

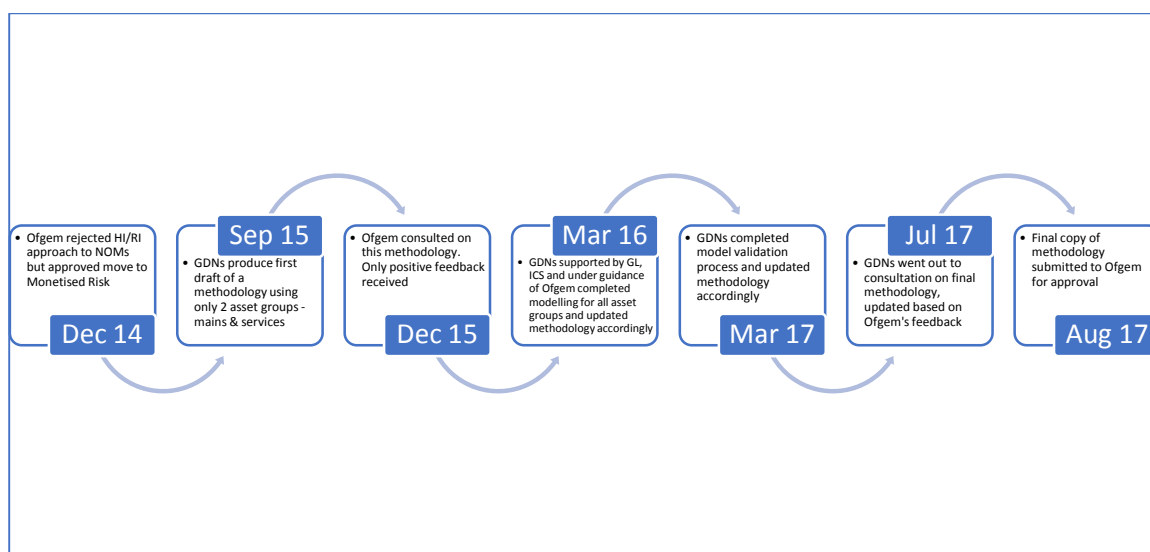
Dear Leyun/Neil/Ian

Submission of modified Final Network Output Measures Methodology for Gas Distribution Networks (GDNs).

The GDNs via the Safety and Reliability Working Group (SRWG) are pleased to submit to Ofgem the NOM's Methodology for final approval. This is the culmination of an extremely significant piece of work spanning 4 years, supported by subject matter experts DNVGL & ICS, and under the guidance and review of Ofgem.

The methodology has undergone 2 public consultations, one by Ofgem and one by the GDNs, both with only positive support for the approach the GDNs have taken.

The timeline below illustrates the key milestones in this process.



We consider that following this robust, open and transparent process, Ofgem will be in a position to approve the methodology

Detailed summary

Pursuant to Special Condition 4G of the Gas Transporters Licence, the Gas Distribution Networks (GDNs) have lead a project named 'Network Output Measures (NOMs) - Risk Trading for Asset Groups'.

The purpose of special Condition 4G is to ensure that the Licensees develop, implement and maintain a Methodology for Network Output Measures and information gathering plan that achieves the objectives set out in Part B of this condition. For the purposes of this submission, we are referring to the Health, Criticality and Risk Measures and not the Capacity Utilisation measure.

To comply with Clause 4G.2, the GDNS submitted their first independent NOMS methodologies and associated workbooks prior to 1 April 2013. Ofgem rejected these initial submissions and a derogation to clause 4G.2 was issued to enable GDNs to develop a consistent methodology. The GDNs produced two alternative approaches;

1. a manual to enable a consistent assessment of Health & Risk Indices,
2. an approach which expressed health as a form of reliability (failures per annum), criticality as a form of monetary consequence and risk in the form of monetised risk.

These alternatives were submitted to Ofgem in December 2014. Ofgem rejected the manual but asked the GDNs to further develop the monetised risk approach.

A Monetised Risk methodology was submitted to Ofgem for approval in September 2015. Ofgem accepted this methodology in its “Minded to position” and openly consulted on this submission from 6th November to 4th December 2015. Following this consultation, which received two positive responses Ofgem, in its direction letter issued 15 December 2015, outlined a number of modifications to the updated methodology to ensure it complied with the Licence requirement. Specifically, the required modifications for the methodology to comply with the provisions of Special Condition 4G as stated in Annex 1 to that letter were:

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.
1. A validation exercise is carried such that the outcome of the validation is available for the assessment in March 2017.
2. 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.
3. A revised NOMs Methodology is published following a further review by 31 March 2017.

The SRWG has ensured that it has submitted each of the above requirements to Ofgem in its March 2017 Validation submission, and also July 2017 NOMs rebasing and RRP submissions.

Following the submission of our Validation assessment and revised Methodology in March 2017, Ofgem outlined further minor amendments to the NOMs methodology in next steps guidance issued 15 June 2017. Specifically, in relation to The NOMs Methodology, this guidance outlined the following action to be taken:

- GDNs to provide draft ‘network asset interdependence’ section as per Section 2.2 in initial feedback for Ofgem review.
- Consultation (28 days) initiated and implemented by GDNs under paragraph 4G.17 of SpC 4G.
- Final submission for Authority approval. Consistent with Part D of special Licence condition 4G.

The SRWG has worked to complete each of the actions outlined above. Following the completion of the 28 day consultation period, which completed 8 August 2017, the SRWG submits the modified Methodology to the authority. The SRWG notes that specifically the following modifications have been made:

- Review and Update of methodology following comments and feedback received from Ofgem following March 2017 validation submission.
- Addition of section 2.8 on Treatment of Asset Interdependence.
- Changes to LTS Appendix following implementation of changes identified in post validation review of LTS model.

Part D, clause 4G.18 of the Licence outlines information required to be submitted to the Authority, when proposing modifications. The SRWG submits the following information in association with the modified methodology, in addition to this letter, to meet these licence conditions:

- Network Output Measures Health & Risk Reporting Methodology - Change Register v3.0 – 31st July 2017, outlining the modifications made to the methodology.

- Network Output Measures Health & Risk Reporting Model Validation Methodology v2 – July 2017, outlining analysis and modelling undertaken and requirements for the changes made.
- Network Output Measures Health & Risk Reporting Methodology & Framework v3.2 – 31st July 2017.

We note that no representations were made on the NOMs methodology during the consultation period.

The SRWG considers that the modifications identified through the Validation process and also from feedback received via Ofgem will better deliver the NOMs objectives through a greater understanding of the treatment of network interdependence within the methodology and also through the use of an updated and improved risk map for LTS assets. We note that these modifications can be implemented immediately.

We trust that given the extensive effort and revisions applied by the SRWG to the NOMs Methodology, as outlined above and in compliance with the specific licence requirements, the submitted information is sufficient to enable Ofgem to finalise the Methodology.

Kind Regards

Safety and Reliability Working Group

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