nationalgrid

National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Neill Guha

Senior Manager, Network Asset outputs

Networks Analysis

10 South Colonnade

Canary Wharf

London

E14 4PU

Antony Green

Head of Network Engineering

Gas Transmission Owner

Antony.Green@nationalgrid.com

Mobile.   +44 (0) 7866 947209

www.nationalgrid.com

22nd May 2018

Dear Neill,

Re: Special Condition 7D, Part E: Modification of the NOMs Methodology

Please find attached our new Network Output Measures (NOMs) Methodology submission consisting of five documents in total.

Our new methodology, that in our role as holder of the Gas Transporter Licence in respect of the NTS, has been developed to meet the requirements of Special Condition 7D (Methodology for Network Output Measures).

In line with paragraph 7D.11 of Special Condition 7D, Part E: Modification of the NOMs Methodology, please find below a summary of the requested modification.

We have carried out a comprehensive review of our previous methodology from May 2008 to update to the application of Monetised Risk. The new methodology consists of four parts. These explain our proposed NOMs Methodology at increasing levels of detail.

We have consulted with interested parties for 46 days in April and May 2018. In total we have received three responses. Please see a summary of these and any changes we have made to our methodology as a consequence from these representations below.

Summary of representation received	Modification to Methodology actioned
Citizens Advice (CitA): - CitA are broadly supportive, suggesting reporting investment intentions are clear and the general approach of relying on financial proxies for risk valuation to have clear advantages. - The view of CitA is that the methodology delivers improved transparency of reporting investment benefits allowing interested stakeholders to review the extent value is optimised by asset investment. - With regulator intention to move away from RPI indexation for RIIO-GT2, CitA	No change to our methodology has been made following the response from CitA. - We will review our approach for inflating the social value of safety risk in line with CPI or CPIH with our wider RIIO-GT2 plan. Clearly a consistent approach will need to be taken for all price base adjustments. We do not believe this would have a material impact on Monetised Risk but we will confirm this by further model sensitivity testing. - All assets in our asset register are in scope for the NOMs Methodology. We continue to maintain assets whilst they have

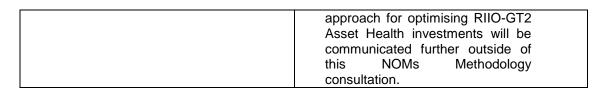|	
encourages NGGT to reconsider use of CPI or CPIH indexation within the methodology and to consider the impacts this might pose from a consumer perspective. - CitA queried what considerations NGGT have made for including risks associated with future stranded assets in the methodology.	any residual risk to customers. The decision to fully decommission assets (and remove them from ongoing maintenance) is taken outside of the NOMs Methodology.
Centrica: - Centrica's view is that providing a focus on RIIO-GT2 needs and the requirement to ensure the methodology is wholly fit-for-purpose for developing the business plan and undertaking asset investment during RIIO-GT2. - Centrica recommended the methodology is tested against a greater range of credible supply and demand scenarios, reflecting the great variability. - Centrica recommended supply and demand scenarios and consequential failure rates are not held constant during a price control period, to avoid risk driven by exogenous factors (providing a distorted view of network risk). - Centrica recommended the NOMs Incentive should be 'switched off' for RIIO-GT1. Little opportunity to respond to targets and may create a material risk of inappropriate gains or loses.	No change to our methodology has been made following the response from Centrica. - We state in the document that the methodology has been tested against a single supply/demand scenario, but for ongoing reporting and RIIO-GT2 planning, appropriate supply/demand scenarios will be chosen that do not disadvantage customers. The approach taken to model these supply/demand scenarios will be identical, using different data inputs and producing alternative Monetised Risk outputs (and hence potentially different investment plans), The NOMs Methodology has been developed specifically to provide this flexibility to model and test alternative scenarios. We will explore this further during model sensitivity testing and through development of our RIIO-GT2 investment plans. - The comment regarding switching off NOMs incentives for RIIO-GT1 should be addressed directly with Ofgem.
Npower: - Npower understood how risk monetisation would be used to identify most cost beneficial interventions. - Npower agreed that using measurement of Monetised Risk to show what value gleaned from investment, but Npower could not understand how information would be used to demonstrate the optimal outcome delivered and requested that suitable targets should be agreed with Ofgem.	No change to our methodology has been made following the response from Npower. - The NOMs Methodology is fundamentally about how we convert current "engineering" NOMs outputs into a transparent Monetised Risk measure which facilitates risk trading between asset groups and enables optimisation of investment plans. The Monetised Risk approach delivers a structured method for financially valuing the benefits delivered by investments, both in terms of direct costs to NGGT and indirect costs to wider society. Our

	approach for optimising RIIO-GT2 Asset Health investments will be communicated further outside of this NOMs Methodology consultation.

Based on the responses we have received, we have made no changes to our NOMs Methodology. However the points raised will be addressed as part our RIIO-GT2 developments, when we will also seek to further engage with stakeholders.

The objectives of our NOMs Methodology are to:

- facilitate the monitoring of asset performance – the monitoring of the performance in relation to the development, maintenance, and operation of an efficient co-ordinated and economical pipeline system for the conveyance of gas;
- allow the assessment of network expenditure – the assessment of historical and forecast network expenditure on the pipeline system of NGGT;
- allow comparative analysis – comparative analysis of performance over time;
- communicate relevant information – the communication of relevant information regarding the pipeline between the Authority and other interested parties in a transparent manner.

Our new NOMs Methodology better delivers these objectives than the current methodology. In particular it will significantly improve our ability to articulate the network risks using a Monetised Risk approach, where the components of risk are more clearly articulated enabling trading of investments between different asset types to optimise risk reductions. It will also support us to make better investment decisions, quantifying the benefits of Asset Health investments to be measured using a transparent structured approach and enabling us to better communicate the benefits of these investments back to customers.

The implementation date for our proposed modification is the 31/03/2019 to allow reporting under the new methodology for 2018/19. This date is in line with finalising our rebased NOMs target.

The RRP data used to develop our new NOMS Methodology has been provided since the start of RIIO-T1 (from 2013/14) through Table 6.6 and we are working to rebase our current License targets using the principles of our new methodology.

The new NOMs Methodology is not proposing a change to the Network Replacement Outputs as set out in the tables in Special Condition 7E (Specification of Network Replacement Outputs).

I would be grateful if you could acknowledge receipt of this submission and we welcome any feedback you may have.

If you have any questions in relation to the methodology, please contact myself or Lloyd Southerill-Smith on 01926 655173 or lloyd.southerill-smith@nationalgrid.com.

Yours sincerely,

Antony Green
Head of Network Engineering
Gas Transmission Owner
National Grid Gas