

Thursday 1 August 2024

Dear Sir/Madam,

## Network Asset Risk Methodology (NARM) Consultation

### Consultation Scope

In compliance with our licence obligations, we are consulting on the proposed changes to the NARM Methodology to other Network Licensees and any other interested stakeholders, allowing them a period of 28 days within which they can make any representations. The closing date for the consultation period is 30 August 2024. We will compile and report on the responses received to this consultation as part of our regulatory obligations. We are intending to use the feedback received to shape the methodology, revising the documents as necessary before submitting to Ofgem a summary of any representations made and an explanation of any changes to the modification proposal, as a consequence of the feedback received. Ofgem will either approve without amendments, approve with amendments, or reject the proposed modifications.

### NARM Methodology Overview

Electricity Transmission Owners (ETOs) have their performance assessed under the RIIO regulatory model covering a set of outputs to measure how well they have delivered end services to consumers, customers, and stakeholders. As part of a regulatory framework, the Network Asset Risk Metric (NARM) methodology is intended to show that the three Electricity Transmission Owners are providing long-term value for money with their investment decisions and how these decisions are made for the benefit of maintaining the network. NARM is intended not only as a regulatory reporting and monitoring tool, but also as a decision supporting tool for Electricity Transmission Owners' asset management investments.

The NARM Methodology is formed of the following documents:

- NARM Common Methodology. This overarching methodology document provides an overview of the NARM Methodology for the three ETOs.
- Network Asset Risk Annexes (NARAs). The NARA documents describe the details of the calculation methodologies to derive the Network Asset Risk Metrics. There are two different NARA documents, one for SSEN Transmission and SP Transmission, and another one for National Grid Electricity Transmission (NGET).
- Licensee Specific Appendices (LSAs). NGET Merged its LSA content into the main text of the NGET NARA in the previous issue of the NARA.

The NARM objectives are set out in special licence condition 9.2 of each ETO licence. The ETOs should have in place a NARM Methodology that facilitates the achievement of those objectives and keep that Methodology under continuous improvement. The Licence indicates the ETOs must review the NARM Methodology to identify scope for modifications that would better facilitate the achievement of the NARM Objectives.

The NARM Objectives are:

- a. to provide transparent, logical links between:
  - I. the Asset Data that the licensee collects through inspections, maintenance, and other asset management activities;
  - II. the data that the licensee inputs into its Asset Management Systems
  - III. the licensee's asset management decisions; and

- IV. where relevant, the licensee's whole system investment decisions;
- b. to enable the Authority to establish the licensee's Baseline Network Risk Outputs and to undertake an objective assessment of the licensee's Baseline Network Risk Output delivery;
- c. to enable the robust estimation of Current Monetised Risk, Forecast Monetised Risk, Single-year Monetised Risk, and Long-term Monetised Risk of asset failure for:
  - I. each NARM Asset Category;
  - II. individual NARM Assets within each NARM Asset Category; and
  - III. the licensee's Transmission System;
- d. to enable the robust estimation of the Current Monetised Risk and Long-term Monetised Risk benefits delivered, or expected to be delivered, through interventions on specific assets or groups of assets;
- e. to provide inputs to help explain and justify, through Cost-Benefit Analysis:
  - I. the licensee's investment plans for managing and renewing its NARM Assets; and the licensee's outturn delivery of investment options;
- f. to enable the identification and quantification of drivers leading to changes in Monetised Risk over time;
- g. to enable the comparative analysis of Monetised Risk between:
  - I. different NARM Asset Categories and between individual NARM Assets on the licensee's Transmission System;
  - II. geographic areas of, and NARM Assets within, the licensee's Transmission System;
  - III. the licensee's Transmission System and other networks within the same sector;
  - IV. the licensee's Transmission System and networks outside Great Britain with similar assets should similar approaches as set out in the NARM Methodology be applied to estimate Monetised Risk for those networks; and
  - V. the Transmission Systems and Distribution Systems within Great Britain; and
- h. to enable the communication to the Authority and other interested parties of relevant information about the licensee's Transmission System in an accessible and transparent manner.

The Electricity Transmission Owners (ETOs) have been working with Ofgem in auditing the Methodology with the purpose of identifying areas of improvement and/or further development of the NARM Methodology. This process was initiated in 2022 to set a clear development Road Map for the NARM Methodology with effective prioritisation of areas of the development process. This process has provided the ETOs and Ofgem with clarity of the necessary work, allowing resource planning and ensuring transparency in the process.

Following the methodology audit, there have been identified areas for improvement and/or further development and those have been classified in three different categories related to the scale of work and timescales associated with the changes, those are:

- Category 1. Short term methodology modifications, focus on facilitating transparency and completeness of the Methodology documents.
- Category 2. Short to medium term methodology modifications, this includes a focus on improving alignment within and across sectors as well as updated financial Consequence of Failure (CoF) values, reviewing long-term benefits calculation and a range of other updates to asset modelling.
- Category 3. Medium to long term methodology modifications, focus on expanding the NARM methodology to incorporate new assets and refining the calibration values to ensure comparability

analysis of Monetised Risk between different networks. Also, reflecting longer term trends with respect to the energy transition including changes driven by innovation and digitalisation.

This consultation corresponds to agreed Category 2 modifications, along with changes necessary for implementation of RIIO-T3. These include:

- Updates to constants used throughout the NARM Methodology; with reference to inflation by RPI-CPIH, and to publicly available data.
- A more efficient method for determining Boundary Capability for inclusion in System Consequences.
- Updates to Cable and Overhead Line Fitting end-of-life assessments.
- Alignment of Safety, Financial and Environmental consequences to common values alongside SPT and SHE-T.
- Updates to the environmental consequences methodology concerning non-SF6 insulating gases and quantities.
- Alignment of the Long-term Risk Benefit calculation to the method used in Electricity Distribution.
- Administrative improvements, such as equation numbering by section.

Stakeholder Engagement:

NGET will continue to work with other Network Licensees to identify relevant stakeholders who are well placed to provide insight to the proposed updates. Consultation responses are open to any interested parties.

Consultation Questions:

## **QUESTION 1**

Do you consider that the proposed modifications better facilitate the achievement of the NARM objectives? If not, please explain your reasons.

## **QUESTION 2**

Do you have any further suggestions on how to facilitate the transparency of the NARM Methodology?

## **Next Steps**

Responses should be made via email to [narmconsultation@nationalgrid.com](mailto:narmconsultation@nationalgrid.com) by 30 August 2024. Once the period for responding has closed, these responses will be used to shape the Methodology as necessary and shared with Ofgem. This will be used to inform their own expected review and consultation of the methodology updates. Yours sincerely

Aisling Rapier

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