RFPR ESO2 National Grid Electricity System Operator Regulatory Financial Performance Reporting 2023/24

February 2025

Contents

Executive summary

On 1 October 2024, the National Energy System Operator (NESO) came into being and took over the duties of National Grid Electricity System Operator (NGESO or ESO). This report (publication of which was delayed from September 2024 to allow the transition to take place) is produced by NESO but relates to the 2023/24 regulatory year, when the company operated as ESO under the ownership of National Grid Group. As such, the report makes consistent references to ESO and has been prepared in accordance with the licence and RIGs which were applicable to NGESO as of 30 September 2024.

NESO lies at the heart of the energy system as an independent, public corporation responsible for planning Great Britain's electricity and gas networks, operating the electricity system and creating insights and recommendations for the future whole energy system.

At the forefront of our efforts is delivering value for consumers. We work with government, regulators and our customers to create an integrated future-proof system that works for people, communities, businesses and industry, where everyone has access to clean, reliable and affordable energy.

As required by Standard Condition B15 of the NGESO Electricity Transmission licence, and in line with the Regulatory Instructions and Guidance (RIGs), this Regulatory Financial Performance Reporting (RFPR) pack sets out some of the elements of our regulatory performance for the period 2023/24.

We note the purpose of the RFPR is to provide a framework to allow Ofgem to collect accurate and consistent information from licensed network operators (licensees). However much of the performance reporting template is not required to be completed by ESO in its unique role as system operator, since performance measures for the ESO are not comparable to those of network operators. In RIIO-2, the ESO's main source of performance reporting continues to be the Electricity System Operator Reporting and Incentives (ESORI) arrangements. These arrangements require that ESO reports against the costs, activities and deliverables as set out in each business plan period. Specifically, we report on plan delivery, metric performance, stakeholder evidence, plan benefits and value for money. Details of our latest performance can be found on our website.[1]

Throughout this document figures are in nominal prices unless stated otherwise.

[1] How we're performing under RIIO-2

Key Financial and Operational Performance Measures

As noted in the Executive Summary the ESO RIIO-2 RFPR does not report on operational and financial performance. Please refer to the RIIO-2 BP2 18 Month 2024-25 Incentives Report[2] for latest details on financial performance and operational metrics.

Overview of Regulatory Performance

R1 – RORE

The Return on Regulatory Equity (RoRE) figure is a key measure by which Ofgem compares operational and financing performance across asset-based Network operators. The methodology is not a useful comparator for assessing the performance of System Operators as they are service based, not asset based, organisations.

This table is not required to be completed for ESO as stated in Table A1.1 in the RIGs.

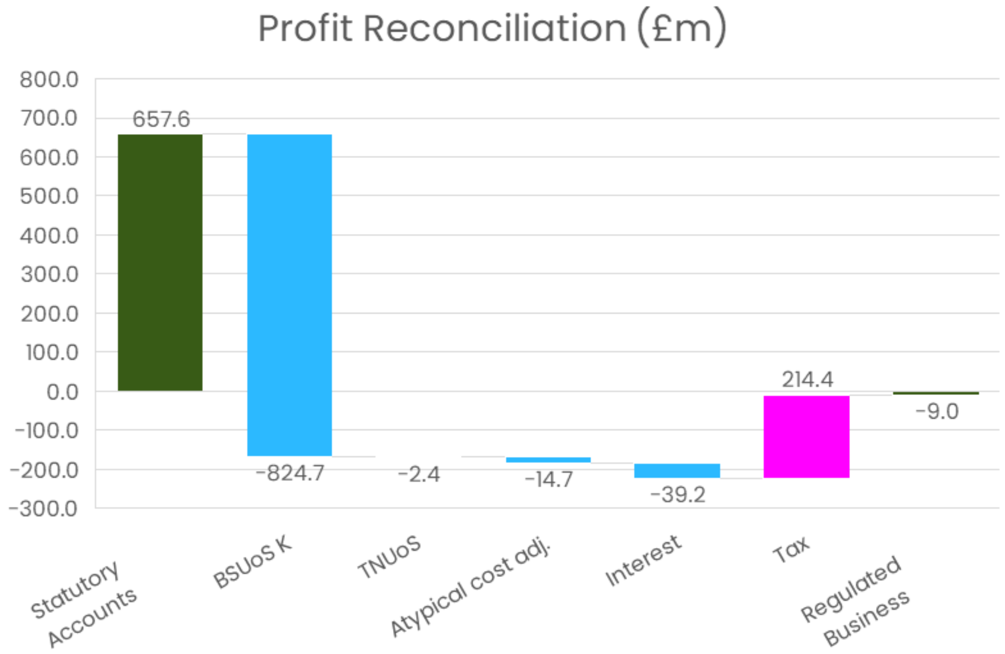
R2 – Reconciliation to Revenue and Profit

