



Making a positive difference  
for energy consumers

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Date: 20 June 2014

Dear Sirs,

**Network Output Measures (NOMs) – Revised Methodology Statement for Electricity Transmission Owners (ETOs)**

Thank you for your revised NOMs Methodology Statement, submitted under cover letter dated 13<sup>th</sup> May 2014.

We welcome the fact that your revised Methodology Statement contains commitments to developing the network performance measure by the end of 2014 and to developing a risk trade-off methodology by the end of 2015. However, we still have some concerns in relation to how firm these commitments are and the quality of the outputs they will deliver. We are also concerned that despite ETOs' initial lead over GDNs and DNOs, ETOs appear to have fallen behind in developing the principles by which NOMs objectives will be achieved and the practicalities of how NOMs will be evaluated.

We therefore require that:

1. By the 31<sup>st</sup> December 2014, electricity transmission licensees will have developed the methodology for using average circuit unreliability (ACU) to measure network performance. This methodology will enable the Authority to reliably set targets and assess licensees' performance against targets for network performance.
2. By the 31<sup>st</sup> December 2015, electricity transmission licensees will have a NOMs Methodology Statement approved by the Authority that **fully achieves the NOMs Methodology Objectives** as set out in Part B of Special Condition 2L. This Methodology Statement will:
  - a. enable the Authority to reliably evaluate the licensees' performance against all five Network Output Measures (listed in Part C of Special Condition 2L),
  - b. include a monetisation approach to evaluating and reporting risk associated with individual assets, asset types, the total assets on an individual licensee's transmission network, and all network assets comprising the National Transmission System,

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- c. enable the Authority to reliably assess whether any trade-offs between asset types employed by the licensees, in order to meet targets, are justified or unjustified,
- d. detail how to factor in changes to asset populations and how to differentiate between load and non-load investment in assessing licensees' performance against NOMs targets.

In order to ensure that the outcomes described above are achieved, the electricity transmission licensees shall:

1. By 31 July 2014, submit for agreement with Ofgem a programme of works for developing the NOMs methodology and meeting the 2014 and 2015 delivery targets described above. This programme of works shall include scope and aims of deliverables, timings for delivery, governance arrangements for delivery of the programme, as well as any additional information necessary to provide suitable assurance that the delivery targets will be met.
2. By 31 August 2014, submit a document for agreement with Ofgem that sets out the overarching principles that the NOMs methodology should aim to adhere to.
3. Provide regular quarterly updates to Ofgem to update us on progress against the programme of works and to seek and take on board Ofgem's views on development issues. The timetable for these quarterly updates as well as explanation of specific interim delivery targets to be met by each quarterly update shall be included in the programme of works.
4. Engage constructively with GDNs and DNOs on an ongoing basis to ensure consistency between sectors in relation to Network Output Measures and Network Asset Indices methodologies.

If at any point the Authority is not fully satisfied with progress in these matters, it reserves its right, having followed procedures set out in the licence, to issue a direction to licensees to modify the NOMs Methodology under paragraph 2L.13 of Special Condition 2L.

If you have any questions or require any clarification on our response please contact Neill Guha in the first instance at [neill.guha@ofgem.gov.uk](mailto:neill.guha@ofgem.gov.uk) or on telephone: 020 7901 1807.

Yours sincerely,

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**Paul Branston**

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