NATIONAL GRID GAS TRANSMISSION (TO)

Regulatory Financial Performance Reporting Narrative (2021/22)

August 2022

Contents

National Grid Gas Transmission (TO) RFPR Submission Narrative (2021/22)

Executive Summary

The main purpose of this report is to provide a useful summary of National Grid Gas Transmission's (NGGT) financial and operational performance and represents 'Year 1' of the five-year RIIO-2 regulatory period. This report will explain the Enduring Value adjustments and their impact on RIIO Financial Performance, providing statements that the appropriate level of data assurance has been met and explain any material changes in performance when compared to the 2020/21 submission.

This narrative supports the submission of the NGGT Transmission Operator (TO) Regulatory Financial Performance Reporting (RFPR) pack. Given the current requirements of the Regulatory Reporting Pack (RRP) narratives overlap with those of the RFPR narrative, published Cost & Outputs RRP Narrative is referenced to avoid duplication.

Based on 2021/22 RRP submission, the NGGT (TO) operational RoRE for the 5 year RIIO-2 period is forecast to be 4.56% (on a notional basis). This is broadly in line with allowed return, reflecting a conservative totex outperformance and incentive revenue, offsetting the downward impact of the RIIO-2 Business Plan Incentive (BPI). Current inflation rates have resulted in NGGT TO forecasting a RIIO-2 RoRE including financing and tax of 2.53%.

RoRE

Overview

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. A key concept in the RoRE calculation is Enduring Value. This aims to show the full value the regulated company has earnt during the price control period and therefore adjusts for allowances and incentives that are not related to RIIO-2 performance.

NGGT (TO) RoRE on a Notional Basis

(2018/19 price base)

The overall NGGT (TO) RoRE for 2021/22 is 1.84%, a decrease of 0.70% in comparison to 2020/21. This is due to a decrease in Allowed Equity Return and Debt performance, partly offset by improved Totex performance.

The 2021/22 operational RoRE has decreased from 4.93% in 2020/21 to 4.09%, this is driven by the reduced allowed return for RIIO-2 (2.28%) and Business Plan Incentive (BPI) (0.14%), partly offset by increased Totex Performance (incl. Enduring Value Adjustments) (1.63%). Incentive and Innovation performance remain broadly consistent. NGGT TO forecast the operational RIIO-2 RoRE value to be 4.56%, in line with allowed return. This reflects a small Totex and Incentive outperformance, offset by BPI.

The financing performance has decreased from -1.70% in 2020/2021 to -2.60% in 2021/2022, reflecting higher RPI inflation. Tax performance has been forecast at 0.35%, driven by the impact of financing costs within the RFPR report.

Revenue and Profit

(Nominal price base)

The Allowed Revenue for NGGT TO in 2021/22 was £981.01m; however, only £938.06m was recovered through charges. Consequently, NGGT TO under-recovered by £42.94m for 2021/22, generating a 'K_t' in 2022/23 Allowed Revenue. The main driver for this under-recovery is the deliberate £45.00m deferral of TO Entry Revenue from 2021/22 to 2022/23, in an effort to smooth out charges[1].

Revenue Term		**(£m 2021/22)**
Calculated Revenue (as published)	$R_t^* \times PI_t^* / PI\ 2018/19$	840.45
AIP adjustment term (as published)	ADJ_t^*	0.00
Adjusted revenue (as published)	$ADJR_t^*$	840.45
Legacy Allowed Revenue	LAR_t	19.82
K Correction Factor	K_t	120.73

[1] Ofgem Open Letter on £45m Deferral

Allowed Network Revenue	***AR_t***	**981.01**

Collected Regulated Network Revenue	RR_t	938.06
(Under) / Over recovery		**(42.94)**

The below table details the forecast Allowed Revenue used to set charges and the final Allowed Revenue against Collected Revenue.

Charge Period	**Allowed Revenue (£m 2021/22)**	**Commentary**
October 2021 Charge Setting Statement (Forecast)	942.41[2]	Target Revenue figure used for Charge Setting, includes £45.00m deferral.
August 2022 Dry Run 1 PCFM	981.01	Final Allowed Revenue for 2021/22.

Charge Period	**Collected Revenue (£m 2021/22)**	**Commentary**
July 2022 RRP Submission	938.06	£42.94m under-recovery driven by the £45.00m deferral.

