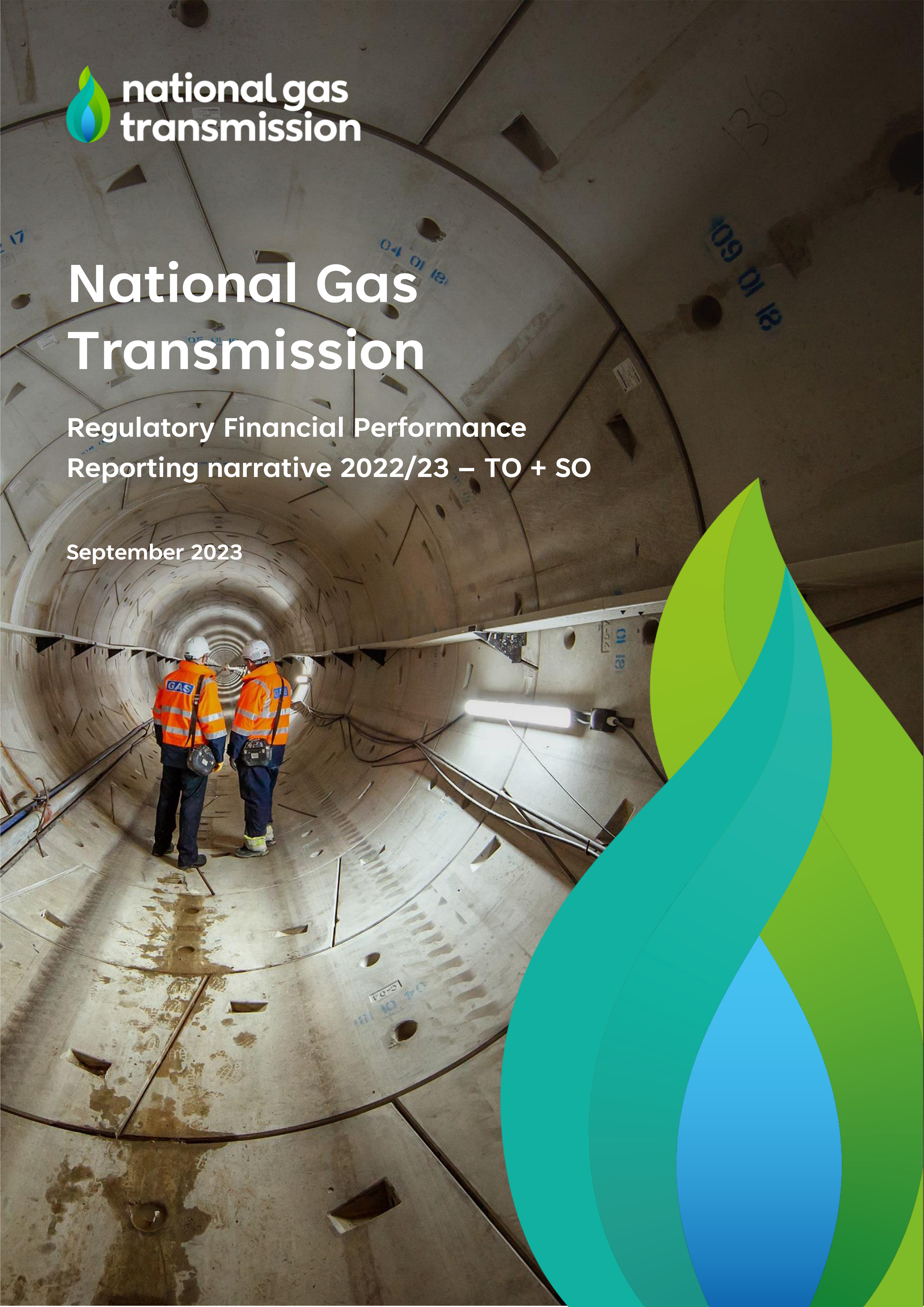
National Gas Transmission

Regulatory Financial Performance Reporting narrative 2022/23 – TO + SO

September 2023



Contents

Executive summary

This document has been produced to accompany the Regulatory Finance Performance Reporting (RFPR) data packs for National Gas Transmission (NGT) Transmission Owner (TO) and System Operator (SO).[1]

This report will highlight the key drivers of performance and explain Enduring Value Adjustments and their impact.

The second year of the RIIO-2 price control period was, from an operational management perspective, remarkable in terms of volatility in the gas market and the very high levels of gas exports to Europe, both of which were driven by global events. High gas flows over the summer period resulted in reduced access to the networks to take outages and consequently resulted in the deferral of some of our programme of works. Global supply chain challenges and labour shortages have also contributed to the delivery of lower volumes of works than forecast. However, steps have been taken to accelerate delivery for the remainder of the price control. In the context of the RFPR, the delayed spend has resulted in Enduring Value Adjustments to re-phase our allowances to better match the forecast spend profile. Further details of our Enduring Value Adjustments are provided below.

The reporting year 2022/23 also saw the completion of the sale of a majority stake (60%) of National Gas Transmission Holdings Limited (including subsidiaries National Gas Transmission and National Gas Metering) by National Grid Plc to a Macquarie-led consortium. As such a new Board was formed and a new group structure founded, details of which are provided in the corporate governance section below.

The data gathered in the RFPR reporting packs drives the calculations for the return on regulatory equity (RoRE). This is a key performance measure which indicates the financial return achieved by shareholders. The combined TO + SO operational performance RoRE is 4.9% based on notional gearing for the reporting year 2022/23 and forecast to be 5.4% across the RIIO-2 period. The component parts of these values are described in further detail below.

