

21<sup>st</sup> December 2021

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Dear Thomas:

**Northern Gas Networks response to Ofgem Consultation: Network Asset Risk Metric (NARM) Regulatory Instructions and Guidance (RIGs) and NARM Regulatory Reporting Pack (RRP) to apply during RIIO-ET2, RIIO-GT2, and RIIO-GD2**

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) welcomes the opportunity to provide feedback on the proposed NARMS Regulatory Reporting Pack (RRP) for RIIO-GD2 and accompanying Regulatory Instructions and Guidance (RIGs).

As part of our consultation response, we have completed the NARMS RRP issue log. We have uploaded previous versions of this to Huddle at the request of Ofgem to provide an early insight into the challenges with the proposed template, however our final issue log is contained in Appendix 1. We would like to highlight that in addition to the issues raised in the NARMS RRP issue log, we have the following wider concerns regarding the NARMS RRP pack that is being proposed:

- We have concerns regarding the intent of the proposed RRP pack.
- We have concerns regarding the auditability of the template and the robustness of the data that would be reported.
- We have concerns regarding the amount of data that is being requested and the time it would take to complete the proposed template.
- We are concerned that the proposed reporting pack does not provide Ofgem with the ability to robustly monitor companies progress against their NARMS targets.
- We are concerned that the introduction of a reporting pack adds further complexity to the NARMS reporting that is at a level of detail that is not required and potentially conflicts with the NARMS objectives.

Each of these concerns are discussed in detail below.

**Purpose of Regulatory Reporting**

The proposed NARMS RRP pack is requesting data that companies would not routinely collect or utilise in their asset management decision making activities. Therefore, we have concerns regarding the

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intent of such a complex data request as it appears it would only serve to increase the regulatory burden to companies and is tying up resource that should be focused on improving our asset management capability. Can Ofgem provide further detail on how this data would be utilised, the benefit of such complex reporting and why it is required?

### Auditability and Robustness of Data

We understand that the NARMS RRP reporting requirement has been designed to protect customers and to make sustainable long-term decisions, however we have concerns over the robustness of the data and the timescales to complete such a sizeable template. A large majority of this data cannot be completed through auto-population which was the case with Table 7.3 for NGN. With so many data entry points it becomes impossible to easily spot errors and human error is much more likely with such a sizeable template; this has already been observed through population of the NARMS BPDT for NGN.

In terms of what this means with regards to our assessment against Ofgem's Data Assurance Guidance (DAG), Table 1 illustrates the expected impact the new RRP requirements will have on each of the DAG Probability metrics for the Monetised Risk reporting.

Probability Metric	GD1 RRP Assessment (2021)	GD2 RRP Assessment (Expected with current template)	Reasoning
Complexity of Data Sources	4	4	NOMS/NARMS data is extracted from multiple data sources. It is not possible to score higher than a 4, but the new requirements would require additional data sources to be utilised for NARMS reporting.
Completeness of Data Set	3	4	Data to support the new NARMS reporting requirements is not routinely captured by NGN to populate this report. Disaggregating the data to meet the Ofgem requirements will require further assumptions to be made.

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Probability Metric	GD1 RRP Assessment (2021)	GD2 RRP Assessment (Expected with current template)	Reasoning
Extent of Manual Intervention	3	4	With the introduction of the C55 system, model application through to the production of table 7.3 was an automated process. The process was manual for inputting data into C55 and generating the data required. We have made steps to link SAP data to C55 which could potentially move NGNs assessment to a 2, however the new requirements will be a regression as it will no longer be possible to automate the table production element as it will require manual intervention to apply the many new assumptions and reporting rules.
Complexity & maturity of reporting rules	2	4	The NOMS reporting had a common set of rules for reporting. Moving to the proposed NARMS RRP tables would require significant interpretation, judgement or assumptions for the reporting rules (as demonstrated in NGNs previous NARMS BPDT submissions) .

Table 1: impact of proposed NARMS RRP template on the DAG Assessment

In summary, NGN have spent significant time and effort in GD1 to develop a system and processes to ensure that Table 7.3 NOMS reporting could be produced as robustly as possible, this included automating the production of Table 7.3 to reduce the potential for human error. The proposed NARMS RRP tables are an expansion on the NARMS BPDT template that was used as part of the GD2 Business Plan submissions and through populating this template we found that it was not possible to auto-populate these tables from our C55 system. Moving towards such a complex reporting system renders all previous automation processes redundant and reintroduces the human error reporting risks that were limited for RRP by the end of GD1, which essentially could undermine the reporting process.

### Amount of Data and Timelines

In our previous feedback to Ofgem regarding the proposed wider RIIO-GD2 RRP tables we stated that the RRP is already very time consuming and intensive piece of work for the GDNs limited pool of resource. Given its breadth and depth, as well as assurance and DAG requirements, the increased complexity of RIIO-2 will further exacerbate this, so we think it is important to rationalise both the existing tables and the new tables as much as possible. Some information may be best to include in the RIIO-3 BPDTs if it is needed at all. Additionally, the RRP is meant to be a source of information for

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anyone to use, hence the requirement to publish it each year. This needs to be considered when designing the tables and trying to make them user friendly. Extending the NARMS reporting to be its own reporting pack elevates these concerns and these need to be considered when designing the NARMS RRP tables.

