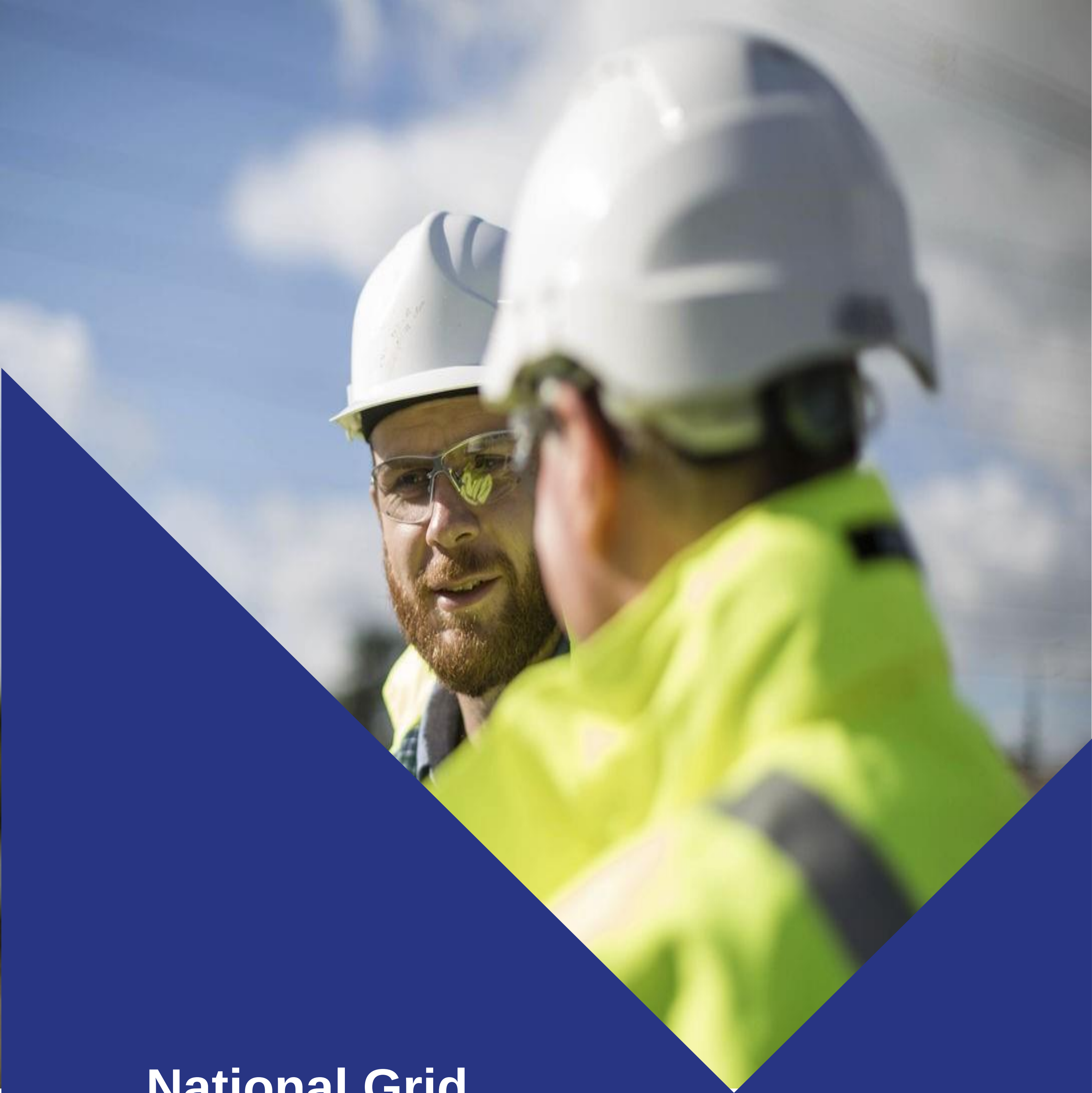

National Grid Electricity Transmission

Regulatory Financial Performance Report Narrative

September 2024

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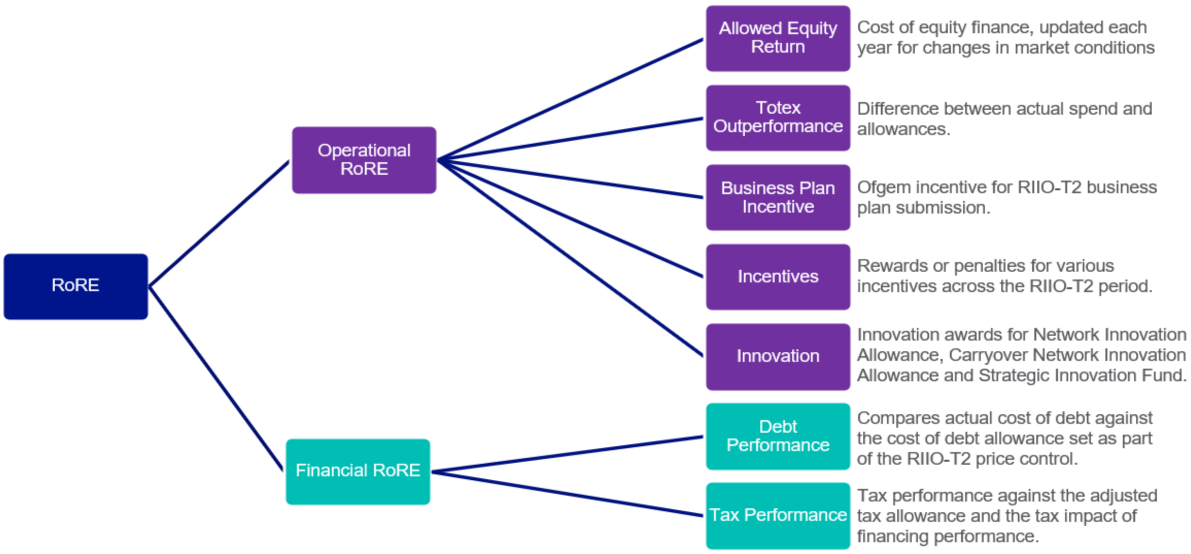
National Grid Electricity Transmission Regulatory Financial Performance Reporting commentary 2023/24

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, based on actual & forecast performance. 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 (Debt and Interest) and tax performance are included within the financial component.



This narrative supports the submission of our 2023/24 RFPR which is the third RFPR submission of the RIIO-T2 price control period. RFPR24 sets out the regulatory information to meet the requirements of Standard Condition B15 of the National Grid Electricity Transmission (NGET) licence.

This commentary covers NGET's RoRE performance across the price control period with focus on the 2023/24 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