[1] One combined narrative has been produced for both TO and SO (RFPR RIGS, para 4.17)

Key financial performance measures

The key financial performance measures for the RFPR relate to RoRE performance for debt and tax. As summarised below, the combined TO and SO financial performance is forecast to underperform across the RIIO-2 period by -0.9% (average RoRE based on notional gearing). This is driven by debt under-performance of -1.1% offset by tax performance of 0.2%. A key factor in our debt performance is NGT's comparatively high proportion of RPI linked debt. As drawn out in the commentary below, we believe that the methodology for calculating the inflation component of the finance costs in the RFPR does not result in a true reflection of finance costs, and therefore may be creating an anomalous debt performance profile.

Tax performance for 2022/23 is based on a forecast tax liability since actual tax liabilities are reported with a one-year lag due to the timing of submission of the company tax return. Forecast values will be replaced with actual results for 2022/23 in the 2023/24 submission.

	RIIO-2 period average
Debt performance – at notional gearing	-1.1%
Tax performance – at notional gearing	0.2%
RoRE financing and tax performance	**-0.9%**

Key operational performance measures

The key operational performance measures as drawn out through the RFPR pack are RoRE performance on:

- Allowed equity return;
- Totex outperformance; and
- Incentives, innovation and other.

Across the RIIO-2 period, RoRE operational performance is forecast to be 5.4%, 5% of which relates to our allowed equity return. The remaining elements that contribute to total operational performance are:

	RIIO-2 period average
Totex outperformance	0.26%
Incentives, innovation and other	0.21%
Contribution to operational RoRE	**0.47%**

The incentives, innovation and other component of operational performance is driven from actual and forecast overperformance on our incentives, particularly in relation to our customer satisfaction performance. This overperformance is partially offset by the business plan penalty which is collected equally across the price control period.

Totex outperformance is impacted by Enduring Value Adjustments, specifically allowances that have been moved from RIIO-1 to RIIO-2 as a consequence of project spend being delayed across the price control periods. (See appendix 1 for further information on our Enduring Value Adjustments). In addition to Enduring Value Adjustments, NGT has also forecast a modest underspend versus allowances across the RIIO-2 period.

Overview of regulatory performance

RoRE

The Return on Regulatory Equity (RoRE) figure is a key measure by which Ofgem compares operational and financing performance across Network Operators (NWOs). This encompasses the costs and allowances associated with a RIIO regulated business, including totex, financing, tax, incentive performance and company funded innovation costs. RoRE is presented at both notional and actual gearing.

TO RoRE on a notional basis

The overall TO RoRE including finance and tax for 2022/23 is 5.2%, an increase of 1.3% on the prior year. This is due to an improvement in totex performance and an apparent improvement in debt performance (see below).

The operational RoRE for 2022/23 has increased from 3.9% in the prior year to 4.2%, mainly driven by an improvement in totex performance.

The RoRE impact of debt performance in the current year is 0.7%, compared to -0.9% in the prior year, and compared to an average of -1.1% across the RIIO-2 period. As set out in schedule 'R5 – Financing', the automatically calculated inflation component of nominal finance cost is derived from an Ofgem methodology of applying a flat rate percentage for inflation to the entire average net debt (adjusted for cash). However, in practice actual RPI accretion is based only on the RPI accreted debt which has a lower accreted notional base than the total regulatory debt balance. In addition, actual rates differ per each debt due to differences in base indexation and timing lags applied to rate resets. Due to the significant increase in inflation in 2022/23 compared to 2021/22, the impact of this methodology on the calculation of the inflation component of finance costs has been particularly pronounced and appears to create an anomalous result in 2022/23.

SO RoRE on a notional basis

The NGGT SO RoRE, viewed in isolation, is not a reflective measure of network performance due the relative size of the SO Equity RAV. The operational SO RoRE for 2022/23 is 34.1%, reflecting totex outperformance and incentives.

Combined TO + SO RoRE on a notional basis
The combined RoRE for both TO and SO is summarised below:

	2022/23	RIIO-2 average
Allowed equity return	4.6%	5.0%
Totex outperformance	0.1%	0.3%
Incentives, innovation and other	0.2%	0.2%
RoRE operational performance	**4.9%**	**5.4%***
Debt performance – at notional gearing	0.7%	-1.1%
Tax performance – at notional gearing	0.4%	0.2%
RoRE including financing and tax	**5.9%**	**4.7%**

*Does not cast due to rounding

Reconciliation to revenue and profit

For the purposes of reconciling the regulatory revenue and profit to the statutory accounts, NGT have allocated reported statutory values between the TO and SO entities, along with our non-regulated businesses (separate schedule provided alongside our RFPR submission). NGT's statutory financing costs are all aligned to NGT TO for these reconciliations, and tax charges have been allocated between entities based on historic apportionment (allocated to entities using a 4-year average of RFPR data).

Revenue
The revenue reconciliation aims to reconcile collected network revenue to the NGT TO & SO turnover, as per the statutory accounts.

NGT TO turnover for 2022/2023 was £1,180m compared to the collected network revenue of £1,172m. The significant reconciling items include Directly Remunerated Services (DRS), Consented and De Minimis revenue (£61m). Adjustments are also made in relation to the NIC, HyNet and Independent Systems pass through items, as the statutory turnover includes the net position (i.e. offset by cost), whilst collected revenue only captures the associated revenue items.

NGT SO turnover for 2022/2023 was £530m compared to the collected network revenue of £523m. Other than a small amount of non-regulatory income, the main adjustment relates to an accrual true-up, reflecting the change from revenue reported on an accruals basis in the statutory accounts, to the actual recovered revenue for the year reported in the PCFM.

Profit
The profit reconciliation compares the regulated network profit to net profit as per statutory accounts.

For the TO, net profit as per the statutory accounts was £427m versus a regulated network profit of £309m. The most material variances relate to interest costs (£166m). Interest costs are reconciled in detail in schedule R5, with the most significant adjustments between the statutory and regulatory views including capitalised interest and interest on a consented loan to immediate parent undertaking. Both regulatory and statutory tax values are forecast for 2022/23 and will be updated in next year's RFPR submission in line with the CT600 return.

