Consultation

Network Output Measures (NOMs) Incentive Methodology

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We are consulting on changes to the Network Output Measures (NOMs) Incentive Methodology. These changes will be relevant to the Gas Distribution, Gas Transmission and Electricity Transmission sectors. We would like views from people with an interest in network regulation and specifically the area of network asset management. We particularly welcome responses from network licensees and their customers. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at **Ofgem.gov.uk/consultations**. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Contents

1. Introduction

What are we consulting on?

1.1.   The purpose of this consultation is to seek views on changes to the Network Output Measures (NOMs) Incentive Methodology. A key part of the RIIO (Revenue = Incentives + Innovation + Outputs) framework, NOMs are mechanisms that provide a means to monitor and assess the network asset management outcomes that network companies deliver during RIIO-1[1]. They represent the service delivery resulting from companies' asset interventions, and can be considered as a forward-looking indicator of network performance.

1.2.   The existing NOMs Incentive Methodology was published in December 2018. At that time, it was recognised that there were a number of outstanding issues that would require further clarification. The purpose of this consultation is to address those outstanding issues and update the NOMs Incentive Methodology. This is necessary in order to guide the process for assessing network companies' performance in delivering their NOMs outputs during RIIO-1.

1.3.   The changes being consulted on in this document will apply to the three sectors whose RIIO-1 price controls ran for the period 01 April 2013 - 31 March 2021, i.e. Gas Distribution, Gas Transmission and Electricity Transmission. For Electricity Distribution, the RIIO-1 period will continue until 31 March 2023 and therefore subsequent changes to its methodology will be addressed through a future consultation.

1.4.   The changes we are proposing to the existing NOMs Incentive Methodology includes changes to the RIIO-1 NOMs Closeout Data Template (Excel File) and associated guidance. We have published draft versions of these documents as part of this consultation.

Structure of this document

1.5.   The structure of this document is summarised below.

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[1] NOMs has been further developed for RIIO-2 into Network Asset Risk Metric (NARM)

Section 2: Overview of NOMs and the NOMs Incentive Methodology

1.6.   This section outlines the role of NOMs in the RIIO-1 framework. It also explains the role of the NOMs Incentive Methodology and provides a high-level overview of its contents.

Section 3: Key issues for review

1.7.   This section outlines the main issues to be resolved in the methodology. These issues have been discussed in detail over the last two years with licensees from all four sectors. The key points arising from those discussions are summarised along with our views on how those issues would be best addressed in a revised methodology.

Section 4: Summary of proposed changes to the methodology

1.8.   This section provides an overview of the changes proposed to the NOMs Incentive Methodology. This is presented in tabular format with cross-referencing to a track-changed copy of the NOMs Incentive Methodology. The purpose of this table is to enable the reader an easy overview of the proposed changes and their associated impact.

Section 5: Next steps

1.9.   Finally, this section outlines the process which we intend to follow having finalised the NOMs Incentive Methodology. This includes the timeline for the full RIIO-1 close out process from the licensees' submission of its Relevant Risk Changes and impact on performance targets through to our decision on justification cases for under or over delivery and the associated incentive impacts.

Context and related publications

1.10.   Within RIIO-1 there are several cost areas that require specific mechanisms to account for their uncertain nature. These mechanisms mean some elements of the price control need to be settled (or "closed out") once the price control has ended and all the relevant information is available. The NOMs incentive is one of those mechanisms.

1.11.   RIIO-1 final proposals for transmission and for gas distribution network companies, can be found here:

- RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas

1.12. RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd

- RIIO-GD1: Final Proposals for all GDNs

1.13. The existing NOMs Incentive Methodology, published in December 2018, can be found here:

- Network Output Measures (NOMs) Incentive Methodology, 2018

1.14. To enable a an easier identification of the proposed changes to the NOMs Incentive Methodology, a track-changed copy (from the version published in 2018) is published alongside this document.

Consultation stages

1.15. This consultation will be open for 28 days and will close on 04 June 2021.

1.16. Following the close of this consultation and subject to a consideration of responses, we expect to make our final decisions and publish the final NOMs Incentive Methodology by 30 June 2021.

How to respond

1.17. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.18. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.19. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.20. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.21. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.22. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.23. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.24. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?

6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:
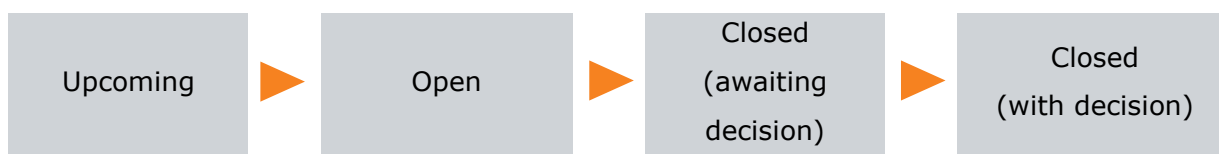
Upcoming	▶	Open	▶	Closed (awaiting decision)	▶	Closed (with decision)

2. Overview of NOMs and the NOMs Incentive Methodology

Section summary

This section outlines the role of NOMs in the RIIO framework. It also explains the role of the NOMs Incentive Methodology and provides a high-level overview of its contents.

RIIO and the Network Output Measures (NOMs)

2.1.   In October 2010, we announced a change in the way Ofgem would regulate the GB onshore network companies and introduced the RIIO (Revenue = Incentives + Innovation + Outputs) framework. A key objective of RIIO is to drive benefits for customers by incentivising network companies to deliver a low cost, sustainable programme of work that will meet current and future low carbon demands.

2.2.   One of the main components of the RIIO framework is that it is 'outputs led'. In other words, network licensees are expected to deliver specific outputs in a range of pre-defined areas and there are associated incentive mechanisms to reflect the value that consumers' place on those outputs. One key aspect of the outputs framework for RIIO-1, is the setting of Network Output Measures (NOMs).

2.3.   NOMs are mechanisms that provide a means to monitor and assess the network management outcomes that network companies deliver. They represent the service delivery resulting from companies' asset interventions and can be considered as a forward-looking indicator of network performance. NOMs outputs (also called "secondary deliverables") relate to asset health, criticality, and risk.

Sectoral differences

2.4.   At RIIO-1 all network companies were set NOMs targets for the end of the price control period. Licensees were then incentivised to deliver these targets taking into account risk trade-offs. Material deviation from these targets is subject to potential financial adjustments.

2.5. As NOMs policy evolved over time, the approach to setting NOMs outputs varied by sector. The following table summarises the key components of the treatment of NOMs for each sector and relevant licence special contitions (SpC). Please note that any potential financial adjustments resulting from the implementation of the NOMs incentive as part of the RIIO-1 close out will be incorporated during the RIIO-2 period through relevant licence conditions.