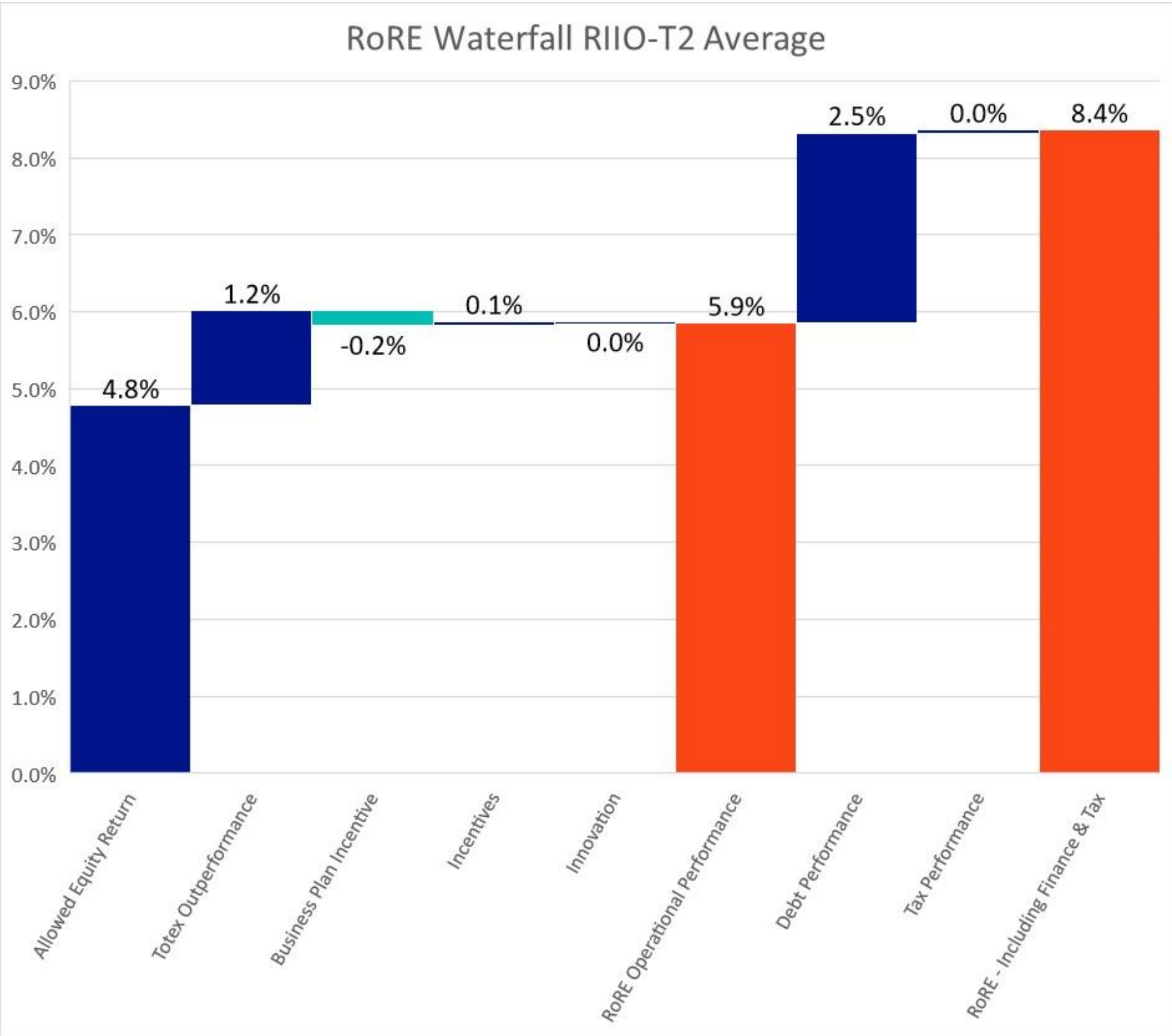
Our aim is to present a view of financial performance through the price control period that is consistent with our understanding of business performance. Outperformance under the RIIO-2 framework is achieved through delivery of outputs prioritised by consumers for lower cost than allowances and by exceeding 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 (RRP24) inform the regulatory performance. However, RRP24 is unable to account for a number of adjustments required to give a true view of performance, as represented in the RFPR. These adjustments are detailed in the Totex – Reconciliation section and Appendix 1 of this commentary.

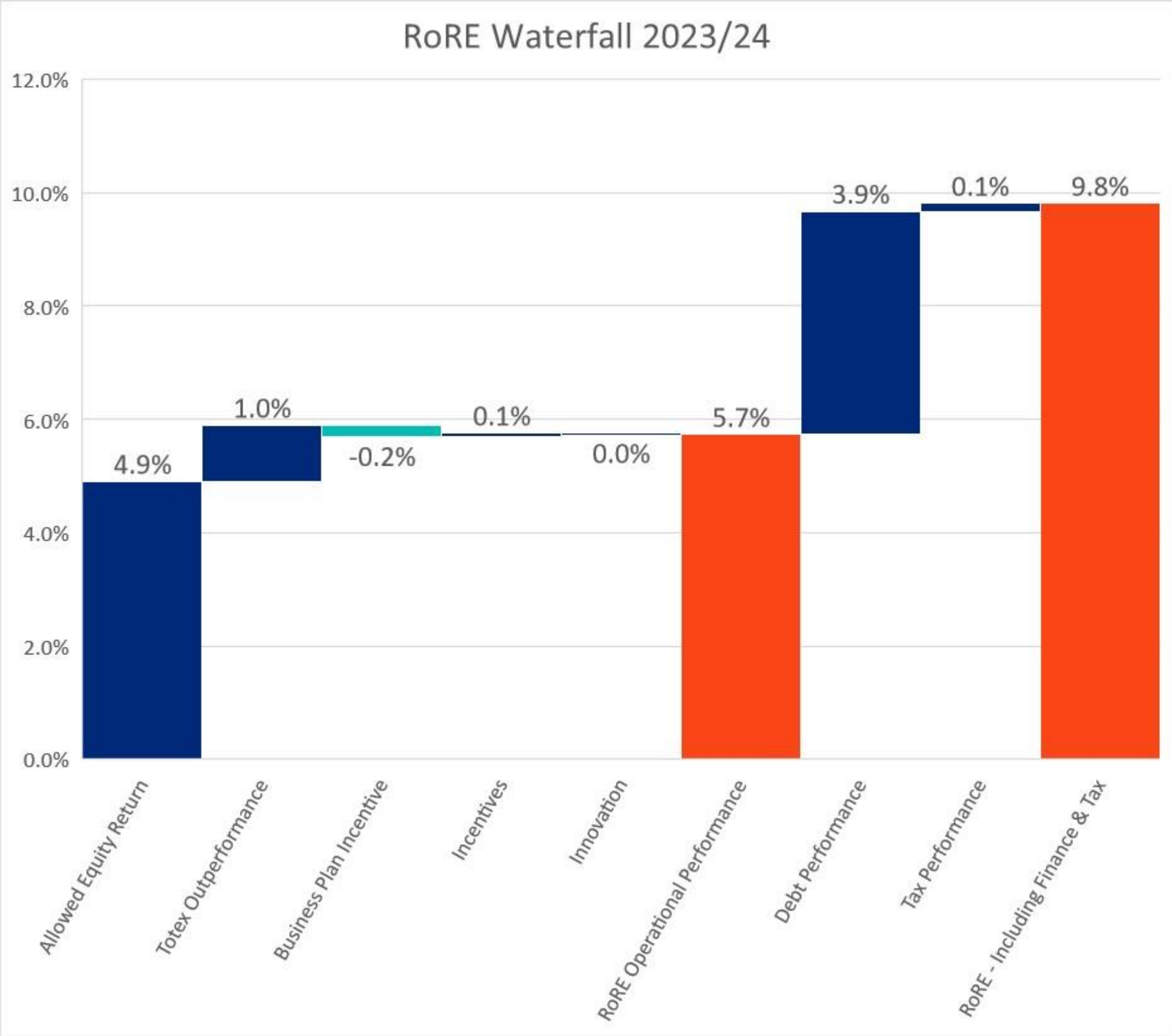
It should be noted that the overall performance and the forecasts in RRP24 are based on our forecast view as of 31st March 2024 and are subject to uncertainties that could influence our performance over the remaining years of the RIIO-2 period.

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 8.4% for the 5 years of the RIIO-2 period, 3.6% above average Allowed Return on Equity.



The 2023/24 RoRE shows higher performance than the five-year average with 9.8% achieved in the third year of RIIO-2, 4.9% above Allowed Return on Equity.



