National Gas Transmission

Regulatory Financial Performance Reporting 2023/24 – TO + SO

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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).

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

This year marks the first full year for National Gas as a standalone business and within this regulatory year, progress has continued in the transfer of ownership from National Grid plc to the consortium comprising Macquarie Asset Management and British Columbia Investment Management Corporation.

Following the acquisition of a 60% equity stake in the business by the consortium on 31 January 2023, the consortium acquired a further 20% during 2023/24, and the final 20% in September 2024.

In recent years, the global economic conditions brought about by the aftermath of Covid and the Ukraine/Russia conflict have resulted in significant changes to the UK and European energy markets. In 2022/23 in particular, the curtailment of Russian gas created a European supply shock with GB playing a significant role as a land bridge to refill EU storage and provide energy security to the Continent. The resultant market conditions led to high sustained GB exports to the EU (increasing by 4-fold from the previous five years up to ~20 bcm/yr in 2022/23) particularly over the summer and shoulder months. This increase in demand was met via a corresponding increase in supplies, principally LNG via Milford Haven. These prevailing supply/demand dynamics required us to configure the NTS to move gas West to East, from LNG arriving at Milford Haven through to the two EU interconnectors (Interconnector and BBL).

The UK and the Continent experienced mild winter conditions in both 2022/23 and 2023/24, meaning that Europe ended the winter period with healthy volumes of gas in storage and, consequently, didn't require as much gas from GB to replenish storage stocks in the summer months of 2023, therefore reducing demand for exports from GB (flows to Europe from GB saw a 57% reduction in 2023/24). In addition, the resolution of issues that impacted European hydropower and nuclear generation in 2023/24, the commissioning of the Viking Link from January 2024 and the addition of circa 15 bcm of new LNG import capacity in Europe all helped to further reduce the need for GB exports.

This overall reduction in demand and subsequent reduction in LNG cargos meant that the NTS switched to a more traditional North to South configuration in 2023/24, moving gas from high supply areas in Scotland and the Northeast, to higher demand areas in the Southeast and West. In addition, the reductions in overall flows combined with reductions in both interconnector exports and LNG supplies resulted in a ~40% reduction in compression required to achieve the operational flows and pressures to meet our customer's requirements across the network.

The marked change in network flows when compared to the previous year highlights the requirement for operational flexibility across the NTS, with flexible reliable assets needed to respond to volatile market conditions.

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 perform across the RIIO-2 period by 0.6% (average RoRE based on notional gearing). This is driven by debt performance of 0.1% and tax performance of 0.6%. 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 2023/24 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 2023/24 in the 2024/25 submission.

	RIIO-2 period average
Debt performance – at notional gearing	0.1%
Tax performance – at notional gearing	0.6%
RoRE financing and tax performance	**0.7%**

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 5.6%, 5.1% of which relates to our allowed equity return. The remaining elements that contribute to total operational performance are:

	RIIO-2 period average
Totex outperformance	0.3%
Incentives, innovation and other	0.2%
Contribution to operational RoRE	**0.5%**

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

Return on Regulated Equity (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 2023/24 is 7.1%, which is the same performance as the prior year, as reported in this pack. There is a higher allowed equity return (0.7%) reported in 2023/24 than 2022/23, higher totex performance (0.1% including enduring value adjustments), a lower tax performance (1.3%) and higher apparent debt performance (0.5%). The year-on-year improvement in allowed equity return is driven by an increase in the risk-free rate from -1.55% in 2022/23 to 1.46% in 2023/24.

The operational RoRE for 2023/24 has increased from 4.5% in the prior year to 5.3%, again mainly driven by the higher allowed equity return but also a 0.1% improvement in totex performance. The RoRE impact of debt performance in the current year is 1.1%, compared to 0.7% in the prior year, and compared to an average of 0.01% across the RIIO-2 period. This improved performance is a result of lower finance costs in 2023/24, and therefore lower real finance cost, whereas the debt return on RAV has remained static.