For the SO, the net loss as per the statutory accounts was £213m versus a regulated network profit of £267m, with the variance mainly being driven by operating costs. As noted above, and directed by the RFPR guidance, all NGT financing costs are allocated to the TO, resulting in no statutory or regulatory interest costs being reported within the SO profit reconciliation.

Totex – reconciliation

The totex reconciliation aims to reconcile the total NGT expenditure as per the statutory accounts to the costs reported in the RRP, and then to totex reported in the PCFM.

For the TO, the total expenditure of £830m is adjusted by £271m to derive the £559m reported in the RRP (all nominal). The material contributors to this adjustment are depreciation (£169m), consented, de minimis and directly remunerated services (£48m) and removal of capitalised interest (£57m). Passthrough items, including prescribed rates (£84m), Licence fees (£26m), and Net Zero project costs (£25m) are all deducted from the statutory expenditure to reconcile to the PCFM/RRP reported totex.

For the SO, total statutory expenditure of £771m is increased by £2m (mainly £37m depreciation offset by £36m accounting adjustment relating to shrinkage) to arrive at £773m costs reported in the RRP. The removal of shrinkage costs (£673m) and other passthrough items reconciles to PCFM/RRP reported totex of £78m.

Incentives and other revenue

TO incentives

The incentives available for the TO include customer satisfaction, which attributes a financial reward/penalty based on surveying customers on their experiences of working with us, and the environmental scorecard, which includes stretching targets on specific environmental outcomes. In 2022/23 we achieved a customer satisfaction score of 8.60 against a baseline of 7.80. This was a marginal decrease on last year's score but is the second highest score ever achieved. Consequently, we achieved the maximum reward available (£3.65m 18/19 prices). Our revenue for the environmental scorecard incentive was £0.12m (18/19 prices). We performed well on the business mileage and office-based components but did not manage to achieve the operational transport emissions target, and therefore received no income (or penalty) for this element.

TO other revenue

Other TO revenue includes funding achieved via the Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF). In the opening two years of the price control, NGT has sanctioned 51 Network Innovation Allowance (NIA) projects, progressed 38 into delivery and have completed a total of 15 of these projects. A total of 13 sanctioned projects remain under contracting discussions and are yet to commence. Funding for NIA has been in the range of £2m-£4m (18/19 prices) but is set to increase to £11m next year. With the current in-flight and planned projects in the NGT innovation portfolio, the full NIA is forecast to be spent.

With regards to SIF, there was no funding in the prior year, however, NGT has progressed projects in Round 1 through both discovery (10 projects delivered) and alpha stages (four projects delivered). 2022/23 saw £2.7m granted through early funding rounds, with an average of £12m due in the final three years of the price control period (all 18/19 prices). (Nb. The SIF funding values input into the RFPR are for NGT funded projects only – we have not input the total SIF value as recorded in the RRP and PCFM as these values contain the total SIF funding for all gas networks.)

The Business Plan Incentive is a penalty of £21.7m which is being collected equally across the RIIO-2 period and was incurred following the Ofgem assessment of our business plan.

SO incentives
Incentives available to the SO and our performance against these measures is as follows:

- Constraint management incentive – this metric is designed to incentivise NGT to maximise the available network capacity and minimise Constraint Management costs through efficient and economic planning of the national transmission system. We achieved a reward of £4.6m (18/19 prices).
- Residual balancing incentive – the aim of this incentive is to encourage NGT to minimise differences in the line pack volumes measured at the start and end of each gas day and to incentivise the SO to minimise the impact it has on market prices as a result of its balancing activities. Whilst the line pack performance measure was better than the incentive target, the price performance measure was not met, and hence a small penalty was incurred. The management of these elements was particularly difficult in 2022/23 due to global events impacting supply, demand and associated volatility.
- Quality of demand incentive – this incentive aims to ensure that the SO is producing accurate and timely national demand forecasts, which are a valuable tool for the gas industry. 2022/23 proved to be another challenging year as ongoing global uncertainties led to very volatile gas prices. A small penalty of £0.2m (18/19 prices) was incurred. We have made the prudent decision not to forecast this incentive, reflecting the inherent difficulty to predict future demand.
- Greenhouse gas emissions incentive – the aim of this incentive is to encourage NGT to reduce the amount of natural gas vented from our compressors (primarily methane), and to reduce the effect of our operational activities on the environment. Whilst venting increased slightly in 2022/23 compared to the prior year due to high throughput of gas to Europe, we were still within the target and achieved an incentive of £1.3m (18/19 prices).
- Maintenance incentive - NGT is incentivised to minimise the use of maintenance days and changes to the maintenance plan. We outperformed the target in 2022/23 and therefore were eligible for the full incentive of £0.5m (18/19 prices).

Financing and net debt position

The NGT financing and debt position is reported in the TO RFPR pack. As noted in the RIGS (appendix 1), the SO element is an allocation of TO net debt and financing cost, and is therefore reported in the TO RFPR.

The real finance cost at actual gearing, calculated in accordance with the methodology contained in the RFPR, was £41.9m (18/19 prices) for the year ending 31 March 2023. Cost of debt allowance per the latest PCFM is £64.7m, leading to an outperformance of £22.8m at actual gearing and £15.2m at notional gearing. This compares to an underperformance of £20.8m (notional) in the prior year. However, as noted above, the inflation component stripped out of net interest is computed using Ofgem methodology based on the entire average net debt (corrected for average cash balance) using a flat rate percentage for the entire year. Actual RPI accretion is based only on the RPI accreted debt which has a lower accreted notional base than the total regulatory debt balance. Also, the rates differ per each debt due to differences in base indexation and timing lags applied to rate resets. The high inflation in 2022/23 has produced a result that appears anomalous for the current reporting year.

Whilst real finance costs have decreased year-on-year (£92.7m in 2021/22 vs. £49.4m in 2022/23, nominal), net interest has increased from £263.8m in 2021/22 to £390.4m 2022/23 (nominal). This increase reflects the impacts of increased interest rates and higher RPI on the RPI-linked debt.