The first part of table R2 reconciles Regulated Network Revenue, as reported in the latest published PCFM, to the revenue as reported in the ESO statutory accounts.

In 2023/24 BSUoS revenues were collected based on a fixed tariff rather than as a direct passthrough of internal and external balancing costs. The underlying assumption is that all internal revenues are fully collected with the balance of revenue being external revenues. Therefore, allowed and collected revenues are both £431.9m. The reconciling differences between collected revenue and turnover per the statutory accounts relate to other regulated revenue streams which do not form part of the allowed revenue in the PCFM, namely external balancing revenues of £3,331.2m and TNUoS revenues of £45.9m.

The second part of table R2 reconciles the Regulated Network Profit to the profit per the statutory accounts. Profit per the statutory accounts of £657.6m is £666.6m higher than that per the Regulated Business. The key variances are shown in the chart below.

[2] 18 Month 2024-25 Incentives Report



BSUoS K (-£824.7m) – in 2023/24 BSUoS costs were recovered via a fixed tariff, based on forecast BSUoS costs and demand. Costs were over-recovered throughout the year largely due to a fall in wholesale energy prices. The over-recovery is reported as profit in the statutory accounts but is not included in the PCFM revenue calculation for the regulated business.

TNUoS (-£2.4m) – this is the net balance of TNUoS revenues and costs in the statutory accounts. Over time TNUoS costs and revenue are equal and not included in the PCFM revenue calculation for the regulated business.

Atypical cost adjustment (-£14.7m) – this variance reflects the differing treatment between statutory and regulatory cost reporting such as provision movements and recognition of lease and pension costs.

Interest (-£39.2m) – this variance relates to the difference between statutory and regulatory net interest with the key driver of the difference being interest earned from the BSUoS over-recovery in the year which is excluded from the definition of regulatory interest.

Tax (+£214.4m) – this is the difference between the corporation tax charge per the statutory accounts and the tax allowance per the PCFM. The key driver of this is the tax payable on the BSUoS over-recovery.

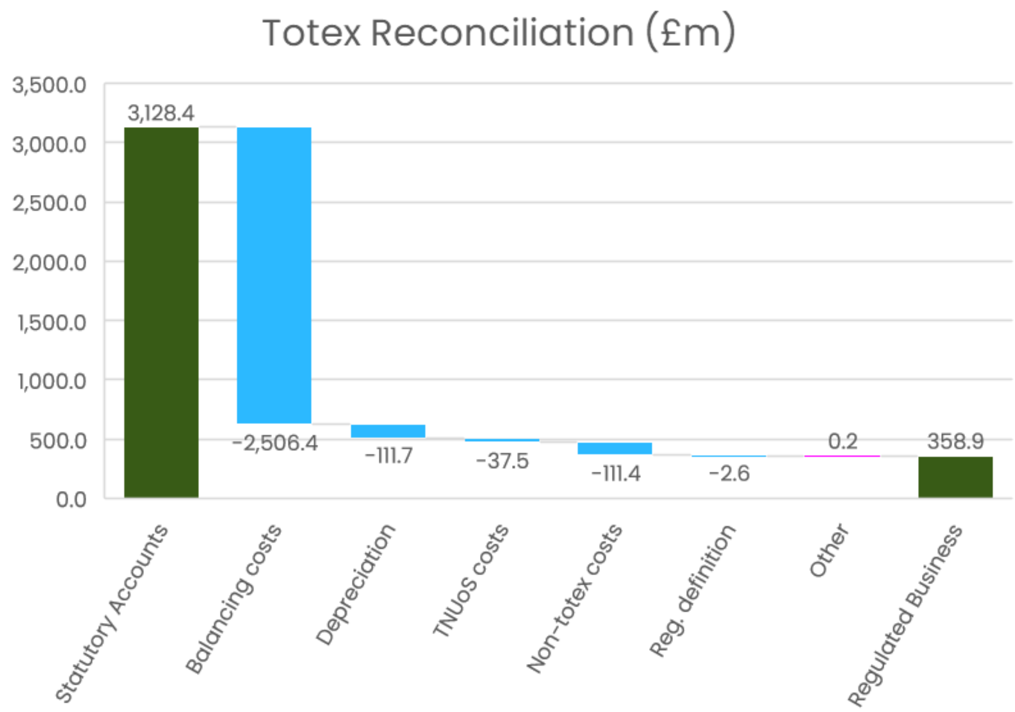
The ESO price control provides for a return to the shareholder. Returns are impacted by regulatory timing which can drive a loss in the regulated entity. The key driver of the £9.0m loss related to the regulated business is £55.5m of payments made to National Grid plc for FSO separation costs which will be recovered through 2024/25 revenues.