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 2023/24 is 32.0%, reflecting totex outperformance and incentives. This is an increase of 6.6% from the operational RoRE reported in the prior year (25.4%). The main driver of this increase is an improvement in totex performance of 3.8%. Allowed equity return and incentive performance have also improved.

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

	2023/24	RIIO-2 average
Allowed equity return	5.3%	5.1%
Totex outperformance	0.4%	0.3%
Incentives, innovation and BPI penalty	0.2%	0.2%
RoRE operational performance	**5.9%**	**5.6%**
Debt performance – at notional gearing	1.3%	0.1%
Tax performance – at notional gearing	0.6%	0.6%
RoRE including financing and tax	**7.8%**	**6.4%**

Reconciliation to revenue and profit

For the purposes of reconciling the regulatory revenue and profit to the statutory accounts, we 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 by applying the statutory effective tax rate to the profit before tax values for the TO and SO individual entities. Values are quoted in Nominal.

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 2023/24 was £843m compared to the collected network revenue of £841m. The significant reconciling items include Directly Remunerated Services (DRS), Consented and De Minimis revenue (£60m). Adjustments are also made in relation to the NIC, HyNet and Independent Systems pass through items (£55m), as the statutory turnover includes the net position (i.e. offset by cost), whilst collected revenue only captures the associated revenue items. The large decrease in turnover (£337m) when compared to prior year, was driven by lower allowed revenues as a result of the return of 2022/23 over-collection of revenues ("K"). Price for entry and exit decreased as a result. The decrease in revenue was further exaggerated by the lower values as result of the power generation demand in the UK and lower exports into Europe as a result of increased storage and availability of nuclear power.

NGT SO turnover for 2023/24 was £725m compared to the collected network revenue of £735m. The main adjustment relates to an accrual true-up, reflecting the change from revenue reported on an accrual basis in the statutory accounts, to the actual recovered revenue for the year reported in the PCFM. There was a large increase in turnover (£195m) when compared to the prior year, driven by higher allowed revenues as a result of the collection of 2022/23 under-collection in relation to Shrinkage costs. Price for entry and exit was significantly higher than the previous year, however volumes vs 2022/23 where lower due to warmer winter, alongside decrease in power generation and lower amounts of exports.

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 £196m versus a regulated network profit of £84m. The most material variances relate to interest costs (£252m). Interest costs are reconciled in detail in schedule R5, with the most significant adjustments between the statutory and regulatory views being the removal of interest income on a loan to a parent undertaking (which does not meet the definition of regulatory interest) and the adding back of capitalised interest. Both regulatory and statutory tax values are forecast for 2023/24 and will be updated in next year's RFPR submission in line with the CT600 return.

For the SO, the net profit as per the statutory accounts was £322m versus a regulated network profit of £465m, with the variance mainly being driven by tax. 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 statutory expenditure of £985m is adjusted by £353m to derive the £632m reported in the RRP (all nominal). The material contributors to this adjustment are depreciation (£170m), exceptional/non RIIO-T2 related costs (£66m), removal of capitalised interest (£59m), and consented, de minimis and directly remunerated services (£46m). The removal of passthrough items, including prescribed rates (£73m), Licence fees (£30m), Policing (£15) and Net Zero project costs (£11m) are all deducted from the statutory expenditure to reconcile to the PCFM/RRP reported totex of £502m.

For the SO, total statutory expenditure of £319m is decreased by £58m (mainly £37m depreciation, a £36m accounting adjustment relating to shrinkage, partly offset by adjustments to TO) to arrive at £261m costs reported in the RRP. The removal of shrinkage costs (£135m) and other passthrough items (£26m) reconciles to PCFM/RRP reported totex of £100m.

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 2023/24 we achieved a customer satisfaction score of 8.56 against a target of 7.80. This score represents a small decrease of 0.04 compared to last year's score of 8.60, but still higher than target. 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). The Environmental Scorecard includes seven sub-categories. The main category that has generated some incentive revenue in 2023/24 is the change in environmental value.