Total regulated net debt has increased by £21m to £3,527m (nominal) in 2022/23 and is forecast to be £4,455m by the end of the current regulatory period. Within the reporting year, two bonds matured, as did one loan, reducing net debt by approximately £0.55bn. Three new loans were drawn down, totalling £0.96bn. In terms of derivatives, although one in the money brought forward swap trade matured during the year and six new swaps were added to the portfolio, the decrease in derivative net asset position is largely due to mark to market changes resulting from market conditions.

Within the financing and debt tables we allocate a share of the net debt/finance costs to our non-regulated business, which is primarily National Grid Metering (NGM). In the previous year, the RAV for NGM was used to apportion debt/finance costs. However, in the current year we have aligned our apportionment methodology so that the debt/finance costs allocated to NGM are three times the NGM EBITDA. This is line with our financial management strategy.

Actual regulatory gearing was 50.8% for 2022/23, but is forecast to increase to 60% by the end of the price control period.

Actual data from 2021/22 as well as 2022/23 has been populated in the new reporting pack layout. As a result of the new tables using calculations to pre-populate certain fields with assumed values (for example for debt, loans, swaps) it has been necessary to overlay adjustments in the subsequent fields to attain the correct actual results for the statutory figures. Also to note, our treasury system does not generate forecasts for swap pay and receive legs, hence presented numbers are net expected cash flows.

RAV

The Regulatory Asset Value (RAV) tables show the actual and forecast RAV for the RIIO-2 period using data from the latest PCFM. In addition to the opening RAV, net additions, and depreciation, which are all taken from the PCFM, R7 also incorporates Enduring Value Adjustments. The Enduring Value Adjustments are derived from an amended copy of the latest PCFM, which has been updated to reflect the re-profiled allowances (to better match forecast spend). Further details on our Enduring Value Adjustments have been included in appendix 1. The closing adjusted RAV values are used to calculate actual gearing and RoRE.

In the TO, the adjusted closing RAV in 2022/23 has decreased by £75.7m compared to the 2021/22 closing balance (18/19 prices). This is due to depreciation being higher than net additions, especially once enduring value adjustments have been taken into account, which have an impact on the RAV of £(24)m due to allowances being reallocated to later years in line with our forecast spend profile.

For the SO, the RAV has fallen by £10.2m to £128m (18/19 prices), as similarly, additions after enduring value adjustments have been lower than depreciation.

Taxation

The R8 tax schedule is completed a year in arrears due to the timing of submission of the CT600 company tax return, therefore data has only been populated for the regulatory year 2021/22. It should be noted that NGT do not submit a tax return for our regulated business, but for the National Gas Transmission plc legal entity as a whole. As such, an apportionment exercise has been undertaken to best allocate tax liability and adjustments between the regulated and non-regulated entities.

For the TO, the tax allowance per the latest PCFM is £36.4m for 2021/22. The calculated tax liability for comparison is £15.5m. The 2021/22 RoRE impact of assumed tax performance is 0.8% at actual gearing, and is forecast to be 0.2% for 2022/23. The forecast values include the impact of Enduring Value Adjustments. For the SO, the tax allowance per the latest PCFM is £2.5m for 2021/22, which compares to a £0.9m adjusted regulated tax liability. The main driver of tax performance for both TO and SO for these periods is the difference in profit before taxation included in the statutory accounts compared to the PCFM equivalent.

Corporate governance

Corporate ownership and governance framework

Group structure

Following the completion of the sale on 31 January 2023 a new National Gas group structure was established. The addition of GasT Topco Limited, GasT Pledgeco Limited, and GasT Midco Limited as holding companies in the National Gas group structure is due to the financing arrangements of the group's investors.

Shareholders' Agreement

National Gas is a party to a private agreement between the shareholders of GasT TopCo Limited (the Shareholders' Agreement), which governs how the shareholders manage their investment in the NGT business. This includes a schedule of matters reserved for decision by the GasT TopCo Limited shareholders and the GasT TopCo Limited Board of Directors.

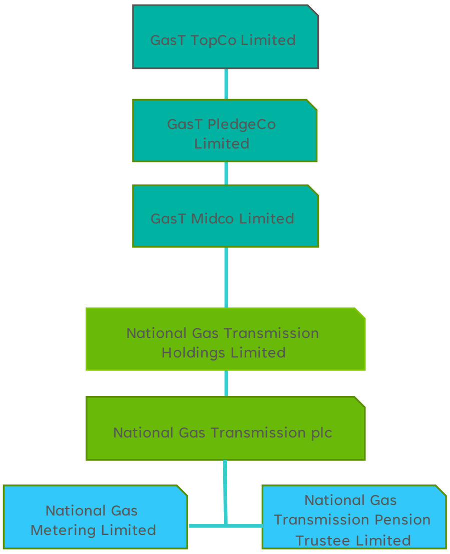
Governance

We continue to be guided in our approach to corporate governance through the application of the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). For the year ended 31 March 2023, the Board is satisfied that it was compliant throughout the year with all of the six Wates Principles. Prior to sale completion executive remuneration was governed by the remuneration committee of National Grid plc. The establishment of a Remuneration and Nominations Committee on 31 January 2023 means that executive remuneration is now a matter for the Board. This Corporate Governance Statement describes how we have applied the Wates Principles throughout the year and the Strategic Report provides details of our stakeholder relationship and engagements.

Principle	Purpose & Leadership	Board Composition	Director Responsibilities	Opportunity & Risk	Remuneration	Stakeholder Relationships and Engagement
High level description	An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge. The size of a board should be guided by the scale and complexity of the company.	The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risk.	A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders.
Application	✓	✓	✓	✓	✓ Note: Up to 31 January 2023, remuneration matters were considered by the ultimate parent company, National Grid plc.	✓

Our owners

The National Gas group is owned by the shareholders of GasT Topco Limited. As at 31 March 2023, 60% of the shares in GasT Topco Limited were owned by a consortium of investors comprised of Macquarie Asset Management and British Columbia Investment Management Corporation with the remaining 40% of the shares in GasT Topco Limited owned by National Grid group.