Reconciliation to Statutory Accounts

(2021/22 price base)

For the purposes of reconciling the regulatory revenue and profit to the statutory accounts, NGGT have allocated reported values between the TO and SO entities, along with the non-regulated businesses[3]. NGGT's statutory financing costs are all aligned to NGGT TO for these reconciliations, and tax charges have been allocated between entities based on historic apportionment[4].

[2] Oct 2021 Charge setting Statement: Transmission Services Revenue Model: https://www.nationalgrid.com/gas-transmission/document/136606/download (Published 26 August 2021)
[3] Supporting reconciliation has been submitted to Ofgem
[4] Statutory tax charge has been allocated to entities using a 4-year average of RFPR data

Revenue Reconciliation

The revenue reconciliation aims to reconcile collected network revenue to the NGGT TO turnover, as per the statutory accounts. NGGT TO turnover for 2021/2022 was £952.18m compared to the collected network revenue of £938.06m. The significant reconciling items include DRS, Consented and De minimis revenue (£57.51m). 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.

The change in accounting standards to IFRS 15 Revenue from Contracts with Customers was implemented in 2018/19 and has reduced statutory revenue for NGGT (TO) from 2018/19 onwards. This creates an additional reconciling item between statutory and collected revenue, with a reduction in statutory revenue for agency income and a change in timing of revenue recognition for connections and diversions.

Profit Reconciliation

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

Net profit as per the statutory accounts was £244.76m, £53.58m higher than the regulated network profit of £191.18m. The most material variances relate to interest costs (£104.78m), partly offset by tax (£19.40m, net of deferred tax). Interest costs are reconciled in detail on Table R5, with the most significant adjustments between the statutory and regulatory views including fair value adjustments, capitalised interest, and consented loan to immediate parent undertaking.

Both regulatory and statutory tax values are currently forecast and will be updated in the August 2023 RFPR submission in line with the CT600 return.

Totex Reconciliation

The totex reconciliation aims to reconcile the total NGGT TO expenditure as per the statutory accounts of £697.49, to the PCFM/ RRP reported Totex of £317.84m.

Firstly, adjustments are identified to reconcile to the total costs per latest RRP submission, £470.28m. The material movements include deducting £165.60m relating to depreciation, amortisation and profit/loss on disposal, which are not reported within RRP, along with any Directly Remunerated Services (£16.07m) and Consented and De Minimis costs (£27.47m).

Pass through items, including prescribed rates (£84.13m), Licence fees (£24.34m), Security costs (£16.42m) and NIC (26.67m) are all deducted from the statutory expenditure to reconcile to the reported 2021/22 Totex.

Totex Performance

RRP22 Performance Overview[5]

(2018/19 price base)

Per the Cost & Outputs RRP22 submission, the NGGT TO Totex for 2021/22 was £293.00m compared to allowances of £304.47m, resulting in an out-performance of £11.47m. For the five-year RIIO-2 period, Totex is forecast to be £1,757.72m compared to allowances of £1,721.04m, resulting in a forecast under-performance of £36.68m. Performance in 2021/22 has been significantly affected by delayed expenditure relating to RIIO-1 projects.

Totex Actuals/Forecast:

- TO Capital Expenditure for 2021/22 was £196.39m against total allowances of £184.98m. Capital Expenditure for the five-year period is forecast to be £1,199.07m, against allowances of £1,132.24m:
    - Load Related Capital Expenditure was £6.73m[6] against allowances of £4.26m in 2021/22. Of this, £2.38m relates to Western Gas Network Upgrade, with equivalent allowances expected under the relevant Uncertainty Mechanism. There was £4.22m incurred on unfunded projects, principally Felindre VSD project. RIIO-T2 forecast spend of £83.17m is against allowances of £75.81m, primarily reflecting spend carried over from RIIO-T1.
    - Non-Load Related Capital Expenditure was £121.60m against allowances of £118.42m in 2021/22. This includes £16.43m of expenditure at St Fergus, the subject of a future Uncertainty Mechanism submission for which no allowances