RoRE performance based on actual gearing is broadly aligned to its notional comparator. Actual gearing is below notional at an average of 52.4% for the price control period and 50.0% for 2023/24. Gearing is lower in first three years of RIIO-2 as RAV and net debt levels remain relatively constant, net debt then increases in 2024/25 and 2025/26 due to the significant forecast investment. 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 7.9% for the 5 years and 8.7% for 2023/24.

Key Financial Performance Measures

The key financial performance measure within the RFPR24 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 2.5%, comprising 2.5% debt performance and a small amount of tax outperformance. 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.

Financial performance in 2023/24 is 4.0%, comprising 3.9% debt performance and 0.1% tax performance.

The financial RoRE values based on actual gearing differ slightly to their notional equivalents with 3.4% debt performance and 0.2% tax performance in 2023/24 and RIIO-2 average financial performance of 2.3% and tax performance of 0.1%.

Key Operational Performance Measures

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

The key operational performance measure within the RFPR24 submission is RoRE operational performance. The values quoted in this section focus on RoRE based on notional gearing of 55% unless otherwise stated.

The average RoRE operational performance over the duration of RIIO-T2 is forecast to be 5.9%, 1.1% above average Allowed Return on Equity comprising:

- 1.2% totex outperformance; and
- -0.2% net under performance encompassing the Business Plan Incentive adjustment of -£65m slightly offset by positive reward from output delivery incentive performance.

Totex outperformance of +1.2% for the RIIO-2 period is driven from +0.9% totex performance and +0.3% 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:

+0.9% Totex Performance:

- +0.8% RRP24 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 Network Operating Costs and Asset Health.
- +0.1% because 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 and there are a number of initiatives currently being developed and implemented. £99m has been included 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.

+0.3% Enduring Value Adjustments:

- +0.27% due to the deferral of allowances relating to load related projects initiated in RIIO-1 but completing in RIIO-2.
- +0.16% due to the rephasing of allowances for non-load projects that cross price control periods.
- -0.10% due to bringing RIIO-2 performance in line with forecasts to: Reflect Mechanistic PCD allowance adjustments at the end of RIIO-2, remove bridging allowances relating to schemes delivering in T3 and update forecast SCADA spend amongst others. Further details about enduring value adjustments can be found in appendix 1.

2023/24 shows an operational performance of 5.7% which is 0.8% higher than the 2023/24 Allowed Return on Equity. The 0.8% outperformance comprises:

- 1.0% totex outperformance; largely driven by lower capex expenditure on the Load-Related portfolio due to the way the allowance phasing differs from the actual project spend across the RIIO-T2 period.
- 0.1% non-totex incentive performance; and
- -0.2% under performance arising from the Business Plan Incentive adjustment of -£65m.

The operational RoRE values based on actual gearing are broadly aligned to their notional equivalents. Actual gearing is below the notional level of 55% at 52.4% for the period average and 50.0% for 2023/24.

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 2023/24 and the RIIO-2 price control average comprise the following components:

	2023/24	RIIO-2 Average
Allowed Return	4.9%	4.8%
Totex Performance	1.0%	1.2%
Business Plan Incentive	(0.2%)	(0.2%)
Non-Totex Incentives and Innovation	0.1%	0.0%
RoRE – Operational Performance	**5.7%**	**5.9%**
Financing	3.9%	2.5%
Tax	0.1%	0.0%
RoRE including Financing and Tax	**9.8%**	**8.4%**

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

Reconciliation to Revenue and Profit

(Financial values in 2023/24 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.

Collected revenue for 2023/24 of £2,383.3m is collected via Transmission Network Use of System (TNUoS) charges set by the Electricity System Operator and based on Allowed Revenue for 2023/24 within the re-published PCFM in January 2023. 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 2023/24 statutory accounts is £2,734.9m, a difference to collected revenue of +£351.6m. The key reconciling items between collected revenue and turnover are:

- Directly Remunerated Services revenue of +£216m.

  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 +£74m.

  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 de minimis and consented revenues.

- Other Adjustments of +£61.6m.

  The main elements of the remaining £61.6m variance between turnover and collected revenue are adjustments for capital contributions (+£13.3m) and National Gas Transmission Transitional Service Agreements following the sale of Gas Transmission (£49.7m).

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 £960.2m compared to the statutory accounts of £1,041.8m giving a difference of +£81.7m. This reconciliation comprises:

- +£262.8m for operating profit before interest and taxes. This comprises +£351.6m difference in revenues (explained above) and -£88.9m difference in operating costs which is explained in the Reconciliation to Totex section;
- +£157.7m for net interest which is explained in the financing section; and
- -£338.8m for tax which is the difference between our tax related to regulated business +£25.2m and the tax as per our statutory accounts +£364.0m which is explained in the Taxation and Tax Reconciliation section.

Within Other Turnover Items, De Minimis Business of the licensee and Other consented activities have seen an update to FY23 data; collectively they have reduced by -£0.1m in RRP24. The income relating to UK Electricity Services has been removed from the DRS & De Minimis table in RRP to prevent duplication as it is captured elsewhere in the PCFM variable values. This has been included as a reconciling item within other adjustments.

Totex – Reconciliation

Totex performance

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

RIIO-2 Totex Performance

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. This is driven by the following factors (subject to rounding differences):

RIIO-2 Performance	RoRE Impact RIIO-2
Performance per RRP24	+0.8%
Efficiency Ambition	+0.1%
T1+2 Allowances	+0.3%
T1 Non-Load Allowances	+0.2%
T2 Allowance Adjustments	-0.1%
Total	**+1.2%**

Performance per RRP24

RIIO-2 average outperformance of +0.8% 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 Network Operating Costs and Asset Health.

The totex outperformance as per RRP of +1.7% in 2023/24 is largely driven by lower capex expenditure on the Load-Related portfolio due to the way the allowance phasing differs from the actual project spend across the RIIO-T2 period. This is adjusted for in the 23/24 T2 Allowance Adjustments row re-phasing the Allowances to better align to the workload delivery profile.

Efficiency Ambition

An adjustment of £99m is applied to our performance position. This reflects NGET's ongoing efficiency ambition, which is not yet embedded at project level within RRP24. We continue to seek additional efficiency through improving and innovating our approach to operating, maintaining, replacing, and extending the transmission network. We therefore include £99m performance ambition 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 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 Adjustments

