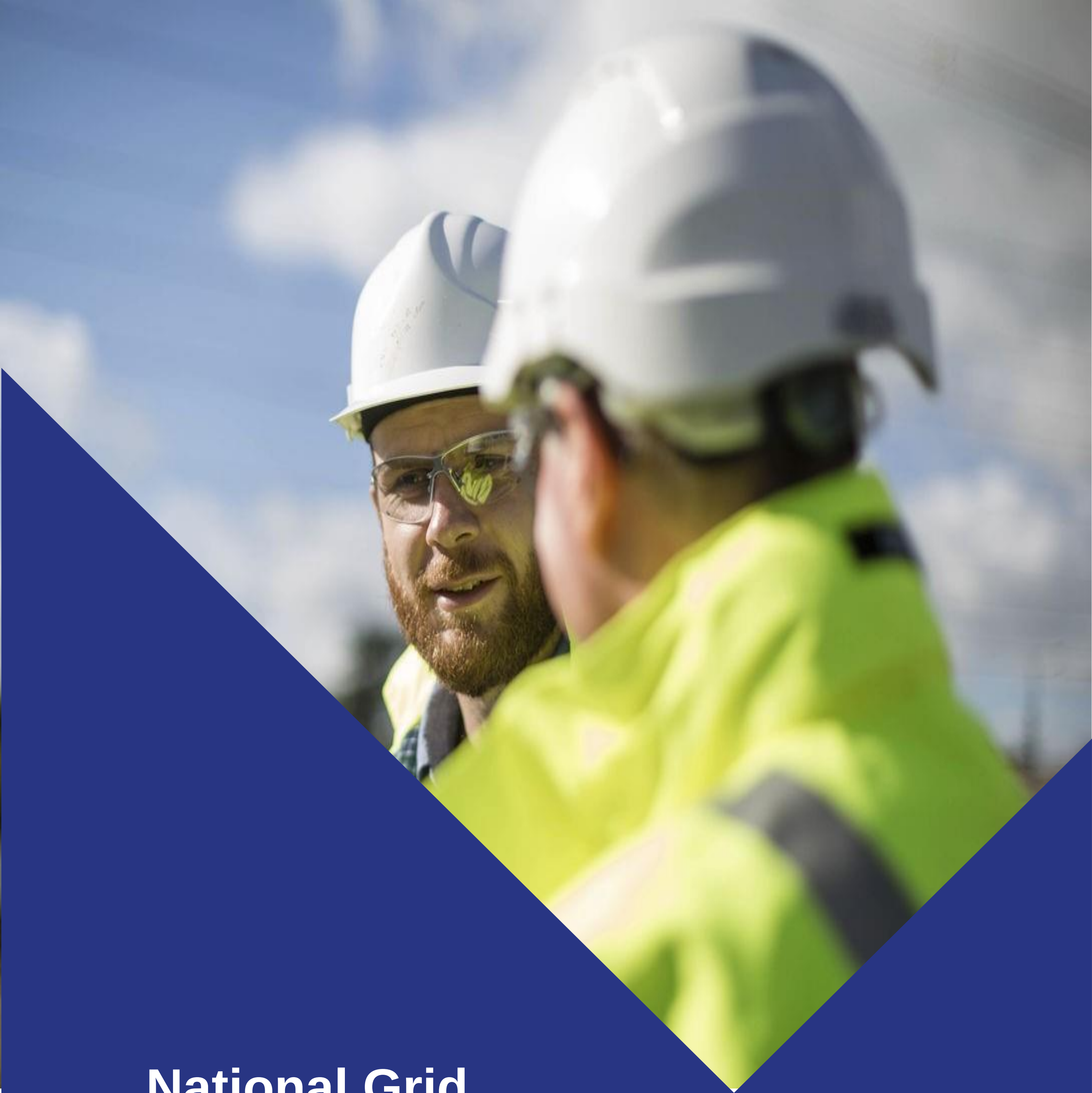


National Grid Electricity Transmission

Regulatory Financial Performance Report Narrative

September 2023

Contents

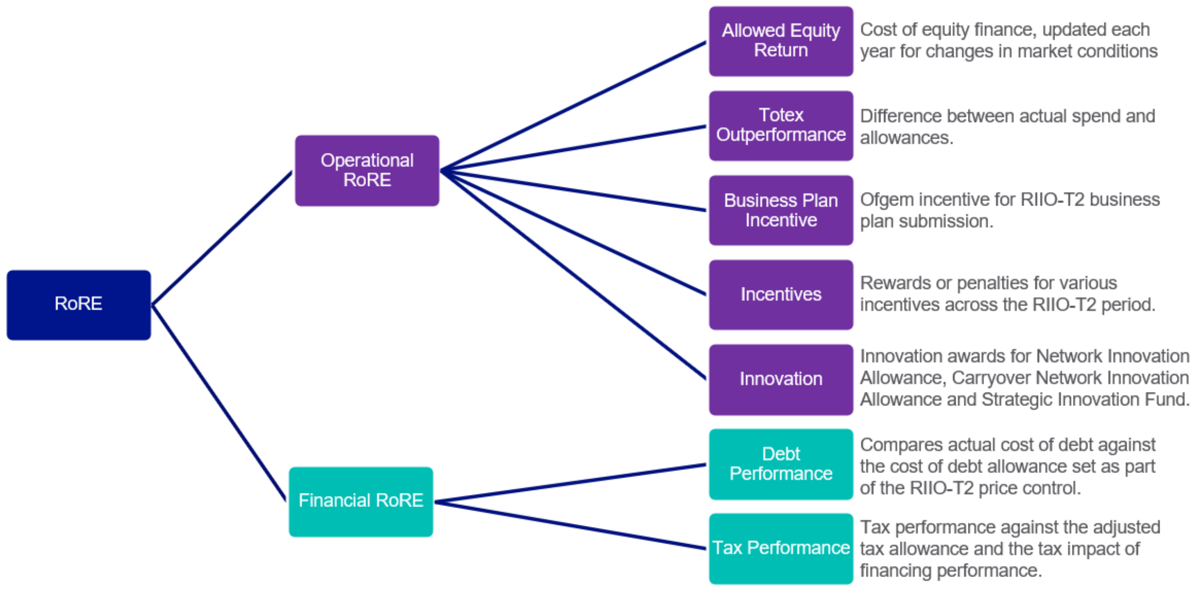
National Grid Electricity Transmission Regulatory Financial Performance Reporting narrative 2022/23

Executive Summary

What is the RFPR?

The Regulatory Financial Performance Report (RFPR) aims to produce a comprehensive, transparent, accessible, and accurate measure of network company Financial Performance under the RIIO framework. Performance is measured in the form of Return on Regulated Equity (RoRE).

RoRE is Ofgem's measure of the financial return achieved by shareholders from a licensee during a price control period from actual performance under the price control. The measure is further broken down into operational and financing components. Operational RoRE encompasses costs and allowances associated with a RIIO-2 regulated business, including Totex, incentive performance and company funded innovation costs. Financing and tax performance are included within the financial component.



This narrative supports the submission of our 2022/23 RFPR which is the second RFPR submission of the RIIO-T2 price control period. RFPR23 sets out the regulatory information to meet the requirements of Standard Condition B15 of the National Grid Electricity Transmission (NGET) licence.

This narrative covers NGET's RORE performance across the price control period with focus on the 2022/23 performance delivered to date. Whilst RoRE reflects the financial performance achieved by shareholders, it does not reflect the consumer aspects of performance. Delivery of financial performance will also result in a financial benefit to consumers. Non-financial benefits to consumers such as improvements to safety and reliability are also not represented by Ofgem's performance measures.

Our Performance

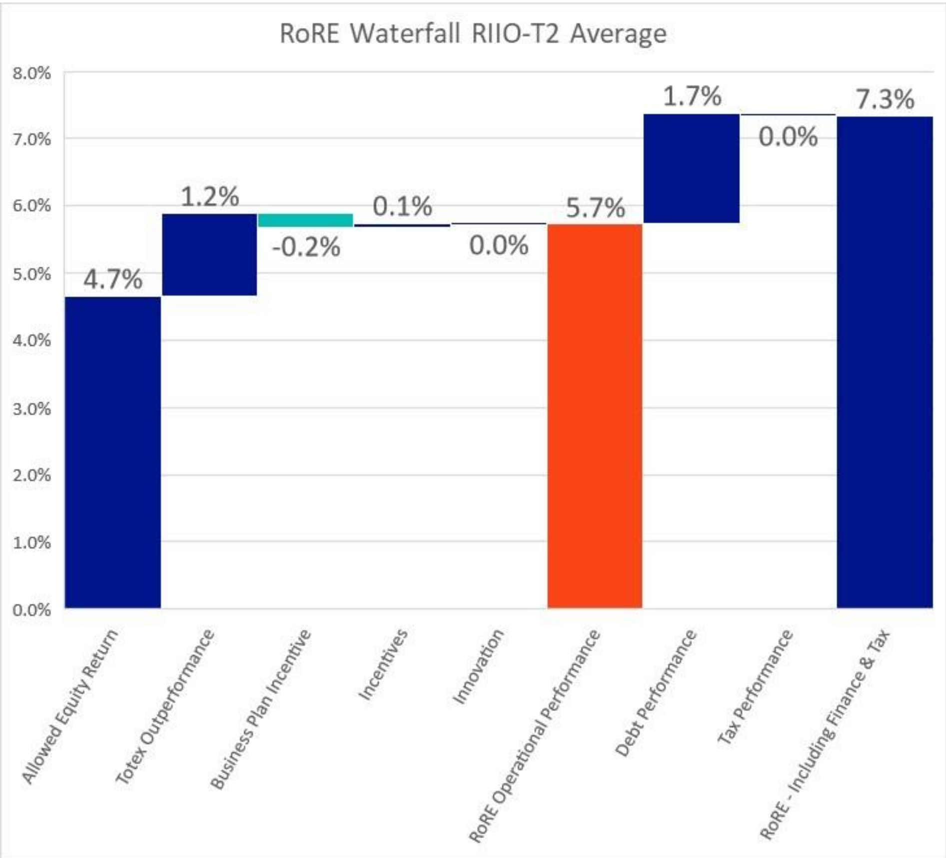
Our aim is to present a view of financial performance through the price control period that is consistent with our understanding of business performance. Outperformance under the RIIO-2 framework is achieved through delivery of outputs prioritised by consumers for lower cost than allowances and by exceeding output delivery incentive targets. This drives financial benefit to our stakeholders – to shareholders through return on investment and to current and future consumers through lower bills.

The forecast and actual cost, volume and output data submitted via the Regulatory Reporting Pack (RRP23) inform the regulatory performance. However, RRP23 is unable to account for a number of adjustments required to give a true view of performance. As a result, there are a number of adjustments that are applied to the RRP23 for the purpose of RFPR23. These are detailed in the Totex – Reconciliation section and Appendix 1 of this narrative.