TO other revenue
Other TO revenue includes funding for the Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF). This year a further 31 NIA projects were sanctioned leading to a total of 82 sanctioned projects through the RIIO-T2 period. We have progressed 26 projects with a total spend of £9.44m (18/19 prices) into delivery this year and have now completed a total of 49 projects in RIIO-T2. Highlights include the Safe Venting and Recompression project to review all of our safe venting and recompression technology opportunities with Hydrogen, with physical testing completed at one of our multi-junctions and a project to investigate the impact that hydrogen blends and 100% hydrogen will have on the energy stored as linepack in the NTS in the future.

With regards to the Strategic Innovation Fund (SIF) work, NGT have progressed successful applications for two x Round 1 Beta projects, two x Round 2 Alpha projects, and five x Round 3 Discovery projects with a total spend of £6.7m. Projects include HyNTS Compression (Beta) which provides the technical and safety evidence to enable repurposing of the NTS compression assets and HyNTS Deblending for Transport (Beta) which aims to demonstrate a future new industry where hydrogen refuelling stations are directly connected to the gas network.

We make company contributions to both our NIA and SIF projects in addition to the funding that has been awarded. The company contributions are recognised as discrete elements in our RoRE operational performance.

The Business Plan Incentive is a penalty of £21.7m which is being collected equally across the RIIO-2 period.

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 £3.7m (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. This year we achieved both the line pack performance measure and, the price performance measure, and hence earnt £0.8m (18/19 prices).
- 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. In 2023/24 we achieved a small incentive revenue of £0.3m (18/19 prices).
- 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 marginally in 2023/24 compared to the prior year, we were still within the target and achieved an incentive of £1.5m (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 2023/24 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 TO real finance cost at actual gearing, calculated in accordance with the methodology contained in the RFPR, was £35.8m (18/19 prices) for the year ending 31 March 2024. Cost of debt allowance per the latest PCFM is £64.8m, leading to an outperformance of £33.5 at actual gearing and £25.8 at notional gearing. This compares to a performance of £15.3 (notional) in the prior year. However, the assumed regulatory finance cost at notional and actual gearing is not representative of our regulatory finance costs, which are much higher.

TO real finance costs have decreased year-on-year (£49.4m in 2022/23 vs. £44.5m in 2023/24, nominal), as has net interest, decreasing from £390.4m in 2022/23 to £266.4m 2023/24 (nominal).

Total regulated net debt has decreased by £61.6m to £3,466m (nominal) in 2023/24 and is forecast to be £4,445m by the end of the current regulatory period.

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). 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 48% for 2023/24 but is forecast to increase to 56% by the end of the price control period using an average RAV and average net debt.

Regulatory Asset Value (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 2023/24 has decreased by £33m compared to the 2022/23 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 £(20)m due to allowances being reallocated to later years in line with our forecast spend profile.

For the SO, the RAV has fallen by £4m to £121m (18/19 prices), as similarly, additions after enduring value adjustments have been lower than depreciation.

Taxation

Tax

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 years 2021/22 and 2022/23. It should be noted that NGT does not submit a tax return for its 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.