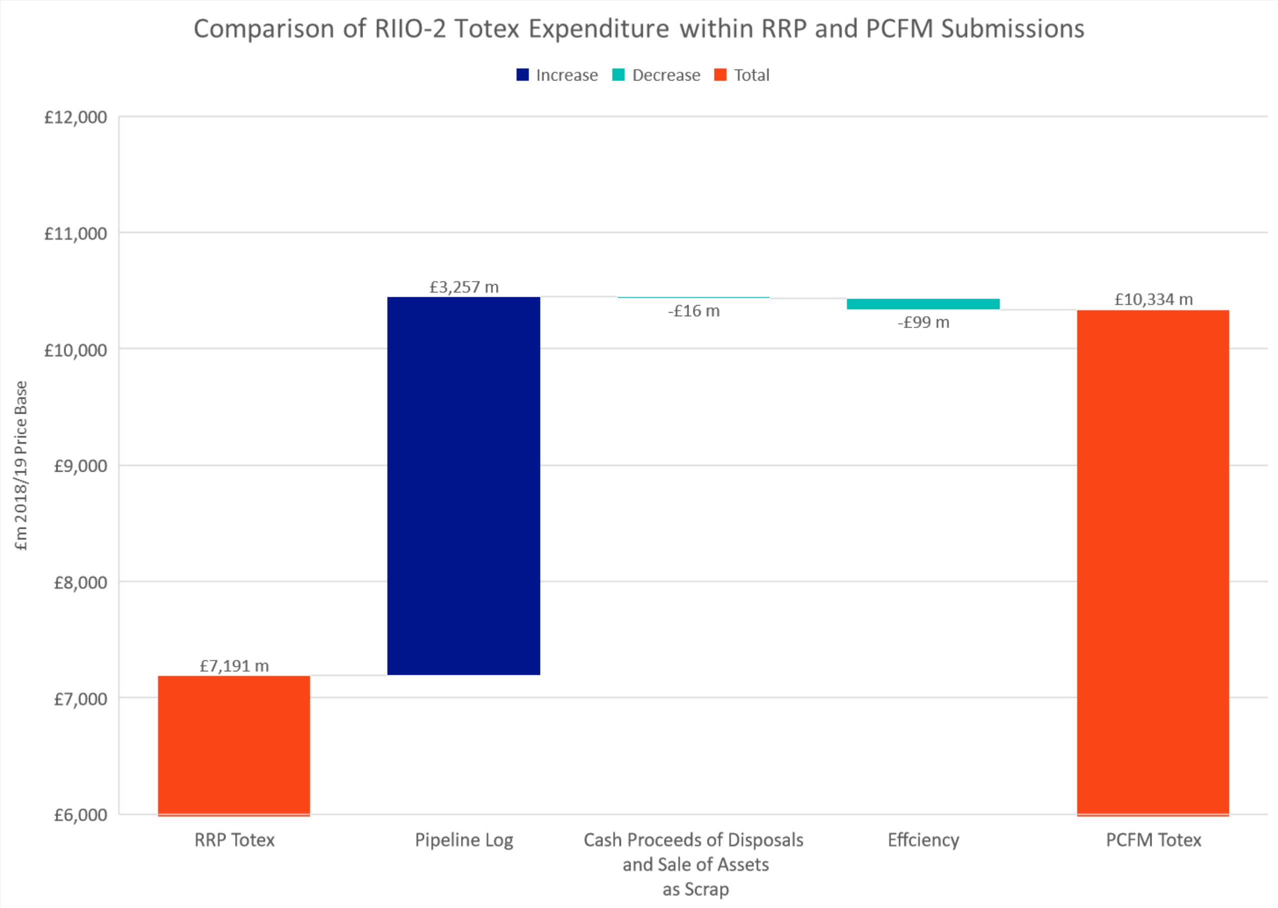
These consist of: Adjustments to allowances for pre-construction and mechanistic PCDs that cross price control periods to ensure performance is recognised when the output is delivered, an adjustment to remove bridging allowances for schemes that deliver in T3, an adjustment relating to SCADA that provides an update to the forecast programme performance that was identified in the RRP narrative but was not included in RRP and an adjustment to Opex Escalator reducing allowances for MSIP and VIP projects in line with Ofgem decisions. Appendix 1 includes additional detail.

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, 2022/23 and 2023/24 only.

For the purposes of the reconciliation, the regulatory totex costs are as per the cost matrix in RRP24. There are a number of known and deliberate differences between the regulatory totex costs as per the cost matrix in RRP24 and the totex costs reported in the PCFM. The following waterfall details these differences for the RIIO-2 period (2018/19 price base):



Pipeline Log re-opener spend of £3,257m (2018/19 price base) is included within the Price Control Financial Model as this provides our best forecast of revenues. RRP24 only captures directed and submitted re-openers within the cost matrix, any unsubmitted re-openers are captured within the Pipeline Log. Additionally, per Ofgem's instruction, ASTI data is reported in the Pipeline Log rather than the cost & volumes tables therefore the Pipeline Log column is inclusive of, but not limited to, ASTI schemes. 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.

Cash proceeds of £16m (2018/19 price base) from disposals and sale of assets as scrap are included as negative totex within the PCFM. This is to ensure that any proceeds received from the sale of assets as scrap and disposals are shared with consumers. Scrap and disposal proceeds are not included within the RRP24 cost matrix table.

Our efficiency ambition of £99m (2018/19 price base) is included 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 RRP24.

In nominal price terms NGET's total reported expenditure incurred in 2023/24 on an accounting basis is £2,578m, comprising opex of £1,087m and capex of £1,491m. This compares with regulatory totex as stated in Table R3 of £1,753m, a difference of -£825m.

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:

- £525m of statutory depreciation and amortisation which are included in statutory opex but don't form part of regulatory totex;

- £115m for Excluded, Consented and De Minimis Services costs which are included in opex but don't form part of regulatory totex
- £181m for NGET pipeline log costs (excluding ASTI prepayments) which are included in capex but not in regulatory totex, and;
- £4m of various other small value items

The costs which fall outside of the totex definition are:

- Directly Remunerated Services of £29m;
- Pass-through costs of £112m, predominantly business rates;
- Innovation costs of £11m;
- Scrap disposal proceeds of £5m; and
- Pipeline log costs of £362m

The R3 tab is showing "N/A" in the check cells in row 172 due to a formula error. Ofgem were notified of this on 30th August 2024.

Incentives and Other Revenue

Financial Output Delivery Incentives ("ODI-Fs") are an important component of the RIIO price control framework and incentivise Licensees to drive continuous performance and efficiency improvements relevant to customers and the environment

Incentive and Other Revenue RoRE performance is -0.14% in 2023/24 based on actual values per RRP24. 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, 2022/23 and 2023/24 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.

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 2023/24 was 0 MWh, outperforming the volume target by 147 MWh.

This gives rise to earned revenue of £1.0m for 2023/24 and RoRE impact of +0.02% for 2023/24, which will be recovered through allowed revenue in 2024/25.

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

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, 2022/23 and 2023/24 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 2023/24 were 231,520 tCO_2e, outperforming the target by 2,676 tCO_2e.

This gives rise to earned revenue of £0.2m for 2023/24 and RoRE impact of <0.01% for 2023/24, which will be recovered through allowed revenue in 2024/25.

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 a historical rolling 5 year period. 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 2023/24, NGET delivered 1372 out of 1375 Transmission Owner Connection Offers (99.78%) to the Electricity System Operator within mandated timescales, leaving 3 'untimely' offers.

This gives a reduction to earned revenue of £0.02m for 2023/24 and RoRE impact of -<0.01% for 2023/24, which will be reflected through allowed revenue in 2024/25.

Of the 3 untimely offers sent this financial year, the key causes for the late submissions were high volume of work and delays in allocating resource due to the high numbers of applications received.

This incentive is forecast to align to a historical average of 2021/22, 2022/23 and 2023/24 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 2023/24 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 £3.0m for 2023/24 and RoRE impact of -0.05% for 2023/24, which will be reflected through allowed revenue in 2024/25

The score reflects a year of both challenging and encouraging developments in the connections landscape. We have continued to see increasing numbers of connection applications, driving higher numbers of required enabling works, in turn pushing out connection dates which has impacted customer satisfaction. ESO figures state up to two thirds of these projects will not connect, meaning other viable projects are unnecessarily delayed. These frustrations underline what our customers have been feeding back through our surveys and scoring us unfavourably.

This incentive is forecast to align to any Ofgem directions. Where Ofgem have not directed a score the score is forecasted to reflect the uncertainty of these changes and what they mean for customers experience.

The impact of the Quality of Connections Satisfaction Survey incentive on average RoRE for the RIIO-2 period is forecast to be -0.07%.

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 2023/24 NGET delivered 25 enhanced services solutions successfully with the ESO, which has resulted in over £41.1m in actual constraints savings.

This gives rise to earned revenue of £5.9m for 2023/24 and RoRE impact of +0.09% for 2023/24, which will be recovered through allowed revenue in 2024/25.

This incentive is forecast to align to any Ofgem directions. Where Ofgem have not directed a forecast we use historical averages from FY24 onwards due to the change in calculation following the Ofgem decision on extending the SO:TO Incentive.

The impact of the SO-TO Optimisation incentive on average RoRE for the RIIO-2 period is forecast to be +0.08%.