[5] Some allowance values have immaterially moved since the writing of the RRP narrative due to RPEs and UM allocations, calculated in the Dry Run 1 PCFM update.
[6] Net Zero UIOLI expenditure has been incorrectly captured as Other Capex in the PCFM rather than Load Related Capex. This is due to linkage errors in the RRP. As such, the Load Related Capex spend has been understated, and Other Capex spend has been overstated by £0.74m.

have yet been reflected in 2021/22 or in the RIIO-T2 forecast (as the needs case is yet to be agreed with Ofgem). Generally, the lingering effect of COVID-19, higher surveying requirements and recruitment of new personnel have delayed investment in 2021/22, notably in Asset Health schemes. RIIO-T2 forecast spend of £780.88m is against allowances of £729.61m, primarily reflecting T1 funded Peterborough and Huntingdon compressor works.

  - Non-Operational Capex expenditure in 2021/22 was £31.42m against allowances of £27.81m. This includes the purchase of four sites at a cost of £7.43m. In 2021/22, £4.90m of unfunded costs have been incurred, primarily relating to the implementation of a new Enterprise Resource Planning (“ERP”) system. Expenditure across the RIIO-T2 period is expected to be broadly in line with allowances.
  - TO Other Capex expenditure in 2021/22 was £36.64m[4] against allowances of £34.48m. The underspend against allowances across Physical Security Resilience, Cyber Resilience OT and Non-Operational Capex (inc. IT) reflects additional planning processes being necessary to determine the best and most efficient solution, notably in IT programmes. RIIO-T2 forecast spend of £215.90m is against allowances of £206.33m, primarily reflecting spend carried over from RIIO-T1.
- TO Opex costs were £96.61m against allowances of £119.49m. Direct Opex was £3.90m lower than allowances, with lower maintenance costs driven by reduced use of agency staff and procurement efficiencies, offset by higher fault costs caused by higher-than-expected levels of Linewalking and costs associated with prolonged severe weather, notably winter storms across Northern England and Scotland. TO Opex is expected to be £558.65m vs. allowances of £588.80m across the RIIO-T2 period, reflecting the ongoing impact of the factors noted above.

Further breakdown of Totex performance can be found in the Performance Summary in the Cost & Outputs RRP narrative.

Enduring Value Adjustments

(2018/19 price base)

Two 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:

a. 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.
b. Rephasing of Allowances (Capitalisation Rate 1)
   NGGT 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.

Accordingly, the below tables summarise NGGT TO's totex position before and after enduring value adjustments:

TO Totex (Prior to Enduring Value Adjustments)					
2021/22			**RIIO-2**		
Totex	*Allowance*	*Performance*	*Totex*	*Allowance*	*Performance*
£293.00m	£304.47m	£11.47m	£1,757.72m	£1,721.04m	(£36.68m)

TO Totex (After Enduring Value Adjustments)					
2021/22			**RIIO-2**		
Totex	*Allowance*	*Performance*	*Totex*	*Allowance*	*Performance*
£293.00m	£269.57m	(£23.42m)	£1,757.72m	£1,773.54m	£15.82m

2021/22 totex performance, including these enduring value adjustments, reduces the notional RoRE by -0.40%; largely reflecting the impact of delayed T1 spend. Over the course of the RIIO-2 period, NGGT TO currently forecast a Totex RoRE impact of 0.05%.

Incentives and Other Revenue

Output Delivery Incentive Performance

In RIIO-2, NGGT has two output delivery incentives associated with financial reward/penalty: the Customer Satisfaction Survey (CSAT) and the Environmental Scorecard. The Stakeholder Satisfaction Survey (SSAT) is still in place for RIIO-2; however, it is now a purely reputational incentive.

The RIIO-2 Business Plan Incentive (BPI) is comparable to the RIIO-1 IQI Reward. Under this mechanism, NGGT have been penalised by a total of £21.70m (2018/19 prices) across RIIO-2, equating to £4.34m per annum and a -0.19% reduction to the 2021/22 RoRE.

Customer and Stakeholder Satisfaction Surveys

In 2021/22, NGGT TO achieved a customer satisfaction score of 8.63 against a baseline of 7.80. This has increased by 0.46 points since last year's score of 8.17 and is above the incentive cap of 8.5. NGGT TO have achieved a steady year-on-year increase in customer satisfaction since 2017/18, whilst continuing to engage with a broad range of customers.