R3 – Totex – Reconciliation

As per RIGs guidance we have not completed rows 13-104 of this template.

The ESO does not report 'net costs after non-price control allocations' in its RRP submission. We have therefore adjusted operating costs per the statutory accounts to remove costs that were not reported in the PCFM i.e., costs associated with external balancing and TNUoS pass through costs. Due to the differing formats of networks and ESO RRP tables we cannot cross reference cells in row 162 to the RRP submission, since there is no table in the ESO RRP which sums all costs.

ESO's overall totex expenditure as per the ESO RRP for 2023/24 was £358.9m, compared to total expenditure per the statutory accounts of £3,128.4m. The main reconciling differences are:



Balancing costs (-£2,506.4m) – external balancing costs are not classified as totex.

Depreciation (-£111.7m) – statutory accounting depreciation is not classified as totex.

TNUoS costs (-£37.5m) – costs associated with licence fees, cross border trading and TNUoS bad debt are recovered through TNUoS charges and are not classified as ESO totex.

Costs not recovered through totex in the PCFM (-£111.4m) – costs such as pension deficit, BSUoS bad debt, business rates, innovation and FSO transition costs are recovered through separate terms in the PCFM and not included in totex.

Differences between statutory and regulatory definitions of expenditure (-£2.6m) – certain items of expenditure were treated differently for regulatory purposes – for example the RIGs instruct that we include costs on a cash basis exclusive of provisions and accruals and prepayments that are not incurred as part of the ordinary level of business.

R4 – Incentives and Other Revenue

Although RIGs Table A1.1 states that no input is required for Table R4 Incentives and Other Rev from ESO, we have populated the output incentives for the 2021/22 and 2022/23 reporting years based on Ofgem's End of BP1 decision on ESO performance 2021-2023 publication. Before the BP2 End of Scheme assessment, ESO has become National Energy System Operator (NESO) and the incentive scheme is now purely reputational with no financial reward or penalty. No further values will need to be updated in this table.

R5/R6 – Financing/Net Debt Position

Overview

As agreed with Ofgem and outlined in the RIGs, for the purposes of completing the RFPR, regulatory net debt for ESO excludes debt used to finance TNUoS assets and liabilities and therefore the Financing and Debt tables have been completed on this basis. From 2023/24 we have also excluded net debt relating to recovery of external balancing costs as external balancing revenues are not included in allowed revenues calculated for the regulated business in the PCFM. There are several lines within the tables which remove items relating to TNUoS and external BSUoS.

The debt and interest forecast extends to 27 June 2024 which is the date of repayment of the ESO long term loan from National Grid. New financing arrangements were put in place when ownership of the company transferred to Government in October 2024. Under these new ownership arrangements there is no requirement for long term debt and we have not included a forecast for any future debt instruments.

R5 Financing

Table R5 reports the annual actual and forecast Net Interest per the RIIO-2 regulatory definition. This is then adjusted to remove the impact of inflation and compared to the cost of debt allowance as published in the latest PCFM. This deduction of inflation in the interest charge is made on the assumption that debt is inflation linked, which is not an appropriate assumption for ESO as all debt is floating rate debt. For this reason and given the high rate of inflation of 5.5% for 2023/24, we consider the reported out-performance in 18/19 prices of £6.4m at actual gearing (£4.0m at notional gearing) is overstated.