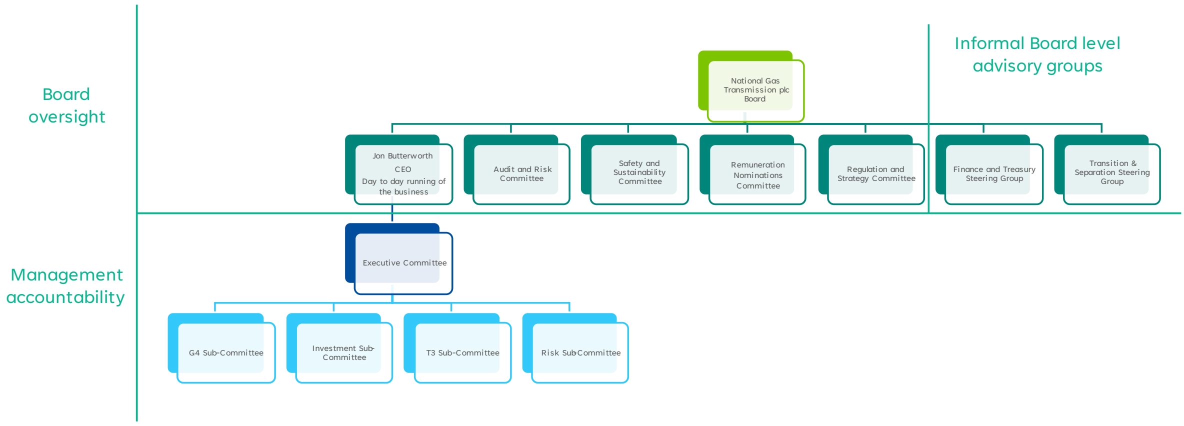
Governance framework

Our Board has the overall responsibility for ensuring long-term success of the business. Collectively the Board is also responsible for its governance and its effective oversight of the company, its business and compliance with its obligations under our Gas Transporter Licence.

Until the completion of the sale on 31 January 2023, our governance framework formed part of the wider National Grid plc's governance framework and the Board was supported by an Executive Committee, an Audit Committee and a Finance Committee. Up to 31 January 2023, the Company did not have a Nominations Committee and a Remuneration Committee as these functions were provided by National Grid plc. Safety, health and environment (SHE) matters, which is one of the main priorities of the Board, were delegated to a management committee which formed part of the wider National Grid plc group wide safety governance framework.

A new governance framework was introduced on 31 January 2023. Whilst the Board retains the overall responsibility for the delivery of National Gas' strategy, it has established a number of Board Committees to focus on key areas on behalf of the Board. The Committee meetings enable the Committee members to consider specific areas in more details, (and by gaining greater understanding of areas within the Committees' remit) it supports collaboration between Board members and senior executives.

The remit of each Committee is approved by the Board and each Committee reports back to the Board on matters discussed, decisions taken and makes recommendations to the Board on matters requiring Board approval. The diagram below outlines our governance framework as of 31 March 2023.



Audit and Risk Committee	Safety and Sustainability Committee	Remuneration and Nominations Committee	Regulation and Strategy Committee
• Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.	• Assists the Board in providing guidance and direction to the Company's safety, health and sustainability strategies and monitoring performance against the Company's safety, health and sustainability ambitions.	• Assists the Board by determining the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Sufficiently Independent Directors. • Assists the Board by keeping the Board composition under review and makes recommendations in relation to Board appointments as well as overseeing Executive Director succession planning.	• Assists the Board by overseeing the Company's compliance with its licence and other regulatory obligations. • Assists the Board in overseeing the development of the new regulatory framework and hydrogen strategy.

The Board is also supported by two informal steering groups, the Finance and Treasury Steering Group and the Transition and Separation Steering Group. These groups do not have any decision-making authority but support management in the oversight of specific areas within their remits.

- **Finance and Treasury Steering Group**: provides oversight of the financial position across the National Gas Transmission group and develops proposals in relation to financial and treasury activities.
- **Transition and Separation Steering Group**: a time limited group which provides strategic oversight of the delivery of the separation plan entered into as part of the separation of the Company from National Grid plc.

Composition of the Board

The composition of the Board is essential to its success in providing strong and effective leadership and together the Directors bring a wide range of experience, skills, and perspectives to Board deliberations.

Prior to the sale, the Board consisted of two Sufficiently Independent Directors, two National Grid group appointed non-executive directors and two executive directors, and was chaired by one of the National Grid group appointed non-executive directors.

Following the completion of the sale, the Board is made up of two Sufficiently Independent Directors, one of whom is the Chair, seven Shareholder Nominated Directors and two Executive Directors. From a governance perspective, the Sufficiently Independent Directors and the Shareholder Nominated Directors are nonexecutive directors. The Executive Directors do not have voting rights.

The composition of the Board is predominately determined by the Shareholders' Agreement. The Board may benefit from more diversity, however the Board does not operate a formal Board diversity policy since Board appointments are a matter reserved to the shareholders of GasT TopCo Limited, under the Shareholders' Agreement. During the year the composition of the Board has at all times been such that the Directors collectively bring a wealth of experience, knowledge and expertise from a broad range of backgrounds, including from the energy sector and other regulated industries. This depth and breadth of experience enables the Board to engage in constructive and challenging discussions, ensures that collectively the Board has a high-level of understanding relevant to the business and considers not only the interests of the shareholders but also of the wider range of stakeholders.

Chair
Prior to the sale the Board was chaired by Ben Wilson, the National Grid plc Chief Strategy & External Affairs Officer. Through his role at National Grid plc he was well placed to identify and facilitate the views of the ultimate shareholder and appropriate for a company that was part of a larger group. Ben stepped down as Chair on 31 January 2023 but has remained on the Board as a Shareholder Nominated Director. Dr Phil Nolan was appointed non-executive chairman and a Sufficiently Independent Director as of 31 January 2023. As per the Wates Principles, the roles of the chair and chief executive are separate.

