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Dear Min

**Ref: Consultation on 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**

I write on behalf of SGN with reference to the consultation on the RIIO-GD2 NARM RIGs and RRP template published by the Authority on 20<sup>th</sup> Nov 2021.

We understand the effort that has been put into producing the NARMs RRP template and the associated guidance for all networks to report risk consistently. We are committed to working closely with Ofgem to find a balanced approach between accountability for companies' investment and reporting requirement.

We accept that some of the data requested within the RRP template is required to effectively monitor the performance and hold the network companies accountable. However, some of the proposed guidance and data requirements for the RRP template go beyond the intended purpose and appears to be a data capturing exercise without any significant benefits to the consumer and Ofgem.

We therefore request that Ofgem provide examples and reasoning for the requirements for this additional data. Ofgem should be able to explain how all this data feeds into the GD2 close-out process and how it aligns with the NARMs handbook.

Although the new RRP template has been derived from the historic NARMs BPDT there is growing concern around the complexity of the reporting process. We have concerns around where the granularity of data is being requested, and where the granularity of data is required to provide meaningful answers to stakeholders.

From our experience in populating the NARMs BPDT Gas Distribution Networks highlighted the difficulty we faced in generating data for certain elements of the BPDT. The NARM models developed were not designed to produce risk at the format requested by Ofgem. SGN has therefore had to undertake a significant amount of data manipulation within supporting spreadsheets, which have involved the transposing of large volumes of data by 'cutting and pasting' of fields and values. In so doing, we could not effectively validate the algorithms and outputs with a systematic approach. For these reasons, the level of confidence in individual data elements is lower as there is always an opportunity for error when humans are required to



transpose data between spreadsheets. The dataset we produce would be difficult to pass through our data assurance and governance process but would be provided on a 'best endeavours' basis.

Furthermore, there is no clarity around how this RRP template links back to the NARMS handbook, especially around the non-intervention change element. In the handbook (pg32) it states: *"For the avoidance of doubt, the guidance provided in this chapter relates to normalisations to the BNRO as a result of Non-Intervention Risk Changes and highlights that the ONRO must always be reported using the latest information on condition and criticality."*. However, the RRP at no point distinguishes between non-intervention risk changes in the BNRO and those in the ONRO and we struggle to see how this issue is being addressed by the proposed RRP template and RIGs.

It has been outlined that due to planned future development this RRP will be used for the first RRP of RIIO-2 and will be redesigned in the remaining years. We strongly urge against this approach. Having two different RRP templates for a single price control period limits us in our work to automate our approach to data capture and reporting. Requiring repetition of a complicated process costing us time in our other endeavours to improve and update the NARMS process. We would therefore be open to a delayed RRP in the first year to ensure it is right first time.

We see this RRP and the accompanying RIGs as an appropriate first draft. However, if after consultation there is limited change, we are concerned about the accuracy of reporting Ofgem will receive. Furthermore, the additional proposed complexity in reporting processes limits the ability of our data and analytics team to improve and adapt the NARMS systems we use to improve decision making in the business. We have seen limited changes to templates/regulations from recent consultations and we will have significant concerns if nothing comes from this consultation.

We hope that Ofgem will take on board our feedback and please remain assured that as always, we are here to support Ofgem to strike the right balance between accountability and data quality.

The concerns that we have with sections of the current RRP, and accompanying RIGs, are outlined below (Appendix A) in our responses to the questions posed by OFGEM in the consultation published on 20<sup>th</sup> November 2021.

If you have any questions regarding our responses, please do not hesitate to get in touch.

Yours Sincerely

**David Handley**  
Head of Regulation, SGN



## Appendix A

### NARM RRP

Overall, keeping the RRP consistent with the approach used for the RIIO-GD2 BPDT is welcomed to ease the transition to the NARMs RRP process. However, we still have a significant number of questions around implementation that require further discussion before being finalised.

When the previous NARMs BPDT was submitted Ofgem were unable to align cost, volumes, and NARMs. This meant that GDNs had to complete a manual exercise to correct the Ofgem models. With the proposals around a NARMs interface, we hope that these issues have been considered, so when the RRP is submitted there will be no requirement for further exercises to connect the templates.

As mentioned in the future development section of Ofgem's consultation letter, the RRP template may be changed after the first RIIO-GD2 RRP. We have already engaged external consultants to advise us on automating sections of the RRP and modernising our approach to data manipulation. We have concerns that if there is significant modification to this version of the RRP post 2022 we would end up having to repeat this exercise, creating additional complexity and reporting cost.

Furthermore, there is a lack of clarity around how this RRP template links back to the NARMs handbook, especially around the non-intervention change element. As per the handbook non-intervention risk changes are only neutral for investment within the BNRO and the non-intervention changes outside contribute towards the delivery of the NARMs risk. We struggle to understand how the current RRP template deals with this issue.

### NARM RIGs

The RIGs at points are proportionate and of adequate detail however some sections lack enough guidance and require clarification.

At multiple points it refers to long term risk. When discussing long term risk benefit it must be clearly stated that the long-term risk benefit sections are not applicable to GDNs.

In the guidance for all sections, it is unclear at multiple points when actuals are required and when a forecast should be included. In particular when outlining the post-intervention position, and from this the intervention delta. There is also a lack of clarity as to when we should be reporting whole asset populations or just actual and forecast interventions.