As outlined above, over the last few years NGN have implemented the Copperleaf C55 system to streamline the NOMs RRP process. This has meant that what was a very cumbersome, error prone and resource intensive process is now a more efficient, automated process for table 7.3 production. Implementing these reporting requirements for NARMS will mean that the process will revert to becoming a resource intensive process that does not have the same level of system automation. This issue, coupled with the additional RRP requirements for the wider RRP tables, will mean that it will not be feasible to meet a deadline of 31<sup>st</sup> July for the NARMS RRP. This is because not only is the NARMS RRP reliant on the completion of the other RRP data tables, but it will also require a substantial audit process to be undertaken to account for the issues with manual data manipulation and rule interpretation. All of these will increase the timescales to complete the NARMS RRP template. Whilst Ofgem have stated in previous meetings that they will consider an extension to the NARMS RRP deadline to allow for this additional effort, our position is that we do not think that this would be worthwhile and a trimmed down version of the template would be more beneficial.

It is our view that a trimmed down template comprising of the NARW and NARMS RRP tabs 2.6,2.7 and 2.8 would be of more benefit to stakeholders for annual reporting as it would be feasible to automate the population of a large proportion of the data tables and it will allow for a more robust audit process. If there are any concerns or queries around these submissions, then further data requests should be made to allow for resolution of this. However, it is our view that on the most part the NARW and NARMS RRP tabs 2.6,2.7 and 2.8 would be substantial enough to demonstrate how companies are performing against the NARMS GD2 targets.

### **Ability to Monitor Progress Against the NARMS Target**

The GD1 NOMS reporting captured four positions in terms of monetised risk:

- Risk at the start of GD1
- Risk at the end of the current financial year (present year risk)
- Risk at the end of GD1 with no further investment
- Risk at the end of GD1 with forecast investment activities

The new NARMS RRP tables do not seem to capture the risk for the current financial year, it only captures 2021 and 2026 forecast positions. We are not clear if this is Ofgem's intent. It is our view that it would be beneficial to continue to report a current risk position as it demonstrates how the level of monetised risk has changed from the previous year and essentially it allows an early insight into how companies are performing against their target. Removing this requirement means that Ofgem will only be presented a mixture of forecast and actual workloads and therefore it may not be explicit from

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company submissions what has been delivered and whether companies are on track to deliver their target.

Additionally, it is unclear from the RIGs whether worksheets are capturing the risk associated with the whole asset population or only the risk of assets included within the NARMS target. The NARMS RRP tables need to be consistent and clear so that stakeholders can easily interpret what Monetised Risk levels are being reported and how this compares against the target. Currently the NARMS RRP template seems to alternate between target and network level risk reporting, which not only could be confusing to populate and potentially lead to errors, but it could also lead to confusion for stakeholders in understanding the data being reported.

### **Level of Complexity and Conflict with the NARMS Objectives**

Alongside the introduction of C55, NGN have been increasing the asset management skills in-house to further develop our value based decision making capability including expanding our asset deterioration models. If the current proposed NARMS RRP remains in place, this skilled resource would be diverted to NARMS reporting for at least 50% of the year, which would mean that we would not be able to fully utilise this capability. Such modelling and decision making advancements would drive efficiency and be of greater benefit to customers. Whilst we understand the need for Ofgem to monitor NARMS RRP in a more substantial way than Table 7.3, we believe there is a significant level of risk in the proposed approach, as it will mean that companies will be held back in advancing their asset management decision making capability as so much effort will be focussed on retrospective NARMS reporting rather than forward looking strategic planning. Therefore, introducing such an onerous reporting process is potentially at odds with the key objectives of NARMS relating to improving asset management decision making.

Additionally, this level of data reporting disincentivises any improvements to the NARMS metric due to the additional reporting requirements that are triggered due to data or methodology changes. Companies will not have the capacity or desire to make model improvements to NARMS as any such changes would increase the reporting burden further.

As it stands, the complexity of the proposed tables act as a barrier to understanding the NARMS reporting, companies are already facing difficulties in communicating effectively with internal stakeholders regarding NARMS and the intelligence regarding the impact of investment on NARMS targets. A much simpler level of reporting would be beneficial to not only reduce the reporting burden, but to also make the table more accessible to non-NARMS experts. Without significant simplification the proposed NARMS reporting process will act as a barrier to achieving the NARMS objective of enabling network companies to report to Ofgem and other stakeholders in a way that can be easily understood and unambiguously reported.

In conclusion the introduction of such a complex reporting process is a regression against the progress that has been made to make NARMS a robust reporting metric and a level of rationalisation is required

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to ensure that Monetised Risk reporting remains robust, proportionate and accessible by non-NARMs experts.

We look forward to working with Ofgem in finalising the NARMs RRP tables. Should you wish to discuss our response to this consultation in more detail, please do not hesitate to contact Claire Spencer, Risk and Investment Manager by email [cspencer@northerngas.co.uk](mailto:cspencer@northerngas.co.uk) or phone 07580 994344.

Kind Regards



Gareth Mills | Regulation & Strategic Planning Director  
Northern Gas Networks

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## Appendix 1 – NGN NARMS RRP Issue Log



NARM\_RRP\_Issue\_Log\_NGN.xlsx

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