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. The six components of the environmental scorecard are:

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

NGET has outperformed in 6 elements of the scorecard this year, with the maximum reward threshold being reached in every area except net gain on construction projects.

This gives rise to earned revenue of £1.0m in 2023/24 and RoRE impact of +0.02% for 2023/24, which will be recovered through allowed revenue in 2024/25.

This is mainly driven by the achievement of the maximum threshold for value of non-operational land. NGET has reached the highest reward level by building on the land management agreements we put in place last year. We have agreed new 10-year Enhanced Partnership Agreements with partners at Stoke Bardolph, Nursling, Wymondley, Birkenhead and Abam. We also uplifted agreements from previous sites - Ninfield, Skelton Grange Environmental Education Centres (EEC) and Bishops Wood EEC. The partnerships will deliver ecological improvements through activities such as increased pollination, pond management, habitat conditions enhancement, and increased volunteering opportunities.

This incentive is forecast to align to a historical average of 2021/22, 2022/23 and 2023/24 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 2023/24 NGET spent £9.7m on NIA projects, with the 90% allowance recovering £8.7m against this expenditure. This is an increase from £5.6m in 2022/23, 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 2023/24 is not significantly impacted (<0.1%) by the net cost of NIA projects.

27 NIA projects have been registered by NGET this year and we have made financial contributions through collaboration on a further two NIA projects led by other network licensees. This brings the total number to 67 for RIIO-2. Eight of these projects have not incurred any spend in FY24 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.

Further information can be obtained from NIA annual summaries published on the National Grid Electricity Transmission website[1].

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 April 2023 NGET secured funding through the SIF mechanism for 3 Discovery phase projects to be run from 3rd April 2022 to 31st May 2023: SCOHL, SF6 Whole Life and Wellness. The projects progressed according to the plan described in the funding applications through the Discovery Phase.

[3] Electricity transmission innovation | National Grid ET

In October 2023, NGET were successful in securing Alpha funding for 2 of the 3 previous discovery projects, SF6 Whole Life & Wellness. These projects were delivered from 1st October 2023 to 31st March 2024.

In March 2024, NGET was successful in securing Discovery funding for 1 project, HIRE. The project will run from 1st March 2024 to 31st May 2024. The project is on track to be delivered to time and cost.

Spend to date is summarised in the following table.

Project Name (£k) 18/19 Price Base	2022	2023	2024	2025
SCADENT	2	551	0	0
SEGIL	2	83	0	0
Eye in the Sky	5	383	0	0
SCOHL	0	0	109	0
SF6 Whole Life	0	0	444	0
Wellness	0	0	508	-23
Hire	0	0	1	118
Total (£k)	**9**	**1017**	**1061**	**95**

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 Regulatory Net Interest including forecast new financing/refinancing costs definition is 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 52%.

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 2023/24 is £399.8m. Net interest as per the 2023/24 statutory accounts is £242.1m, giving a difference of +£157.7m. The key reconciling items are capitalised interest added back of +£117m and movements relating to pension fund liabilities of +£26.8m. The remaining items include: Fair value adjustments, swap termination costs paid, commitment fees, provision unwind, IFRS16 right of use lease liability, other income on prepayments and forward points.

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.

Net debt per the 2023/24 statutory accounts is £9,402.7m and Total Net Debt closing average per Regulatory (RIIO-2) definition for 2022/23 is £9,367.8m, a difference to Statutory Accounts of -£34.9m. The key reconciling items between statutory accounts and the RIIO-2 definition are Fair Value Adjustments +£377.9m, Cross Currency Swaps -£309.7m, Balancing Value on Cross Currency Swaps +£155.7m, Derivatives -£145.1m and Accrued Interest -£78.7m.

The R6a tab is showing errors in rows 93, 102, 108 & 114, despite the sum of the proportions equalling 100% to 10 decimal places. Ofgem were notified of this on 30th August 2024.

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 2024 submission. The closing RAV balance is used to derive 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 2024. 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	14,187	14,429	14,921	16,464	18,252
In year enduring value adjustments	-67	-86	-32	108	150
Cumulative enduring value adjustments	-67	-153	-185	-77	73
Adjusted Closing RAV	14,120	14,276	14,736	16,387	18,325

The adjusted closing RAV is forecast to increase by an average of c.£1,795m year-on-year in FY25 and FY26, reflecting an increase in the level of outputs NGET expects to deliver in response to Net Zero targets.

Taxation and Tax Reconciliation

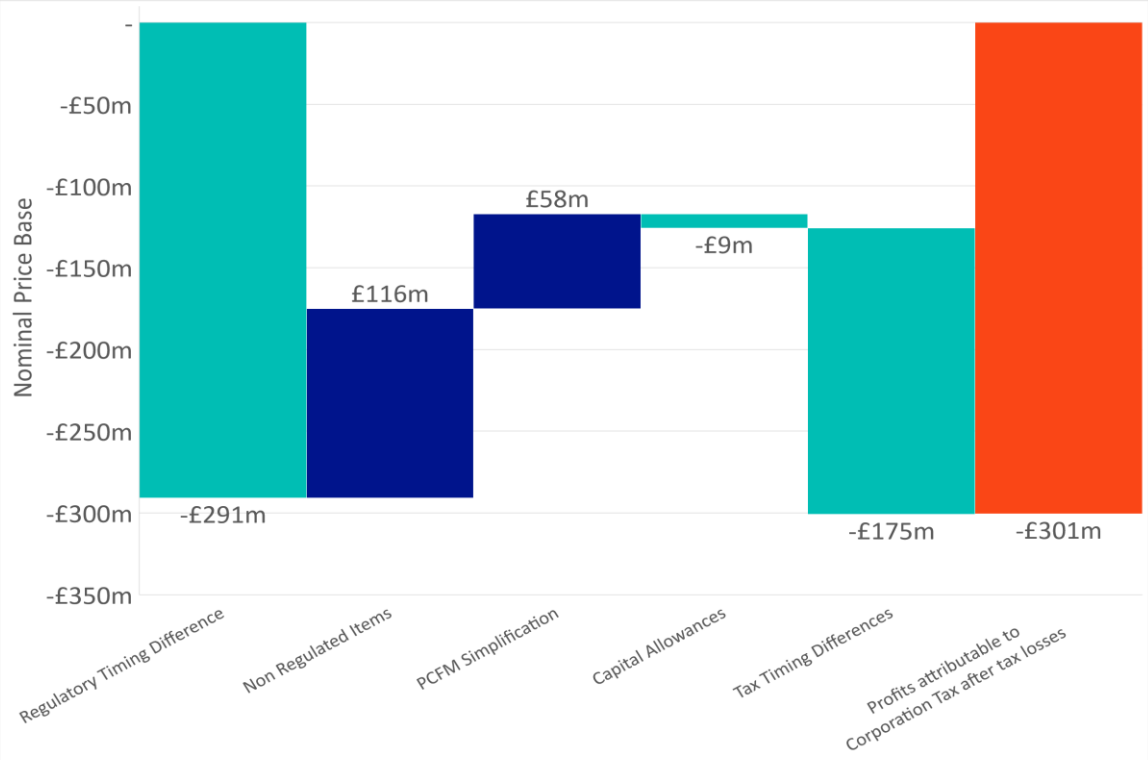
(Financial values in 2018/19 price base unless otherwise stated)

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 2023/24 is £31.5m and forecast tax outperformance is £11.2m at actual gearing and £9.0m 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 -£2.3m.

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 (£300.8m Nominal Price Base) within the Profits attributable to Corporation Tax after tax losses for 2022/23. This can be found in cell J98 in the Tax Reconciliation tab.



