

To: National Grid Gas plc (with respect to its gas transmission network); Network Operators; interested stakeholders

Email: jon.sharvill@ofgem.gov.uk

Date: 12 March 2021

Dear Company Secretary and stakeholders,

Proposal to modify the Regulatory Instructions and Guidance (RIGs) for RIIO-GT1 Gas Transmission Price Control

We propose to modify the Regulatory Instructions and Guidance (RIGs) for RIIO-GT1. Please find enclosed a Notice, issued pursuant to paragraph 10(a) of Part C of Standard Licence Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of the Gas Transporter Licence, in respect of our proposed modifications.

We propose that if we implement these changes, they will take effect in April 2021¹. For the avoidance of doubt, this means that the data submitted in July 2021 (in respect of the 2020-21 reporting year) should comply with the RIGs as modified.

The proposed modifications for the RIGs are:

RIIO-T1 Gas Transmission Reporting Template: Version 8.1

- i. Annual administrative updates required to reflect the current reporting year, including highlighting input fields and changing date ranges.
- ii. Replacement of the 6.6 NOMs tabs with new NARM tabs 6.7-6.11 (see below).

RIIO-T1 Gas Transmission Price Control – Regulatory Instructions and Guidance: Version 8.1

- iii. At Chapter 8: Instructions for completing the network output data template worksheets 6.7-6.11 NARM inserted (see below). Previous instructions regarding table 6.6 (Condition and risk) have been removed.

RIIO-T1 Gas Transmission Reporting Return Pack: Version 8.1

- iv. Annual administrative updates required to reflect the current regulatory year, including to the GT1 Revenue RRP on the Inputs sheet; updates to the actual RPI, RPI growth forecast, and Average Specified Rate.

¹ We propose to modify the RIGs in a direction on or after 09 April 2021.

Network Asset Risk Metric (NARM) Reporting

Network asset risk relates to the consequence of failure of a network asset and the probability of a failure occurring. To keep network asset risk within reasonable bounds, gas and electricity network companies are funded to carry out asset management activities such as replacement or refurbishment.

As part of the RIIO-T1 framework, Replacement Priority (RP) targets were determined on the Network Output Measures Methodology (the NOMs Methodology) based on the mapping of an asset's asset health index and its criticality to determine a particular asset RP.

Following a Direction in 2016², the licensees jointly developed a common methodology to quantify the probability and monetised consequence delivered by an asset intervention. This led to a rebasing exercise to establish a monetised risk value for each asset, using the condition risk derived from the combination of the likelihood and consequence of failure occurring. The rebasing exercise produced a modified methodology (the NARM Methodology) and the monetised risk associated with the resulting distribution of assets become our rebased monetised risk target/outputs. The monetised risk output will be used as the output to hold the companies accountable for their investment decisions.³

Tables within the current RRP template are based on the company specific NOMs Methodology that is now out of date. The NOM and NARM versions of the Methodologies are not directly comparable due to the different inputs and calculations of probability used and the variances in the assessment of consequence.

We are proposing revisions to the RRP template to reflect the monetised targets/outputs submitted by each Licensee in accordance with the NARM Methodology. The proposed revisions include the replacement of tab 6.6 (reflecting the previous NOMs Methodology) with five new tables (reflecting the current NARM Methodology), and further minor revisions to address other touch points throughout the RRP pack associated with asset health categorisation.

We welcome comments on our proposed modifications, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Steve McMahon
Deputy Director, Networks
12 March 2021

² https://www.ofgem.gov.uk/system/files/docs/2016/04/160429_et_noms_direction_subsid_3.pdf

³ More information on the arrangements for Transmission and Gas Distribution companies relating to NARM in the RIIO-2 Final Determinations – NARM Annex.

https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_narm_annex_revised.pdf

To: National Grid Gas plc ("the Licensee") (with respect to its gas transmission network) (Company Number: 02006000)

Notice under paragraph 10(a) of Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of the Gas Transporter Licence

The Gas and Electricity Markets Authority (the "Authority"⁴) hereby gives notice in accordance with paragraph 10(a) of SSC A40.

Proposal to modify the Regulatory Instructions and Guidance

1. The Licensee is the holder of a Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986.
2. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") under SSC A40 of the Licence. The RIGs are the primary means by which the Authority directs the Licensee to collect and provide information to the Authority, to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-GT1 Final Proposals⁵.
3. SSC A40 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 10(a) of SSC A40, the Authority hereby gives notice to the Licensee that it proposes to modify the RIGs.
4. The proposed modifications make changes to the following documents:
 - (a) the RIIO-T1 Gas Transmission Price Control – Regulatory Instructions and Guidance: Version 7.1
 - (b) the RIIO-T1 Gas Transmission Reporting template: Version 7.1
 - (c) the RIIO-T1 Gas Transmission Reporting Return Pack: Version 7.1

Appendix 1 to this Notice provides a link to these documents, which show the proposed modifications as incorporated.

5. The proposed modifications relate to information that the Licensee is required to submit to the Authority on or before 31 July 2021. The purpose of the proposed modifications is to improve the quality of the information that the Licensee is required to provide the Authority and to streamline the reporting process.
6. The main proposed modifications are briefly summarised below. They are:
 - (a) Replacing the 6.6 NOMs tabs with new NARM tabs 6.7-6.11.
 - (b) General housekeeping changes to update references and calculations to reflect the current reporting year.

Appendix 2 to this Notice provides a link to a change log, which details the proposed modifications.

Further information

⁴ The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/riio-t1-final-proposals-national-grid-electricity-transmission-and-national-grid-gas-%E2%80%93-overview>

7. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
8. Representations in response to the proposed modifications must be made to the Authority on 09 April 2021. Representations should be sent by email to jon.sharvill@ofgem.gov.uk.
9. We would prefer to receive responses in electronic form so that they can be easily published on our website. If you do not wish your response to be published, please clearly mark it as not for publication.
10. If the proposed modifications are implemented they will take effect in April 2021⁶.

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Steven McMahon, Deputy Director, Networks Directorate
Duly authorised on behalf of the Authority

X March 2021

⁶ We propose to modify the RIGs in a direction on or after 09 April 2021.

Appendix 1: Regulatory Instructions and Guidance incorporating proposed modifications

A copy of the proposed RIIO-GT1 Gas Transmission Price Control – Regulatory Instructions and Guidance: Version 8.1, proposed RIIO-GT1 Gas Transmission Reporting Pack Templates: Version 8.1, proposed RIIO-GT1 Gas Transmission Commentary Template and proposed Revenue Reporting Pack Template for each Licensee can be found on our website

Appendix 2: Proposed modifications to the Regulatory Instructions and Guidance

A log of all proposed modifications can be found on our website.