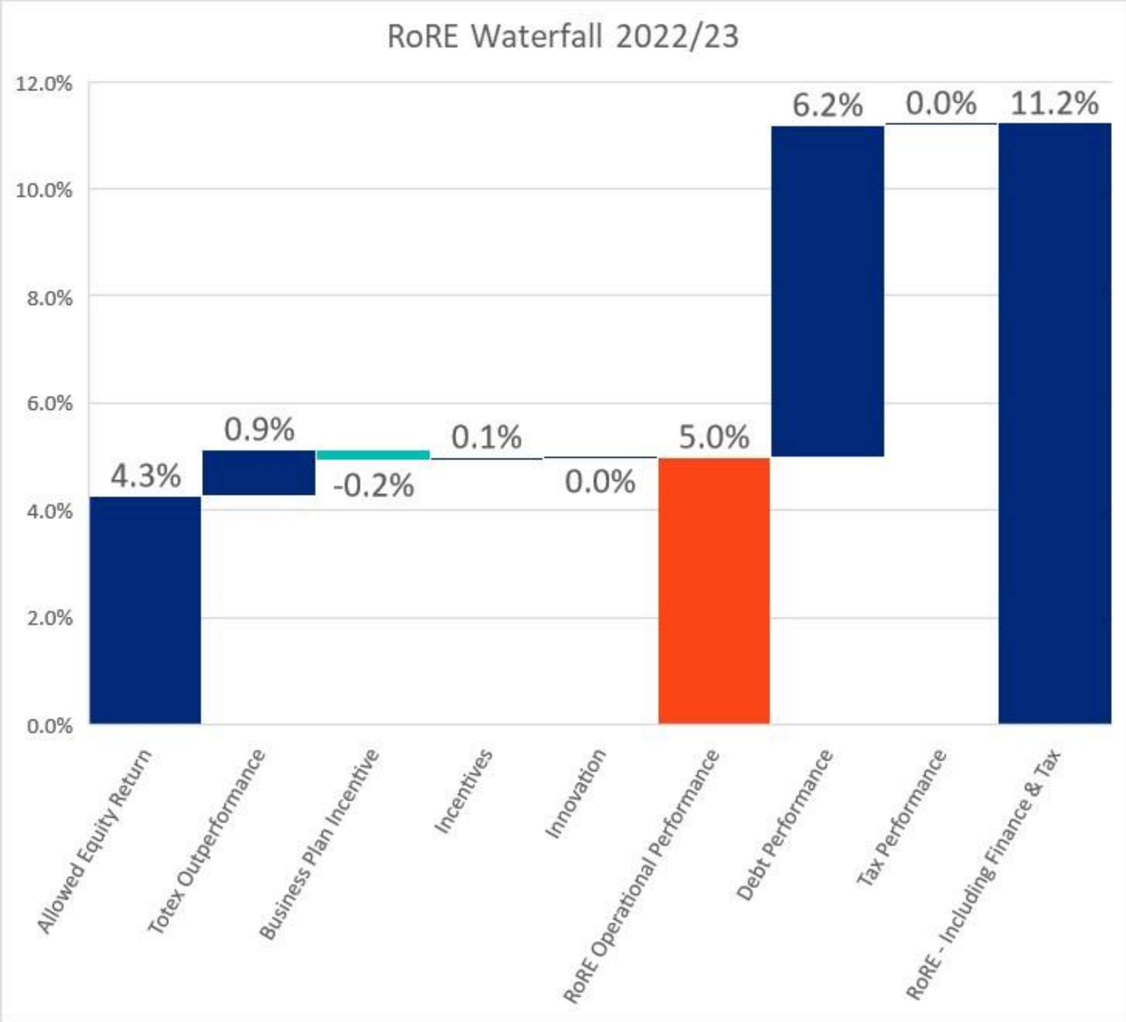
It should be noted that the overall performance and the forecasts in RRP23 are based on our forecast view as of 31st March 2023 and are subject to a number of uncertainties that could influence our performance over the remaining years of the RIIO-2 period.

RoRE is calculated using two methodologies; RoRE based using the notional gearing assumption of 55% and RoRE based on actual gearing.

Based on our cost and outputs forecasts, RoRE (including operational and financing performance) based on notional gearing is forecast at 7.3% for the 5 years of the RIIO-2 period, 2.6% above average Allowed Return on Equity.



The 2022/23 RoRE shows higher performance than the five-year average with 11.2% achieved in the second year of RIIO-2, 6.9% above average Allowed Return on Equity.



RoRE performance based on actual gearing is broadly aligned to its notional comparator. Actual gearing has decreased below notional at an average of 53.0% for the price control period and 51.8% for 2022/23. Gearing has fallen because we have maintained the level of dividend paid in line with previous years. The reduction in gearing will help provide capacity to finance high levels of capex investment in future years to achieve Net Zero. The level of dividend paid also anticipates a reducing notional gearing level for the purposes of the tax clawback mechanism in the outer years of RIIO-2. The difference between actual and notional gearing creates a small variance between notional and actual performance; average actual performance for the period is lower at 7.0% for the 5 years and 10.3% for 2022/23.

Key Financial Performance Measures

The key financial performance measure within the RFPR23 submission is RoRE financial performance. The values quoted in this section focus on RoRE based on notional gearing of 55% unless otherwise stated.

NGET's RoRE financial performance across the period is forecast to outperform against regulatory cost of debt and tax allowances across the period by 1.7%, comprising 1.7% debt performance. Debt performance has benefitted from NGET's financing strategy, including choosing not to index a higher proportion of the debt book, and high recent levels of inflation which have reduced the reported real cost of fixed coupon nominal debt. This is partially offset by negative performance on RPI linked debt due to an increase in the RPI-CPIH wedge.

Financial performance in 2022/23 is 6.2%, comprising 6.2% debt performance and 0.0% tax performance. Performance in the early years of RIIO-2 is forecast to decline as long term inflation is expected to fall.

The financial RoRE values based on actual gearing are aligned to their notional equivalents. Actual gearing is below the notional level of 55% at 53.0% for the period average and 51.8% for 2022/23.

Key Operational Performance Measures

(Financial values in 2018/2019 price base unless otherwise stated)

The key operational performance measure within the RFPR23 submission is RoRE operational performance. The values quoted in this section focus on RoRE based on notional gearing of 55% unless otherwise stated.

RoRE operational performance is based on actual data for 2022/23 (with the potential exception of totex allowances which may be phased over a period of years) and forecasts for 2023/24 onwards. Forecast data is based on our view as of 31 March 2023 and is subject to a number of uncertainties that could influence our performance over the remaining years of the RIIO-2 period, including any mismatch between inflationary mechanisms adjusting allowances and the actual cost of inflation.

RoRE operational performance is forecast at 5.7% for the RIIO-2 period, 1.0% above average Allowed Return on Equity comprising:

- 1.2% totex outperformance; and
- -0.2% under performance arising from the Business Plan Incentive adjustment of -£65m.

Totex outperformance of +1.2%[1] for the RIIO-2 period is driven from +0.7% totex performance and +0.4% Enduring Value Adjustments. Enduring Value Adjustments show the impact on performance of projects crossing price control periods. These adjustments ensure that performance is only recognised when outputs are delivered:

+0.7% Totex Peformance:

- +0.4% RRP23 totex performance - primarily driven by efficiency cost-saving initiatives on pre-construction activity for new transmission projects, phasing of performance between price control periods for volume-driven projects. This is partially offset by overspend in Asset Health.
- +0.3% as a result of our ongoing efficiency ambition. NGET has stated its ambition to continue to seek additional efficiency through improving and innovating its approach to operating, maintaining, replacing and extending its transmission network. There are a number of initiatives currently being developed and implemented. £370m has been included at a high level in our financial forecasts and is included in the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner.

+0.4% Enduring Value Adjustments:

- +0.3% as a result of deferral of allowances relating to load related projects initiated in RIIO-1 but completing in the first two years of RIIO-2.
- +0.5% as a result of rephasing of allowances for non-load projects that cross price control periods.
- -0.3% as a result of rephasing RIIO-2 allowances where associated spend occurs in RIIO-3. Allowances are rephased to ensure performance is recognised when the output is delivered.

[1] Subject to rounding to 1 decimal place

- -0.1% removal of Bramford Twinstead allowance as this has now been reclassified as a re-opener. Further details about enduring value adjustments can be found in appendix 1.

The 2022/23 performance shows an operational performance of 0.7%, comprising:

- 0.9% totex outperformance; largely driven by T1+2 allowances being recognised in 2022/23 as well as re-phasing of RIIO-1 non load allowances for projects that cross-price controls and rephasing of allowance in line with spend to give a more accurate view of performance.
- 0.1% non-totex incentive performance; and
- -0.2% under performance arising from the Business Plan Incentive adjustment of -£65m.

Operational performance in 2022/23 is lower than the RIIO-2 average due to lower totex outperformance. Cost-saving initiatives in the later years of RIIO-2 as part of our ongoing efficiency ambition are expected to increase our totex outperformance over the RIIO-2 period.

The operational RoRE values based on actual gearing are aligned to their notional equivalents. Actual gearing is below the notional level of 55% at 53% for the period average and 51.8% for 2022/23.

Licence condition 2.3 sets out a Return Adjustment Mechanism based on operational performance which is triggers a revenue adjustment when operational performance falls outside of a +/-300 basis points threshold. Based on our forecasts, we do not anticipate that NGET will meet these thresholds and therefore do not expect any associated adjustment to RIIO-2 revenues.

Overview of Regulatory Performance

RoRE

RoRE for 2022/23 and the RIIO-2 period comprise the following components:

	2022/23	RIIO-2 average
Allowed Return	4.3%	4.7%
Totex performance	0.9%	1.2%
Business plan incentive	(0.2%)	(0.2%)
Non-totex incentives and innovation	0.1%	0.0%
RoRE – operational performance	**5.0%**	**5.7%**
Financing	6.2%	1.7%
Tax	0.0%	(0.0%)
RoRE including financing	**11.2%**	**7.3%**

The subsequent sections of this narrative cover performance against each of the individual components.

Reconciliation to Revenue and Profit

(Financial values in 2022/23 price base unless otherwise stated)

The purpose of Table R2 is to report Allowed and Collected Regulated Network Revenue ("collected revenue") and to reconcile collected revenue to the turnover reported within the statutory accounts. Table R2 also provides a reconciliation for regulated network profit to profit as per the statutory accounts.

The collected revenue value is the actual year end value and therefore is an update from the collected revenue stated in the previously published PCFM. The stated FY22 figure is £0.3m higher than in the

FY22 RFPR submission and is reflective of the inclusion of £0.3m of site-specific rental charges. This number was reflected in the October 2022 Dry Run 2 PCFM submission.