The variance can be broadly split into five categories:

- Regulatory timing differences which arise due to the financial data included within the PCFM reflecting a regulatory point of view, which is not in line with the financial performance in NGET's statutory accounts. These differences are expected and arise each reporting cycle.
- Non Regulated Items of £116.1m are included in CT600 but not 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 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 FY23 and the equivalent CT600 amount is £48m.
- 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 four 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 2024 and up to the date of this report:

Name	Director Type	Appointment Date	Resignation Date	Role
Bennett, Christopher Paul	Executive	25/06/2016		Regulation Director
Campbell, Justine	Shareholder-appointed non-executive	24/02/2023	30/06/2024	Group General Counsel & Company Secretary
Delahunty, Alice Kyne	Executive	14/12/2020		Electricity Transmission President
Lewis, Alexandra Morton	Shareholder-appointed non-executive	13/04/2018		Treasurer
Long, Jeremy Paul Warwick	Sufficiently Independent	17/03/2022		SID
Ross, Cathryn	Sufficiently Independent	21/06/2019		SID
Sheppard, Philip Graham	Non-executive	01/08/2021		Non-Executive
Thakrar, Sandip	Executive	17/11/2023		Chief Financial Officer
Trowell, Carl Geoffrey	Executive	29/05/2023		Strategic Infrastructure President

Board committees

There are several committees within NGET, including:

Audit Committee

The Audit Committee's role is monitor and review the Company's financial reporting and internal controls, assess 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 Business Separation Compliance Committee of the Board 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 licensee. The Committee was chaired by Cathryn Ross (Sufficiently Independent Director).

Finance Committee

The Finance Committee of the Board 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, insurance and pension funding matters, as well as having responsibility for the governance of the Company's pension schemes and the Company's insurance strategies, and if appropriate, recommends these to the Board. Membership of the Committee comprises:

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

Electricity Transmission and Strategic Infrastructure Committees

These Committees direct the affairs of the Electricity Transmission and Strategic Infrastructure businesses on behalf of the Board. This performs an assurance role within the context of the overall RIIO networks governance framework and oversees the performance of sub-committees reporting to them. The Committees' remit extends to approving the strategies and business objectives for managing the RIIO contract and for approving opportunities to deliver value within that contract in accordance with Delegations of Authority limits.

The ET Executive Committee comprises the senior management of the ET business and is chaired by

- Alice Delahunty (Executive Director) – Electricity Transmission

The SI Executive Committee comprises the senior management of the SI business and is chaired by

- Carl Trowell (Executive Director) – Strategic Infrastructure

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.
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. Further information on this is available within the Remuneration Report of National Grid plc's 2023/24 Annual Report and Accounts on pages 98 to 114.[2]
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.

[2] download (nationalgrid.com)

Executive Remuneration Policies & Framework

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 98 to 114[3].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):

<table>
<tr><th>Band</th><th>Target APP (% of salary)</th><th>LTPP Maximum Award</th><th>Pension DC contribution*</th><th>Car Allowance</th><th>PMI</th><th>Holiday</th><th>Flexible Benefits</th></tr>
<tr><td>President NGET</td><td>45%</td><td>Up to 225% of annual base salary</td><td>12%</td><td>£12,000</td><td>Uncapped</td><td rowspan="2">28 days annually (plus public holidays)</td><td rowspan="2">We offer a range of benefits including a Sharesave scheme, Share incentive plan, employee assistance programme and flex benefits scheme</td></tr>
<tr><td>NGET Leadership Team</td><td>25%</td><td>Up to 85 - 120% base salary</td><td>12%</td><td>£12,000</td><td>Family</td></tr>
</table>

**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.*

[3] download (nationalgrid.com)

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.

2023/2024 Executive Remuneration

As at March 2024, NGET has four executive directors, Alice Delahunty (President of Electricity Transmission), Christopher Bennett (Regulation Director Electricity Transmission), Sandip Thakrar (Chief Financial Officer), Carl Trowell (President of Strategic Infrastructure).

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 2023/2024 CEO Pay Ratio reports the 25th, 50th and 75th percentiles as 19.48, 15.38 and 11.72 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.[4]

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 £18.1m. The pension scheme valuation is performed tri-annually, with the valuation presented in the 2023/24 RFPR being the March 2022 version.

There have been no Ofgem related fines or penalties in the year 2023/24.

Data Assurance Statement

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

In summary, the following assurances were completed:

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

Basis of any estimates and allocations

Forecasts are based on the key principle that variable values remain unchanged from the published PCFM in January 2024 unless:

[4] download (nationalgrid.com)

- Actual data is available;
- there is a clear external signal indicating change to values published through the published PCFM in January 2024); and
- there is an increase in the assurance of project costs compared with those published through the published PCFM in January 2024.

Where there is neither an external signal nor increased cost assurance, variable values remain unchanged from the published PCFM in January 2024.

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	RIIO-2 Period
T1 Deferral Adjustments	1.45%	1.34%	0.37%	0.53%	0.26%	0.19%
T2 Adjustments	-0.23%	-0.30%	-0.38%	-0.83%	-0.73%	-0.10%
Re-Phasing Adjustments	-2.58%	-2.78%	-0.69%	2.24%	2.95%	0.00%
Total EV Impact	-1.36%	-1.75%	-0.71%	1.94%	2.48%	0.09%

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

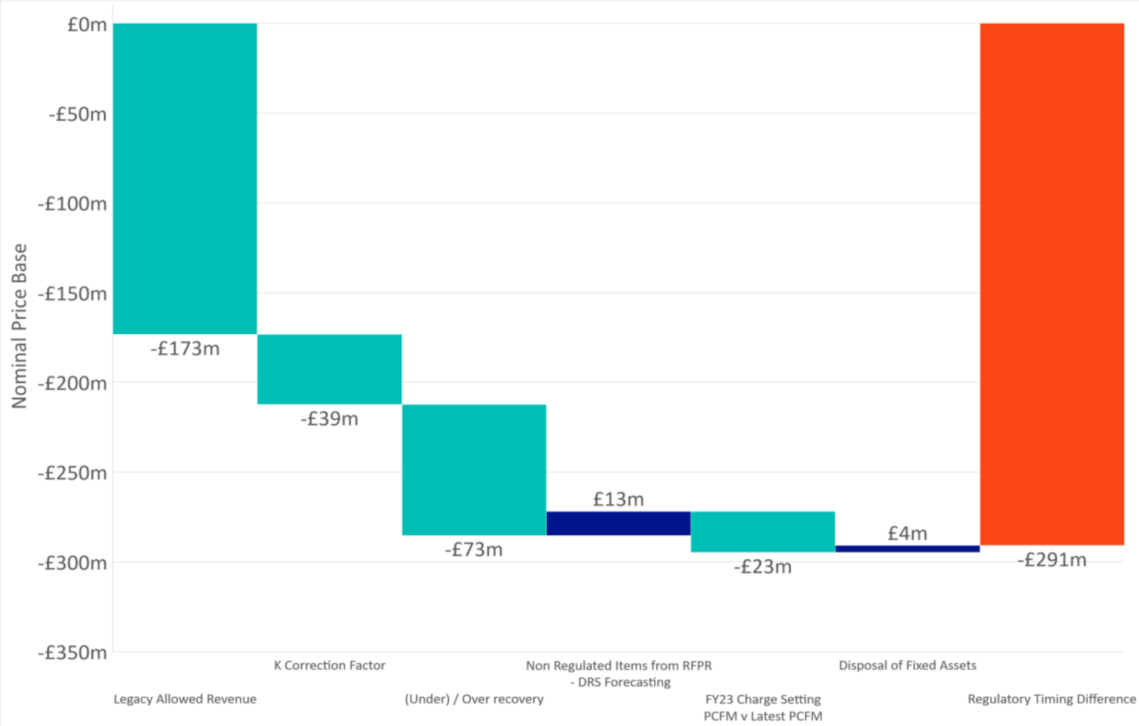
Enduring Value Adjustment £m 2018/19 Price Base	2023/24 Adjustment	Total T2 Adjustment	Total T1 Adjustment	Explanation
T1+2 Deferral	£10.5m	£269.5m	-£358.8m	Allowances deferred in T1 relating to crossover schemes. Performance to be released in line with output delivery dates.
T1 Non Load	£41.5m	£376.2m	-£393.9m	Outstanding T1 projects 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	£4m	£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	-£15.4m	£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	-£19.3m	-£108.5m	n/a	Deferral of pre-construction allowances that have pre-construction spend beyond RIIO-T2 to ensure performance is recognised when outputs are delivered.
Bridging Loan Adjustment	-£23.1m	-£203.0m	n/a	Removal of bridging allowances for schemes that won't deliver until T3 to reflect accurate performance.
Mechanistic PCD's	-£31.3m	-£149.1m	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.
SCADA	-	-£53.1m	n/a	This adjustment provides an update to the forecast SCADA programme performance that was identified in the RRP narrative but was not included in RRP.
Opex Escalator	-£0.6m	-£4.9m	n/a	This adjustment reduces allowances for MSIP and VIP projects in line with Ofgem decisions.
Phasing Adjustment	-£123.1m	£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	**-£122.4m**	**£357.1m**	**-£877.1m**	

