

To gas distribution network
companies and other interested
parties

Direct Dial: 020 7901 7105
Email: Paul.branston@ofgem.gov.uk

Date: 15 December 2015

Notice of our decision to direct modifications to the Network Output Measures (NOMs) Methodology under Special Condition 4G of the gas transporter licence

We recently consulted on our minded-to position¹ that the gas distribution networks (GDNs) should carry out further work on the Common Network Output Measures Health & Risk Reporting Methodology and Framework for defining and measuring the health and criticality of their network assets ("NOMs Methodology"). While the submitted methodology in most respects met the requirement under Special Condition 4G of the gas transporter licence, we considered further work was needed to fully meet the requirements. After considering the responses to the consultation we are directing the GDNs to modify the submitted methodology in accordance with the provisions we have set in the direction.

The direction takes effect from 30 December 2015, and the updated methodology should be submitted to the Authority by 31 March 2016.

1. Background

The RIIO-GD1 gas transporter licence requires the GDNs to have a NOMs Methodology for asset health, criticality and monetised risk. Under Special Condition 4G, the licensees had to work together to develop and submit a NOMs Methodology for Network Output Measures.

As part of the RIIO-GD1 price control review, GDNs provided forecasts of their asset health and criticality positions "with intervention" and "without intervention". We used these to establish initial secondary deliverable targets, or deltas, of improvement in asset health, criticality and monetised risk.

We received the GDNs' NOMs Methodology in September 2015 and assessed it based on predefined criteria. The objectives of the NOMs Methodology, the assessment criteria and results were published in the consultation document.

2. Responses

We received two responses to our consultation. These were from two of the GDNs. The responses have been published alongside this decision letter.

Both respondents supported the proposals detailed in the consultation and agreed with our review and proposed direction.

¹ <https://www.ofgem.gov.uk/publications-and-updates/gas-network-output-measures-methodology-consultation>

3. Our decision

We have considered the consultation responses and decided to direct modifications to the NOMs Methodology under Special Condition 4G in line with our assessment of the NOMs Methodology detailed in Appendix 1 of the consultation.

4. Reasons for our decision

No one disagreed with the principle of establishing a common NOMs Methodology or with the further work detailed in Appendix 1 of the consultation. The key points are as follows:

The interdependence of network assets

The only assets which have been subject to the full analysis phase do not have interdependence characteristics. The implementation of this consideration will need to be demonstrated in the revised NOMs Methodology.

Validation

Validation is embedded within the NOMs Methodology. However, we consider that it is important that a full validation is carried out to ensure the assessment of risk is comparable across assets and between GDNs. This validation will need to be completed once the modelling of all assets has been completed and the results obtained.

GDN comments

"Given the work that has gone into developing the NOMs Methodology by both GDNs and Ofgem, we are naturally supportive of the proposals to direct the modifications identified within Ofgem's consultation."

"We appreciate Ofgem's acknowledgement that the GDNs have worked together in developing the NOMs Methodology and have sought to develop a comprehensive approach. We also agree with Ofgem's assessment that the NOMs Methodology meets the criteria for compliance with Special Condition 4G of our gas transporter licence, and we are confident of being able to demonstrate the success of the NOMs Methodology once all asset categories have been completed."

"NGN fully support Ofgem's proposals detailed in section 3 of the notice; namely the period of review and validation from July 2016 and in to 2017, to further refine and improve the methodology, which will enable the reporting of the targets delivered over the first half of RIIO-GD1 at the mid-point."

5. Next Steps

The attached direction takes effect from 30 December 2015, and the updated methodology should be submitted to the Authority by 31 March 2016.

We will assess the submission and reach a decision if the common methodology meets the requirements of Special Condition 4G by 1 June 2016. If we find that the NOMs Methodology is still incomplete we will issue a notice of disapproval and shall, after consulting with the GDNs, direct the areas in which the licensees shall make improvements under Special Condition 4G.11.