Sufficiently independent directors
In accordance with our Gas Transporter Licence, we have two sufficiently independent directors (SID), appointed to provide independent challenge and input to the decision-making process. Cathryn Ross was appointed as a SID in June 2019 and remains in this role post sale completion. Dr Clive Elphick was appointed as a SID in 2014 and, following an assessment of his independence, his tenure was extended up to the completion of the sale on 31 January 2023. Dr Phil Nolan, the current Chair, replaced Clive as a SID.

Shareholder nominated directors
Our Board consists of seven shareholder nominated directors, representing members of the consortium of investors in GasT TopCo Limited. As per the Shareholders' Agreement, each of the Shareholder Nominated Directors can appoint alternate directors to participate in meetings in their absence.

Directors
The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Name	Position	Appointment date
Dr Phil Nolan	Chair & Sufficiently Independent Director	31 January 2023
Jon Butterworth*	Chief Executive	pre-existing
Jerry Divoky	Shareholder Nominated Director	31 January 2023
Howard Higgins	Shareholder Nominated Director	31 January 2023
Nick Hooper*	Chief Financial Officer	pre-existing
Mark Mathieson	Shareholder Nominated Director	31 January 2023
William Price	Shareholder Nominated Director	31 January 2023
Cathryn Ross	Sufficiently Independent Director	pre-existing
Katerina Tsirimpa	Shareholder Nominated Director	31 January 2023
Lincoln Webb	Shareholder Nominated Director	31 January 2023
Benjamin Wilson**	Shareholder Nominated Director	pre-existing
Mia Aguomi	Alternate Director	31 January 2023
Kylee Dickie	Alternate Director	31 January 2023
Natalie Humphries -New	Alternate Director	31 January 2023
Timothy Keeling	Alternate Director	20 March 2023
Rhian Kelly	Alternate Director	31 January 2023
Christy Pham	Alternate Director	20 March 2023

Former Directors		Resignation date
Clive Elphick	Sufficiently Independent Director	31 January 2023
Alexandra Lewis	National Grid plc appointed non-executive director	31 January 2023

* Non-voting Board member

** Benjamin Wilson was the Chair of the Company until 31 January 2023, but remains on the Board as a Shareholder Nominated Director.

Board activities

The Board normally holds six scheduled meetings per year. As a result of the sale of the business, the Board met five times between 1 April 2022 and to 31 January 2023, of which one meeting was to consider and approve specific items in relation to the sale. The new Board met twice during its first two months, of which one was an ad hoc meeting to consider specific governance items and for management to give an initial overview of the business. The Board culture is one of openness and collaboration and the Chair ensures that all Directors have an opportunity to contribute to debates. Prior to the sale of the business, the agenda of the Board largely reflected the Company's position as an operating company in the National Grid plc group. From sale completion, a more significant part of agenda is dedicated to strategic matters.

Each scheduled Board meeting includes a report from the Group Chief Executive, which covers health and safety, operational and overall business performance, and a report from the Chief Financial Officer covering financial performance. Regular updates are also provided on governance and legal matters. Any actions arising from meetings are overseen by the Company Secretariat and updated action lists form the agenda for the next scheduled meeting.

Other key items considered by the Board during the year:

Finance

- Budget and five-year plan
- Approval of annual report and accounts
- Reviewed and approved the going concern statement for inclusion in the annual report and accounts
- Declaration of dividends
- Regulatory compliance
- National Gas Metering Limited annual performance update

Operational

- Annual business plan
- Annual asset data assurance
- Risk appetite and corporate risk register
- Review of cyber security and threats
- Certifications required under the Company's gas transporter licence

Strategy

- Hydrogen strategy
- Customer and stakeholder strategy
- Ofgem's gas transportation charging regime

Sale of the Company

- Regular updates on National Grid plc's sale of the Company
- Governance of the new Group
- Establishment of a NGT Pension Scheme

Governance

- Approval of revised Board governance framework
- Board Committee updates
- Approval of Modern Slavery Statement
- Approval of NGT specific policies

Board induction and training

The Board believes that an induction and continuous training and development supports Board effectiveness. It is committed to offering relevant training opportunities, tailored to each individual, that provide Directors with the necessary resources to refresh, update and enhance their skills, knowledge and capabilities. The extensive due diligence that was carried out as part of the sale of National Gas, meant that the Shareholder Nominated Directors appointed to the Board at the end of January already had an in depth understanding of the business and the environment in which it operates. Individual meetings with senior executives and site visits were scheduled at the request of the individual Directors and the new Chair.

Board evaluation

Good governance provides that an evaluation of the performance of the Board and its committees, together with the effectiveness of the chair and the directors, should be carried out annually. Given the number of director changes that took place as a result of the sale of the business and the introduction of the new board governance framework, it was decided not to carry out an effectiveness review this year and a summary of the internal review that will be carried out during the 2023/24 will be provided in the next annual report.

Executive remuneration policies

The National Grid Plc Remuneration Committee was responsible for recommending and implementing remuneration policy for executive directors until the completion of the sale to a newly created holding company structure took place on 31 January 2023. A detailed review of total compensation was undertaken for the National Gas executive team, encompassing base pay, short-term incentives, and long-term incentives ahead of sale completion. An external body was commissioned to independently benchmark the remuneration of the management team against a peer group of other UK regulated network companies.

Following the sale, the Board of Directors of NGT has established a Remuneration and Nominations Committee to assist the Board in fulfilling its oversight responsibilities in determining the Executive remuneration policy, approving total individual remuneration packages for Executive Committee members as well as overseeing the remuneration arrangements for the wider workforce. The Remuneration and Nomination Committee, led by a shareholder nominated director, provide regular assurance to the Board and by exception, they can escalate issues that merit full board discussion and decision.