It states in the RIGs that data must be aligned and demonstrably reconcilable with the data reported in the cost and volumes RRP. This will not be possible for certain asset class due to the differences between what is reported in the RRP and what is captured in the NARMs process. This has previously been explained to Ofgem by GDNs, leading to changes in the NARW submission. The key concern is the different in how mains are captured in the NARMs process and how they are captured in the RRP. In the RRP cost is captured against the length laid, while in NARMs we capture length removed/abandoned, and therefore cannot be mapped at granular level. Critically with pipes modelled as cohorts it is not possible to match up which metallic cohorts being abandoned are being replaced with new length in PE cohorts. This is instead done at total asset levels. The wording in the RIGs around data reconciliation should be reworded to refer to a 'where possible' to match up data.



## Section 1

### **RRP**

Section 1.1 and 1.3 requires network companies to populate actual and forecasted risk for individual year of GD2 however, within the NARMs handbook (Page 79, section 1.36), the guidance is to capture intervention at the end of price control. This creates a significant issue when dealing with cohorted assets such as Mains, Services and Risers requiring multiple models to be created to identify arbitrary year-on-year risk. We believe year on year risk forecast do not add any value and therefore should be excluded. Our suggestion would be to split risk into 'Risk Delivered' and 'Risk Forecast end of price control'. This would provide both the in-year position and an insight of our GD2 close-out position.

The interaction between tab 1.2 and 1.3 is too simplistic. The current approach of selecting an intervention ID and automating the intervention name will be a very manual and error prone process. It would instead be clearer to have the GD fill in the intervention name, which would automate the intervention ID, impact on MR and impact on PoF/CoF based on additional columns on tab 1.2.

With GDNs unable or required to populate long term risk benefit we suggest this column is greyed out for GDNs. There should also be no requirement to provide an 'Expected Life of Intervention' in section 1.2. In previous submissions involving asset life we have submitted as "N/A".

### **RIGs**

It is unclear from the RIGs when referring to the monetised risk post-intervention on Tab 1.3 whether this is referring to actuals or forecast. This should be clearly stated.

The RIGs should have a statement that all GDN interventions are modelled in 2025/26. With explicit statements relating this to the usage of years on tabs 1.1 and 1.3. This would limit confusion and explain that the value populated under the 2022 heading is the 2026 forecast outcome risk position delivered by interventions completed in the year to date of 2022.

## Section 2

### **RRP**

Section 2 is in line with what was expected from this RRP and we are broadly in agreement with the formatting. Concerns in section 2 revolve around risk bandings and how information is drawn from section 3.

The RIGs state that the risk bandings were previously agreed. With this being the case, we would like to see this tab fixed through the GD2 price control. We would also like to see the risk bandings by company stated in an appendix in the RIGs.

Sections 2.3 to 2.5 all draw their data from section 3 however we have concerns around the appropriateness of splitting out section 3 into risk bands. We would prefer for sections 2.3 to 2.5 to either be drawn from section 2.6 to 2.8, with a validation to section 3 at a total risk level or that 2.3-2.5 are simply set as blank yellow cells to be populated. We foresee limited issues with populating total risk to an asset band level in the format given in section 2.

### **RIGs**

When discussing section 2.2 it states that the PoF bands were agreed. We would therefore like tab 2.2 of the RRP template to be fixed for each network company for the entirety of the price control period. Failing that, we would like to see the PoF risk bands stated in the RIGs, alongside a statement that they are fixed for the price control period.



There is a lack of clarity in the RIGs regarding what is required to be reported in section 2. Is it expected to capture the full asset population, just those that have been completed, or the forecast of what has been and will be completed?

For sections 2.4 and 2.5 the RIGs use the term current view (2022), the assumption that no other work takes place, when discussing the with and without position. It is unclear what is expected to be populated in these tabs, as it also states “based on interventions reported in tabs 1.2 and 1.3” which may be outside of 2022 if previous guidance is not updated to clarify this. Further to this point the RIGs should state if the current view includes non-intervention risk changes, in particular those outside of the BNRO.

### Section 3

#### **RRP**

Section 3 broadly follows the approach of the NARMs BPDT. However, the related section of the NARMs BPDT was populated by SGN without using risk bands.

While section 2 can be split out into risk bands when examining at a total risk level we foresee several problems in using a risk banded approach when incorporating non-intervention risk changes. The most severe issues we foresee are in trying to automate the non-intervention risk changes to a risk band level. Without this automation in place this would be a very manual process, greatly increase the potential for human error. This lack of automation would also limit our ability to validate and identify mistakes.

There is also no differentiation between non-intervention risk changes inside and outside of the BNRO. This is important in understanding how much of the non-intervention changes to risk will materialise in the delivery against the target and which will be normalised. This is explained in section 9 of the handbook and is critical to how we will display risk changes due to inspections as part of the GD2 close-out. The BNRO and non-BNRO must be differentiated, to support the GD2 NARMs close-out process.

Our Proposal therefore would be to remove the N3 tabs and include any critical information required during the close-out within the 1.3 Tab. This would reduce the issues around data assurance we foresee with providing this information within N3 tab. However, if this is not possible, we would strongly recommend the removal of the risk banding from N3 tabs for the reason stated above.

#### **RIGs**

The RIGs need to provide further guidance around how the non-intervention risk change is applied in relation to the BNRO and ONRO. If we are to ignore this difference until closeout that should be stated to ensure that there is no confusion at closeout as some of the non-intervention risk changes are normalised and some remain neutral.

RIGs need to state that all interventions are applied in 2025/26, or reference handbook statement to this effect.