NGGT TO also achieved a stakeholder satisfaction score of 8.54 against a baseline of 7.40. This has increased by 0.12 points from last year's score of 8.42 and continues the upward trend, reported since 2017/18.

The associated incentive revenue for 2021/22 is £3.95m in 2021/22 prices (£3.65m in 2018/19, per Table R4), equating to the annual upper limit. This drives a RoRE performance of 0.16%. Customer satisfaction incentive performance is not directly comparable to the 2020/21 incentive revenue as the calculation has changed from RIIO-1 to RIIO-2.

Environmental Scorecard

The environmental scorecard is a new incentive introduced for RIIO-2. The incentive is broken down into the following categories:

- Incentive for Operational Transport Emissions
- Incentive for Business Mileage Emissions
- Incentive for Operational and Office Waste Recycling
- Incentive for Office Waste Reduction
- Incentive for Office Water Use Reduction

- Incentive for Net Environmental Gain
- Incentive for Change in Environmental Value

The associated incentive revenue for 2021/22 is £0.06m in 2021/22 prices (£0.05m in 2018/19 prices, per Table R4).

Innovation

Alongside new and innovative ways to maintain and operate the network, NGGT's innovation in 2021/22 has focused on projects that can facilitate the target of 'Net Zero by 2050' and provide a safe, reliant, and efficient decarbonised energy system for the future that delivers value for customers.

Network Innovation Allowance (NIA)

Total NIA Expenditure reflects the net costs per 2021/22 Cost & Outputs RRP. In 2021/22, NGGT TO spent £2.17m in 2021/22 prices (£2.00m in 2018/19 prices, per Table R4) on 17 NIA projects. Over the 5 years of RIIO-2, NGGT TO are anticipating spending a total of £27.51m on NIA in 2018/19 prices.

NGGT TO's RIIO-2 allowance equates to 90% of Total NIA expenditure during the period, up to a cap of £25.00m (2018/19 prices). The remaining 10% of expenditure is funded by NGGT's own company contribution. This equates to £0.20m for 2021/22 and is forecasted to be £2.75m for the entire RIIO-2 period (2018/19 prices).

NGGT TO cannot recover any expenditure as part of Total NIA Expenditure which does not satisfy the requirements of the RIIO-2 NIA Governance Document; this is deemed to be Unrecoverable NIA Expenditure. No unrecoverable expenditure was incurred in 2021/22.

The 2021/22 10% company contribution results in a -0.01% reduction to notional RoRE.

Carry-Over Network Innovation Allowance (CNIA)

Carry-Over NIA is only applicable for 2021/2022. The Eligible CNIA expenditure for 2021/22 was £0.12m in 2021/22 prices (£0.11m in 2018/19 prices, per Table R4), resulting in a negligible RoRE impact.

Strategic Innovation Fund (SIF)

The Strategic Innovation Fund is a new form of Innovation for RIIO-2. It has provided NGGT TO with the opportunity to apply for additional funding support for key large-scale, transformational research and development activities. This fund is competitive across the energy networks and NGGT TO were successful in 10 of 11 Discovery bids. The 10 successful bids were for ‘Discovery Phase’ projects; these are feasibility projects lasting two months from March 2022 to April 2022 and straddled two financial years.

The successfully funded SIF projects were valued at £1.11m (2021/22 prices) total funding. These discovery phase projects will provide the foundation for future Alpha and Beta phase funded projects for which Gas Transmission will be bidding for in financial year 2022/23.

The total SIF spend for NGGT TO in 2021/22 was £0.12m in 2021/22 prices (£0.11m 2018/19 prices, per Table R4), with expenditure for 2022/23 currently forecasted to be £1.07m in 2022/23 prices[7] (£0.92m in 2018/19 prices, per Table R4). These Discovery Phase 1 projects are 100% funded, with no associated company contribution. Consequently, there is currently no RoRE impact reported for SIF.

Financing and Net Debt

Overview

(2018/19 price base)

Overall assumed regulatory finance cost at actual gearing for 2021/22 is £112.92m (including adjustments to be applied for performance assessment), which compares to allowances of £70.91m, resulting in £42.01m pre-tax under-performance. The total financing costs for the RIIO-2 period are forecast at £528.75m, compared to forecast allowances of £316.82m, resulting in forecast pre-tax under-performance of £211.93m at actual gearing.