	Electricity Transmission	Gas Transmission	Gas Distribution	Electricity Distribution
Output Category	• Network Replacement Outputs		• Network Outputs	• Network Asset Secondary Deliverables
NOMs Outputs	• Network asset condition • Network risk • Replacement Outputs		• Network asset condition • Network risk • Replacement Outputs • Network Outputs	• Health Index • Criticality Index • Risk Index
Rewards/ Penalties	• Reward justified delivery of a lower absolute risk compared to target • Penalise unjustified delivery of a higher absolute risk compared to target		• Reward justified over-delivery of risk reduction • Penalise unjustified under-delivery of risk reduction	
Relevant RIIO-1 Licence Conditions[2]	• SpC 2L • SpC 2M	• SpC 7D • SpC 7E	• SpC 4G • SpC 4H	• Condition 51 • CRC 5D
Relevant RIIO-2 Licence Condition[2]	• SpC 7.10	• SpC 7.10	• SpC 7.6	• To be confirmed

2.6. Despite these differences, the common expectation was that the performance of all licensees would be assessed against a monetised risk target at the end of their

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[2] Please note that as RIIO-1 has ended, the provisions necessary for us to closeout the RIIO-1 NOMs mechanisms have been updated to align with the 2018 NOMs Incentive Methodology, and carried forward into the relevant RIIO-2 licence conditions.

respective price controls. This required a process of 'rebasing' to ensure a common methodology for each sector. This is discussed later in this Section.

The 2018 NOMs Incentive Methodology

2.7. We have now reached the end of the RIIO-1 period in three sectors – Gas Distribution, Gas Transmission and Electricity Transmission. It is therefore necessary to assess how network licensees in those sectors have performed delivering their NOMs outputs and calculate the value of any incentives.

2.8. While the incentive mechanisms were detailed in the network companies' licences, the actual approach for implementing the incentive was not specified. On that basis, we worked with the network licensees to develop the RIIO NOMs Incentive Methodology. The purpose of this document was to provide transparency to licensees, and other interested parties, on the approaches we would adopt to implementing the RIIO-1 NOMs incentive mechanism.

2.9. Published in December 2018, the existing NOMs Incentive Methodology detailed the common methodology that would be used for implementing the RIIO-1 incentive arrangements relating to NOMs. The key aspects of this methodology are summarised below.

The existing NOMs incentive assessment process

2.10. A key component of the exisiting NOMs Incentive Methodology is the process used in the assessment of network company performance. In that document, we outlined seven key stages that Ofgem would follow for all sectors. These are as follows:

- Stage 1: Licensees submit Relevant Risk Changes i.e. normalisations applied to submitted data to enable like-for-like comparison of outturn monetised risk against targets, as well as the impact on performance against targets.

- Stage 2: Licensees submit a RIIO-1 Performance Report. To be provided at the end of the price control period, the report should cover performance against targets and the impact of Relevant Risk Changes.

- Stage 3: Ofgem assesses Relevant Risk Changes and the RIIO-1 Performance Report. During this stage Ofgem will assess the information provided by licensees

and seek further information where required. The outcome of this stage will be a dataset that identifies each licensee's targets, the impact of Relevant Risk Changes, and performance against targets. This will allow us to undertake a definitive assessment of each licensee's delivery performance against its monetised risk target.

- Stage 4: Ofgem assesses delivery against the monetised risk targets. If the licensee's performance on a network-wide basis is assessed as being within the thresholds around the target (deadband), then we will conclude that the licensee has delivered its NOMs target and there will be no NOMs incentive mechanism revenue adjustment. If the licensee's performance is outside of the materiality thresholds around the target, then the assessment will proceed to the next stage.

- Stage 5: Licensees provide justification of over-delivery or under-delivery. In this stage, any licensee judged to be outside a materiality threshold (deadband) must provide its rationale and evidence to justify why the over-delivery or under delivery is in consumers' interests.

- Stage 6: Ofgem assesses justification of over-delivery or under-delivery. This involves undertaking both a qualitative and quantitative assessment of the licensee's justification and determining the proportion of any over-delivery or under-delivery out with the threshold (deadband) that is deemed to be justified or unjustified.

- Stage 7: Ofgem determines value of incentive for over-delivery orunder-delivery. This is the final stage of the process in which, if we decide that a licensee has materially over-delivered or under-delivered against their NOMs targets and, depending on the extent to which the over-delivery or under-delivery is justified or not, the licensee's revenue will be subject to adjustment under the NOMs incentive mechanism.

Outstanding elements for finalisation later

2.11. The existing NOMs Incentive Methodology highlights two specific elements which could not be finalised at that time and would need to be revisited at a later stage in the methodology development process. These are: (1) the need for companies to rebase their NOMs targets; and (2) the approach to determining a materiality threshold or

'deadband' around target performance. In addition, there are a number of other smaller issues to be addressed.

Rebasing licence targets

2.12. As noted above, when the RIIO-1 price controls were set, NOMs targets were specified in different ways across the different network sectors. The purpose of the rebasing process was to ensure that all sectors had monetised risk targets that were determined on a consistent basis and subsequently approved by Ofgem.

2.13. All sectors have now completed the rebasing process. This means that appropriate network monetised risk targets are set for each licensee and that there is a now a robust basis to assess a licensee's performance and any Relevant Risk Changes.

Use of a materiality threshold

2.14. The methodology specified that upper and lower materiality thresholds (a 'deadband') would be used when assessing compliance with the overall network target. This means that the NOMs incentive mechanism would only be applied where a licensee's performance fell outside of the threshold. Further, in those circumstances, the quantum under consideration for the application of the NOMs incentive mechanism will be the deviation from the threshold level rather than the deviation from the target level.

2.15. We were clear that the level the deadband is set at should reflect the robustness of the data supporting the licensees' outputs. We also noted that, just as the robustness of data may vary by sector, then the level of the deadband may also vary by sector. We have not yet received sufficient data from licensees to allow us to assess how well it supports their outputs. In the absence of sufficient data we are not, at present, able to set the deadband values.

Calculation of costs associated with over-delivery or under-delivery

2.16. The costs associated with the over-delivery or under-delivery is a key element of the calculation of financial adjustments associated with over- or under-delivery. This is only covered at relatively high-level in the existing NOMs Incentive Methodology and further detail needs to be developed.

Interaction with other licence mechanisms

2.17. When the existing NOMs Incentive Methodology was published in 2018, a number of licence reopeners had yet to be finalised and further work was required to understand the interactions with load-related expenditure and gas distribution irons main replacement work and thus the nature of the interactions could not be determined.

2.18. A key consideration of the assessment process is to ensure that licensees are not doubly rewarded or penalised as a result of an interaction with another incentive mechanism. To avoid this, we reserve the right to make 'correcting adjustments' such that the policy intent of the original mechanisms is maintained.

Timeline for NOMs incentive process

2.19. A generic timeline for the seven stages of the assessment process is outlined in the existing NOMs Incentive Methodology. It was recognised that this would have to be reviewed in light of any further updates to the methodology to ensure it was robust for all sectors.