The ESO statutory accounts report a Net Interest income of £28.1m for 2023/24. The Regulatory Net Interest per table R5 is a charge of £9.9m. The main difference relates to £44.0m of interest earned which relates mainly to the over collection of external BSUoS revenues and which we have excluded from the definition of Regulatory Net Interest.

There is a further adjustment of £5.6m relating to payments of interest to customers through our role as revenue collection agent.

R6 Net Debt

Table R6 reports the actual and forecast regulatory net debt as per the RIIO-2 definition. It also provides a reconciliation to the actual Net Debt per the statutory accounts.

Net debt per the statutory accounts was -£1,078.7m. After adjusting for the net debt associated with TNUoS assets and liabilities and external BSUoS revenue over collection, the Regulatory Net Debt was £159.2m. This represents an increase of £113.2m over the prior year, which is driven by £48.2m lower profit in the regulated business as well as £40.6m year on year higher levels of investment.

R7 – RAV

The Opening RAV, Transfers, Net additions (after disposals), and Depreciation values for all reported years are based upon the August 2024 Dry Run 1 PCFM submission as per the RIGs, which was the last version of the PCFM produced by ESO.

R8 – Taxation

The tax liability per the corporation tax return (CT600) for the 2022/23 regulatory year is £28.8m. In table R8 we have made adjustments to exclude the tax impact from external balancing and TNUoS activities. The adjusted regulated tax liability of £20.0m is therefore £8.0m higher than our tax allowances per the latest PCFM of £12.0m. Our tax under performance in 18/19 prices is £6.8m at actual gearing and £7.9m at notional gearing.

R9 – Financial Resilience and Corporate Governance

Our financial resilience and corporate governance narrative in this section relates to ESO and reflects the arrangements that were in place on 30th September 2024, which was the date at which this report was originally due. The ownership and governance framework from 1st October 2024 has changed due to the corporation moving into Government ownership, so the arrangements explained below are no longer in force.

Financial Resilience

We note the additional disclosures as set out in the RIGs relating to financial resilience. We do not consider that there is any further disclosure required regarding financial covenants, obligations contained within debt instruments nor any information to provide with respect to reliance on distributions or dividends.

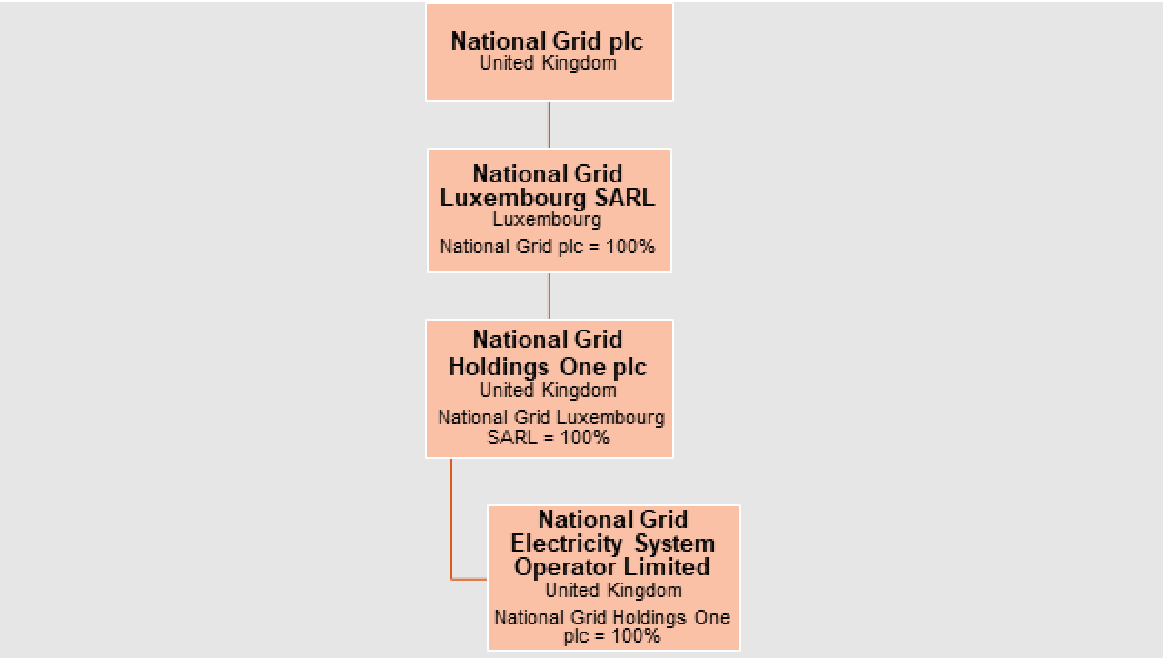
Corporate Ownership and Governance Framework

Corporate Ownership Structure

National Grid Electricity System Operator Limited’s immediate parent company is National Grid Holdings One plc. The ultimate parent company, and controlling party, is

National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Electricity System Operator Limited.