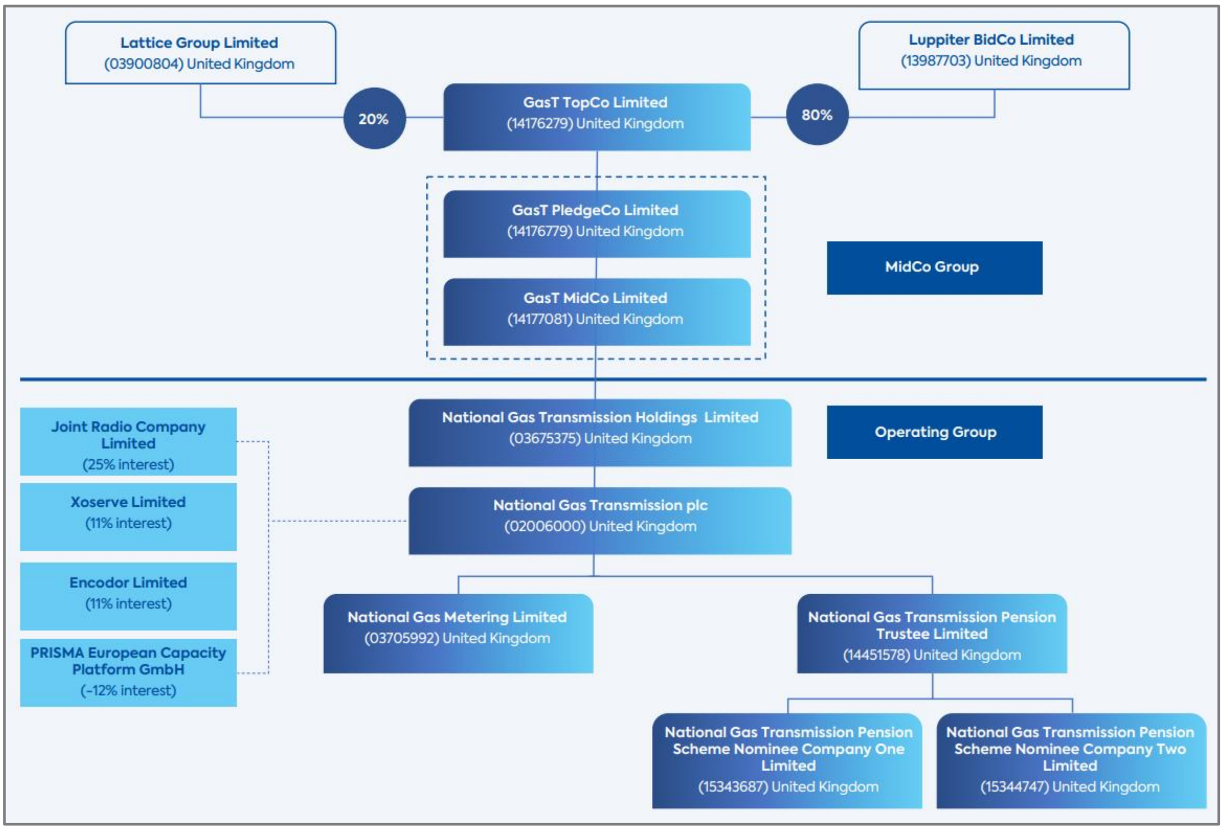
For the TO, the tax allowance per the latest PCFM is £27.6m (18/19 prices) for 2022/23. The calculated tax liability for comparison is £(13.2)m. For the SO, the tax allowance per the latest PCFM is £4.0m for 2022/23, which compares to a £15.9m adjusted regulated tax liability. The main driver of tax 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, as explained below.

Corporate governance

Corporate ownership and governance framework

Group Structure

The parent company of the National Gas group is GasT Topco Limited, and the chart below sets out the structure of the National Gas group of companies as at 31 March 2024. The National Gas group is owned by the shareholders of GasT TopCo Limited, 80% of which is owned by a consortium of investors led by Macquarie Asset Management and British Columbia Investment Management Corporation with the remaining 20% of the shares in GasT TopCo Limited owned by the National Grid group. As noted above, the acquisition by the Macquarie-led consortium of this final 20% was completed in September 2024.

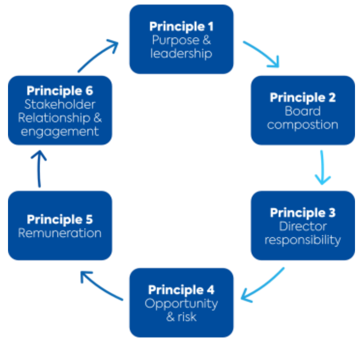


Shareholders' Agreement

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 National Gas business. This includes a schedule of matters reserved for decision by the GasT TopCo Limited Board of Directors and shareholders, respectively.

Governance Framework

As a large private company, we are 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 2024, the Board is satisfied that it has applied the six Wates Principles.