3. Key issues for review

Section summary

This section outlines the main issues to be resolved in the existing NOMs Incentive Methodology. These issues have been discussed in detail over the last two years with licensees from all sectors. The key points arising from those discussions are summarised along with our views on how those issues should be best addressed in the updated NOMs Incentive Methodology.

Questions

Question 1: Do respondents agree with our proposed approaches to address the areas for review in the methodology? If not, please specify the area(s) where you have an alternative view and the alternative approach you suggest is adopted in order to update the methodology.

Question 2: Are there are other areas of the methodology that require changes that have not been outlined in Section 3?

Overview of issues for review

3.1.   Since the publication of the 2018 NOMs Incentive Methodology, we have carried out ongoing engagement with the network licensees. Through this process we have identified the issues to be addressed in updated methodology, and received a range of views from the licensees on the treatment of each of the issues. These can be summarised as follows:

- Application of Relevant Risk Changes (following rebasing)

- Approach to deriving associated costs

- The materiality threshold (deadband)

- Interactions with other mechanisms

- Timeline

3.2. For the remainder of this section, we consider each issue in further detail. In doing so, we have sought to provide further information on each issue, the range of views expressed by the network licensees as well the reason for our proposed approach.

Application of Relevant Risk Changes

3.3. The original licence targets were set and quantified on the basis of the asset risk data available at that time and reflected only the expected impact of Licensees' asset intervention. Subsequently, there may be changes to data or other works outside NOMs-related asset intervention that would have impacted the quantitative value of risks. We refer to these as relevant risk changes.

3.4. Relevant risk changes include non-intervention movements in risk value and can be positive or negative with respect to the current and/or forecast levels of asset risk. In addition, relevant risk changes include changes to risk caused by non NOMs-related interventions.

3.5. The four issue related to Relevant Risk Changes are:

- Appropriate Relevant Risk Changes (Normalisations) to consider

- Order of considering Relevant Risk Changes

- Elements to which Relevant Risk Changes should be applied

- Treatment of slower/faster deterioration

Appropriate Relevant Risk Changes (Normalisations) to consider

Summary of issue

3.6. Relevant Risk Changes include non-intervention movements in risk value and can be positive or negative with respect to the current and/or forecast levels of asset risk. In addition, Relevant Risk Changes include changes to risk caused by non NOMs-related interventions.

3.7. They include a range of potential categories that may lead to a licensee altering its work plans and thus how it achieves its monetised risk target. In the existing NOMs Incentive Methodology, we identified a number of categories of non-intervention risk changes including: data cleansing; differences in asset risk data (as compared with assumptions in the rebased targets); and differences in asset degradation profiles i.e., slower/faster deterioration. We expect licencees to report the impact of relevant risk changes through RIIO-1 NOMs Closeout Data Template, in accordance with the accompanying instructions and guidance.

Views expressed by network licensees

3.8. The main points raised by licensees are:

- Licensees are already required to identify Relevant Risk Changes through annual Regulatory Instructions and Guidance (RIGs) submissions and only changes that have been disclosed by Licensees via this pre-agreed process should be considered.

- As the rebasing process was carried out late in the RIIO-1 price control, most of the Relevant Risk Changes will have already been normalised.

- Some categories may not be relevant for all sectors.

- Views that 'slower or faster deterioration' should not be relevant for the Electricity Transmission sector since it has an absolute target for risk remaining in the network, where the companies assume the changes at their own risk.

- Queries regarding the definition of a 'methodology change' and whether this meant a change to the agreed NOMs Incentive Methodology.

- Differing views have been raised on the treatment of load related interventions and whether, given they were not included in the Target values, they should be included in the reported actual network asset risk remaining.

- The treatment of pre-RIIO-1 delivered work. The network companies' business plans, on which their targets were set, were compiled two years prior to the start of RIIO-1, and therefore included two years of pre-RIIO-1 forecast workloads. Any difference between assumed workload and actual workloads in this period can affect

the RIIO-1 starting risk and therefore may require normalisations to be applied to either targets for delivery to ensure like-for-like comparison.

Ofgem's views

3.9. We recognise that, given rebasing only occurred recently in many sectors, the level of some categories of Relevant Risk Changes may be relatively small. However, even if partially addressed, this does not mean that there will be no changes. For example, we would expect there to be differences between the forecast deterioration assumptions underpinning the RIIO-1 targets and the actual deterioration which has occurred. In the event that companies consider there are no further changes to report then they may enter a 'zero' value in the template. In such cases, we would expect a narrative evidence to support this position.

3.10. Similarly, it may well be the case that some categories are more relevant for some sectors than others. For consistency, we see merit in retaining the same categories for all sectors but, recognise that for some e.g., 'faster or slower deterioration' in the Electricity Transmission, reporting a 'zero' value may be appropriate.

3.11. We recognise that some licensees may have provided data and information on certain Relevant Risk Changes as part of their annual reporting. Even if this is the case, all licensees are required to report in the consistent format set out in the RIIO-1 NOMs Closeout Data Template published as part of this consultation. As noted above, if the value is still zero, then this should be reported with associated justification provided.

3.12. On the issue of what constitutes a methodology change, we expect licensees to clearly outline what they think should be treated as a methodology change and that this should include any parameter changes that has not already been addressed through the formal rebasing exercise.

3.13. With respect to pre RIIO-1 delivered work, we recognise that both the without intervention position and with intervention target will need updating for actuals in 2011/12 and 2012/13 for some licensees where this hasn't already been addressed through the rebasing process.

3.14. Licensees targets were set on the basis of the assets installed on their networks at 01 April 2013, and the expected interventions on these assets over the eight years of RIIO-1 period. However, all licensees have also installed new assets on their networks

during RIIO-1 (load related, or network growth, additions). We consider it is important to to build a full picture of the actual network risk at the end of RIIO-1, and in order to do this we need licensees to report the impact of any load related additions. We recognise there is a debate as to whether these are treated as adjustments to actuals or as a category of Relevant Risk Changes. We consider the latter is a cleaner approach which best ensures consistency in assessing companies' performance in achieving their monetised risk targets.

3.15. In addition there is scope for licensees to identify other types of Relevant Risk Change provided that these are well justified.

Ofgem proposal

3.16. We propose that seven categories for appropriate Relevant Risk Changes should be used for reporting. These are: data cleansing; deterioration; the Consequences of Failure (CoF) changes; methodology changes; pre RIIO-1 work changes; load-related (network growth) asset additions and changes covered by other mechanisms. We note that the 'changes covered by other mechanisms' would expect to be limited to a few areas. These are discussed further below in the section on 'Interactions with other mechanisms'.

Order of considering Relevant Risk Changes

Summary of issue

3.17. Given a number of different categories of Relevant Risk Changes to take into consideration, we are keen to ensure there are no perverse outcomes in terms of the order of reporting. For example, there may be a logic in addressing data cleansing first in order that subsequent items reported come after any data errors/updates have been addressed.