Collected revenue for 2022/23 of £1,690.5m is collected via Transmission Network Use of System (TNUoS) charges set by the Electricity System Operator and based on Allowed Revenue for 2022/23 within the PCFM provided by Ofgem in November 2021. Turnover within the statutory accounts includes TNUoS related revenue and revenues received both outside of the TNUoS and the RIIO-2 revenue frameworks. Turnover as per the 2022/23 statutory accounts is £1,987.3m, a difference to collected revenue of +£296.8m. The key reconciling items between collected revenue and turnover are:

- Directly Remunerated Services revenue of +£180.7m.

  Directly Remunerated Services are those which are not already remunerated through TNUoS charges or Network Innovation Competition funding. Collected revenue specifically excludes Directly Remunerated Services as per SpC 2.1.7 whereas turnover includes all sources of revenue.

- De Minimis Business of the licensee and Other consented activities of +£66.1m.

  De minimis activities are business activities carried out by NGET outside of the transmission business below a defined threshold and are therefore not included in collected revenue. Similarly, consented activities which are those outside of the transmission business for which the Authority has given its consent in writing are not included within collected revenue. Statutory turnover includes all sources of revenue including deminimis and consented revenues.

- Other Adjustments of +£50.1m.

  The main elements of the remaining £50.1m variance between turnover and collected revenue are adjustments for capital contributions (+£12.6m) and National Gas Transmission Transitional Service Agreements following the sale of Gas Transmission (£28.1m).

The second purpose of R2 is to perform a reconciliation of our regulated network profit to our statutory accounts. For the purpose of this reconciliation regulated network profit is a proxy definition of a regulatory profit measure as set by Ofgem. Net profit as per the regulated business is £42.7m compared to the statutory accounts of £531.6m giving a difference of +£488.9m. This reconciliation comprises:

- +£318.8m for operating profit before interest and taxes. This comprises +£296.8m difference in revenues (explained above) and +£21.9m difference in operating costs which is explained in the Reconciliation to Totex section;
- +£224.3m for net interest which is explained in the financing section; and
- -£54.2m for tax which is the difference between our tax related to regulated business +£105.8m and the tax as per our statutory accounts +£160.0m which is explained in the Taxation and Tax Reconciliation section.

Totex – Reconciliation

Table R3 Totex – Reconciliation includes two elements, calculation of totex performance and reconciliation of regulatory totex to the actual opex and capex costs incurred per NGET's statutory accounts with actual reported totex.

The average totex outperformance impact on RoRE is forecast to be +1.2% for the RIIO-2 period.

Totex performance

(Financial values in 2018/19 price base unless otherwise stated)

RIIO-2 totex performance

The totex outperformance of +1.2% forecast for the RIIO-2 period is driven by the following factors:

RIIO-2 Performance	RoRE impact
Performance per RRP23	+0.4%
Efficiency ambition	+0.3%
T1+2 allowances	+0.3%
T1 Non-load allowances	+0.5%
T2 Allowance Adjustment	-0.3%
Total	**+1.2%**

Performance per RRP23

Outperformance of +0.4% is primarily driven by efficiency cost-saving initiatives on pre-construction activity for new transmission projects and phasing of performance between price control periods for volume-driven projects. This is partially offset by overspend in Asset Health.

Efficiency ambition

An adjustment of £370m is applied to our performance position. This reflects NGET's ongoing efficiency ambition, which is not yet embedded at project level within RRP23. We continue to seek additional efficiency through improving and innovating our approach to operating, maintaining, replacing, and extending the transmission network. We therefore include £370m performance ambition at a high level in our financial forecasts and the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner.

T1+2 allowance

This adjustment relates to allowances for load related projects that were initiated in RIIO-1 but are due to complete in the first two years of RIIO-2. The allowances have been reprofiled through enduring value adjustments to ensure that performance is recognised when the output is delivered. Appendix 1 includes additional detail.

T1 non-load

This adjustment rephases allowances for non-load projects that cross price control periods. These are rephased to ensure performance is recognised when the output is delivered. These adjustments relate to T1 non-load and ISS projects. The T1/T2 offset adjusts a negative allowance in T2 PCFM which claws back T1 allowances. This has already been included in T1 RoRE, therefore adjustment to add back is included. Appendix 1 includes additional detail.

T2 Allowance Adjustment

This adjustment rephases allowances for pre-construction and mechanistic PCDs that cross price control periods. These are rephased to ensure performance is recognised in T3 when the output is delivered. A further adjustment is included to remove Bramford- Twinstead non-variant allowance, as this has now been recategorised as an ASTI Re-Opener. Appendix 1 includes additional detail.

2022/23 totex performance

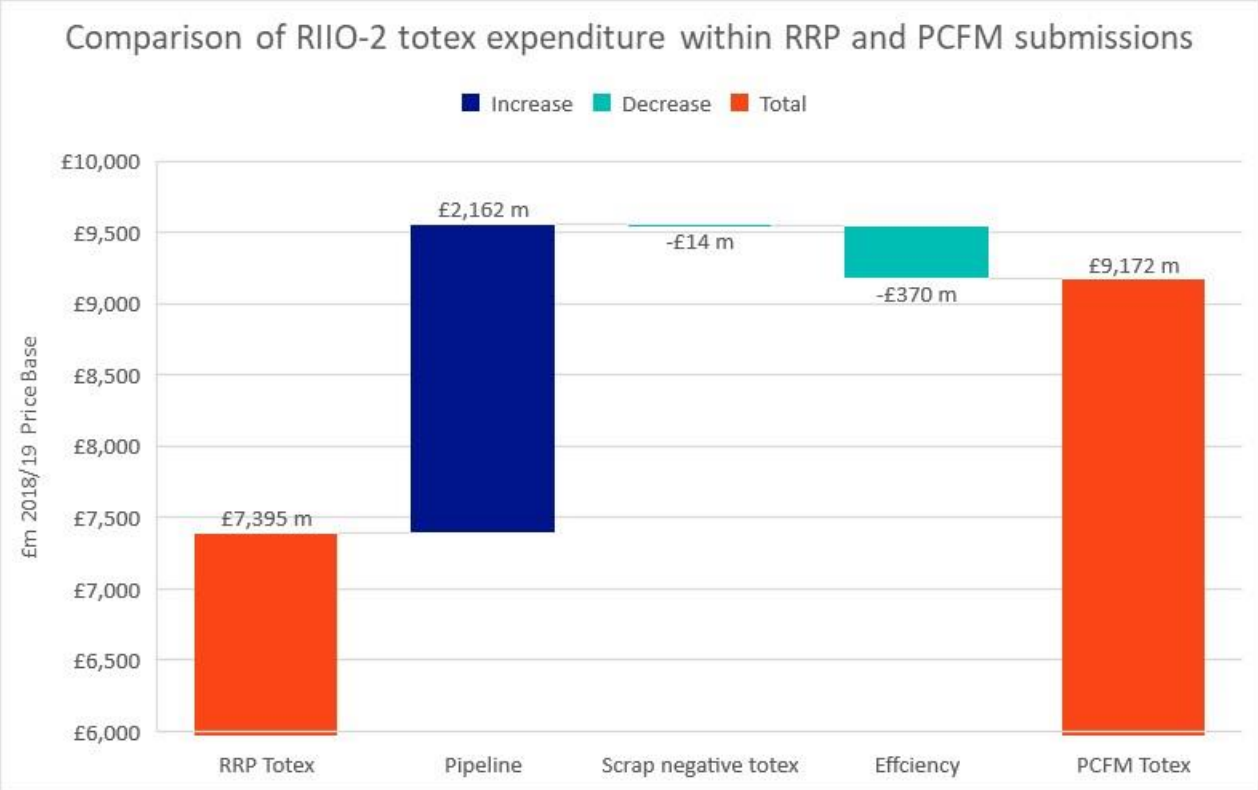
The totex outperformance of +0.9% for 2022/23 is largely driven by T1+2 deferral allowances being recognised in 2022/23 to ensure performance is recognised when the output is delivered.

Reconciliation to Totex

(Financial values in a nominal price base unless otherwise stated)

The totex reconciliation is only applicable for years for which statutory accounts have been published. Therefore, for this submission the reconciliation is performed for 2021/22 and 2022/23 only.

For the purposes of the reconciliation, the regulatory totex costs are as per the cost matrix in RRP23. There are a number of known and deliberate differences between the regulatory totex costs as per the cost matrix in RRP23 and the totex costs reported in the PCFM. The following waterfall details these differences for the RIIO-2 period (2018/19 price base):



Our efficiency ambition of £370m (2018/19 price base) is included at a high level in our financial forecasts and the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner. This reflects NGET's ongoing efficiency ambition, which is not yet embedded at project level within RRP23.

Re-opener spend of £2.2bn (2018/19 price base) is included within the Price Control Financial Model as this provides our best forecast of revenues. RRP23 only captures directed and submitted re-openers within the cost matrix, any unsubmitted re-openers are captured within the re-opener pipeline log. In order to generate cost reflective revenues, re-openers that are subject to competition have not been included in the PCFM. This is because there is a level of uncertainty as to whether NGET will carry out the works.

Scrap and disposal proceeds of £14m (2018/19 price base) are included as negative totex within the PCFM. This is to ensure that any scrap and disposal proceeds received are shared with consumers. Scrap and disposal proceeds are not included within the RRP23 cost matrix table.

NGET's total reported expenditure incurred in 2022/23 on an accounting basis is £2,140.6m; comprising opex of £977.9m and capex of £1,162.7m. This compares with regulatory totex as stated in Table R3 of £1,359.6m, a difference of -£781m.

The reconciling items fall into two categories, items that meet the definition of statutory opex and capex but are not included in total regulatory costs and regulatory costs which fall outside of the definition of Totex.

The key items which are defined differently for statutory and regulatory purposes are:

- Statutory depreciation and amortisation of £490m which is included in statutory opex but does not form part regulatory totex;
- Excluded, Consented and De Minimis Services costs of £78.3m which are included in opex but does not form part for regulatory totex; and

- NGET pipeline log assurance costs of £40.3m which are included in capex but not in regulatory totex. This is reflective of the FY23 value included within the RRP23 re-opener pipeline log.

The costs which fall outside of the totex definition are:

- Directly Remunerated Services of £13.4m;
- Pass-through costs of £163.6m, predominantly business rates; and
- Innovation costs of £6.6m.

Incentives and Other Revenue

Incentive and Other Revenue RoRE performance is -0.13% in 2022/23 based on actual values per RRP23. The RIIO-2 average incentive and other revenue performance is forecast to be -0.16%. The general principle underpinning NGET's forecasting policy is to set incentives equal to historical averages for 2021/22 and 2022/23 actuals plus the application of business intelligence, for example, the Insulation and Interruption Gas Emissions incentive forecast has been aligned to the flightpath to achieve a 50% emission reduction by 2030. The adverse incentive and other revenue performance are primarily driven by the business plan incentive which reduces RoRE by 0.2% each year.

The maximum non-totex incentive value recoverable over the full RIIO-2 period is £147.7m due to the various caps applied to the individual incentives. Excluding the Business Plan Incentive, maximum performance would result in RoRE averaging 0.4% over RIIO-2. Inclusion of the Business Plan Incentive of -0.2%, gives an overall maximum RoRE impact associated with non-totex incentives of 0.2%. The performance available to NGET under the non-totex incentive framework is extremely limited and does not seem in proportion with the level of investment required to achieve net zero ambitions.