Appendix 2 – Tax Reconciliation Breakdown

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

<u>Regulatory Timing Differences Breakdown:</u>



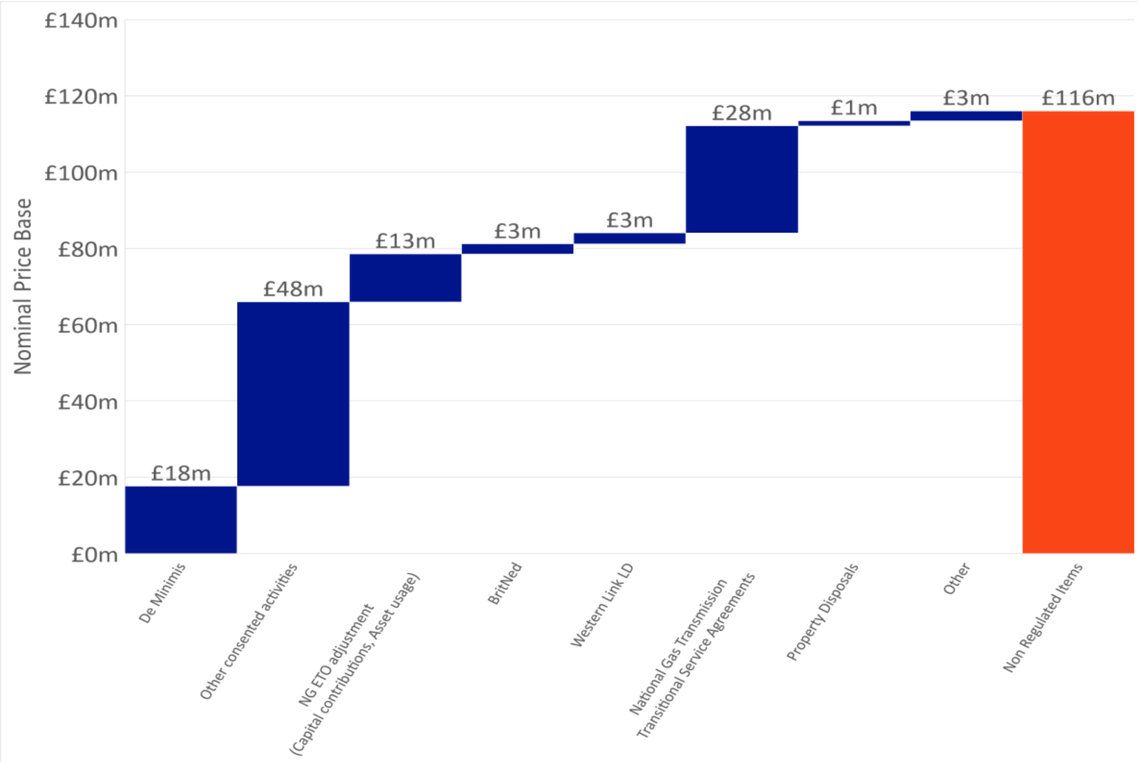
Legacy Allowed Revenue, K Correction Factor, (Under) / Over Recovery – Variables in PCFM that are not within CT600.

Non Regulated Items from RFPR - DRS Forecasting – This is the difference between DRS forecasted in the FY23 charge setting PCFM (Feb 2021) v actuals in CT600.

FY23 Charge Setting PCFM v Latest PCFM – This is the difference in calculated revenue between the PCFM used for charge setting in FY23 and the latest PCFM.

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

Non Regulatory Activity Breakdown:



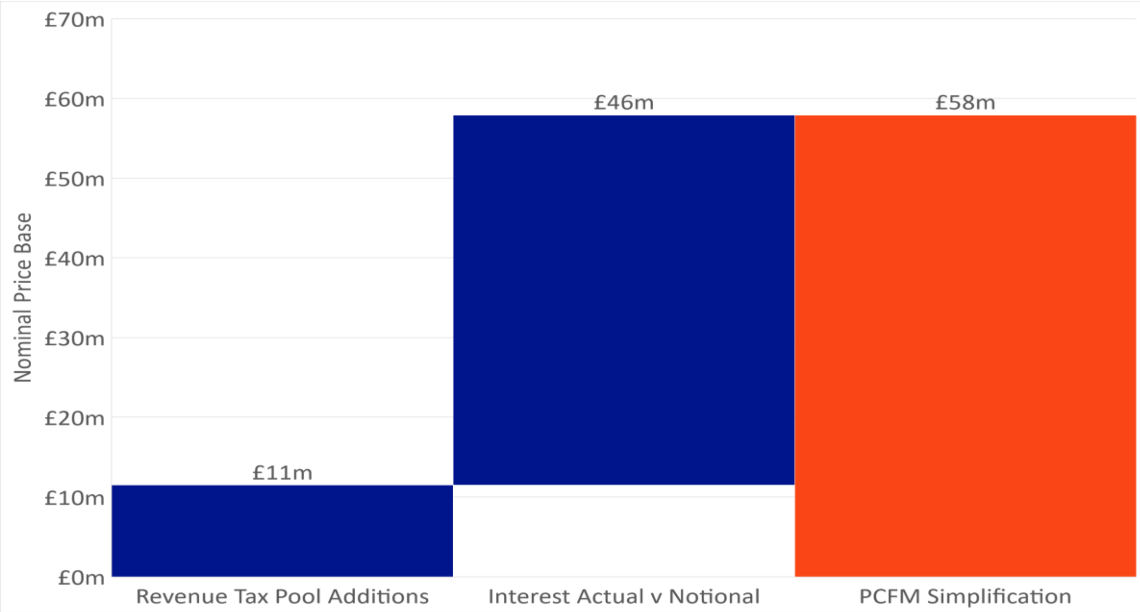
Non regulated Activity are items captured in CT600 that are not in the Price Control Finance Model (PCFM).

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 the R2 Reconciliation of Revenue to Profit.