Composition of the Board

The composition of the Board is essential to its success in providing strong and effective leadership and together our Directors bring a wide range of experience, skills and perspectives to Board deliberations. At the date of this report, our Board is made up of three Sufficiently Independent Directors (SIDs), one of whom is the Chair, six Shareholder Nominated Directors and two Executive Directors. From a governance perspective, the Sufficiently Independent Directors and the Shareholder Nominated Directors are Non-Executive Directors. Together their roles are to support Executives, while providing constructive challenge and rigour. They bring sound judgement and objectivity to the Board's and the Board committees' decision-making processes, monitor strategy, and review the integrity of the risk management framework and processes, financial information and controls, and share the skills, experience and knowledge they have from other industries and environments.

Name	Position	Appointment date
Dr Phil Nolan	Chair & Sufficiently Independent Director Committee: Remuneration and Nominations	31 January 2023
Jon Butterworth*	Chief Executive	pre-existing
Jerry Divoky	Shareholder Nominated Director Committee: Regulation and Strategy	31 January 2023
Howard Higgins	Shareholder Nominated Director Committee: Chair of the Safety and Sustainability	31 January 2023
Nick Hooper*	Chief Financial Officer	pre-existing
Mark Mathieson	Shareholder Nominated Director	31 January 2023
William Price	Shareholder Nominated Director Committee: Chair of the Remuneration and Nominations	31 January 2023
Cathryn Ross	Sufficiently Independent Director Committee: Chair of the Regulation and Strategy and Chair of the Audit and Risk Committee to 19 July 2024.	pre-existing
Lincoln Webb	Shareholder Nominated Director Committee: Remuneration and Nominations	31 January 2023
Benjamin Wilson**	Shareholder Nominated Director Committees: Audit and Risk, Remuneration and Nominations, Regulation and Strategy and Safety and Sustainability	pre-existing

* 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.

Balance and diversity

The composition of the Board is determined by the Shareholders' Agreement. The Board recognise the benefits of having a diverse board, however the Board does not operate a formal Board Diversity Policy since Board appointments are under the Shareholders' Agreement and are a matter reserved to the shareholders of GasT TopCo Limited. The composition of the Board is however 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.

Board Activities
The Board has six scheduled meetings per year, of which one is a strategy session, and in addition there were a number of ad hoc board meetings and sessions. The Board culture is one of openness and collaboration and the Chair ensures that all Directors have an opportunity to contribute to debates. Several of the Board members also devote time to their roles outside of the scheduled meetings to meet with Executives to discuss and support areas which are then formally considered at the Board or Board committee meetings.

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. At the start of each Board and Board committee meeting a safety moment is presented.

Accountability
Our governance framework and clear delineation of Board roles enables the Chair, SIDs and Shareholder Nominated Directors to provide oversight and appropriate constructive challenge and support in management delivering our strategy. The roles and responsibilities of Phil Nolan as our Chair and Jon Butterworth as our Chief Executive are separate, where Phil is responsible for the leadership of the Board and Jon is responsible for the day-to-day management of National Gas.

The Shareholder Directors are appointed in accordance with the Shareholders' Agreement and their role is that of a Non-Executive Director. They, together with the SIDs, are responsible for assisting in the development of the strategy, for providing constructive challenge and holding the Executives to account for their performance, and delivery of the agreed strategy. Their role is also to provide strategic guidance and specialist advice and support. The Board is supported by the General Counsel and Company Secretary who provide advice on legal and corporate governance matters.

The Board delegates all operational matters to the Chief Executive, except for matters set out in the Shareholders' Agreement that are specifically reserved to the Board of GasT TopCo or shareholder approval. He is also responsible for overseeing the development of business strategies for Board approval and achieving timely and effective implementation.

Board roles and responsibilities

Chair
Dr Phil Nolan was appointed non-executive Chair and a Sufficiently Independent Director on 31 January 2023. He is responsible for the effective running and management of our Board, and he is

assisted by the General Counsel and Company Secretary in ensuring adherence to high standards of corporate governance. As per the Wates Principles, the roles of the Chair and Chief Executive are separate. Phil was viewed as independent upon his appointment and is not a member of the Board of our parent company, GasT TopCo Limited.