Incentives

(Financial values in 2018/19 price base unless otherwise stated)

NGET has continued to focus on delivery against the RIIO-2 output areas: Safety, Meeting the needs of Consumers and Network Users, Customer Connections and the Environment. Incentive performance is based on the six output delivery incentives which support these output areas as well as the Business Plan Incentive, which is set at the start of the price control as detailed below. Further detail for each output incentive is detailed below.

Energy Not Supplied ODI

The purpose of the Energy Not Supplied (ENS) incentive is designed to encourage NGET to improve network reliability by efficiently managing short-term operational risk to minimise disruption to the network. This incentive will either reward or penalise NGET's performance in relation to loss of supply events.

The incentivised loss of supply events volume target is set at 147 MWh. NGET's total incentivised energy not supplied in 2022/23 was 5.2 MWh, outperforming the volume target by 142 MWh.

This gives rise to earned revenue of £1.0m for 2022/23 and RoRE impact of +0.02% for 2022/23, which will be recovered through allowed revenue in 2023/24.

This performance has been achieved through effective management of the network and a strong approach to asset management.

The incentivised loss of supply events in 2022/23 were:

Location	ENS (MWh)
Watford South 275/132kV	5.2
Total	5.2

Factors driving the initiation, duration and magnitude of incentivised energy not supplied events are highly varied, therefore this incentive is forecast to align to a historical average of 2021/22 and 2022/23 actuals across the remainder of the RIIO-2 period.

The impact of the Energy Not Supplied incentive on average RoRE for the RIIO-2 period is forecast to be +0.01%.

Insulation and Interruption Gas Emissions ODI

The purpose of the Insulation and Interruption Gas (IIG) Emissions incentive is to incentivise a reduction in leakage of SF_6 and other IIGs from assets on the transmission network, and to support the transition to low greenhouse gas alternative IIGs. The effect of this incentive is to reward or penalise NGET's performance in relation to CO_2 targets.

Actual IIG emissions in 2022/23 were 223,011 tCO_2e, outperforming the target by 20,761 tCO_2e.

This gives rise to earned revenue of £1.7m for 2022/23 and RoRE impact of +0.03% for 2022/23, which will be recovered through allowed revenue in 2023/24.

This performance is driven by our targeted planning and prioritised intervention approach for repair and replacement activities. There are also a number of initiatives that we expect to undertake over the forthcoming years in order to improve our incentive performance, including SF_6 leak abatement projects which have been funded and those submitted in the SF_6 reopener.

SF_6 inventory changes are forecasted based on RIIO-T1 actuals. IIG emissions are forecasted with the application of business intelligence to align to the flightpath to achieve a 50% emissions reduction by 2030.

The impact of the IIG incentive on average RoRE for the RIIO-2 period is forecast to be +0.01%.

Timely Connections ODI

The purpose of this incentive is to penalise the licensee for failing to deliver timely offers for connection to the licensee's Transmission System.

In 2022/23, NGET delivered 635 out of 649 Transmission Owner Connection Offers (97.84%) to the Electricity System Operator within mandated timescales, leaving 14 'untimely' offers.

This gives a reduction to earned revenue of £0.2m for 2022/23 and RoRE impact of -<0.01% for 2022/23, which will be reflected through allowed revenue in 2023/24.

Of the 14 untimely offers sent this financial year, the key causes for the late submissions were high volume of work and extensions to milestone dates requested but not granted.

This incentive is forecast to align to a historical average of 2021/22 and 2022/23 actuals across the remainder of the RIIO-2 period.

The impact of the Timely Connections incentive on average RoRE for the RIIO-2 period is forecast to be -<0.01%.

Quality of Connections Satisfaction Survey ODI

The purpose of this incentive is to incentivise NGET to improve the quality of service delivered to connection customers. The effect of this incentive is to reward or penalise NGET's performance in relation to customer connections.

In 2022/23 NGET achieved a mean performance score for quality of connections satisfaction survey of 7.2, below the performance neutral target of 7.7.

This gives a reduction to earned revenue of £3.3m for 2022/23 and RoRE impact of -0.05% for 2022/23, which will be reflected through allowed revenue in 2023/24

This reflects the combination of challenges faced as a business during the year including year-on-year trends of increased customer applications, with nearly 800 applications from customers for new or modified connections. This is combined with complex interactive issues of market design and a lack of contractual discipline and investment linked to individual customers. This resulted in NGET's combined efforts with the National Grid Electricity System Operator (NGESO) to successfully lobby for a connection reform process. NGET have responded to and given our recommendations to the industry consultation which took place during summer 2023 and closed in July. NGESO's target for final recommendations being made to Ofgem is by end of November. In the meantime, NGET are working closely with ESO and wider network companies to support development of these recommendations.

This incentive is forecast to align to any Ofgem directions. Where Ofgem have not directed a score the score is forecast to be 7.7 which assumes nil performance.

The impact of the Quality of Connections Satisfaction Survey incentive on average RoRE for the RIIO-2 period is forecast to be -0.01%.

SO-TO Optimisation ODI

SO-TO Optimisation is a new, trial incentive designed to encourage collaboration with the Electricity System Operator (ESO) to identify and provide additional solutions beyond business-as-usual activities to help reduce constraint costs.

In 2022/23 NGET delivered twenty-nine enhanced services solutions successfully with the ESO, which has resulted in over £95.4m in actual constraints savings.

This gives rise to earned revenue of £5m for 2022/23 and RoRE impact of +0.08% for 2022/23, which will be recovered through allowed revenue in 2023/24.

This success over the trial period demonstrates the effectiveness of the incentive in delivering benefit to consumers and the value of extending the incentive to cover the remainder of the RIIO-2 period rewarding NGET in continuing to seek innovative ways to provide enhanced services to the ESO to deliver constraint cost savings. A decision was made on 28 June 2023[2] to extend the SO:TO incentive over the remaining 3 years of RIIO-T2. This decision was made after the publication of the RRP table on 12 May 2023[3].

This incentive is forecast to align to any Ofgem directions. Where Ofgem have not directed a forecast we assume nil performance.

The impact of the SO-TO Optimisation incentive on average RoRE for the RIIO-2 period is forecast to be +0.03%.

Environmental Scorecard ODI

The purpose of this incentive is to reward or penalise NGET's performance in relation to six environmental targets compared to annual thresholds. These six environmental targets are:

- Business travel
- Operational and office recycling
- Office waste reduction
- Office water
- Environmental value of non-operational land
- Net gain on construction projects

[2] Decision on the System Operator: Transmission Owner Optimisation Output Delivery Incentive in RIIO-2 | Ofgem

[3] Direction to Modify the Regulatory Reporting Pack (version 2.3) and Regulatory Instructions and Guidance (version 1.7) May 2023 | Ofgem

NGET has outperformed in five elements of the scorecard this year, with the maximum reward threshold being reached on four of the elements.

This gives rise to earned revenue of £1.0m in 2022/23 and RoRE impact of +0.02% for 2022/23, which will be recovered through allowed revenue in 2023/24.

This is mainly driven by the achievement of the maximum threshold for value of non-operational land. NGET has built on the approach from 21/22 and focussed on opportunities for connecting people to the natural environment via strategic partnerships and network of Environment Centres. NGET has achieved the maximum threshold this year achieving 3.17% increase against the baseline. NGET introduced 10-year enhanced partnership agreements with partnering organisations at two electricity substation sites – West Boldon (Ground Work South Tyneside) and Skelton Grange (TCV). The partnerships will enable at least 8,700 people per year from local communities to access nature via NGET's sites as a result of new conservation days, guided walks or increased environmental education visits throughout the duration of the 10-year agreements. NGET also introduced a 10-year habitat management plan at Fleet, partnering with the Conservation Volunteers (TCV) to protect and enhance areas of the woodland at Fleet electricity substation site.

This incentive is forecast to align to a historical average of 2021/22 and 2022/23 actuals across the remainder of the RIIO-2 period.

The impact of the environmental scorecard incentive on average RoRE for the RIIO-2 period is forecast to be +0.01%.

RIIO-2 Network Innovation Allowance

(Financial values in 2018/2019 price base unless otherwise stated)

The purpose of the RIIO-2 Network Innovation Allowance (NIA) is to incentivise networks to take forward innovation projects that have the potential to address consumer vulnerability and/or deliver longer–term financial and environmental benefits for consumers, which may not have been undertaken within the price control.

The NIA allows NGET to recover 90% of total NIA expenditure capped at a maximum allowance of £49.3m over RIIO-2. Therefore, at least 10% of NIA expenditure will impact operational RoRE.

In 2022/23 NGET spent £5.6 m on NIA projects, with the 90% allowance recovering £5.0m against this expenditure. This is an increase from £2.4m in 2021/22, driven by the increase in both the total number of NIA projects, and the increase in the NIA projects that have incurred spend. RoRE operational performance for 2022/23 is not significantly impacted (<0.1%) by the net cost of NIA projects.

Nineteen NIA projects have been registered by NGET this year and we have made financial contributions through collaboration on a further three NIA projects led by other network licensees. This brings the total number to thirty-eight for RIIO-2, up from a total of sixteen in 2021/22. Only five of these projects have not incurred any spend in FY23 due to being in the contracting stage and work not yet being started.

NGET forecast that maximum Total NIA value will be utilised across the price control period given the focus of the innovation strategy for RIIO-2 and the need to work differently to meet Net Zero targets with the spend trajectory increasing over RIIO-2. There has been an increase in internal time due to an increased headcount in the team to bring the team to full capacity. This level of expenditure would result in a net cost to NGET of £5.5m, which has a limited impact on RoRE for the RIIO-2 period (<0.1% impact).

Further information can be obtained from NIA annual summaries published on the National Grid Electricity Transmission website[4].

---

[3] Electricity transmission innovation | National Grid ET

Carry Over Network Innovation Allowance

(Financial values in 2018/2019 price base unless otherwise stated)

The purpose of the Carry Over Network Innovation Allowance is to extend RIIO-1 Network Innovation funding. This allowance ensures any unspent 2020-2021 RIIO-1 NIA allowance is carried over into the first year of RIIO-2 in 2021/2022, to spend on projects that had already been started by 31 March 2021.

There has been no spend incurred on any of the applicable projects, and all projects have a status of 'complete'.

Strategic Innovation Fund

(Financial values in 2018/2019 price base unless otherwise stated)

The Strategic Innovation Fund aims to determine and fund innovative projects with the potential to accelerate the transition to Net Zero whilst succeeding commercially where possible to ensure consumer affordability.

In March 2022 NGET secured funding through the SIF mechanism for 3 Discovery phase projects to be run from 1st March to 30th April 2022: SCADENT, Eye in the Sky and SEGIL. The projects progressed according to the plan described in the funding applications through the Discovery Phase. In July 2022 NGET secured Alpha Phase funding for SCADENT and Eye in the Sky. The SEGIL project ceased at this point and did not have any further spend.