Views expressed by network licensees

3.18. The main points raised by licensees are:

- Some parties expressed a preference with a view that data cleansing and methodology changes should come first.

- Some parties reiterated the views that given rebasing was recent, the changes would be limited and thus the ordering is insignificant.

- The key is that the approach is applied consistently.

- Further work should be done on assets which have multiple Relevant Risk Changes, to work out how to separate the individual impacts and the correct ordering.

- Some considered that the main issue was that Relevant Risk Changes should be considered 'in totality and at a network level'.

Ofgem's views

3.19. We note that a range of views has been expressed on the ordering of considered Relevant Risk Changes. We recognise that the actual impact of the order may be limited and agree with the view that the most important issue is that it should be consistent. We do, however, also continue to see merit in addressing data cleansing first and agree that it would be sensible to address methodology changes second.

3.20. We don't agree with the view that Relevant Risk Changes should be considered 'in totality and at a network level'. To be consistent with the existing NOMs Incentive Methodology it is essential that we have Relevant Risk Changes appropriately categorised so they can be properly assessed.

Ofgem proposal

3.21. We proposed the following order be applied for Relevant Risk Changes:

(1) Data Cleansing
(2) Methodology Change
(3) CoF
(4) Deterioration
(5) Pre-RIIO-1 changes; and
(6) Load-related (network growth) asset additions
(7) Changes covered by other mechanisms.

3.22. We note that some of these categories may be less applicable for different sectors. However, we expect all licensees to submit values under each category, even if it is a

'zero' value in some cases. Where zero values are entered, the reasons should be fully explained.

Elements to which Relevant Risk Changes should be applied

Summary of issue

3.23.   Normalisation for relevant risk changes can be applied to different elements. It can be applied to the NOMs target element and therefore the difference between the normalised NOMs target and out-turn delivery would be used to determined RIIO-1 performance. The other method is to apply the normalisation to the out-turn delivery with performance being the difference the NOMs target and the normalised out-turn delivery. There was also the consideration on the suitable level of disaggregation that normalisation can be applied, such as to with intervention, without intervention or both.

Views expressed by network licensees

3.24.   The main points raised by licensees are:

- Some parties reiterated the view that Relevant Risk Changes may not be necessary in many cases but, where they are, they should be applied to the target (with and without intervention) on the basis that the risk delta should be constant.

- For different reasons, some argued that the changes should be applied to the target with and without intervention in order to ensure comparability with the delivered outputs.

- Others considered that where there is an absolute target, the over and under-delivery assessment needs only be made between the target (with intervention) position and the risk output delivered (with intervention).

- In contrast, others supported the adjustment of delivery as a more appropriate basis. One party argued that they should be applied by 'undoing' the effect of the risk change which, in principle, sets the value to be zero.

Ofgem's views

3.25. We can see merit in the arguments made for the adjustment of either targets or delivery. In reality, the two approaches are equivalent, and either the targets need to be adjusted or out-turn delivery needs to be adjusted so that performance against the targets can be assessed on a like-for-like basis. On balance, we consider that the most appropriate approach is to apply adjustment to the monetised risk targets. This avoids changes to outturn delivery for RIIO-1 which will act as the starting point for RIIO-2.

3.26. We disagree with the view that the delta should be the same with or without intervention. Relevant Risk Changes can impact the delta. For example, if actual deterioration is higher than forecast for an asset that is intervened on, it will result in a bigger delta. The target without intervention would increase, but the target with intervention would stay the same. By contrast, for an asset that has not been intervened on then the target risk without intervention and the target risk with intervention are the same and the delta is zero.

Ofgem proposal

3.27. We propose that all Relevant Risk Changes are addressed through adjustments to the targets. In addition, we consider that in order to fully assess performance it is necessary to report the position with and without intervention.

Treatment of slower/faster deterioration

Summary of issue

3.28. In the existing NOMs Incentive Methodology we recognise that change in deterioration may require a different treatment depending on whether it was explicitly identified in Final Proposals as being at the licensee's own risk. On this basis, we identified two options:

(1) treat as a Relevant Risk Change (i.e., as a normalisation); or

(2) consider this (post normalisation) as part of delivery against targets.

Views expressed by network licensees

3.29. The main points raised by licensees are:

- Some licensees were of the view that a change in deterioration should be treated as a Relevant Risk Change as it is not relevant to the work which the licensee is funded to deliver. However, others felt that the explicit reference in RIIO-1 final proposals for transmission companies to such changes being at the licensees' own risk meant that the impact of changes in deterioration must be treated as part of delivery.

- There was a query whether the two options – treat as a Relevant Risk Change or consider as part of delivery against targets – just result in the same outcome.

- It should be considered as part of the delivery against the targets but not valued at zero since the change in deterioration from forecasts would be part of the final absolute risk position at the company's risk.

- Some parties did not consider it was relevant as they expressed the view that deterioration will only require treatment where it has been incorporated into a licensee's reported outturn monetised risk position.

Ofgem's views

3.30. We note that there are a range of views on the treatment of deterioration. We consider that it should be normalised as it is not a risk within the control of the licensees. We recognise the view that there is limited difference between whether it is considered as a normalisation or considered post-normalisation, but note that the key distinction is the potential interaction with the deadband. In other words, if the normalisation occurs it may impact whether the company is within or outside the deadband.

Ofgem's proposal

3.31. We do not consider there is sufficient reason to change our proposals. Therefore changes in deterioration for licensees with absolute targets (transmission companies) will be considered (post normalisation) as part of delivery against targets. Deterioration changes will be considered as a Relevant Risk Change for gas distribution companies.

Approach to deriving associated costs

Summary of issue

3.32.   There are three broad approaches possible to derive associated costs. These are: (1) a unit cost of risk (UCR) approach such as applied in the Electricity Distribution sector worked example given in Appendix 2 to the 2018 NOMs Incentive Methodology; (2) a project-by-project approach or work programme-by-work programme approach; or (3) a combination of both.

Views expressed by network licensees

3.33.   The main points raised by licensees are:

- In Electricity Transmission there was strong support for a project-by-project approach given an UCR approach was shown to be inappropriate at a network level due to the wide spread of UCR among asset classes.

- Some parties considered that costs should be derived at a network level on the basis that the existing NOMs Incentive Methodology document requests total cost of risk removed.

- Another licensee supported using an UCR approach on a network level, again highlighting that it had an absolute target in RIIO-1 on a total network level.

Ofgem's views

3.34.   This is an area where there are very different views across sectors. We recognise the arguments made for a project-by-project approach for Electricity Transmission which closely echoes recent issues faced in setting Network Asset Risk Metrics (NARM) for RIIO-2. Similarly, we can see why the UCR approach may be more appropriate in other sectors.

3.35.   The challenge with the suggested approach of using a 'network level' is that it is an aggregate position and thus it does not provide sufficient granularity of how those costs were derived.

