduction of templates, or material clarification on their expected use, risks requiring licensees to revisit and rework approaches that are already in development. This would introduce inefficiency and could divert resource away from the preparation of robust submissions.

The use of standardised templates would also support comparability across submissions. A consistent structure would support the presentation of reconciliation outputs, CI adjustments and supporting justification in a way that allows Ofgem to assess delivery on a like-for-like basis across licensees. In the absence of such templates, there is a risk of divergence in structure, categorisation and level of detail, which could reduce comparability and increase the complexity of the assessment process.

Reporting template functionality

We have tested the provided NARM RRP (year 5) template which we understand will effectively serve as the reporting format for the close-out report as opposed to strictly being a NARM RRP submission. Our method was to apply Year 4 data in order to test its function and identify any amendments.

Through this process, we have identified a couple issues within the N3.XX tabs. These are set out below, alongside our assessment of the underlying problem and how we believe the current design may fall short of what the report should account for.

- We are unable to follow the calculation in cell S19. Cell S42 appears to represent net business plan delivery, while the comparator used in S61 is calculated as the net of additions and disposals divided by two. We require further explanation of this approach, as it produces materially different results from the equivalent entry in the year 4 NARM RRP submission. One case tested from last year produced a reported performance for asset interventions of 17, where the same inputs now presents -4.5 in the revised template. This may reflect an updated interpretation, which would require clear explanation, or it may indicate an error that needs to be corrected.
- We also identified an error in cell AF60. The error appears to result from a leading negative in the SUMIFS calculation. We understand this can be remedied simply by removing this negative which would then correct the calculation across all N3.XX sheets.

Appendix 1: Assessment of Mechanisms for NARM Crossover Projects

Non-load reopener (SpC 3.10)

Area	Observation	Our view and interpretation
Strength	Licensees remain accountable for delivering T2 outputs	We support the principle that accountability and efficiency incentives should continue to apply to T2 outputs and should not be weakened by crossover treatment.
Strength	Ability to revise allowances in Appendix 4 via re-opener (2028 window)	This is a route to achieving allowances that better reflect efficient outturn costs, subject to sufficient evidence and Ofgem approval.
Limitation	Sequencing: Inclusion in Appendix 4 only occurs after close-out	This creates a dependency on completion of close-out before any formal route to T3 funding is available. The framework does not clearly explain how projects can be included in Appendix 4 prior to or alongside close-out, and may not explicitly allow simultaneous assessment and inclusion without further clarification or interpretation.
Limitation	Gap between project assessment and funding visibility	This results in a period where delivery expectations may be known but there is limited clarity on how associated costs will be funded.
Limitation	Interaction with reporting and PCDs	We understand that projects would transition to PCD-based accountability and then being included in the exiting PCD reporting.
Limitation / timing risk	Need for regulatory clarity ahead of close-out activity	There is a near-term need for clarity to ensure close-out submissions can be developed efficiently and are aligned with Ofgem expectations without rework.
Limitation	Application of a materiality threshold (£26.2m) for licensee-triggered re-opener submissions	The materiality threshold applies to the use of the re-opener mechanism rather than to the initial identification or inclusion of projects in Appendix 4.
	Threshold restricts ability to submit applications for smaller-value projects	This effectively limits the re-opener to larger value adjustments and reduces its applicability as a mechanism for correcting allowance misalignment at a project level.

Crossover condition (SpC 3.23)

Area	Observation	Our view and interpretation
Strength	Ability to reverse allowance reductions where in consumers' interests	We view this as a strong and relevant mechanism for addressing downward adjustments through FAPM where efficient delivery continues into T3.
Strength	Positioning as a backstop mechanism	This reinforces that the non-load reopener is the primary route, with this condition acting as a secondary safeguard if any gaps were to be identified.
Strength	Flexibility in timing of applications (any point in T3)	This provides a useful degree of optionality and reduces reliance on fixed windows compared to the non-load reopener.
Strength	Potential to introduce PCDs for accountability	This aligns with existing regulatory approaches (e.g. deferred projects) and provides a familiar mechanism to maintain delivery accountability where appropriate.
Limitation	Requirement to evidence project composition of allowances	There is a need for clear mapping between project-level drivers and allowance adjustments to maintain auditability, which may not be straightforward under a portfolio-level adjustment approach.
Limitation	Conditional use based on availability of alternative mechanisms	The lack of clearly defined criteria for when SpC 3.10 cannot be used introduces ambiguity in when this mechanism should be relied upon. This could result in inconsistent application without definition.

Appendix 2: Clarification required from Ofgem

Based on the review provided here, confirming alignment and shared understanding with Ofgem is required on the following points.

1. Where adequately justified through the close-out process, Ofgem will reprofile project allowances from T2 to T3. These will be added to appendix 4 of SpC 3.10 with associated PCDs then being created.
2. The materiality is understood to only apply at the point of using the re-opener window in October 2028. We understand that any submission at this time would be considered for its aggregate value as opposed to project-specific value.
3. The FDs note that there is only one re-opener window in 2028 as the expectation is that work would be completed by then. If that is not the case, then we expect that costs for work beyond that date are a consideration for T3 close-out.
4. In the instance that the materiality threshold was not met, even at an aggregate value, then the crossover condition would have to be considered. However, we understand this mechanism could potentially re-phase any disallowances resulting from a FAPM assessment rather than being able to revise allowances to more cost reflective values. As much as this condition is considered a backstop, it does not seemingly serve the same purpose.