On a notional basis, assumed regulatory finance cost for 2021/22 was £121.23m (including adjustments to be applied for performance assessment), resulting in £50.32m pre-tax under-performance at notional gearing. The total RIIO-2 forecast financing cost is £543.99m, resulting in a £227.17m forecast pre-tax under-performance at notional gearing.

Notional financing performance reduces the 2021/22 RoRE by -2.60%. This primarily reflects the high rates of RPI inflation seen through-out the year, compared to the CPI linked regulatory framework.

[7] NGGT were awarded additional funding for Alpha projects in July 2022. This funding has not been captured in the RRP as NGGT did not have visibility of the Alpha projects at the time of table completion.

Net Debt and Derivatives

(Nominal price base)

Regulatory net debt as of 31st March 2022 has decreased by £122.08m to £3,505.91m, compared to 31st March 2021. Material movements from prior year are outlined below:

External borrowings decreased by £853.40m to 4,168.90m, largely as a result of 2 maturities in year. Loans to other group companies have also decreased by £780.00m to £428.00m, this is the result of a change to NGGT TO's cash requirements. NGGT TO's year-on-year derivative position has moved from £79.80m in 2020/21 to £5.70m in 2021/22, primarily driven by NGGT having rationalised the derivative portfolio in year, as part of ongoing portfolio planning.

National Grid view of Financing Performance

The RFPR calculation is based on Ofgem's regulatory definition of net debt and financing costs. This includes gains and losses on derivatives. In NGGT's view, financing performance should not include derivatives as it is shareholders, not consumers, that bear the costs and risks associated with derivatives. This view aligns with the principle of the financing allowance under RIIO-2, which does not fund networks for derivatives, instead using a historic tracker to set the allowance.

RAV

(2018/19 prices)

The RAV table utilises the AIP 2022 Dry Run 1 PCFM as indicated by Ofgem in the RIGs to calculate the adjusted RAV balances. The Opening RAV, Transfer, RAV for net additions (after disposals) and Depreciation lines are based upon the Dry Run 1 PCFM, updated per the Cost & Outputs RRP submission, T1 Close Out and Tax Trigger.

To calculate the impact of Enduring Value movements, the Dry Run 1 PCFM is updated to include these adjustments. The enduring value adjustments are explained in the Totex Performance section above.

The closing RAV (including enduring value adjustments) in 2022 has reduced by £189.49m from £5,984.65m in RFPR 2021 to £5,795.16m in RFPR 2022. This will be impacted by a number of factors including the change in depreciation methodology, spend/allowance profile and T1 close out adjustments for South West Quad and disposals.

Tax

(2018/19 prices)

The forecast tax allowance for 2021/22 is £31.21m as per the AIP Dry Run 1 PCFM (incl. enduring value adjustments). In lieu of having a submitted 2021/22 CT600, the NGGT TO tax liability has been forecast in line with the allowance for the RFPR FY22 submission.

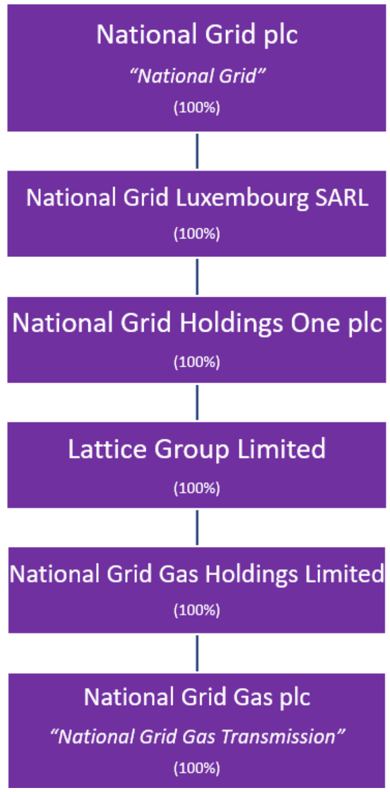
The RoRE impact of forecast tax performance at a notional gearing is 0.35% for 2021/22 (0.32% at actual gearing), primarily reflecting the tax impact of financing performance.