Ofgem's proposal

3.36. This is an area where we are minded to adopt a different approach for different sectors. We see the case for a project-by-project approach for Electricity Transmission but seek further evidence from the relevant licensees on how to identify the specific projects and the associated costs linked with over-delivery and under-delivery. We therefore request that the Electricity Transmission Owners (ETOs) provide worked examples that explain how these requirements will be met through a project-by-project assessment as part of their consultation response.

3.37. We consider that a UCR approach is appropriate for the Gas Transmission and Gas Distribution sectors. However, this must be at levels of granularity (e.g. asset category level) that yields suitably robust estimates of the cost of the underlying work associated with over-delivery or under-delivery. In these cases, the onus is on the licensee to demonstrate that the level of granularity is appropriate.

3.38. We propose that each of the licensees should submit a proposed methodology for calculating the associated costs of over-delivery or under-delivery as part of their stage 1 and 2 submissions, which are due by 31 July 2021. Ofgem will then review these methodologies with a view to making decision during Stage 3 of the assessment process on the methodologies that licensees should apply in preparing their Stage 5 submissions.

The Materiality Threshold ('Deadband')

Process and timetable for determining the deadband

Summary of issue

3.39. In the existing methodology, we were previously clear that there was a strong case for applying a deadband when assessing compliance with the overall network target and thus ultimately, whether or not the NOMs incentive mechanism would be applied when a licensee's performance was within a specified range of its target. The challenge was how to set the level of that deadband given uncertainty over the robustness of the data supporting the licensees' outputs.

3.40. The issue therefore is not whether a deadband will be applied, but rather the level it will be set at and the process for determining that level.

3.41. The three issues related to Materiality Threshold ('Deadband') are:

- Process and timetable for determining the deadband

- Whether defined against network risk at an absolute level or against the delta between with and without intervention positions.

- Identification and treatment of changes to forecast deterioration

Views expressed by network licensees

3.42.   The main points raised by licensees are:

- There are a broad range of views but many licensees: (1) support the inclusion of a suitable deadband threshold to ensure a proportionate approach to the assessment; and (2) see a figure of around 5% (reflecting the position in RIIO-2) as broadly right.

- Suggestion that it should be large enough to account for the single largest asset risk so that a single asset doesn't drive whether performance is inside or outside the deadband.

- It should not be applied at a network level, but rather a sub-category level consistent with the RIIO-T2 approach.

- Given the deadband is 5% for RIIO-2, it shouldn't be any smaller for RIIO-1 reflecting the fact that the same data underpins the level.

- A 5% deadband is in line with statistical best practice of a 95% confidence interval.

- Ofgem should use its discretion if a licensee's performance is on the margins of the deadband.

Ofgem's views

3.43. We agree with a number of the viewpoints that have been raised on the deadband. In particular, it is right that no single asset category should drive the outcome of the deadband assessment. We would, however, like further information in order to

quantify this. At a minimum, we request information on any specific asset categories which a licensee considers may have disproportionate impact on performance relative to other catetegories, and thus potentially skew an assessment against any materiality threshold. In doing so, the the licensee should demonstrate its impact relative to other asset categories and explain the size of the deadband needed to address this effect.

3.44. With respect to the point about the level of the deadband set at RIIO-2, we consider that these are being set in different circumstances. Firstly, in the case of RIIO-2, the deadband was set using a more granular and confident datasets than we have for RIIO-1. Also, the RIIO-2 deadband applies only to the level of justification required, with incentive values calculated from target, whereas for RIIO-1, incentive values are calculated from the edge of the deadband. As such we do not view the RIIO-2 approach as suitable for setting the deadband for RIIO-1, as the two are not comparable in design or function.

3.45. On the point regarding the confidence interval. We are not clear on the logic that has been presented here. A 95% confidence interval gives a 95% probability that the true results lie within a certain range. Depending on the degree of uncertainty this could be a very small or a very wide range. It doesn't mean that the value is within a certain percentage, in this example +/-5%, of the estimated value.

3.46. We also don't consider it would be appropriate to use discretion if performance is on the margins of a deadband as this would be tantamount to placing a further deadband around the deadband.

Ofgem's proposal

3.47. We remain committed to the application of a deadband. However, the challenge around the robustness of the data in order to determine the level of the deadband endures. On that basis, we propose to wait until the licensees submit their data in July 2021 before determining the level of the deadband. We propose this will be confirmed by 16 September 2021 under the current proposed timeline. This should provide licensees sufficient notice to develop their justification cases for over-delivery and under-delivery including any supporting data by 01 December 2021.

Level of network risk against which the deadband should be defined

Summary of issue

3.48. There are two options for setting the level of the deadband, it can defined based on the absolute network risk or the network risk delta.

Views expressed by network licensees

3.49. The main issues highlighted by licensees are:

- That the Electricity Transmission sector has an absolute risk target for RIIO-T1 and therefore the deadband should be around that target.

- Similarly, Gas Transmission has an absolute target in RIIO-T1 and therefore it was argued that the deadband should be set around that target.

- For Gas Distribution, there is a relative risk target and therefore the deadband should be based on the target risk delta.

- That the deadband should be set on a sub-asset category level.

Ofgem's views

3.50. As before, this is an area where there are different views expressed by licensees in the different sectors. We understand the logic for the differences highlighted but a key consideration is to ensure that the deadband has a proportionate impact in each sector.

3.51. In addition, we don't agree with the setting of a deadband at asset category level as this effectively removes scope for risk trading.

Ofgem proposal

3.52. We are minded to set the deadband around the absolute risk target for electricity and gas transmission and around the target network risk delta for gas distribution as this better reflects what the companies have had to deliver during the period. Further, we proposed that it is set at a network level.

Identification and treatment of changes to forecast deterioration

Summary of issue

3.53. Earlier in the section we highlighted the considerations around the treatment of deterioration as a Relevant Risk Change. An additional consideration identified is how forecast deterioration interacts with the application of the deadband. Specifically, adjustments to targets or actuals will have an impact on where a licensee's performance sits relative to the deadband.

Views expressed by network licensees

3.54. The main points raised by licensees are:

- Deterioration should not be a significant issue due to the recent rebasing process.

- For sectors with an absolute risk target, such as Electricity Transmission, that the effect of faster, or slower, than expected asset deterioration was borne at the licensee's risk.

- That the change in deterioration should be accounted for in both the target and delivery.

Ofgem's views

3.55. We agree that the impact of deterioration will have been reduced as a result of the rebasing process, but it is still likely that forecast deterioration will vary from the actual deterioration by the end of the period.

Ofgem's proposal

3.56. As before, while we recognise deterioration may not be significant, we still consider an adjustment should be made for deterioration in determining the level of the deadband.

Interactions with other mechanisms

Which interactions should be factored into Ofgem's assessment?

