



Making a positive difference  
for energy consumers

To gas distribution licensees and  
other interested parties

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## **Notice of intention to not reject the modified gas distribution Network Output Measures (NOMs) Methodology**

On 17 August 2017, Gas Distribution Networks (GDNs<sup>1</sup>) submitted to the Authority a proposed modified NOMs Methodology (version no. V3.2) as required under Part F of Special Condition (SpC) 4G of the gas transporter licence. They also submitted a report required under paragraph 4G.17(b) of SpC 4G that explained, among other things, the reasons for and impact of the changes. Both the modified Methodology and the report have been published on Ofgem's website alongside this letter.

We are satisfied that the proposed modified Methodology better facilitates the achievement of the NOMs Methodology Objectives as set out in Special Condition 4G and have therefore decided not to issue a direction to the licensees not to implement the modifications. The modified NOMs Methodology (version no. V3.2) therefore comes into effect from 15 September 2017 and Licensees are required to implement it from this date.

The reasons for this decision are further explained below.

### **Gas distribution NOMs Methodology requirements**

The gas transporter licence requires GDNs to have a Common Network Output Measures Methodology ("NOMs Methodology"). The purpose of the methodology is to enable the comparative analysis of GDNs' asset management performance and provide more easily understandable information for the Authority, consumers, and other stakeholders. Under Special Condition 4G, the GDNs are required to work together to develop and submit a NOMs Methodology that facilitates the achievement of the NOMs Methodology Objectives<sup>2</sup>.

In September 2015, we received the GDNs' NOMs Methodology covering two of six asset classes (mains and services). We were satisfied with the approach applied to these two asset classes and directed<sup>3</sup> the GDNs to further modify their methodology to apply the same approach to the remaining four asset classes (the 2015 Direction).

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<sup>1</sup> The terms "GDNs" and "Licensees" are used interchangeably. They refer to the onshore gas distribution networks (Cadent, Wales & West Utilities (WWU), Northern Gas Networks (NGN) and Scotia Gas Network (SGN)).

<sup>2</sup> The NOMs Objectives are set out in the gas distribution licence Special Condition 4G, Part B.

<sup>3</sup> Direction to GDNs under paragraph 4G.20 of SpC 4G dated 15 December 2015:

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

## **GDNs NOMs Methodology consultation and submission**

The GDNs published a proposed modified NOMs Methodology for consultation on the Energy Networks Association (ENA) website on 11 July 2017. The consultation ran for 28 days as required under the licence and closed on 8 August 2017 without any responses being received.

The GDNs did not make any further modifications following the consultation and submitted the proposed modified NOMs Methodology for the Authority's review on 17 August 2017.

Appendix 1 contains an explanation of the changes that have been made to the Methodology since December 2015. Additionally, as well as a clean version of the Methodology, we have also published a tracked changes version on our website.

### **Our decision**

Having reviewed the Licensees' submissions, we are satisfied that they have modified the NOMs Methodology in accordance with the instructions of the 2015 Direction. Licensees are therefore required to implement the Methodology with effect from 15 September 2017. A summary of the modifications is provided in Appendix 1.

### **Future use and development of the NOMs**

Our decision reflects our view that the modified Methodology better facilitates the NOMs Objectives. As discussed with GDNs and the other network sectors, we expect future work by GDNs to implement it as an integral part of their asset management processes. In addition to the use of the NOMs as a comparative analysis and information reporting tool, we would expect the NOMs to support the planning and prioritisation of investments and other asset intervention options by encompassing the consideration of whole life costs and benefits. NOMs will also be used to support regulatory policy decisions and facilitate wider stakeholders engagement on desired levels of risk and appropriate levels of investment.

It is worth noting that a substantial proportion of the GDNs' asset management work is driven by requirements set by the Health and Safety Executive (HSE). The relevant work programmes for the GDNs to fulfil their statutory duties set by the HSE, including the Iron Mains Risk Reduction Programme (IMRRP), have been underpinned by similar considerations of consequences and costs. The HSE are aware of the developments of NOMs methodology and that the application of the methodology to the management of the Networks' assets will take into account any obligations the Networks have with respect to HSE and relevant enforcement policy.