The purpose of the R8a- Tax Reconciliation table is to highlight differences between a licensee's CT600 actual corporation tax liability and the calculated tax allowance in the 'Finance & Tax' sheet of the Latest PCFM. Due to the timing of the CT600 submission to HMRC, this sheet is to be reported with a one-year lag. Table 8a therefore remains blank and will be populated in the August 2023 submission.

Corporate Governance

Corporate Ownership

National Grid Gas plc is a wholly owned subsidiary undertaking of National Grid Gas Holdings Limited. The ultimate parent company of National Grid Gas plc is National Grid plc. The complete ownership structure is outlined in the diagram below:



Decision-making responsibility for both purpose, values and strategy and executive remuneration, are reserved to National Grid plc, as outlined below:

Purpose, Values and Strategy	Purpose, values and strategy are matters reserved to the ultimate shareholder, National Grid plc. The Company[8] works within the purpose, values and strategy of National Grid and the Company's Board is responsible for the oversight of the Company's purpose, values and strategy. [Further details can be found on pages 10 – 13 of the Company's ARA]
Board Nominations	Changes to the structure, size and composition of the Board and Board Committees are matters reserved to the Company's Board. In accordance with the Company's Articles of Association, the Company's shareholder (being National Grid Gas Holdings Limited) may appoint and remove directors by ordinary resolution.

[8] "The Company" is used to refer to National Grid Gas plc.

Board Evaluation	The Board evaluation process is a matter reserved for the Company's Board. Separately to the Company, the Board of National Grid plc complies with the provisions of the UK Corporate Governance Code in relation to its own evaluation.
Executive Remuneration	Executive remuneration is a matter reserved to the Board of National Grid plc. [Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 108 to 131.]
Dividend Policy	Dividend policy is a matter reserved to the Company's Board. The Company will consult with the Board of National Grid plc to determine dividends, with final approval from the Company's Board.

Board of Directors

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level.

At the year end, the Board consisted of two executive directors, two National Grid Group-appointed non-executive directors and two Sufficiently Independent Directors (SIDs). Between them, they provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies.

Directors who were in office during the financial year ending 31 March 2022 were:

Chris Bennett*	Executive Director	Appointed 25 Jun 2016
Jonathan Butterworth	Executive Director	Appointed 1 May 2021
Dawn Childs**	Shareholder-appointed non-executive	Appointed 10 Dec 2019
Clive Harry Elphick	Sufficiently Independent	Appointed 1 Apr 2014
Nick Hooper	Executive Director	Appointed 1 Aug 2021
Alexandra Morton Lewis	Shareholder-appointed non-executive	Appointed 13 Apr 2018

Cathryn Ross	Sufficiently Independent	Appointed 21 Jun 2019
Lucy Nicola Shaw***	Shareholder-appointed non-executive	Appointed 27 Jul 2016
Philip Graham Sheppard****	Executive Director	Appointed 17 Jul 2017
Alistair Mark Todd*****	Shareholder-appointed non-executive	Appointed 30 Apr 2020
Benjamin Hollis Wilson (Chair)	Shareholder-appointed non-executive	Appointed 22 Nov 2021

**Chris Bennett has been excluded from the Executive Remuneration disclosures on R9 on the basis he was wholly attributable to National Grid Electricity Transmission (NGET) during the reporting year. He held no executive decision-making responsibility for NGG, and formally resigned from the Board on the 10 Sept 2021.*
***Resigned 31 May 2021, ***Resigned 5 Nov 2021, ****Resigned 1 May 2021, *****Resigned 1 Aug 2021*

Board Committees

NGG has established a number of committees and sub-committees which assist in its activities and operate within agreed Terms of Reference and a framework of DoA. The Committees of the Board are listed below:

- Gas Transmission Executive Committee
- Finance Committee
- Audit Committee

The Company does not have a Nominations Committee or Remuneration Committee as these functions are provided by National Grid plc – see the Annual Report and Accounts of National Grid plc for further information about these committees – pages 99 to 100 for the work of the People & Governance Committee (which covers the responsibilities of a typical Nominations Committee) and pages 101 to 105 for the work of the Remuneration Committee.

