

Electricity Transmission Licensees
and other interested stakeholders

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Dear Stakeholders,

**Decision to not reject the modified Network Asset Risk Annex (“NARA”) for
Electricity Transmission Network Output Measures (NOMs) Methodology Issue 18**

On 28 September 2020, Electricity Transmission Operators (also referred as ETOs¹) submitted to the Authority² a proposed modified Network Asset Risk Annex (“NARA”)³ for the current Electricity Transmission Network Output Measures (NOMs) Methodology Issue 18⁴ as required under Part E of Special Condition (SpC) 2L of the electricity transporter licence. They also submitted reports required under paragraph 2L.10 of SpC 2L that explained, among other things, the reasons for and impact of the changes. Both the modified NARA and the reports have been published on Ofgem’s website alongside this letter.

We are satisfied that the proposed modified NARA better facilitates the achievement of the NOMs Methodology Objectives as set out in SpC 2L and have therefore decided not to issue a direction to the licensees not to implement the modifications. The modified NARA therefore comes into effect from 1 December 2020 and Licensees are required to implement it from this date.

The reasons for this decision are further explained below.

¹ The terms “ETO” and “licensee” are used interchangeably in this document. They refer to the onshore electricity transmission network operators (National Grid Electricity Transmission plc (NGET), Scottish Hydro Electric Transmission plc (SHET), SP Transmission plc (SPT)).

² The Gas and Electricity Markets Authority. Ofgem is the office of the Authority. The terms “Ofgem”, “the Authority,” “we” and “us” are used interchangeably in this document.

³ A submission for NGET (NARA Issue 4), and a joint submission for SHET and SPT (NARA Version 18 Revision 1).

⁴ On 7 August 2018, Ofgem published the decision to not reject modified electricity transmission Network Output Measures (NOMs) Methodology Issue 18:

<https://www.ofgem.gov.uk/publications-and-updates/decision-not-reject-modified-electricity-transmission-network-output-measures-noms-methodology-issue-18>

NARA of Electricity Transmission NOMs Methodology

The electricity transmission licence requires ETOs to have in place a NOMs methodology. The current version of the methodology came into effect on 8 August 2018 following a modification process by the Licensees.⁵ The NOMs Methodology consists of a common methodology document and two Network Asset Risk Annex (NARA) documents as shown in Figure 1 below. The common methodology document provides an overview of all five network output measures, and the two NARA documents provide more detailed technical explanations of the methodology as it applies to each ETO.

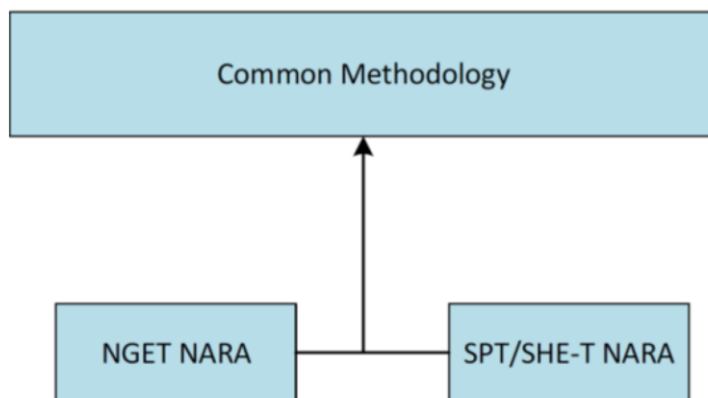


Figure 1: The Overall Structure of the Electricity Transmission NOMs Methodology

NOMs Methodology NARA modification consultation and submission

In our August 2018 decision⁶, on the NOMs Methodology, we said that we expect the ETOs to run a process of Calibration, Testing and Validation (CTV) of the NOMs Methodology. This is the process by which the application of the NOMs Methodology is checked and verified as far as possible against real business scenarios and asset failures, which enables the licensees and Ofgem to confirm the extent to which the methodology's outputs can be relied upon as an input when making investment decisions.

During this validation process, two errors in the equations for the system consequences and improvements in NGET's Overhead Line (OHL) conductors and fittings scoring methods in the NARA were identified. In order to implement these corrections and improvements into the NOMs Methodology, the ETOs published a consultation⁷ on modifying the NARA to update the two equations for system consequences and NGET's OHL conductors and fittings scoring methods on 24 August 2020. The consultation ran for 28 days as required under the licence and closed on 21 September 2020 without any responses being received.

⁵ Please refer to the document below for details of the NOMs Methodology:
https://www.ofgem.gov.uk/system/files/docs/2018/08/et_noms_methodology_issue_18_confirmation_letter_1.pdf

⁶ <https://www.ofgem.gov.uk/publications-and-updates/decision-not-reject-modified-electricity-transmission-network-output-measures-noms-methodology-issue-18>

⁷ Links to the consultation:

<http://www.nationalgrid.com/NARA>;

<https://www.ssen-transmission.co.uk/information-centre/industry-and-regulation/network-output-measures/>;

https://www.spenergynetworks.co.uk/pages/transmission_network_outputs_methodology_consultation.aspx

The ETOs did not make any further modifications following the consultation and submitted the proposed modified NARA for the Authority's review on 28 September 2020.

Our decision

Having reviewed the Licensees' submissions, we are satisfied that the modified NARA better facilitates the achievement of the NOMs Methodology Objectives as set out in SpC 2L and have therefore decided not to issue a direction to the licensees not to implement the modifications. Licensees are therefore required to implement the modified NARA with effect from 1 December 2020.

Yours sincerely,

Min Zhu

Deputy Director, Systems & Networks

1 December 2020