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Dear Neill,

**National Grid Electricity Transmission: Response to Notice of Intention to Direct Electricity Transmission Licensees Under Special Condition 2L of their Electricity Licences to Modify the Network Output Measures (NOMs) Methodology.**

On behalf of National Grid, I welcome the opportunity to respond on your intention to direct the three transmission licensees to modify the NOMs methodology. My response sets out some key areas for further discussion as well as some specific comments on the proposed direction. My response is not confidential and I am happy for you to publish it on your website.

*Supporting Further Development of a Transparent Methodology*

Our customers and stakeholders want greater transparency regarding the assessment of historical and forecast network expenditure, the monitoring of our performance and the assessment of customer satisfaction and consumer value.

Today my team determines network risk by combining asset health indices with criticality. This combination gives us a timescale for intervention. In Stage 1 of our joint NOMs methodology development work, we proposed using probability of asset failure associated with the asset health index and the monetary societal impact of asset failure associated with criticality to determine monetised risk. I support using a monetised risk approach to bring everything onto a common scale and to enable trading between asset categories.

My team and I are committed to working with the two Scottish Transmission Owners, Ofgem and any stakeholders with specific input to make (e.g. Distribution Network Operators, academics) to ensure we jointly develop a transparent, simple, accessible and objective NOMs methodology. In undertaking these developments, we are seeking to better facilitate the achievement of the NOMs methodology Objectives and Principles and to help our customers and stakeholders understand our approach to delivering the NOMs secondary deliverables.

*Creating a Competitive Market*

In developing the methodology, I am particularly mindful of the developments in on-shore competition. My team and I will work closely with all interested parties to ensure the approach adopted will support the creation of a competitive market which complies with Competition Law. This is relevant because the NOMs methodology needs to contain sufficient detail to meet all of our stakeholders' requirements, whilst also ensuring it does not result in either a real or perceived advantage or disadvantage to any potential Competitively Appointed Transmission Owner (CATO).

## *Delivering Customer Service through Asset Management*

Our asset management processes are aimed at intervening before assets fail. When transmission assets fail they can have significant safety and/or environmental consequences. In some instances, these consequences would lead to public concern and in the most extreme cases would give rise to a public safety risk.

In addition, the National Electricity Transmission System Security and Quality of Supply Standard (NETS SQSS) was not designed against a background of allowing assets to fail whilst in service. In general, a single transmission asset failure does not result in energy not supplied. However, following failure, an affected transmission asset can be out of service for months whilst it is repaired or replaced. In this case, the System Operator will aim to re-secure the system in line with the NETS SQSS, for example, by recalling assets which are currently out of service for planned interventions.

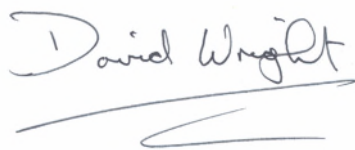
If the failed asset is out of service for a significant period of time, this can result in major disruption to planned interventions, which may well be interventions to address other assets at risk of failure. During the time the asset is out of service, in the event of a subsequent asset failure, consumers served by this part of the network face an increased risk of energy not supplied.

I am always seeking to develop our asset management capability. The further development of the monetised risk approach will provide us with additional information to feed into our asset management processes. One of the principles in developing the methodology is to ensure that it is used by the Transmission Owners i.e. we include in the methodology what we actually do. Therefore, my team intends to incorporate the monetised risk approach into our asset management processes. This will ensure we can continue to plan our interventions before assets fail, as this is a fundamental aspect of the level of service we provide to our customers and consumers. I expect that a full consideration of the monetised risk approach will confirm that intervening before an asset fails is in consumers' interests.

I look forward to working together to develop the NOMs methodology to better facilitate the achievement of both the NOMs methodology Objectives and Principles. If you would like to clarify anything in my response please do not hesitate to contact me.

Regards,

Yours sincerely,

A handwritten signature in blue ink that reads "David Wright". The signature is written in a cursive style and is underlined with a single horizontal stroke.

David Wright  
Director, Electricity Transmission Asset Management

## Specific Comments

### *Appendix 1 - Draft Direction 3 c) Comparative Analysis*

Whilst the NOMs methodology will be able to facilitate i) in terms of comparative analysis between geographic areas of, and Network Assets within, the licensee's Transmission System, there are some challenges with comparative analysis ii) between Transmission Systems forming part of National Electricity Transmission System (NETS) and I do not see how iii) and iv) can easily be facilitated in terms of comparative analysis between Transmission Systems outside Great Britain (GB) and with Distribution Systems within GB.

For the three transmission networks which form part of the on-shore NETS, there will be differences between our asset management approaches (e.g. different historical interventions, assets subject to different electrical duty) which whilst accommodated in the NOMs methodology rule sets and parameters, may lead to challenges with comparative analysis.

My team have been closely following the work that the Distribution Network Operators and Gas Distribution Networks have been undertaking, and have also held joint workshops with all the on-shore networks Ofgem regulates to share our approaches. Whilst the developments we will make to the NOMs methodology will cover the same type of parameters (e.g. probabilities, monetary impact) as the electricity and gas distribution networks, as electricity transmission assets are different, the rules to combine these parameters will be different, so I do not see how this comparative analysis can be facilitated.

In terms of comparative analysis outside of GB, whilst my team actively follow what other international transmission companies are doing and seek to adopt best practice where applicable, I do not see how comparative analysis can be facilitated as data to perform such analysis is not in the public domain. These international transmission companies are not involved in the NOMs methodology development work, therefore I cannot see how the rules to combine the parameters would specifically apply to them.

### *Annex 1 – 5 a) and b) Independent Consultants*

I agree that a competent independent consultant should be able to take the data inputs and rules by which these parameters are combined and combine them to give the same answers. However, the information contained in the NOMs methodology will only form part of our overall asset management approach and there are always particular circumstances which will not be included in the rule set (i.e. a tractable rule set will never cover every eventuality). Therefore, any assessment by a competent independent consultant would need to be supplemented with a significant amount of additional information to that generated from the NOMs methodology, to enable the assessments covered in these paragraphs to take place.

### *Annex 1 22 a) Use of the Term Redundancy*

I believe it would be more accurate to use the term 'resilience' rather than 'redundancy'. None of the assets is redundant.

### *Annex 1 – 27-29 Network Replacement Targets*

During the development of the NOMs methodology, as set out in section 27, my team and I will develop monetised risk Network Replacement Outputs targets which are equivalent to the targets set at the beginning of RIIO-T1. However, section 29 states we must not be constrained in trying to arrive at the same replacement priorities and that assets may change priority as a result of this conversion of the targets. We have just started year four of the RIIO-T1 price control period and our intervention plans are well established for the remainder of the period as transmission investments generally have a multi-year planning and delivery timescale. Therefore, our ability to change our plans as a result of changes in priority of assets may be limited (e.g. due to network access pressure or contractual commitments) and this, along with the investments we have already undertaken, will need to be reflected in the assessment of over- or under-delivery against the targets.