Yours faithfully,



Paul Branston
Associate Partner, Gas Networks

Appendix 1

To:

**National Grid Gas plc (with respect to its gas distribution networks)
(Company Number 02006000)
Northern Gas Networks Limited
(Company Number 05167070)
Scotland Gas Networks plc
(Company Number SC264065)
Southern Gas Networks plc
(Company Number 5167021)
Wales and West Utilities Limited
(Company Number 05046791)**

Direction under Part D of Special Condition 4G (Methodology for Network Output Measures) of the Gas Distribution Networks gas transporters licences

1. Each of the companies to whom this Direction is addressed (the licensee) holds a gas transporters licence under section 7(2) of the Gas Act 1986 (the Act).
2. Under paragraph 4G.2 of Special Condition 4G, the licensee had to submit by 1st April 2013 (or such later date to which the Authority may consent in writing) a Methodology for Network Output Measures common to all Gas Distribution Network Operators to the Gas and Electricity Markets Authority (the Authority) for approval.
3. As set out in paragraph 4G.2 of Special Condition 4G, the Methodology for Network Output Measures must
 - (a) facilitate the achievement of the NOMs Methodology Objectives set out in Part B of Special Condition 4G;
 - (b) enable the objective evaluation of the Network Output Measures set out in Part C of Special Condition 4G;
 - (c) be implemented by the licensee in accordance with the provisions of Part E of Special Condition 4G; and
 - (d) be capable of being modified from time to time in accordance with the provisions of Part F of Special Condition 4G.
4. As set out in Part B (The NOMs Methodology Objectives) of Special Condition 4G, the Network Output Measures Methodology should enable:
 - (a) the comparative analysis of performance overtime between geographic area of, and Network Assets within, the pipe-line system to which the licence relates; and
 - (b) the communication of relevant information regarding the pipe-line system to which the licence relates between the Licensee, the Authority and, as appropriate, other interested parties in a transparent manner.
5. The Authority assessed the methodology for compliance with the requirements of paragraph 4G.5 of Special Condition 4G in accordance with criteria developed by the Authority in consultation with the Gas Safety & Reliability Working Group, as set out in Appendix 1 of the "Notice of proposal to direct modifications to the NOMs Methodology under Special Condition 4G of the gas transporter licence" dated 6 November 2015 ("Notice").

6. Having carried out its assessment the Authority concludes that the methodology is capable of being modified in accordance with this direction in a manner which will enable it to comply with the provisions of paragraph 4G.5 of Special Condition 4G. However, for the reasons set out in the "Initial findings" section of the Notice, the NOMs Methodology requires the changes in Annex 1 to be made to it in order for it to comply with paragraph 4G.5 of Special Condition 4G.

7. The Authority gave Notice under Parts D of Special Condition 4G of the licence on 6 November 2015 that it proposed to issue a direction in accordance with Special Condition 4G.10.

8. The Notice required any representations to be made on or before 4 December 2015.

Direction

9. The Authority hereby directs under paragraph 4G.10 of Special Condition G4 each licensee to modify the NOMs Methodology, in the manner and extent specified in Annex 1 of this direction.

10. An updated NOMs Methodology should be submitted to the Authority by 31 March 2016.

11. This direction will take effect on and from the 30 December 2015.

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized flourish above the name.

Paul Branston
Associate Partner, Gas Networks

Authorised on behalf of the Gas and Electricity Markets Authority

15 December 2015

Annex 1: List of changes

Following are the required modifications for the methodology to comply with the provisions of Special Condition 4G:

1. All asset groups completed as per Implementation Plan March 2016.
2. A comprehensive reporting of the risk assessment for all asset groups in July 2016 using the NOMs Methodology.
3. A validation exercise is carried such that the outcome of the validation is available for the assessment in March 2017.
4. Tracking is completed by July 2017 to establish targets using the new NOMs Methodology to ensure the new targets have an equivalent impact as the original targets.
5. A revised NOMs Methodology is published following a further review by 31 March 2017.