The aim remains to align the remuneration policy to the business strategy and key business objectives of the Company, and ensure it reflects our shareholders', customers', and regulator's interests. Consistent with the UK Corporate Governance Code, two members of the remuneration committee are independent non-executive directors who do not receive any variable remuneration and do not participate in decisions about their own remuneration.

The Committee receives input on policy implementation within the wider workforce before reaching decisions on matters such as salary increases and annual incentive pay-outs. The remuneration structure for the executive team should generally be consistent with the remuneration structure for National Gas senior management. This consistency builds a culture of alignment with a common purpose and approach to sharing in the success of the Company. The appropriateness of pay positioning is closely reviewed by reference to external measures (benchmarking remuneration packages) and internal review of performance and pay gaps.

The aim of National Gas Transmission's remuneration policy is to ensure that remuneration, and decisions on annual and long-term reward plans, are compatible with, and fully support:

- attracting, motivating, and retaining employees while not over-paying; the key elements of remuneration are targeted broadly at mid-market of other companies in our peer group and industrial sector of comparable scale and complexity.
- ensuring we pay our employees in a way that incentivises stretching financial and operational performance, within the risk appetite set by the NGT leadership team.
- being fully aligned to the fact that we are a Regulated company and our impact we have on the cost to the consumer; and

- actively supporting our strategy, ethics, values, and contribution to society in the areas where we operate.

From time to time, the NGT leadership team may consider it appropriate to apply some judgement and discretion in respect of the policy. Use of discretion will always be in the spirit of the policy.

Leadership Remuneration Framework

Band	Target APP (% of salary)	LTPP Maximum Award	Pension DC contribution*	Car Allowance	PMI*	Holiday	Flexible Benefits
CEO NGT	45.0%	Up to 225% of annual base salary	12%	£15,000	Family (legacy)	28 days annually (plus public holidays)	We offer a range of benefits, employee assistance programme and flex benefits scheme
NGT Leadership Team	17.5 - 32.5%	Up to 60 - 120% base salary	12%	£12,000	Single (with some family legacy arrangements)		

** Externally hired employees will participate in a Defined Contribution (DC) arrangement with a maximum of 12% employer contributions; and receive Employee only private medical insurance (PMI) cover.*

Annual Remuneration Increases

Base salary increases are reviewed annually and are targeted broadly at mid-market of our peer group. In addition, a number of other factors are considered:

- business performance and individual contribution;
- the individual's skills and experience;
- scope of the role, including any changes in responsibility; and
- market data, including base pay and total remuneration opportunity in the relevant comparator group.

The Remuneration and Nominations Committee review and approve annually remuneration of the National Gas directors. The budget for annual salary increases for senior managers and managers is set at National Gas Executive Committee level and allocated to individuals with reference to factors outlined above.

Performance Related Remuneration

Performance based elements of remuneration form a significant portion of the total remuneration package for the executive directors of NGT. Typically, performance-based elements account for 50-60% of the total remuneration opportunity. These are cash-based schemes linked to both business performance measures and individual performance and typically comprise an annual element (the Short-Term Incentive Plan, STIP) and a longer-term element - a 3-year performance period rolling scheme with annual "grant" (the Long-Term Incentive Plan, LTIP). There is adequate provision for the withholding and recovery of awards to protect against rewarding poor performance or failure.

The STIP and Staff Performance Bonus comprise reward for achievement against NGT scorecard measures and achievement against individual objectives. Performance measures and targets are normally agreed at the start of each financial year and are aligned with NGT strategic business priorities. Targets are reviewed and approved annually by the Remuneration and Nominations Committee and are set with an emphasis on providing sustainable, positive outcomes for our stakeholders and by reference to the budget.

Individual performance will be determined by an assessment of the achievement of objectives set at the start of the financial year and their demonstration of leadership behaviours and National Gas values.

Operational performance of NGT during the year will be assessed against metrics and targets set at the start of the financial year.

The achievement of stretch performance across all measures will result in the maximum STIP award of 200% of target at managerial levels. Performance against measures will also determine the level of Staff Performance Bonuses paid to our Staff population; maximum awards are subject to collective agreements in place at the time as per the national collective bargaining framework.

National Grid plc operated a share-based long term incentive plan (LTPP), under which awards may be granted to senior managers each year, with the intention to provide an appropriate incentive to encourage outstanding long-term performance of the National Grid. Awards were in the form of either Performance Shares or Restricted Shares. Vesting occurs at the third anniversary of the award with the vesting value flexing with the value of the National Grid business during the vesting period.

Members of the National Gas Executive team accrued benefits from LTPPs awarded by National Grid in 2020 and in 2021. All LTPPs crystallised on completion of the sale of the business on 31 January 2023 and the awards were made on a pro-rata basis. As a gesture of goodwill, National Gas have chosen to ‘make up’ the approximate difference between the value of the lapsed shares (the pro-rated amount) and the value of the full award, given that the sale should not leave individuals subject to detriment.

2022/2023 Executive Remuneration

As at March 2023, NGT has two executive directors, Jonathan Butterworth (CEO) and Nick Hooper (CFO), whose corresponding remuneration has been declared in the RFPR data pack.

Both executive directors oversee the running of National Gas Transmission as well as National Gas Metering. This has been reflected by allocating 90% of their total remuneration to the regulated businesses, in line with current General Service Agreement (GSA) cost assumptions.

The National Gas group is now wholly owned by its institutional shareholders and therefore the directors do not hold any shares in the National Gas group nor are directors or employees offered shares or share options as part of their reward.

CEO pay ratios

The table below shows how the CEO's total remuneration (as taken from the directors' emoluments information for FY23) compares to the equivalent total remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022/23	B	74:01	61:01	54:01

The relevant regulations provide three options which may be used to calculate the pay for the employees at the 25th percentile, median and 75th percentile. For this calculation National Gas have used Option B, which allows the company to use its most recent gender pay gap information.