Summary of issue

3.57. When the existing NOMs Incentive Methodology was published in 2018, a number of licence reopeners had yet to be finalised and further work needed to be carried out to

understand the interactions with load-related expenditure and gas distribution mains replacement expenditure. Thus the nature of a number of interactions between the NOMs incentive and other RIIO mechanisms could not be determined. These mechanisms are now finalised, in all sectors, and further work is ongoing to consider the interactions with other areas. It is therefore possible to assess any interactions with a view to ensuring that there is no scope for licensees to be either doubly rewarded or doubly penalised.

3.58. The issue related to intercations with other mechanisms is:

- Which interactions should be factored into Ofgem's assessment?

Views expressed by network licensees

3.59. The main points raised by licensees are:

- Most licensees considered there were no mechanisms that should impact the NOMs close-out assessment.

- There are existing mechanisms to deal with any interactions with load/non-load related interventions.

- There are interactions with the Health and Safety Executive (HSE) driven iron mains replacement requirements but that this was being considered and addressed separately.

Ofgem's views

3.60. We note that there is a broad consensus that there are no major areas of interaction that should impact the calculation of the NOMs incentive.

3.61. The HSE driven repex requirements is an area that has been identified in the existing NOMs Incentive Methodology for review. We recognise the fact that progress on delivering this programme is being considered as part of the wider RIIO-GD1 close-out working group. However, the detailed interactions with NOMs still need to be better understood to allow us to determine whether it is appropriate to apply any funding adjustments, rewards, or penalties under the NOMs incentive mechanism.

3.62. In our view, the interaction with load related mechanisms can be addressed through Relevant Risk Changes. We will work further with the gas distribution sector on determining the appropriate approach for their HSE driven iron mains programme.

3.63. Accordingly, if we determine that there are any such interactions (through either our own workings or those of a Licensee/third party), we reserve the right to make correcting adjustments such that the policy intent of the relevant Licence condition and final proposal/determinations is maintained.

Timeline

When specific categories of expenditure should be submitted

Summary of issue

3.64. There is a question about what data licensees are required to submit at the different stages of the process. There are essentially two main parts to the submission: (1) Stages 1-2 when licensees submit Relevant Risk Changes and the impact they have on their performance against targets as well as the actual submission of their RIIO-1 Performance Report; and (2) Stage 5 when licensees need to provide justification for any under/over delivery.

3.65. The issue to be addressed is when, during these stages, companies should submit information on allowances, outturn expenditure and costs associated with under/over delivery.

3.66. The two issues related to Timeline are:

- When specific categories of expenditure should be submitted i.e., allowance and outturn expenditure and costs associated with under/ over delivery.

- Provision of further guidance on stages.

Views expressed by network licensees

3.67. The main points raised by licensees are:

- Allowance and expenditure data should be provided as part of the annual Regulatory Reporting Pack (RRP) by 31 July 2021 but that a full view of incurred costs should be provided at the later stage (Stage 5) in order to ensure robust data.

- Whether the data required would be a duplication of how the data is presented as part of the RRP. There was therefore a suggestion that expenditure outturn information be addressed in Stage 5.

- Data submissions must be based on data already collected as part of the annual RRP as it would be impossible to commit to providing other detailed data as part of close-out.

- There may be challenges in splitting out data by certain asset classes.

- The close-out must follow RIIO-1 close out rules rather than rules that may be relevant for RIIO-2.

- Whether, in a situation where a licensee over-delivers but does not claim any reward, no expenditure data should be required as part of the close-out activity.

Ofgem's views

3.68. We note and understand the views expressed that allowance and expenditure data be provided first, in Stages 1-2, with information on incurred costs to follow in Stage 5. This would be a proportionate approach, allowing the right data to be submitted at the right stages.

3.69. We recognise the points raised about the overlap with the RRP but note that the information requirements for close-out are greater and that it will be necessary to work out and report allowances and expenditure on an asset category level in July 2021 to enable us to carry out the close-out process. However, we don't regard this as a matter of suddenly collecting a lot of new information but rather about how that information is presented.

3.70. With respect to concerns about splitting out data, we would be happy to discuss this further and provide associated guidance. However, the key is that we must be able to compare allowed and outturn (costs, volumes, and outputs) on a like-for-like basis.

3.71. On the issue of using RIIO-1 close-out rules rather than anything designed for RIIO-2, we agree that this should be the approach that is followed. The purpose of this consultation is to ensure the NOMs Incentive Methodology fully reflects the requirements of a RIIO-1 close out exercise.

3.72. In relation to the query regarding reporting on the over-delivery position, we recognise the point that is being raised but, for completeness, we would still expect a complete evidence base in order to calculate funding adjustments regardless of whether or not any reward was being claimed. The rewards and/or penalties are only one aspect. All under/over deliveries outside the deadband are required to be justified.

Ofgem's proposal

3.73. Allowed and incurred expenditure data should be provided as part of Stage 5 by 1 December 2021. The associated costs of over-delivery or under-delivery should also be provided at this stage in accordance with the agreed methodology by completing the RIIO-1 NOMs Closeout Data Template.

Provision of further guidance on stages

Summary of issue

3.74. The existing NOMs Incentive Methodology sets out an overview of the seven stages of the NOMs incentive assessment process as well as a generic timeline for the process. In updating the methodology, the aim is to add further clarity where required to the stages of the review as well as to set out a specific timeline for the Gas Distribution, Gas Transmission and Electricity Transmission sectors.

Views expressed by network licensees

3.75. The main issues highlighted by licensees are:

- The requirement for further guidance on the reporting templates to help licensees populate the tables accurately.

- The need for more clarity on the requirements at each of the stages, particularly the distinctions between reporting in Stage 1-2 relative to Stage 5.

- The need to confirm narrative requirements for each stage (particularly Stages 1 and 2) and how it should align with the existing RRP.

- The need to finalise the timetable including aspects such as confirmation of the deadband value.

Ofgem's views

3.76. We agree that further guidance on the templates and also on the narrative required would be sensible to ensure that a consistent approach is followed by licensees when providing data.

3.77. We also agree on the need for additional clarity in the coverage of the seven stages of the process and the associated timeline for those stages. We note that this will be necessary to capture many of the other points raised in this consultation document.

3.78. Appendix 6 to the revised NOMs Incentive Methodology contains draft guidance on completing the RIIO-1 NOMs Closeout Data Template and on narrative requirements. We welcome views on this guidance as part of this consultation.

Ofgem's proposals

3.79. We are proposing a number of changes in the revised NOMs Incentive Methodology which provide further clarity including a timeline for the Gas Distribution, Gas Transmission and Electricity Transmission sectors. As noted previously, for Electricity Distribution, the RIIO-1 period will continue until 31 March 2023 and therefore subsequent changes to its methodology will be addressed through a future consultation.