The ownership structure, with each parent company holding 100% of the subsidiaries' shares is shown below:



Committees

The Board delegates certain governance responsibilities to five standing Committees that have the knowledge and experience to make recommendations to the Board, each of which operate within an agreed and documented terms of reference.

The Board and its committees regularly review terms of reference to ensure that they remain fit for purpose and are adapted to meet the requirements of the Company as they evolve.

Committee	Activity
Audit & Risk Committee	The Audit & Risk Committee (ARC) monitors the effectiveness of internal controls; risk management; integrity of financial statements, and the performance of the internal Assurance and Corporate Audit department and independent auditor. Corporate Audit department and independent auditor. The Committee met five times in the reporting period.
Nominations Committee	The Nominations Committee makes sure the Board remains balanced and effective and that its structure, composition and skills align to the ESO's strategic objectives, and has due regard for diversity. The Committee's primary objective is to identify and evaluate candidates for future NED appointments and in doing so, it takes advice from external recruitment consultants. The Committee met three times in the reporting period.
Business Separation Compliance Committee	The Business Separation Compliance Committee oversees the duties and tasks of the ESO Compliance Officer and compliance with the business separation licence conditions. Officer and compliance with the business separation licence conditions. The Committee met twice in the reporting period.
Health, Safety & Wellbeing Committee	The Health, Safety & Wellbeing Committee has responsibility for nurturing and promoting a positive attitude to health, safety and wellbeing as in integral part of the ESO's activities and to maintain an overall assessment of the key ESO health, safety and wellbeing specific risks. The Committee met three times in the reporting period.
Remuneration Committee	The Remuneration Committee was established by the Board in November 2023, to support the Board as it transitions out of the ownership of National Grid plc and prepares to take full responsibility for the determination, implementation and oversight of the total remuneration arrangements for all Executive Directors of the Board and the Executive Leadership Team. Whilst a subsidiary of National Grid plc, the Committee is responsible for reviewing and making recommendations to the shareholder, in respect of the remuneration policies and benefits framework for all ESO employees to ensure they support the strategic objectives, culture and values of the Company. The Committee met two times in the reporting period.

Each committee is chaired by a Non-Executive Board Director (NED) and the NED members provide independent challenge and support for effective decision making. Below is a diagram of the committee structures and members[3]:

[3] This diagram is as reported in the ESO Annual Report and Accounts 2023/24 and is reproduced from there. Please note Baroness Gillian Merron stepped down from the ESO Board on 10th July 2024.

	Audit & Risk	Compliance	Nomination	Health, Safety & Wellbeing	Remuneration
Fintan Slye			●		
Charlie Pate		●			
Kayte O'Neill	●				
Zoe Morrissey				●	
John Linwood*	●			●**	●
Baroness Gillian Merron*			●**	●	●
Paul Plummer*		●		●	●**
Hannah Nixon*	●**		●		●
Janice Crawford*	●	●**	●		

***NED **Chair of committee ● Chair of the Board**

Matters reserved for the parent company

As a wholly owned subsidiary, the ESO Board duly considers the views and interests of its ultimate Shareholder, National Grid plc, as part of any major decisions and transactions, where this is appropriate in the context of its licence obligations around legal separation.

National Grid Group Board, the decision-making committee of National Grid plc (the ultimate shareholder of ESO), is responsible for ensuring the long-term viability and prudent financial management of the National Grid Group. Arrangements are in place to both enable appropriate Group oversight but also enable the ESO to operate sufficiently independently within the National Grid Group.

To support operational and managerial separation of ESO, and independence of the ESO Board, there is a Group level committee, the ESO Committee. The ESO Committee ensures all ESO ringfenced information required to support good corporate governance by the ultimate shareholder is viewed separately from other subsidiaries in the National Grid portfolio. The ESO Committee is not involved in the day-to-day operation of ESO. The Director of ESO is a member of the ESO Committee and the meetings are administered by the ESO Company Secretariat.