The ratios shown are representative of the 25th percentile, median and 75th percentile pay for UK employees within National Gas during 2022/23. As noted above, CEO pay is determined after consideration of several factors, including external benchmarking of peers and performance delivery against set targets.

Dividend policies

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We firstly retain part of the profits generated in the year to meet future growth plans and meet our gearing target. Any remainder may then be paid out as a dividend after the Board have become satisfied that the company has sufficient reserves and financial resources to be able to make a distribution.

In 2022/23 there were two distributions made: £290m was paid as a final dividend for the year ending 31 March 2022 as approved in the July 2022 Board meeting, and secondly, an interim dividend of £215m was paid on 31 January 2023, giving a total of £505m distributed. It is to be noted that this dividend includes the contribution from both regulated and non-regulated business within the National Gas group. The schedule in R9 of the RFPR data pack provides a breakdown of the allocation of the dividend between our regulated and non-regulated businesses, with approximately £148m attributed to our non-regulated entities.

Pensions and other activities

Ofgem have previously acknowledged that pension costs, particularly deficit costs disclosed in table R10 are largely outside of the direct control of network operators. Nevertheless, where some element of pension cost mitigation is possible, NGT has consistently sought to reasonably reduce pension costs associated with its defined benefit pension schemes, as detailed in the 2020 submission to Ofgem's Reasonableness Review which formed part of the 2020 PDAM exercise. The TO and SO pension deficit payment are zero from 2021/22. The pension scheme valuation is performed tri-annually, and the valuation data presented reflects the finalised results of the triennial actuarial valuation at 31 March 2019. Results of the newly finalised triennial actuarial valuation at 31 March 2022 will be used to inform the 2023 Pension Deficit Allocation Methodology (PDAM) exercise and those updated results will feed into the pensions disclosures for 2023/24.

The established deficit and pension payment history allowance reflects the most recent final pension allowances published by Ofgem on 9 November 2020 following Ofgem's decision outcome from the 2020 PDAM exercise. Updated PDAM results are expected to be published by Ofgem in November 2023 and to feed into the 2023/24 RFPR.

Data assurance statement

Our RFPR submissions have been completed in line with Ofgem Data Assurance Guidelines (DAG). This mandates a fully documented two-level review process. The overall submissions and have been signed off at Director level.

Appendices

Enduring value adjustments

As noted in the RIGs, Enduring Value Adjustments are made to a licensee's financial or operational performance, and are used where the standard data inputs e.g. from the RRP and PCFM, may not give a fully accurate view of performance. Enduring Value Adjustments should be reported at the highest reasonable level.

Enduring Value adjustments have been applied to the performance from the Cost & Outputs RRP to give a more accurate view of RIIO-2 performance. The methodologies are explained below:

1. TO - Peterborough and Huntingdon Allowance Deferral
   This adjustment has been added in 2021/22 and 2022/23 (£52.50m total) to better reflect performance associated to Peterborough and Huntingdon. During RIIO-1, an allowance was agreed for the Peterborough and Huntingdon Compressor Project. However, due to unexpected delays, a portion of the spend has been deferred to RIIO-2. As a result, an enduring value adjustment is required to reflect the 'deferred' T1 allowance, in line with the delayed spend, and providing a more accurate view of performance. The carried forward allowances have been included by increasing allowances as shown in the PCFM over the first two years of RIIO-2. A precise calculation to reflect the adjustment spanning price controls is constrained by the reporting pack layout; for the purposes of reporting performance this methodology was deemed sufficient.

2. TO & SO - Rephasing of Allowances (Capitalisation Rate 1)
   NGT rephase allowances compared to those in the PCFM. This better matches allowances to the level of incurred or forecasted expenditure, providing a more accurate view of in-year performance. This is appropriate as rephasing does not affect the overall level of allowances recognised over the RIIO-2 period, thus does not materially impact the RIIO-2 RoRE.
   The enduring value adjustment has been derived by reviewing the forecast spend on each category of works, and then re-allocating the allowances for each of these categories in line with the actual and forecast spend profile.

The tables below summarise the totex position before and after enduring value adjustments for the TO and SO.

£m 18/19 prices	2022	2023	2024	2025	2026	Total
TO totex before Enduring Value Adjustments						
Totex	293.0	345.4	433.4	555.1	455.4	2082.4
Allowance	306.5	421.9	497.6	453.5	398.0	2077.6
Performance	**13.5**	**76.5**	**64.2**	**(101.6)**	**(57.4)**	**(4.8)**
TO totex after Enduring Value Adjustments						
Totex	293.0	345.4	433.4	555.1	455.4	2082.4
Allowance	255.9	326.4	420.1	609.5	518.2	2130.1
Performance	**(37.1)**	**(19.1)**	**(13.3)**	**54.4**	**62.7**	**47.7**

£m 18/19 prices	2022	2023	2024	2025	2026	Total
SO totex before Enduring Value Adjustments						
Totex	71.4	66.0	84.7	118.9	105.2	446.2
Allowance	90.7	95.3	108.5	99.1	83.7	477.2
Performance	**19.2**	**29.3**	**23.8**	**(19.9)**	**(21.5)**	**30.9**
SO totex after Enduring Value Adjustments						
Totex	71.4	66.0	84.7	118.9	105.2	446.2
Allowance	89.6	90.1	104.8	104.1	88.5	477.2
Performance	**18.2**	**24.1**	**20.1**	**(14.9)**	**(16.6)**	**30.9**

Basis of any estimates and allocations

Where allocations between NGT (TO) and NGT (SO) have been required, details of the applied basis/methodology have been given within the corresponding section of the narrative.

Other relevant information

NGT has been granted consent to longer produce regulatory accounts, and therefore the procedures relating to regulatory accounts have not been completed.

Statutory account values used in reconciliations in the RFPR pack for years 2021/22 and 2022/23 are audited values.

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