Safety, environmental and health (SEH) matters are a priority for the Board. The Board does not have a specific Board sub-committee for SEH matters. Instead, it delegates the day-to-day management of safety matters to the safety committee within the Gas Transmission business. The work of this committee is supported, and forms part of, the National Grid Group wide safety governance framework, which ensures there is strong interaction with the UK SEH Committee and Group SEH Committee. In turn, the UK SEH Committee provides regular reports to the Board, whilst ensuring a consistent delivery of safety through its interactions with the Group Executive Committee.

Gas Transmission Executive Committee (GTEC)

GTEC directs the affairs of the Gas Transmission business on behalf of the Board, to perform an assurance role within the context of the overall RIIO networks governance framework. It is accountable for all aspects of operations including safety, reliability, environmental performance, risk and compliance, and crisis response.

The Committee comprises the senior management of the GT and GSO business, as listed below:

Jonathan Butterworth (Chair)	Executive Director
Nick Hooper	Executive Director

The following Committee members form part of the Company's senior management team and are not statutory directors

Martin Cook	Commercial Director
Mark Lissimore	Construction Director
Maxine Long	Director of UK Metering
Ian Radley	Systems Operations Director
Sarah Stanton	Chief People Officer
Steven Vallender	Asset Director
David Byrne	General Counsel & Company Secretary
Nick Sides	Operations Director

Finance Committee

The Finance Committee is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities, all subject to the risk appetite of the Board. It also approves other treasury, taxation and pension funding matters, as well as having responsibility for the governance of the Company's pensions schemes and the Company's insurance strategies, and if appropriate, recommends these to the Board.

Membership of the Committee comprises the Chief Financial Officer of National Grid plc and the Group Treasurer, a director of the Board. The Committee interfaces with the Finance Committee of National Grid plc and the Board.

Andrew Agg	Executive Director of National Grid plc

Alexandra Morton Lewis	Shareholder-appointed non-executive Director

Audit Committee

The Audit Committee's role is to keep under review the Company's financial reporting and internal controls, and their effectiveness, together with reviewing the Company's risk management processes. It also reviews the external audit plan and the external auditors' findings.

Membership of this Committee is comprised of three Board directors, chaired by Dr Clive Elphick, SID, providing independent leadership. Financial experience is provided by all Committee members.

Clive Harry Elphick	Sufficiently Independent Director
Alexandra Morton Lewis	Shareholder-appointed non-executive Director
Cathryn Ross	Sufficiently Independent Director

In addition to the members of the Committee, individuals such as representatives of the external auditors, GT Chief Financial Officer (CFO), Head of UK Audit, UK Chief Risk Officer, the GT General Counsel & Company Secretary, along with other members of the Finance function may be invited to attend by the Committee and normally attend each meeting. Other Directors, representatives of the business, and external advisers may be invited to attend, as and when considered appropriate by the Committee and in respect of items that are relevant to them.

Dividends

(2021/22 prices)

The Company's approach to dividend policy is to make distributions which align with regulatory target capital structures, taking into consideration credit metrics and medium-term cash requirements.

The Board approved a final dividend of £295.00m in relation to financial year 2020/2021, paid in July 2021. £2.66m of this is attributed to the Gas System Operator. Dividend paid has increased by £158.00m from £137.0m in 2020/21 (2020/21 prices), due to an increase in distributable reserves.

Dividends are allocated to the regulated and non-regulated businesses based on retained cash. The non-regulated businesses are included within the allocation because the RAV on which NGGT's dividend is based off includes metering. The dividend allocated to non-regulated entities is based on their retained earnings; this differs from the level of earnings retained by the regulated entities. The remaining dividend is then split between the Transmission Owner and System Operator based on the RAV from the previous RFPR submission.

Executive Remuneration Policy

The National Grid plc Remuneration Committee is responsible for recommending the remuneration policy for the National Grid plc executive directors, Group Executive Committee members (for example CEO NGGT) and the Chair, and for implementing this policy. The aim is to align the remuneration policy to the Group's strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. Consistent with the UK Corporate Governance Code, 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 payouts. They closely review the appropriateness of pay positioning by reference to external measures (benchmarking remuneration packages) and internal review of performance and pay gaps.