Sufficiently Independent Directors

Our Gas Transporter Licence requires us to have two SIDs. Cathryn Ross was appointed as a SID in June 2019 and Dr Phil Nolan, our Chair, was appointed in January 2023. Together they provide independent challenge and input into the decision-making process. The letter of appointment sets out their duties and arrangements and each of the SIDs has confirmed that they are able to devote sufficient time to their role. Mark Russell was appointed as an additional SID in March 2024, and joined the Board on 1 July 2024.

Shareholder Nominated Directors

Under the Shareholders' Agreement, the shareholders have the right to nominate Directors to the Board. Our Board currently consists of six Shareholder Nominated Directors, representing members of the consortium of investors in GasT TopCo Limited and, as statutory Directors, they have the same powers, duties and liabilities as the Executive Directors. As per the Shareholders' Agreement, each Shareholder Nominated Director has appointed one or more alternate directors to participate in meetings in their absence. The Shareholder Nominated Directors and alternates are not remunerated for their services on the Board, or any of the other group entity boards of which they are a member.

Committees

Our Board has overall responsibility for ensuring long-term success of the business. Collectively the Board is also responsible for its governance and its effective oversight, its business and compliance with its obligations under its Gas Transporter Licence. The Board provides rigorous challenge to management and ensures that appropriate systems and processes are in place to monitor and manage the principal risks and internal controls and in doing this has delegated certain responsibilities to Board committees. These committees are:

- Safety and Sustainability Committee
- Audit and Risk Committee
- Remuneration & Nominations Committee
- Regulation and Strategy Committee

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.

Decision making

Below is a list of specific matters and the body with decision-making responsibility for these matters:

a. purpose, values and strategy - GasT TopCo Limited
b. board director nominations – All ultimate Controllers
c. board director evaluation - National Gas Transmission plc
d. executive remuneration, - National Gas Transmission plc

e. dividend policy - GasT TopCo Limited

For more details please see **National Gas Transmission plc Annual Report and Accounts 2023/24** pages 52-71.

Executive remuneration policies

National Gas Transmission plc is the main operating company for the National Gas Transmission group of companies. The National Gas Transmission Board decides on the strategic direction, oversight of safety, approach to risk and setting values and standards for the group. A Remuneration and Nominations Committee, appointed by the Board of Directors of National Gas Transmission plc 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 company values, business strategy and key business objectives and to ensure it reflects our shareholders', customers', and regulators' 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 information 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 National Gas senior leaders is generally consistent with the remuneration structure for the executive team. This consistency builds a culture of alignment with a common purpose and approach to sharing in the success of the Company. The Remuneration and Nomination Committee 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 National Gas Transmission's remuneration principles 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, whilst 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 Board/Audit and Risk Committee
- being fully aligned to the fact that we are a Regulated company and the 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 Executive Committee, 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 STIP (% of salary)	Target LTIP* (% of salary)	Pension contribution**	Car Allowance	PMI	Holiday	Flexible Benefits
CEO	60%	120%	12%	£15,000	Family	28 days annually (plus public holidays)	We offer a range of benefits, employee assistance programme and flex benefits scheme
CFO	60%	90%	12%	£12,000	Family		
Leadership Team	35% - 50%	51% - 60%	12%	£10-12,000	Family		

**Externally hired employees will participate in a Defined Contribution (DC) arrangement with a maximum of 12% employer contributions.*

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 Executive Committee. The budget for annual salary increases for senior managers and managers is set slightly above the 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 Manager STIP and Staff Performance Bonus comprise reward for achievement against NGT business 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 business measures 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 100% 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.

In March 2023, the Remuneration and Nominations Committee agreed that for 2023/24 performance year only, members of the Executive Committee who would have normally received a 2021 LTPP (Long Term Performance Plan award) under National Grid, would be given a multiplier of the STIP outcome in its place. This was an enhancement of 50% that was applied to director bonuses in recompense for the loss of an LTIP award this year. All exec members received either the multiplier or the LTIP forfeit, depending on their individual circumstances.