3.80. The revised NOMs Incentive Methodology includes a RIIO-1 NOMs Closeout Data Template and associated guidance.

4. Summary of proposed changes to the methodology

Section summary

The section provides an overview of the changes proposed to the existing NOMs Incentive Methodology. This is presented in tabular format with cross-referencing to a track-changed copy of the methodology. This is to enable the reader an easy overview of the proposed changes and their impact.

Questions

Question 3: Do you agree with the proposed modifications to the NOMs Incentive Methodology?

Question 4: Do you have any views on the accompanying RIIO-1 NOMs Closeout Data Template and associated guidance?

Overview of changes to the NOMs Incentive Methodology

4.1. Having identified the main categories of the changes proposed in Section 3, the purpose of this section is to detail how these points will be translated into specific changes to the different sections of the existing NOMs Incentive Methodology.

4.2. Table 1 provides a summary of the proposed changes. This table should be read alongside the track-changed version of the NOMs Incentive Methodology that we have also published today. The table follows the structure of the existing NOMs Incentive Methodology. As a result, and for completeness, it also includes the sections where no changes are proposed to the existing text. To help respondents see where changes have been proposed, the modified NOMs Incentive Methodology, published for consultation, shows these as tracked changes.

Table 1: Overview of proposed changes to the NOMs Incentive Methodology

Area of the methodology	Summary of change proposed	Cross-reference to track-changed methodology
Section 1: NOMs Incentive Methodology		
Section 1.1 - Introduction	Clarify that the changes being proposed are for close out of the RIIO-1 NOMs and do not impact the Electricity Distribution sector at this stage	Section 1.1
Section 1.2 – What are Network Output Measures	No changes proposed	N/A
Section 1.3 – How have NOMs been set out in licences?	Removing the reference to electricity distribution Clarifying that the rebasing has now taken place for all of the sectors	Section 1.3
Section 1.4 – Methodology scope	Removing the references to all 4 sectors and further sector specific details.	Section 1.4
Section 1.5 - Issues to be resolved later	Section 1.5 to be deleted and replaced with new sections on the deadband (new Section 1.5) and the calculation of costs associated with over-delivery and under-delivery (new Section 1.6).	Section 1.5
Section 2: General principles of the NOMs		
Section 2 – General principles of the NOMs	No changes proposed	N/A
Section 3: The NOMs Incentive Assessment Process		
Section 3.1 - Background	Changes to the steps to distinguish between the stage 1 and 2 submission of relevant risk changes and the performance report and the stage 5 submission of information on costs associated with over-delivery and under-delivery. Inclusion of a methodology for	Section 3.1

	assessing associated costs as part of the stage 1 and 2 submission Inclusion of revised Figure 1 process diagram	
3.2 - Stage 1: Licensees submit Relevant Risk Changes and impact on performance against targets	Changes to: (1) update categories of Relevant Risk Changes (2) clarify that companies to provide draft methodology for assessing cost associated with over-delivery or under-delivery	Section 3.2
3.3 - Stage 2: Licensees submit RIIO-1 performance report	Minor updates to clarify reporting requirements in the Performance Report, the associated timing, and to include submission of a methodology for calculating the associated costs of over-delivery and under-delivery	Section 3.3
3.4 - Stage 3: Ofgem assess Relevant Risk Changes & review of performance report	Added in the requirement for Ofgem to review the proposed methodologies for assessing the costs associated with over- and under-delivery and to make a decision on these methodologies. Revisions to highlight that the adjustment for relevant risk changes will be applied to the targets rather than actual delivery.	Section 3.4
3.5 - Stage 4: Ofgem assess delivery against monetised risk target	No changes	Section 3.5
3.6 - Stage 5: Licensees provide justification of over-delivery or under-delivery	Adding in reference to second submission by 1 December 2021 including justification case for over-delivery or under-delivery and associated cost data	Section 3.6

	Reference to Cost Benefit Analysis (CBA) require updating to reference updated template	39
3.7 - Stage 6: Ofgem assess justification of over-delivery or under-delivery	No changes proposed	N/A
3.8 - Stage 7: Ofgem determines value of incentive for over-delivery or under-delivery	Changes to delete references to electricity distribution.	Section 3.8
Section 4: Interaction with other licence mechanisms		
Section 4 – Interaction with other licence mechanisms	Update to clarify position that no interactions are expected to impact the NOMs assessment process but that we reserve the right to make correcting adjustments if any relevant areas are identified	Section 4
Section 5: Timeline for evaluation exercise		
Section 5 - Timeline for evaluation exercise	Updated timeline reflecting points of clarity on process. Additional text explaining the two licensee submissions	Section 5
Appendix 1: Performance Report	Updated to reflect change to stages in earlier sections. This appendix now only covers the Stage 1 and 2 submissions. Provides additional clarity on how the Stage 1 and 2 Performance Reports can demonstrate compliance with the licence requirements.	Appendix 1
Appendix 2: Justification of	New appendix covering the stage 5 submission.	Appendix 2

over-delivery or under-delivery		40
Appendix 3: Worked Examples	Removing the references to ED and making the worked example applicable to other sectors	Appendix 3
Appendix 4: Summary of key parameters for CBA submission	Updated to reflect RIIO-2 CBA Guidance	Appendix 4
Appendix 5	New appendix – RIIO-1 NOMs Closeout Data Template (separate Excel file)	Appendix 5
Appendix 6	New appendix – RIIO-1 NOMs Closeout Data Guidance (separate PDF file)	Appendix 6
Appendix 7	New appendix – RIIO-1 NOMs Closeout Glossary	Appendix 7

5. Next Steps

Section summary

This section outlines the process which we intend to follow having finalised the NOMs Incentive Methodology. This includes the timeline for the full RIIO-1 close-out process from the licensees' submission of its Relevant Risk Changes and impact on performance targets through to our decision on justification cases for under or over delivery and the associated incentive impacts.

Questions

Question 5: Do you have any views on the timelines set out in the NOMs Incentive Methodology, including the nature of the data to be submitted by licensees at relevant assessment stages?

Revising the NOMs Incentive Methodology

5.1.   Once we have received and fully considered responses to this consultation, we intend to publish our decision ahead of the 31 July 2021 deadline. Alongside this decision, we will publish an updated version of the NOMs Incentive Methodology. We are aiming to publish ahead of the 31 July 2021 deadline to provide licensees clarity as early as possible on the approach that will be used to complete the close-out process for RIIO-1 NOMs in the Gas Distribution, Gas Transmission and Electricity Transmission sectors.

Determining the deadband

5.2.   As noted in this document and confirmed in the revised NOMs Incentive Methodology, a materiality threshold or 'deadband' will used when assessing compliance with the overall network target.

5.3.   As explained in paragraph 2.16, the level the deadband is set at should reflect the robustness of the data supporting the licensees' outputs. On this basis, we will not determine the value of the deadband until we have been able to assess the data which will be provided by the licensees on 31 July 2021.