The aim of NGGT'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 our peer group of general industry and energy services organisations.
- ensuring we pay our employees in a way that incentivises stretching financial and operational performance, within the risk appetite set by the NGGT 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 NGGT 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 NGGT	45.0%	Up to 225% of annual base salary	20%	£12,000	Uncapped	28 days annually (plus public holidays)	We offer a range of benefits including a Sharesave scheme, employee assistance programme and flex benefits scheme
NGGT Leadership Team	17.5 - 32.5%	Up to 60 - 120% base salary	15%	£8,500	Family		

**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 generally reviewed annually and are targeted broadly at mid-market of our peer group. In addition, a number of other factors are taken into account:

- 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 of the National Grid Gas directors, reporting to the CEO, is reviewed and approved annually by the National Grid Group Chief Executive. The budget for annual salary increases for senior managers and managers is set at National Grid Group 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 NGGT. Typically, performance-based elements account for 50-60% of the total remuneration opportunity; these are linked to both business performance measures and individual performance and typically comprise an annual element (the Annual Performance Plan, APP) and a longer-term element (the Long Term Performance Plan, LTPP).

The Annual Performance Plan (APP) and Staff Performance Bonus comprise reward for achievement against GT 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 NGGT strategic business priorities. Targets are set with reference to the budget, which is reviewed and approved annually by the National Grid Executive Committee.

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 Grid values.

Operational performance of NGGT 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 APP 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.

NGGT operates 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 GT employees and to encourage outstanding long-term performance of the NG. Awards are 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. The Committee reserves the right to apply discretion on overall vesting outcome taking into consideration the underlying business, financial and operational performance.

APP and LTPP awards are subject to malus and clawback provisions.

2021/2022 Executive Remuneration

As at March 2022, NGGT have two executive directors, Jonathan Butterworth (CEO) and Nick Hooper (CFO), whose corresponding remuneration has been declared in R9. Philip

Sheppard has also been captured, reporting his remuneration for the reporting period up to his resignation in May 2021.

Base salary data has been pro-rated for time served on the Board. However, NGGT are unable to pro-rate LPP/APP and pension costs and highlight these are the total annual values awarded.

Both executive directors oversee the running of NGGT TO and SO, as well as National Grid 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.

National Grid's group structure means that Directors do not hold shares at a Licensee level. For this reason, NGGT have agreed with Ofgem that we will not declare any shares/options as part of the remunerations package as information around Shares/Options and dividends paid becomes inapplicable. Any shares owned would be in National Grid plc and would not be allocated to the individual businesses. Shares owned would not be awarded by the rewards team and do not form part of the remuneration package.

CEO Pay Ratios

When making remuneration decisions for NGGT senior leaders, account is taken of the remuneration arrangements and outcomes for the wider workforce and statistical information, such as the pay ratio between senior management and the wider workforce. This compares the Director of NGGT's remuneration to the equivalent pay for the lower quartile, median and upper quartile UK employees (calculated on a full-time equivalent basis) in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 (as amended).

The 2021/2022 CEO Pay Ratio reports the 25th, 50th and 75th percentiles as 23.8, 18.8 and 14.9 respectively. The median pay ratio reported this year is consistent with our wider pay, reward and progression policies.

Pensions

Pension deficit payments decreased to £0.0m in 2021/22. The 2021/22 value is zero as the last non-zero pension deficit contribution due from NGGT to scheme trustees was made in 2020/21, after which the pension scheme is no longer deemed to be in deficit, hence no further deficit contributions have been required.

The pension scheme valuation is performed tri-annually, the data presented in the 2021/22 RFPR reflects the 2019 valuation. The next scheme valuation is due during 2023/24.

Data Assurance Statement

The RFPR submissions have been completed in line with the Ofgem Data Assurance Guidelines (DAG) process. This mandates a fully documented 2 level review process. The overall submission and regulatory judgments have been signed off at Director level.
In summary, the following assurances were completed:

1. Assurance Template completed by Data Provider
2. First Level Reviewer
3. Second Level Reviewer
4. Independent Expert Reviewer / Internal Data Audit
5. Manager & Senior Manager
6. Director Sign Off

Appendix

Basis of Any Estimates and Allocations

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

Table Changes/Restatements

Data tab

Within the Data tab, NGGT has updated the RPI/CPIH inflation (rows 16, 17 and 19) in line with the Dry Run 1 PCFM, as agreed with Ofgem.

Template Amendments

NGGT have amended formulas within subsequent tables to ensure the correct flow of data. These have all been reflected in the change log and agreed with Ofgem.