2023/2024 Executive Remuneration

NGT have two executive directors, Jonathan Butterworth (CEO) and Nick Hooper (CFO), whose corresponding remuneration has been declared in R9.

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 ratio

The CEO pay ratio regulations provide three options to calculate the CEO pay ratio. National Gas have, again, opted to use option B, which allows the company to use its most recent, National Gas Transmission gender pay gap information from 2024 as the base data for the calculations.

Ratio

Therefore, the table below shows how the CEO's total remuneration (as taken from the directors' emoluments information for FY24) compares to remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile in the National Gas Transmission Gender Pay Gap 2024 data. This is described in ratio format.

	Method	25th percentile pay ratio	50th percentile (median) pay ratio	75th percentile pay ratio
2023/24	B	60:01	51:01	41:01

Hourly Pay

As described above, the Chief Executive Officer's pay in this calculation is taken from the total remuneration set out in the directors' emoluments of this report. The total annual pay and benefits and the hourly pay rates for employees used in this calculation is also taken from the National Gas Transmission gender pay gap data for FY24. The table below shows those at each of the 25th percentile, the 50th percentile (median) and the 75th percentile:

2023/24	25th percentile pay ratio	50th percentile (median) pay ratio	75th percentile pay ratio
Annual pay	£41,038	£48,445	£59,602
Hourly pay	£21.64	£25.39	£31.65

The data reported here shows that the CEO pay ratio has gone down, compared to 2022/23. This is mainly due to the CEO's total pay arrangements for 2023/24 being lower than for 2022/23. This means that this year, National Gas Transmission have slightly closed the gap between the CEO pay and that of colleagues across the organisation.

Dividend policies

The Board considers that dividends should reflect the holistic performance of the Company. In determining the level of dividend, the performance of the regulated business and unregulated businesses are assessed separately. The Policy aims to strike a balance between the interests of the Company, financial creditors and the Company's shareholders by seeking to pay appropriate, attractive and sustainable returns for the investment in the Company, whilst not impairing the Company's longer term financial resilience.

In respect of unregulated businesses, the Policy is to pay dividends reflecting the profitability and cash generation of the businesses during the interim period, where an interim dividend is declared, and, during the full year, for final dividends. The Policy returns cash from operations of the unregulated businesses that is in excess of its immediate and foreseeable needs back to the shareholders.

In 2023/24 there were three distributions totalling £337m made: The Directors proposed a final dividend for the year ended 31 March 2023 of £49m. This was declared after the year end at the 18 July 2023 Board meeting, as a result this was not included within the 2022/23 Financial Statements. An interim dividend of £229m was declared for 2023/24 and paid on 5 December 2023. A further interim dividend of £59m was paid in January 2024.

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 £137m 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 2023 submission to Ofgem's Reasonableness Review which formed part of the 2023 PDAM exercise.

The TO and SO pension deficit payments are zero from 2021/22.

The pension scheme valuation is performed triennially, and the valuation data presented in the 2023/24 RFPR reflects the finalised results of the most recently signed (at disclosure date of 31 March 2024) triennial actuarial valuation at 31 March 2022. This valuation was not reflected in the RIIO-2 submission (or last year's RFPR), as it had not been completed at that time. However, it was submitted to Ofgem as part of the 2023 PDAM exercise. In line with RIIO-2 no deficit contributions have been required as a result of the 31 March 2022 triennial valuation.

The established deficit and pension payment history allowances reported in R10 reflect the most recent final pension allowances published by Ofgem on 24 November 2023 following Ofgem's decision outcome from the 2023 PDAM exercise.

As part of the demerger from National Grid, National Gas has set up a new pension scheme to receive the assets and liabilities covered in the R10 disclosure as part of a transfer from a National Grid Scheme. In order to receive the transfer a new scheme was set up, with 3 members accruing nominal benefits. That valuation has now been completed, and in the short term has a total deficit of £18,000, all of which relates to post cut-off date liabilities. These have been excluded from the results on the grounds of materiality. No contributions are due until the 2027/28 financial year.