If you have any questions in respect of this decision please contact Leyun Kong (contact details above).

Yours faithfully,

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Min Zhu  
Associate Partner, Networks

## Appendix 1: Summary of Modifications Made in the Modified NOMs Methodology

The following is a summary of the GDNs' proposed modifications to the NOMs Methodology (please refer to the Methodology's Change Register and Change Log for details. These are published alongside with this letter):

### 1. Application of the September 2015 Methodology approach to all asset classes

The GDNs' NOMs Methodology submitted in September 2015 covered two of the six asset classes (mains and services) for which they have NOMs targets under RIIO-GD1<sup>4</sup>. GDNs were required to apply the same approach to the remaining four asset classes (governors, LTS pipelines, Offtakes & PRS, and risers).

Accordingly, the modified Methodology has covered the approach to each of these six asset classes as listed in Table 1 below.

**Table 1: Asset Groups covered by the modified NOMs Methodology**

Primary Asset Groups*	Sub-groups	Chapter/Section
A-Mains	-	Main text and Appendix A
B-Services	-	Main text and Appendix B
<b>C-Governors</b>	-	Main text and Appendix C
<b>D-LTS Pipelines</b>	-	Main text and Appendix D
<b>E-Offtakes &amp; PRSs</b>	Odorant & Metering	Main text and Appendix E
	Pre-heating	Main text and Appendix E
	Filters & Pressure Control	Main text and Appendix E
<b>F-Risers</b>	-	Main text and Appendix F

\* Bold text indicates new asset category

We are satisfied that the modified Methodology applies the same overall approach to these four asset classes as it does to mains and services.

### 2. Network interdependence

The 2015 Direction required GDNs to demonstrate the implementation of interdependence consideration in the full analysis phase of network assets. The modified Methodology now includes a section (Section 2.8) on Network Interdependence. This section explains the approach taken to consider asset interdependence in monetising risk, with the detail of the treatment embedded in the respective appendices for each asset group. For the purposes of monetised risk modelling, the asset interdependence has been reviewed in four categories as stated in Section 2.8:

1. Asset downstream of other assets who would fail to supply gas if the upstream asset failed to supply gas.
2. Assets that influence supply loss volumes when another asset in the same supply network fail.
3. Assets with the potential to have their integrity breached due to other assets failing to operate as expected.
4. Assets on a single site that interact with other assets on that site.

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<sup>4</sup> GDNs currently have a total of 22 primary asset groups on which they report to Ofgem. RIIO-GD1 set NOMs targets for the GDNs' in respect of the 6 most critical of the 22 asset groups. These represent approximately 90% of the GDNs' total allowed asset management capex. The modified NOMs Methodology now covers all six of these primary asset groups.

We are satisfied with the explanations of asset interdependence treatment in the new added section associated with consideration of each asset group in appendices presented in the modified Methodology.

### **3. Methodology validation**

GDNs were required by the 2015 Direction to take into account the outputs from the full validation exercise to ensure the assessment of risk is comparable across assets and between GDNs. The proposed modified NOMs Methodology has incorporated the observations identified through the validation process and updated the corresponding sections and parameters accordingly.

GDNs have undertaken a validation exercise and submitted a validation report to Ofgem on 31 July 2017. While the validation report has not yet been fully reviewed we are satisfied that modified Methodology correctly reflects the main relevant findings from the validation exercise, including:

- The risk map has been used and updated for LTS assets following the implementation of changes identified in post validation review of LTS model (Corresponding to Appendix D2.3 in modified Methodology).
- The 'with investment activities' for governors and offtakes & PRS have been updated to be in line with the activities listed in the validation report (Corresponding to Appendix C3.4 and E3.4 respectively in modified Methodology).

Full review of the validation report may lead to a requirement for further modification. However, subject to the full review, we do not currently expect it to lead to a requirement to change the overall approach described in the methodology and currently consider that any subsequent modifications should be minor parameter adjustments.

### **4. Other modifications**

GDNs have made a number of modifications to correct minor errors and omissions. These can be seen in the tracked changes version of the Methodology published on Ofgem's website.