PCFM Simplification Breakdown:



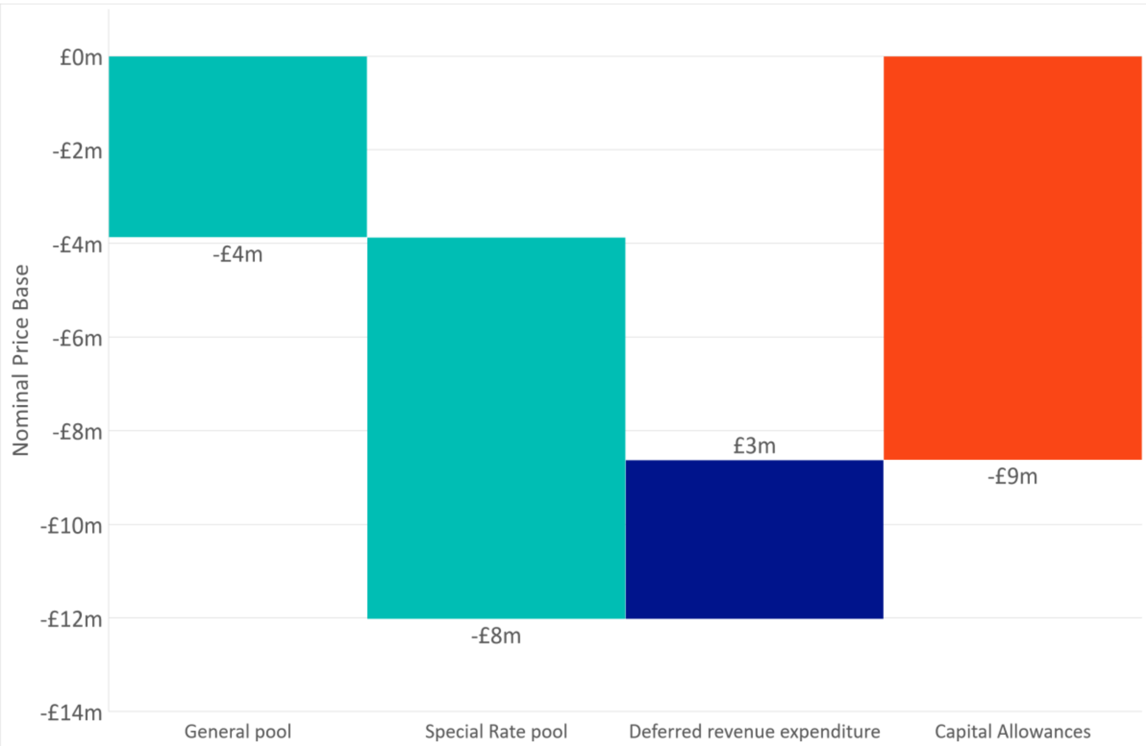
These are reconciling items between actuals in CT600 and simplified calculations in the PCFM based on a notional company.

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.

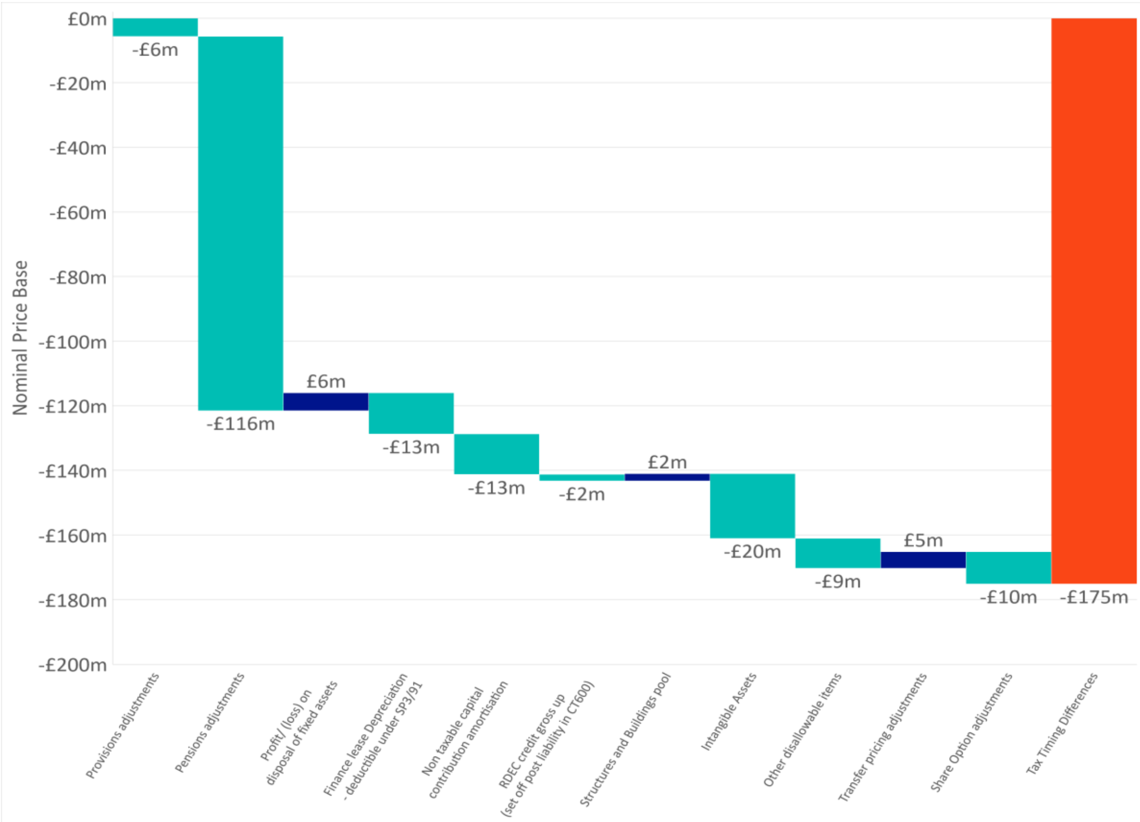
Interest Actual v Notional – The PCFM calculates a notional interest based on the RAV whereas CT600 calculates interest based on actual debt.

Capital Allowances Breakdown:

These reconciling items can be found in the R8a tab.

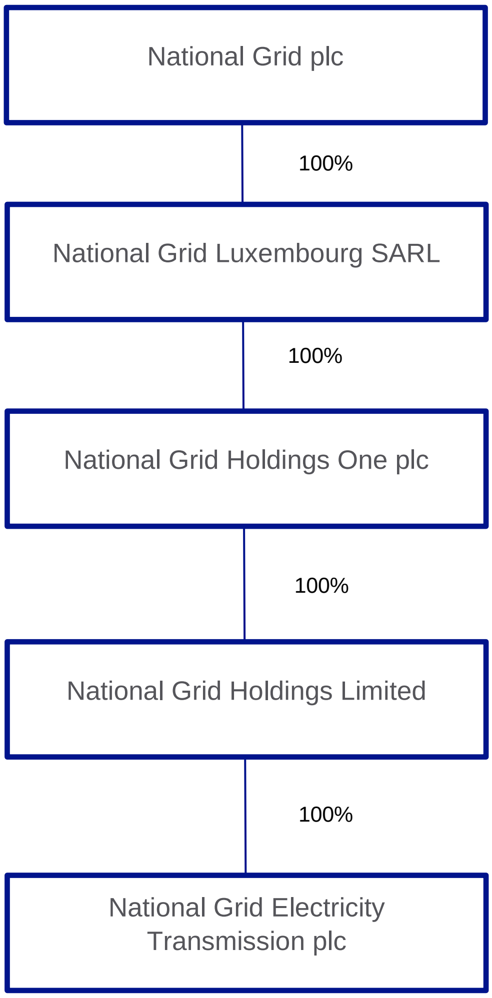


<u>Tax Timing Differences Breakdown:</u>



These reconciling items can be found in the R8a tab.

Appendix 3 - Corporate Ownership Structure



Affiliates Holding Ofgem Licences

- National Grid Electricity Distribution Plc (4 separate Licences, 1 per Network)
    - West Midlands
    - East Midlands
    - South Wales
    - South West
- National Gas Transmission Plc
- National Grid Electricity System Operator Limited