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 our 2024 RRP to give a more accurate view of RIIO-2 performance. The methodologies are as follows:

1. TO - Peterborough and Huntingdon Allowance Deferral

This adjustment has been added in 2021/22 and 2022/23 (£52.5m 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. These are the same adjustments as were reported in the prior year RFPR pack. The carried forward allowances have been included by increasing allowances in the PCFM over the first two years of RIIO-2.

2. TO & SO - Rephasing of Allowances (Capitalisation Rates 1 and 2)

We have rephased 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. Our approach for SO and TO capitalisation rate 1 has been to recognise the performance impact of any T1 carry-over spend or opex performance in the year in which it occurs (a separate adjustment has been made for Peterborough and Huntingdon as noted above, which covers the majority of T1 carry-over spend). For other categories of spend, the performance resulting from any over- or under-spend has been phased over the last three years of RIIO-2 to recognise the crystallisation of performance as projects come to an end. For TO capitalisation rate 2, the under-performance has been recognised in the final year of RIIO-2. The changes in allowances required to present this performance profile are our enduring value adjustments.

This is a different approach to the prior year where we matched allowances to spend for the first two years, but we feel our current methodology is more reflective of our true performance profile.

The tables below summarises the totex, allowance and performance position before and after enduring value adjustments for TO and SO.

Cap rate 1		2021/22	2022/23	2023/24	2024/25	2025/26	2025/26
TO totex before enduring value adjustment							
Latest Totex actuals/forecast	£m 18/19	274.2	322.2	368.2	410.0	455.2	1829.7
Totex allowance	£m 18/19	303.2	403.7	449.0	348.0	299.2	1803.1
Performance	**£m 18/19**	**29.1**	**81.5**	**80.9**	**-62.0**	**-156.0**	**-26.6**
TO totex after enduring value adjustment (inc. Peterborough & Huntingdon adjustment)							
Latest Totex actuals/forecast	£m 18/19	274.2	322.2	368.2	410.0	455.2	1829.7
Totex allowance	£m 18/19	261.0	323.6	376.1	421.0	473.9	1855.6
Performance	**£m 18/19**	**-13.2**	**1.4**	**7.9**	**11.0**	**18.7**	**25.9**

Cap rate 2		2021/22	2022/23	2023/24	2024/25	2025/26	2025/26
TO totex before enduring value adjustment							
Latest Totex actuals/forecast	£m 18/19	18.8	23.2	34.9	96.8	148.8	322.6
Totex allowance	£m 18/19	24.6	34.3	39.8	92.4	129.9	321.0
Performance	**£m 18/19**	**5.8**	**11.1**	**4.9**	**-4.4**	**-18.9**	**-1.6**
TO totex after enduring value adjustment							
Latest Totex actuals/forecast	£m 18/19	18.8	23.2	34.9	96.8	148.8	322.6
Totex allowance	£m 18/19	18.8	23.2	34.9	96.8	147.2	321.0
Performance	**£m 18/19**	**0.0**	**0.0**	**0.0**	**0.0**	**-1.6**	**-1.6**

		2021/22	2022/23	2023/24	2024/25	2025/26	2025/26
SO totex before enduring value adjustment							
Latest Totex actuals/forecast	£m 18/19	71.4	66.0	80.1	98.6	85.9	402.0
Totex allowance	£m 18/19	90.7	94.7	106.7	96.4	79.8	468.3
Performance	**£m 18/19**	**19.3**	**28.7**	**26.6**	**-2.2**	**-6.1**	**66.3**
SO totex after enduring value adjustment							
Latest Totex actuals/forecast	£m 18/19	71.4	66.0	80.1	98.6	85.9	402.0
Totex allowance	£m 18/19	81.3	78.0	96.0	115.6	97.4	468.3
Performance	**£m 18/19**	**9.9**	**12.0**	**15.9**	**17.0**	**11.5**	**66.3**

Basis of any estimates or allocations

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

Other relevant information

NGT has been granted consent to no 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, 2022/23 and 2023/24 are audited values.

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