The actual spend in FY23 for SCADENT and Eye in the Sky varies from our previously submitted forecast as both projects went into the SIF Alpha phase. We have therefore delivered additional scope which was not known at the time of our previous submission. Spend to date is summarised in the following table.

Project Name (£k) 18/19 Price Base	2022	2023
SCADENT	2	551
SEGIL	1	83
Eye in the Sky	5	383
Total (£k)	**8**	**1017**

Financing and Net Debt position

Financing

(Financial values in 18/19 price base unless otherwise stated)

The purpose of Table R5 is to report annual actual and forecast Net Interest as per the Regulatory (RIIO-2) definition. This is then adjusted to remove inflation and include early redemption costs and amortisation of discount/premia on issue and compared against the cost of debt allowances published in the latest PCFM. This table also reconciles actual Net Interest with the interest charge included in the statutory accounts.

The Net Interest Per Regulatory (RIIO-2) Definition will continue to be used as an input to calculate the tax clawback adjustment in the PCFM through the TNDI variable value.

Table R5 further analyses the performance of a notional and actual company. A notional company in this context is a hypothetical, but typical and efficient network company whereas the actual company is the actual performance during the price control. This can be demonstrated in gearing where notional gearing is 55% in RIIO-2 whereas actual gearing in RIIO-2 is on average 53%.

Net Interest Reconciliation

Table R5 also requires a reconciliation between actual Net Interest with the interest charge included in the statutory accounts.

Actual Net Interest for 2022/23 is £542.1m. Net interest as per the 2022/23 statutory accounts is £317.8m, giving a difference of +£224.3m. The key reconciling items between collected revenue and turnover are capitalised interest back of +£118.5m and fair value adjustments including derivatives of +£84.3m. The remaining items including movements relating to pension fund, commitment fees, provision unwind, change in discount rate to environmental provisions and other interest payable reconcile the remaining £21.6m. These items are excluded from Net Interest as per the regulatory definition detailed in the RIIO-2 RFPR - Regulatory_instructions_and_guidance_version_1.0 glossary.

Net debt

(Financial values in nominal price base unless otherwise stated)

The purpose of Table R6 is to report annual actual and forecast Net Debt as per the Regulatory (RIIO-2) definition. The worksheet also reconciles the actual Net Debt with statutory accounts. The Net Debt Per Regulatory (RIIO-2) Definition will continue to be used as an input to calculate any tax clawback.

Total Debt closing average per Statutory Accounts for 2022/23 is £9,090.2m and Total Net Debt closing average per Regulatory (RIIO-2) definition for 2022/23 is £8997.5m, a difference to Statutory Accounts of -£92.7m. The key reconciling items between statutory accounts and the RIIO-2 definition are Fair Value Adjustments +£376.5m, Cross Currency Swaps -£268.6m, Accrued Interest -£74.7m, Derivatives -£147.1m and IFRS 16 Right of Use Liability -£61.5m. These items are excluded from Net Debt as per the regulatory definition detailed in the RIIO-2 RFPR - Regulatory_instructions_and_guidance_version _1.0 glossary.

The R6a tab is showing errors in rows 101, 108 & 115, where the sum of the proportions is not exactly equalling 100% to 8 decimal places. This is due to the error check not including any level of tolerance. A tolerance should be built into the formula to prevent an error being returned. This was raised with Ofgem on 12th September.

RAV

(Financial values in 2018/19 price base unless otherwise stated)

The R7 – RAV table details the annual Regulatory Asset Value (RAV) position based on the actual and forecast RAV per the ET2 PCFM for the September 2023 submission. The closing RAV balance is used in deriving actual gearing and the NPV neutral equity element of RAV is then used to calculate RoRE.

The Closing RAV values in row 12, Opening RAV in cell F15, Net additions in row 18 and Depreciation in row 21 are those per the latest PCFM submitted in September 2023. The PCFM is then adapted to include the impact of enduring value adjustments (EVAs) to give the adjusted closing RAV. It is the closing RAV from the PCFM adjusted for EVAs that is used in the calculation of actual gearing and RoRE as the enduring value adjustments applied provide a more representative view of in year performance. Details of the enduring value adjustments are reported in Appendix 1.

The following table shows the difference between the adjusted closing RAV calculated in the R7 – RAV table and the closing RAV per the latest PCFM. The enduring value adjustments that have been applied either re-phase performance in line with spend or release deferred performance from RIIO-1 to ensure performance is recognised when outputs are delivered:

£m 18/19 Price Base	2022	2023	2024	2025	2026
Closing RAV per latest PCFM	14,166	14,394	14,988	16,001	17,196
In year enduring value adjustments	-36	-72	63	84	98
Cumulative enduring value adjustments	-36	-108	-45	39	137
Adjusted Closing RAV	14,130	14,286	14,943	16,040	17,334

The adjusted closing RAV is forecast to increase by an average of c.£1016m year-on-year, reflecting an increase in the level of outputs NGET expects to deliver in response to Net Zero targets.

Taxation and Tax Reconciliation

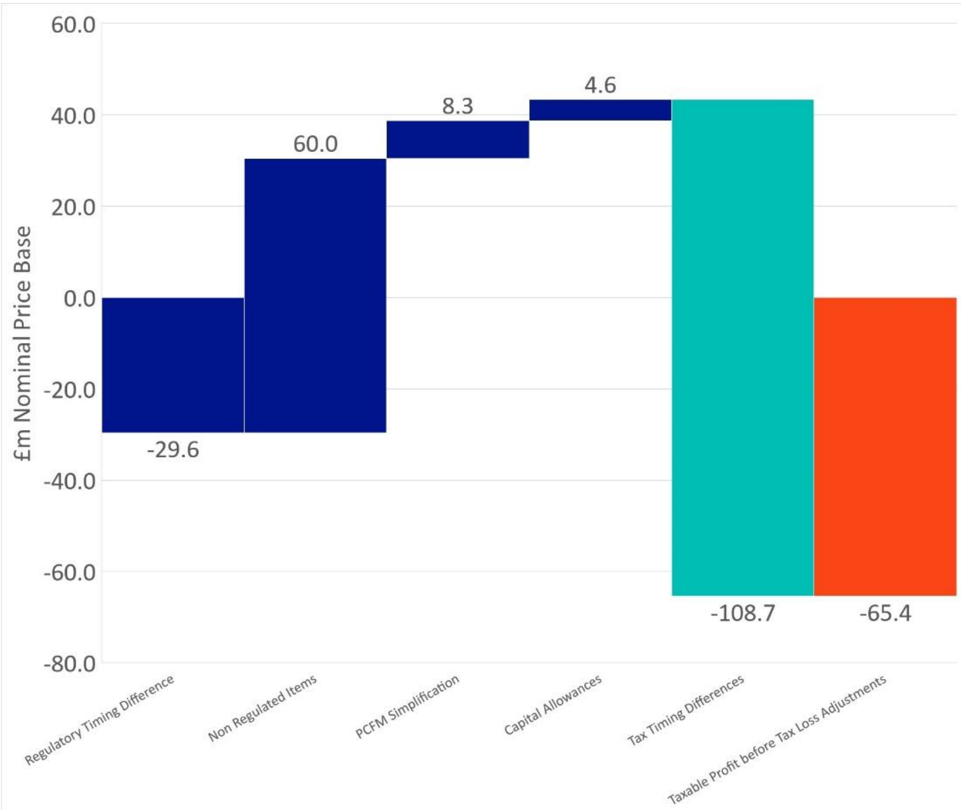
(Financial values in 2018/19 price base unless otherwise stated)

The purpose of the taxation worksheet is to calculate the tax out or underperformance against the tax allowance at actual and notional levels of gearing.

The forecast tax allowance for 2022/23 is £95.5m and forecast tax outperformance is £5.8m at actual gearing and £3.1m at notional gearing levels. The difference between actual and notional is caused by an adjustment to regulatory tax cost relating to variance from notional gearing of -£2.7m.

The primary objective of the R8a- Tax Reconciliation worksheet 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 submissions to HMRC, this sheet is to be reported with a one-year lag (i.e. inputs will relate to the previous reporting period).

The graph below demonstrates the material differences (£65.4m Nominal Price Base) within the Taxable Profit before Tax Loss Adjustments for 2021/22. This can be found in cell J86 in the Tax Reconciliation tab.



The variance can be broadly split into five categories:

Regulatory timing differences arise as a result of the financial data included within the PCFM reflecting a regulatory point of view which is not in line with the financial performance that makes up NGET's statutory accounts. These differences were expected and arise each reporting cycle and have, and continue to be, explained elsewhere in the RFPR tables submitted to Ofgem. As a result, none of the regulatory reporting differences set out in the Tax Reconciliation should be unexpected by Ofgem.

Non Regulated Items of £60.0m are included in CT600, however are not included in the PCFM as the PCFM only includes regulatory items. The source for the Non Regulated items can be found in the RFPR submission in August 2022 – R2 Reconciliation Revenue to Profit and is explained in appendix 2.

PCFM Simplification are reconciling items between actuals in CT600 and simplified calculations in the PCFM based on a notional company.

Capital allowances are reconciling items between actuals in CT600 and a notional company within the PCFM.

Tax timing differences arise because the PCFM calculates the tax allowance via a simple excel model that only reflects tax adjustments for capital allowances and no other tax adjustments applicable to NGET in calculating its statutory CT600 tax liability. The majority of these adjustments (e.g. for provision and pensions) are timing differences that will reverse over the fullness of time. Again, none of these differences are unexpected or unexplainable and are referenceable to the CT600 submitted to HMRC.

After applying corporation tax of 19% and converting from nominal to 18/19 prices the overall variances between the PCFM tax allowance for FY22 and the equivalent CT600 amount is -£11.5m.

A more detailed breakdown of each category in the graph above can be found in appendix 2.

Corporate Governance

(Financial values in nominal price base unless otherwise stated)

The purpose of this worksheet is to report the executive directors' remuneration. Additionally, this worksheet is to report actual dividends paid that relates to the regulated business. The worksheet then reconciles with information in the statutory accounts.

Corporate Ownership and Governance Framework

The corporate governance structure for NGET can be found in Appendix 3, including ownership stakes in the licensee expressed as a percentage and the names (both registered and trading) of all companies in the ownership structure between the NGET and National Grid plc.

