

## Statement in respect of Financial Year 2022/23

### National Grid Electricity System Operator plc - Statement of compliance with Section 42(C) of the Electricity Act 1989 (as amended by Section 61 of the Utilities Act 2000)

1. As an electricity system operator, National Grid Electricity System Operator plc (“NGESO”) holds a licence to carry on activities subject to price regulation. Section 42(c) of the Electricity Act 1989 applies to any company which is authorised by a licence to carry on activities subject to price regulation. To comply with this, NGESO is required to disclose any arrangements for linking the remuneration of its directors to levels of performance with respect to service standards in connection with activities subject to price regulation for the year ended 31 March 2023.
2. Service standards are standards which relate to the quality of service received by customers or potential customers of the company.
3. NGESO has adopted the remuneration policy and approach set out in this Statement for the year ended 31 March 2023.
4. The level of remuneration for the Director of the SO Entity is reviewed and approved annually by the National Grid plc Group CEO. Remuneration levels for the NGESO leadership team are reviewed and approved annually by the Director of the SO Entity, with delegated authority from the Remuneration Committee of the National Grid plc (being the ultimate holding company of NGESO) Board of Directors to attract, retain and motivate directors of sufficient quality to deliver the objectives of NGESO.
5. Performance based elements of remuneration form a significant portion of the total remuneration package for the directors of NGESO. Typically, performance-based elements account for 50-60% of the total remuneration opportunity; these are linked to both business performance measures and individual performance and typically comprise an annual element (the Annual Performance Plan (“APP”)) and a longer-term element (the Long-Term Incentive Plan (“LTIP”)).
6. For 2022/23, the APP applicable to the Director of the SO Entity and NGESO leadership team is directly linked to the operational performance of NGESO and their individual performance.
  - a. The individual performance has been 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.
  - b. In terms of the operational performance of NGESO during the year, this was assessed against metrics and targets set at the start of the financial year.
  - c. The National Grid plc Group CEO and Director of the SO Entity has also, where appropriate, reflected on business outcomes not directly included in the APP, including items related to demonstrating service levels to our customers and communities, before finalising the plan outcomes.
7. The Director of the SO Entity and NGESO leadership team are also eligible to receive long-term cash incentive (LTIP) awards. The LTIP award received is dependent on a broad view of the director’s value to the National Grid Group of companies and their performance, which is indirectly impacted by demonstrated service levels to NGESO’s customers.
8. The Director of the SO Entity and NGESO leadership team are also eligible to receive awards under the National Grid Group colleague recognition programme. Awards may be made to recognise significant efforts of an individual and could potentially be related to service levels to our customers and communities. These awards tend to be small in value and tend to be given to employees further down the organisation rather than the directors.
9. On rare occasions, NGESO may make an award to the Director of the SO Entity or NGESO leadership team on an exceptional basis for a particular purpose, for example, to retain a critical employee in a particularly high demand labour market. Although these awards are not based on service levels, we would be unlikely to make an award to a director who NGESO has deemed to not have enabled our delivery of sufficient service levels to NGESO’s customers.
10. The NGESO independent non-executive directors receive a flat monthly fee for their services. They do not participate in the annual bonus arrangements and their remuneration is not linked to performance standards.