5.4.   We intend to confirm the level of the deadband by 16 September 2021. We consider that will provide us with sufficient time to properly assess the information provided by licensees on 31 July 2021 and for licensees to provide a justification of over-delivery and under-delivery by 01 December 2021. This will be dependent on quality of the submission received on the 31 July 2021.

Timetable for the close out stages

5.5.   A full timetable for the seven stages of the close out process is set out in Figure 1, below. This highlights that the process will commence with the submission of Relevant Risk Changes on 31 July 2021 and will be complete when a final decision, including associated changes to the Financial Handbook for each sector, is published in September 2022.
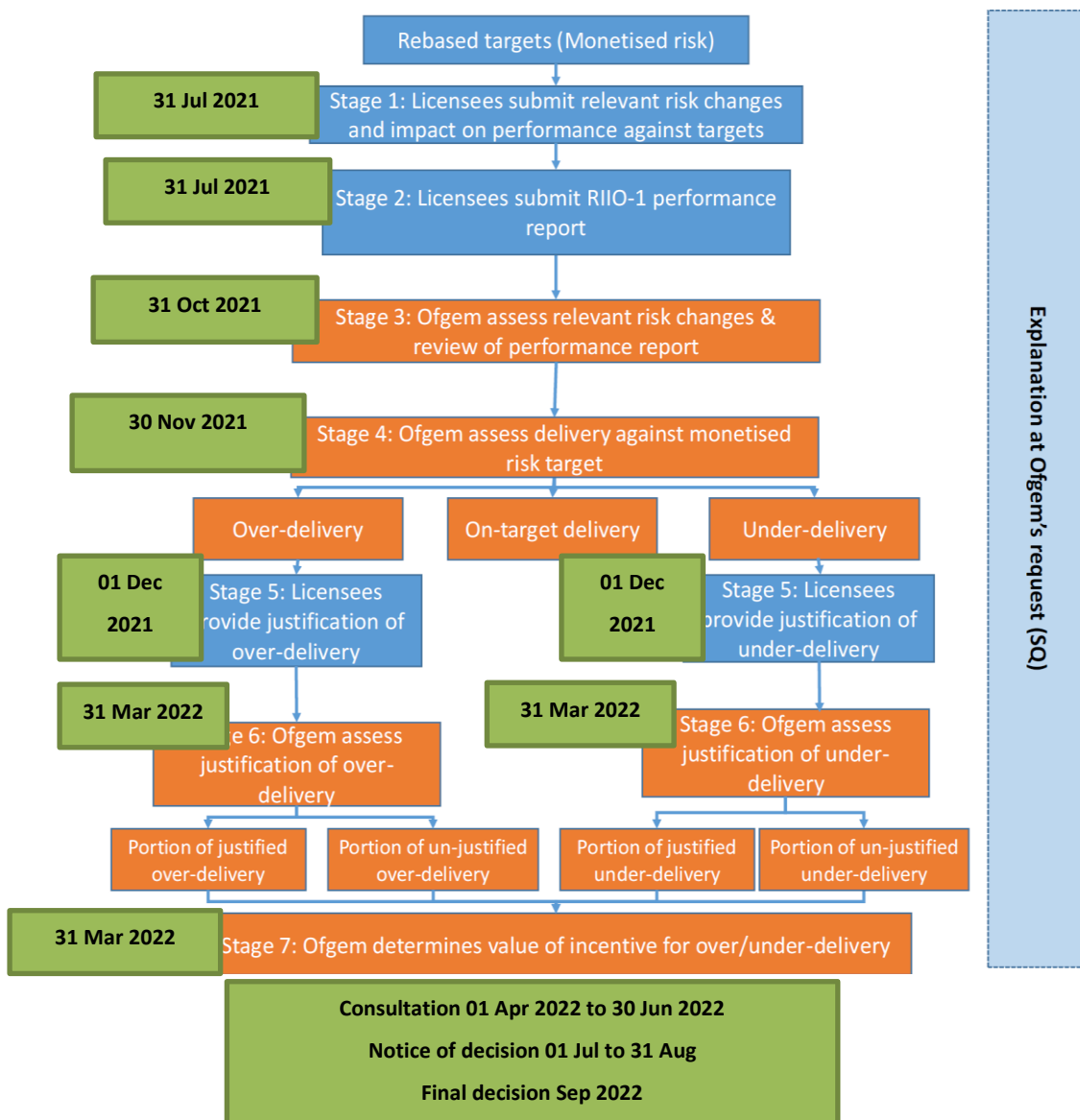
Appendices

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Appendix 1 - Glossary

Please note that some of the terms defined in this Appendix may also be defined in the licences of the network licensees. In the event of any conflicting definitions, the relevant licence definition will take precedence.

M

Monetised Risk

A risk value associated with an asset as derived in accordance with the relevant network company's Network Output Measures (NOMs) methodology.

N

Network Asset Risk Metric (NARM)

The Monetised Risk associated with a NARM asset or the Monetised Risk Benefit associated with a NARM Asset intervention.

Network Output Measures (NOMs)

NOMs are mechanisms that provide a means to monitor and assess the network asset management outcomes that network companies deliver.

NOMs Incentive Mechanism

The RIIO-1 mechanism for adjusting a network company's RIIO-1 funding dependent on its delivery of its NOMs Targets and for applying a reward or penalty in certain delivery scenarios.

NOMs Incentive Methodology

The RIIO-1 Methodology (sector- or company specific) used for deriving Monetised Risk and Monetised Risk Benefit values.

NOMs Target

The required outputs related to relevant asset management work for each network company in RIIO-1.

R

Relevant Risk Change

Normalisations applied to submitted data to enable like-for-like comparison of outturn monetised risk against targets.

Relevant risk changes include non-intervention movements in risk value and can be positive or negative with respect to the current and/or forecast levels of asset risk. In addition, relevant risk changes include changes to risk caused by non NOMs-related interventions.

Re-openers

A process undertaken by Ofgem to re-set the revenue allowances (or the parameters that give rise to revenue allowances) under a price control before the scheduled next formal review date for the relevant price control.

Repex or replacement expenditure

This is expenditure in relation to the replacement or decommissioning of iron gas mains.

RIIO (Revenue = Incentives + Innovation + Outputs)

Ofgem's regulatory framework, stemming from the conclusions of the RPI-X@20 project. It builds on the success of the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future consumers

U

Unit Cost of Risk (UCR)

The average cost of delivering a single unit (one Risk Pound, R£1) of Monetised Risk Benefit for a given asset population or intervention volume.

Uncertainty mechanisms

Uncertainty mechanisms allow changes to the base revenue during the price control period to reflect significant cost changes that are expected to be outside the company's control. Examples include revenue triggers and volume drivers.

Uncertainty mechanisms

Appendix 2 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e., a consultation.

3. With whom we will be sharing your personal data

Unless you indicate otherwise, we will make your response, as provided, available online.

4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for as long as an audit trail on decision-making relating to the questions discussed in this document should reasonably be available.

5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete

- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system. (If using a third-party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".