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, two Sufficiently Independent Directors (SIDs) and one Non-executive director. 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 2023 and up to the date of this report:

Name	Director Type	Appointment Date	Resignation Date
Bennett, Christopher Paul	Executive	25/06/2016	
Campbell, Justine	Shareholder-appointed non-executive	24/02/2023	
Delahunty, Alice Kyne	Executive	14/12/2020	
Lewis, Alexandra Morton	Shareholder-appointed non-executive	13/04/2018	
Long, Jeremy Paul Warwick	Sufficiently Independent	17/03/2022	
Pettifer, Darren	Executive	01/08/2021	01/08/2022
Ross, Cathryn	Sufficiently Independent	21/06/2019	
Sheppard, Philip Graham	Non-executive	01/08/2021	
Trowell, Carl Geoffrey	Executive	29/05/2023	
Wilson, Benjamin Hollis	Shareholder-appointed non-executive	22/11/2021	01/02/2023

Board committees

There are several committees within NGET, including:

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 reviews the external auditors' findings. Membership of the Committee comprises:

- Jeremy Long (Sufficiently Independent Director)
- Alexandra Lewis (Shareholder-appointed non-executive Director)
- Cathryn Ross (Sufficiently Independent Director)

Business Separation Compliance Committee (BSCC)

The BSCC is responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions.

Membership of the Committee is by appointment of the Board and comprises all directors of the Company. The Committee is chaired by Cathryn Ross (Sufficiently Independent 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:

- Andrew Agg (Executive Director of National Grid plc)
- Alexandra Lewis (Shareholder-appointed non-executive Director)

Electricity Transmission Executive Committee (ETEC)

ETEC directs the affairs of the Electricity Transmission business on behalf of the Board, to perform an assurance role within the context of the overall RIIO networks governance framework. Its remit extends to approving the Electricity Transmission strategies and business objectives for managing the RIIO contract and for approving opportunities to deliver value within that contract in accordance with Delegation of Authority limits. The directors of ETEC are:

- Alice Delahunty (Executive Director)
- Chris Bennett (Executive Director)
- Darren Pettifer (Executive Director until 1 August 2022)

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

- Jeremy Mavor (UK General Counsel)
- Sarah Milton-Hunt (Chief Information Officer)
- Claudia Nicoll (Chief People Officer)
- Lydia Ogilvie (Director of Network Operations & Intelligence)
- Roisin Quinn (Director of Customer Connections)
- Alex Kaufman (Director of Land, Planning and External Affairs)
- Zac Richardson (Offshore Delivery Director)
- Lauren van der Kolk (Director of ET Transformation)
- Matt Staley (Onshore Delivery Director)
- Noha Wagdy (Director of Safety, Risk and Compliance)
- Andy Richardson (Director of Asset Operations)
- Stephen Hurrell (Interim Chief Financial Officer)

Decision Making

The following table explains the decision-making responsibilities that are reserved to a parent/group company and/or where the company consults with guidance given by the group:

Purpose, values and strategy	Purpose, values and strategy are matters reserved to the ultimate shareholder, National Grid plc. The Company 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 8 – 13 of the Company's ARA.[5]
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 Holdings Limited) may appoint and remove directors by ordinary resolution.
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.

[5] download (nationalgrid.com)

	Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 90 to 106.[6]
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.

Executive Remuneration Policies

Executive remuneration is controlled by the ultimate parent company, National Grid plc. The National Grid plc Remuneration Committee is responsible for recommending the remuneration policy for the National Grid plc executive directors, Group Executive Committee members and the Chair, and for implementing this policy. Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 90 to 106[7].The aim of NGET's remuneration policy is to ensure that how we structure remuneration and how we make 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 NGET 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.

NGET's remuneration policies are designed to ensure alignment with customer and stakeholder interests; our purpose, culture and values; and long-term delivery of our strategy. Our management is incentivised through our target setting and remuneration policy to deliver the actions necessary to achieve our net zero objectives. Alignment of the Annual Performance Plan (APP) and the Long Term Performance Plan (LTPP) to core financial Key Performance Indicators (KPIs) incentivise operational excellence and long-term value creation to ensure we deliver for our customers efficiently.

Remuneration Framework

Our remuneration policy weights executive and senior leadership compensation more heavily towards performance related pay, especially long-term share-based reward. The portion of reward at risk (linked to performance-based elements) accounts for more than half the total remuneration opportunity; and is linked to both business performance measures and individual performance. This typically comprises an annual element (APP) and a longer-term element (LTPP):

Band	Target APP (% of salary)	LTPP Maximum Award	Pension DC contribution*	Car Allowance	PMI	Holiday	Flexible Benefits
President NGET	45%	Up to 225% of annual base salary	12%	£12,000	Uncapped	28 days annually (plus public holidays)	We offer a range of benefits including a Sharesave scheme, Share incentive plan, employee assistance programme and flex benefits scheme
NGET Leadership Team	25%	Up to 85 - 120% base salary	12%	£12,000	Family		

[6] download (nationalgrid.com)
[7] download (nationalgrid.com)

**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. New appointments and new hires will be appointed on the terms set above, however, there may be cases where employees have legacy terms and conditions that continue to apply based on their contractual arrangements.*

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 President NGET and other senior leaders are reviewed and approved annually at National Grid Group Executive Committee level. The budget for annual salary increases for Senior Managers and Managers is also set by the NG Executive Committee and allocated to individuals with reference to the factors outlined above.

Performance Related Remuneration

Short term incentives

The Annual Performance Plan (APP) comprises reward for achievement against NGET 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 NGET strategic business priorities. Targets are set with reference to the budget, which is reviewed and approved annually by the National Grid Group 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 NGET 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. APP awards are paid in June and subject to malus and clawback provisions.

Long term incentives

NGET 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 NGET employees and to encourage outstanding long-term performance. 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. LTPP awards are subject to malus and clawback provisions.

.

2022/2023 Executive Remuneration

As at March 2023, NGET has two executive directors, Alice Delahunty (President of Electricity Transmission) and Christopher Bennett (Regulation Director Electricity Transmission). Darren Pettifer (CFO) served as an executive director until 1 August 2022 and therefore his remuneration declared in Table R9 has been pro-rated accordingly. The pension contribution for Darren Pettifer has not been pro-rated.

All executive directors oversee the running of NGET. This has been reflected by allocating 100% of their total remuneration to the regulated businesses.

National Grid's Group structure means that Directors do not hold shares at a Licensee level. For this reason, NGET has 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 NGET 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 CEO/President of NGET'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 2022/2023 CEO Pay Ratio reports the 25th, 50th and 75th percentiles as 11.24, 8.93 and 7.03 respectively. The median pay ratio reported this year is consistent with our wider pay, reward and progression policies. For reference, the National Grid plc Group-wide pay ratio and National Grid UK ratio are disclosed in the NG plc Group Annual report.[8]

Dividend policy

NGET's approach to dividend policy is generally to make distributions which align with regulatory target capital structures taking into consideration credit metrics and medium-term cash requirements. In RIIO-T2, the regulatory gearing is 55%, but there is a gearing glidepath for tax clawback, with the 60% moving down to 55% by the end of the price control. In March 2023 this glide path included a target gearing of 59% and would allow for a dividend of over £900m. Based on current high-level capital expenditure and cash flow projections, the dividend has been maintained at £300m such that gearing is now below 55%.

The Board approved a final dividend of £300m which was paid in July 2023. The Board will continue to act responsibly on dividends as we progress through RIIO-T2.

Pensions and Other Activities

(Financial values in 2018/19 price base unless otherwise stated)

The purpose of the Pensions and Other Activities worksheet is to report a summarised position of NGET's pensions deficit for defined benefit schemes, and to capture any Ofgem related fines and penalties. The latter feeds into the calculation of RoRE.

The established deficit allowance less Pension Payment History (PPH) is £36.7m. The pension scheme valuation is performed tri-annually, the valuation presented in the 2022/23 RFPR is the March 2019 valuation as the March 2022 valuation had not been signed off as of 31 March 2023.

[8] download (nationalgrid.com)

There have been no Ofgem related fines or penalties in the year 2022/23.

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

Basis of any estimates and allocations

Forecasts are based on the key principle that variable values remain unchanged from the re-published PCFM in January 2023 unless:

- Actual data is available;
- there is a clear external signal indicating change to values published through the re-published PCFM in January 2023); and
- there is an increase in the assurance of project costs compared with those published through the re-published PCFM in January 2023.

Where there is neither an external signal nor increased cost assurance, variable values remain unchanged from the re-published PCFM in January 2023.

These forecasting principles are specifically interpreted and applied to each category of variable values. On an annual basis the policies within this document are reviewed and signed off by NGET’s Chief Financial Officer.

Appendices

Appendix 1 - Enduring Value Adjustments

To provide a true view of RoRE, several enduring value adjustments have been applied to totex. The enduring value is the true value of the regulated business over the course of the price control and factors in the financial impact of any decisions or events which are yet to be reflected in revenue and RAV but are known at the time of estimation. Where possible forecasting is utilised to give a view of the true value of the regulated business, however the RRP does not accommodate all required adjustments. Therefore, several adjustments are required to be overlaid after the completion of the RRP. These adjustments either re-phase performance in line with spend or release deferred performance from RIIO-1 to ensure performance is recognised when outputs are delivered. A summary of the RoRE impact for both categories of adjustment can be seen below:

EV RoRE impact	2022	2023	2024	2025	2026	T2 Ave.
T1 deferral adjustments	1.18%	1.16%	0.52%	0.39%	0.30%	0.71%
T2 deferral adjustments	-0.25%	-0.10%	-0.11%	-0.30%	-0.50%	-0.25%
Re-phasing adjustments	-1.66%	-2.52%	0.79%	1.44%	1.87%	-0.02%
Total EV impact	-0.73%	-1.47%	1.20%	1.53%	1.67%	0.44%

The following table details the individual enduring value adjustments applied and the reasoning behind the application. These items reconcile to worksheet R3 – Totex Reconciliation:

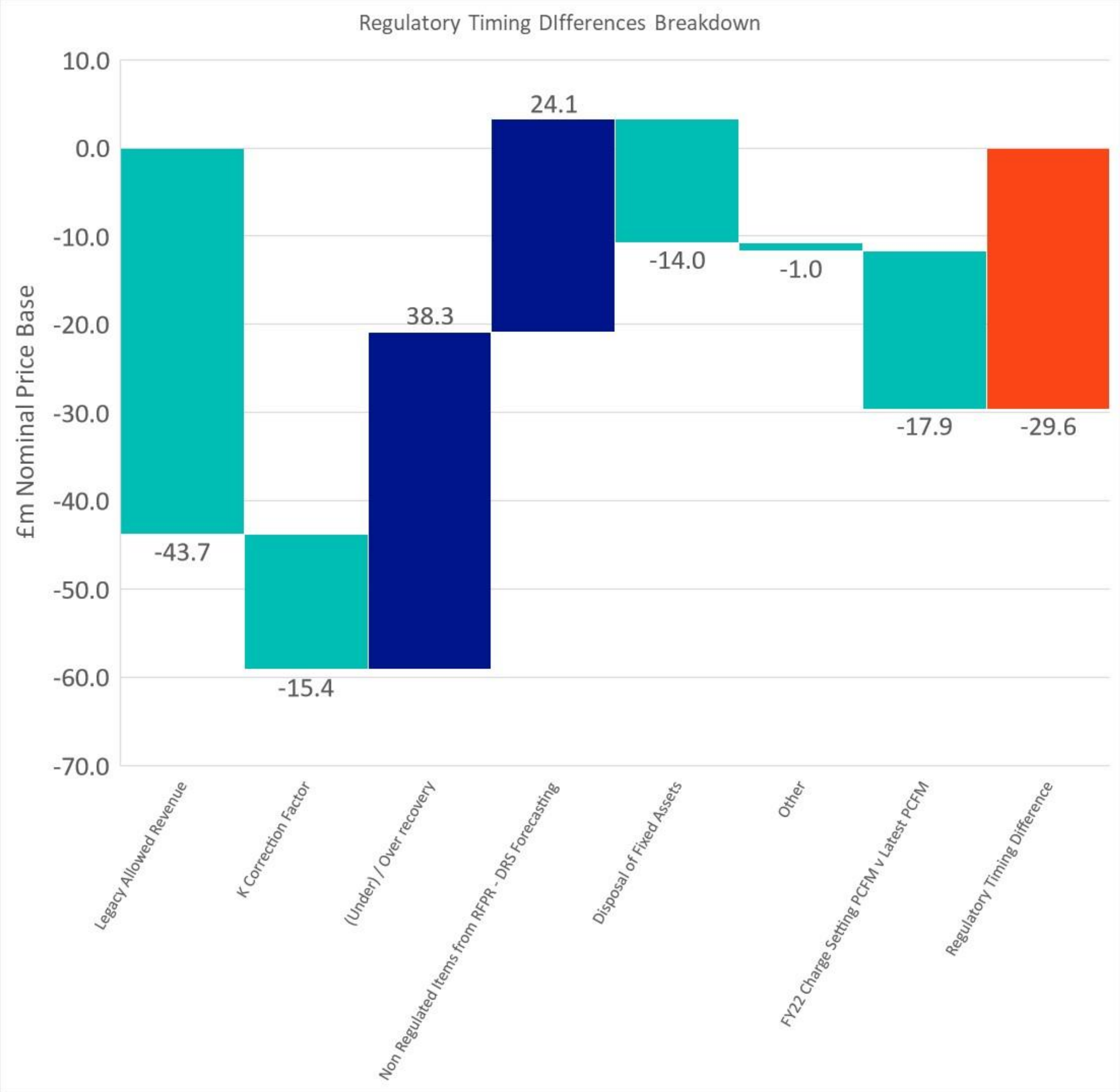
Enduring Value Adjustment £m 2018/19 Price Base	2022/23 Adjustment	Total T2 Adjustment	Total T1 Adjustment	Explanation
T1+2 Deferral	£145.0m	£269.7m	-£358.8m	Allowances deferred in T1 relating to crossover schemes. Performance to be released in line with output delivery dates. c. £189m of closeout has been reflected in the PCFM this year, therefore this is no longer included as an adjustment in RFPR.
T1 Non Load	£64.7m	£376.3m	-£393.9m	Outstanding projects from T1 where work is expected to complete in T2 without further funding. Deferral of allowances released in line with spend to ensure performance is recognised when outputs are delivered.
ISS Deferral	£11.9m	£46.0m	-£46.0m	Agreement with Ofgem for the late delivery of ISS sites, with no change to T1 allowances.
T1/T2 Offset	£15.7m	£78.4m	-£78.4m	Adjusts negative allowance in T2 PCFM which claws back T1 allowances. This has already been included in T1 RoRE therefore adjustment to add back is included.
Pre-Con Rephasing	-£19.7m	£0.0m	n/a	Re-phasing of allowances compared to those in the PCFM. This re-phases allowances to match the spend profile to provide a more accurate view of in year performance.

Pre-con adjustment	-£5.9m	-£108.1m	n/a	Deferral of pre-construction allowances that have pre-construction spend beyond RIIO-T2 to ensure performance is recognised when outputs are delivered.
Remove Bramford Allowance	-£3.1m	-£97.5m	n/a	Bramford Twinsted has been re-categorised as an ASTI re-opener. Due to limitations within the RRP we are unable to remove the allowance from the non-variant baseline resulting in duplication of the allowance. This removes allowance to provide an accurate view of performance.
Mechanistic PCD's	-£10.3m	-£55.1m	n/a	Due to limitations within the T2 licence we are unable to include a forecast mechanistic PCD adjustment within the RRP. This adjusts allowances to provide a more accurate view of in year performance.
Phasing Adjustment	-£477.9m	£0.0m	n/a	Re-phasing of allowances compared to those in the PCFM. This re-phases allowances to match the spend profile to provide a more accurate view of in year performance.
Total	**-£279.7m**	**£509.8m**	**-£877.1m**	

Appendix 2 – Tax Reconciliation Breakdown

The below graphs breakdown each block within the graph in the Tax & Tax Reconciliation chapter.

Regulatory Timing Differences Breakdown:



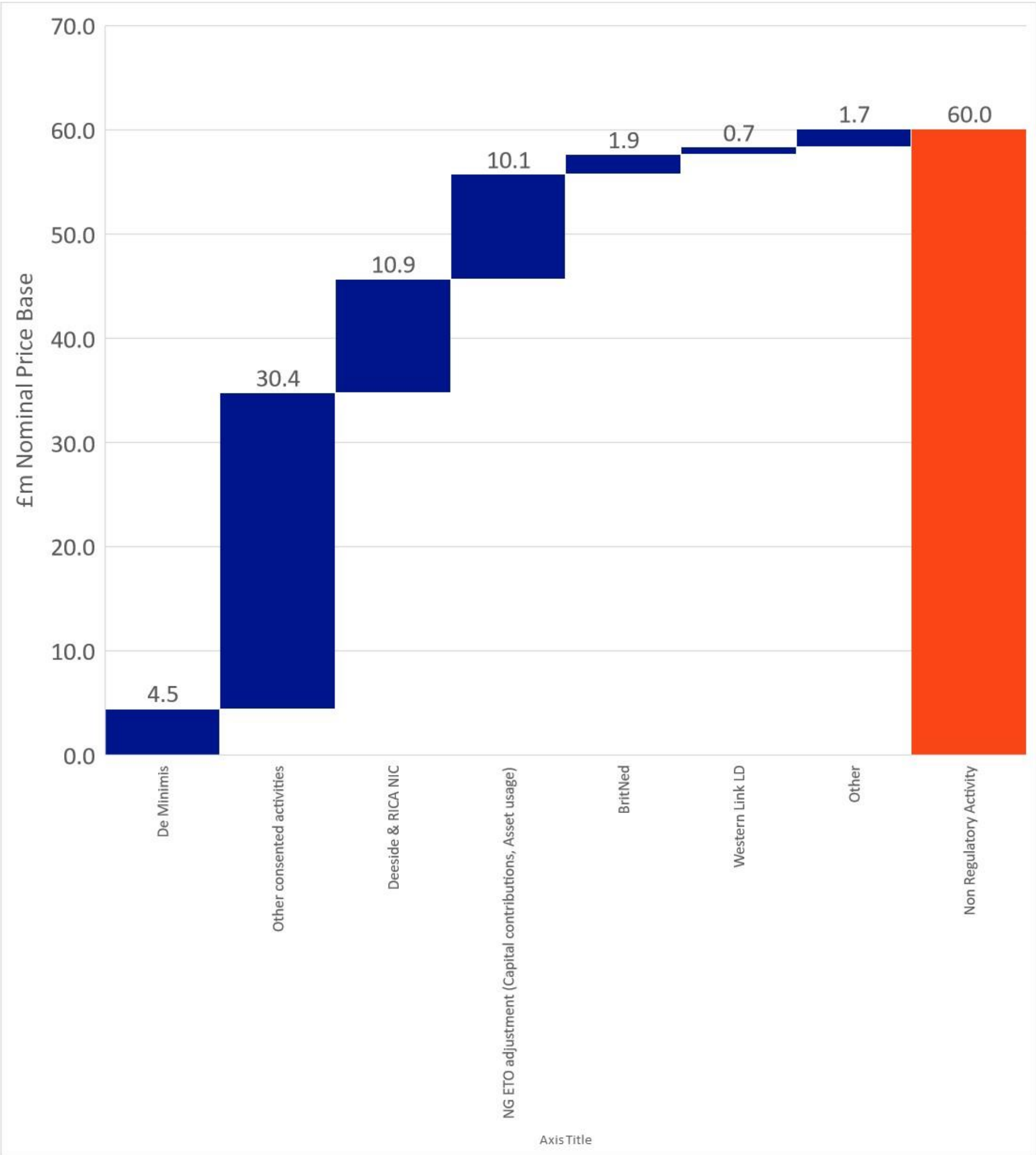
Legacy Allowed Revenue, K Correction Factor, (Under) / Over Recovery – Variables in PCFM that are not within CT600.

Non Regulated Items from RFPR - DRS Forecasting – This is the difference between DRS forecasted in the FY22 charge setting PCFM (Feb 2021) v actuals in CT600.

Disposal of Fixed Assets – This is the loss on disposal of fixed assets as per the financial statements.

FY22 Charge Setting PCFM v Latest PCFM – This is the difference in calculated revenue between the PCFM used for charge setting in FY22 and the latest PCFM.

Non Regulatory Activity Breakdown:



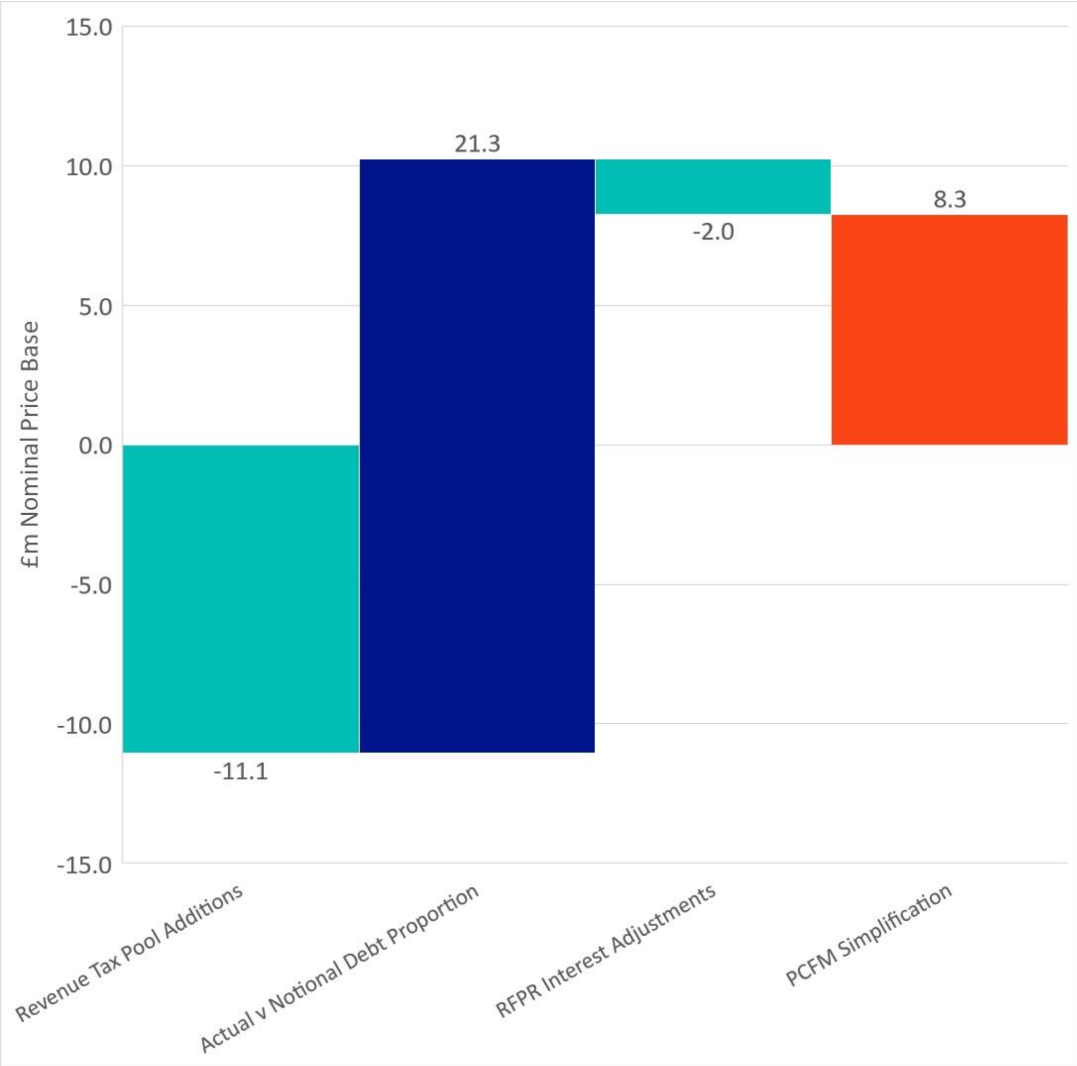
Non regulated Activity are items captured in CT600 that are not in the Price Control Finance Model (PCFM).

The PCFM is based on the regulatory framework and is used for charge setting. Therefore, the PCFM will only include regulated items.

CT600 turnover includes regulated and non-regulated items, therefore non regulated items are a reconciling item between CT600 and the PCFM.

These items are identified in RFPR 2022 in the R2 Reconciliation of Revenue to Profit.

PCFM Simplification Breakdown:



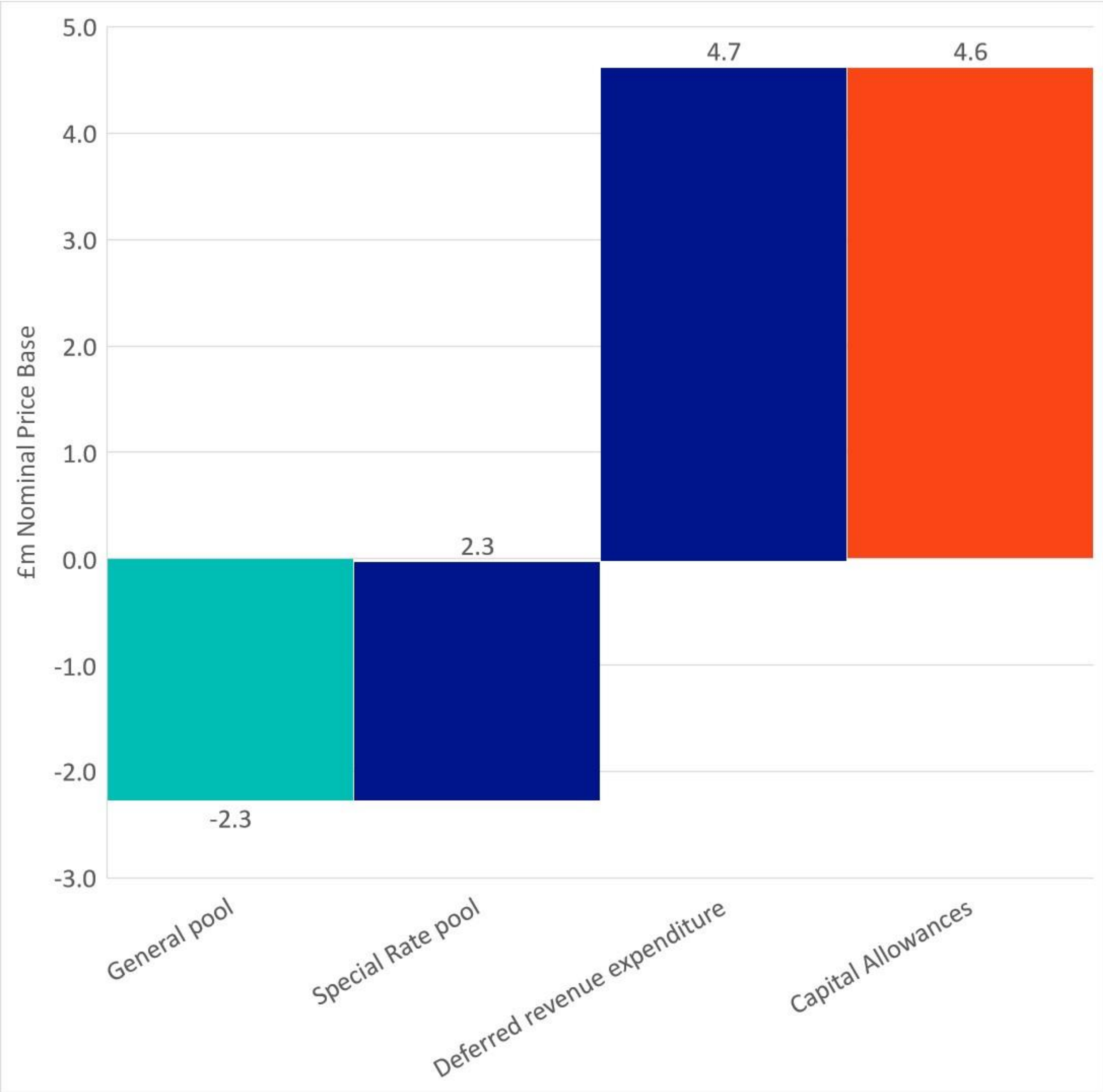
These are reconciling items between actuals in CT600 and simplified calculations in the PCFM based on a notional company.

Revenue Tax Pool Additions – The PCFM calculates operating expenses on a simplified view of totex proportioned by a percentage allocation to the revenue tax pool.

Actual v Notional Debt Proportion – The PCFM uses a notional value for the split of fixed rate debt and index linked debt whereas CT600 is based on actuals.

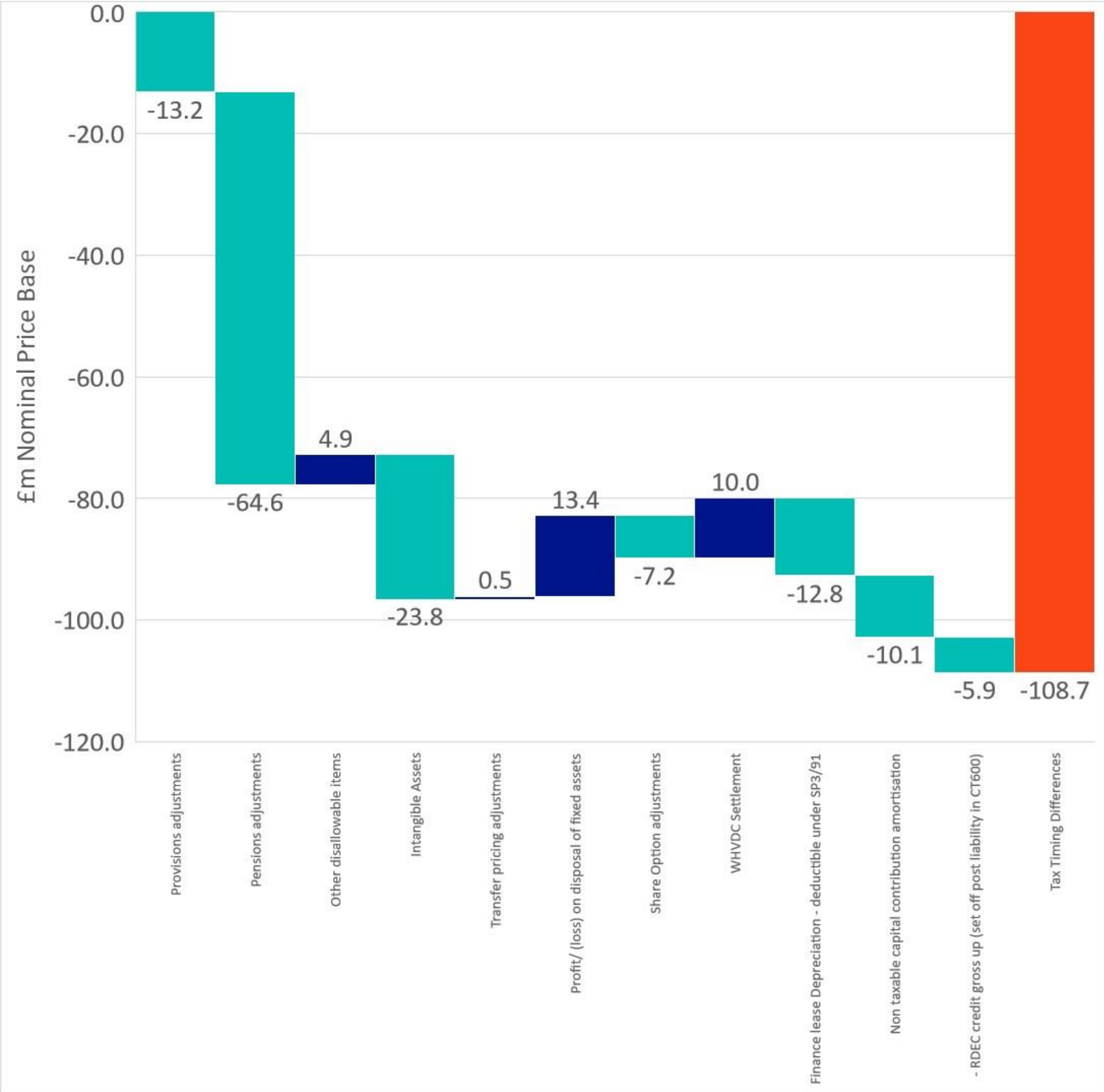
RFPR Interest Adjustments – These are adjustments in August 2022 RFPR to calculate net interest per statutory accounts. Plus pensions: expected return on scheme assets (£2.0m), Plus other, non debt, elements of interest recd (£1.5m), Rounding £1.5m

Capital Allowances Breakdown:



These reconciling items can be found in the R8a tab.

Tax Timing Differences Breakdown:



These reconciling items can be found in the R8a tab.

Appendix 3 - Corporate Ownership Structure