The ESO Board is responsible for the overall strategy and direction of the Company for which they have delegated certain powers and responsibilities to the ESO Executive Committee (ExCo) and other Board Committees such as Audit and Risk Committee, Remuneration Committee, Nomination Committee and Health, Safety and Wellbeing Committee. The ExCo meets at least weekly, to provide appropriate oversight and drive the organisation's strategic direction. The ExCo is accountable to the Board and comprises the four Executive Directors and other senior executives. The Board Committees meet according to their terms of reference and when otherwise appropriate and are accountable to the ESO Board. The Committee memberships are reviewed at least annually along with their terms of reference.

The ESO Board Director nominations and any ESO board evaluations are undertaken by the ESO Board and delegated to the ESO Nomination Committee which is chaired by one of the ESO Independent NEDs.

The level of remuneration for the Executive Director and Chair of the ESO is reviewed and approved annually by the National Grid plc Group CEO via the ESO Committee of the shareholder. The ESO Remuneration Committee was established by the ESO Board in November 2023, to support the Board as it transitioned out of the ownership of National Grid plc and prepared to take full responsibility for the determination, implementation, and oversight of the total remuneration arrangements for all Executive Directors of the Board and the Executive Leadership Team from day one of NESO. Directors' remuneration was determined in accordance with National Grid's remuneration policies for employees.

National Grid Electricity System Operator Limited Board Members

Full Name	Role	Appointment Date
Fintan Charles Slye	Executive Director	1 March 2019
Baroness Gillian Joanna Merron	Independent Non-Executive Director	1 April 2019 (Resigned on 10 July 2024)
Hannah Nixon	Independent Non-Executive Director	1 April 2019
Janice Crawford	Independent Non-Executive Director	17 July 2023
John Frederick Linwood	Independent Non-Executive Director	16 June 2020
Jonathan Paul Plummer	Independent Non-Executive Director	1 April 2019
Charles Pate	Executive Director	11 September 2023
Kayte Anne Eve O'Neill	Executive Director	1 April 2019
Zoe Elise Morrisey	Executive Director	15 November 2022

Roles of Executive Directors

Fintan Slye – Chair of the Board

Fintan Slye is Executive Director of the ESO and Chair of the Board.

Charles Pate – Chief Finance Officer

Charles Pate is Chief Finance Officer for ESO and is responsible for the financial management of ESO, together with the procurement, property and portfolio management functions.

Kayte O'Neill – Chief Operating Officer
During the regulatory year 2023/24 Kayte O'Neill held roles as Head of Future System Operator (FSO) Transformation and latterly Chief Operating Officer (COO). As such Kayte oversees ESO's delivery across energy networks and markets and the real time operations of the electricity transmission system.

Zoe Morrisey – Legal & Regulation Director
Zoe Morrisey is Legal & Regulation Director providing expertise in legal, regulatory and compliance matters.

All executive directors receive remuneration from the ESO licenced entity for services solely provided to ESO.

Executive Remuneration Policies

Please note that, in common with the rest of this report, the following relates to procedures and policies that were in force for ESO under National Grid ownership. For the avoidance of doubt, these statements do not apply to NESO – any procedures or policies that apply to NESO will be covered in future reporting.

The NG plc Remuneration Committee is responsible for recommending to the NG Board the Remuneration Policy for NG plc Executive Directors, the other members of the Group Executive Committee (Presidents of respective Business Units), the Executive Director of the ESO (subject to independence), and the NG Chair, and for implementing this policy. The aim is to align the Remuneration Policy to the Company strategy and key business objectives, and ensure it reflects our shareholders', customers', and regulators' interests. The NG plc Remuneration Committee receives input on policy implementation within the wider workforce before reaching decisions on matters such as salary increases and annual incentive pay-outs and closely reviews the appropriateness of pay positioning by reference to external measures (benchmarking remuneration packages) and internal review of Company performance and pay gaps (NG Group CEO pay ratios, gender and ethnicity pay gaps), the relativity year-on-year of salary, benefits and annual performance incentives compared with the same for the rest of the workforce. The budget for annual salary increases for all other Leaders (Executives, Senior Managers and Managers) is set at NG level and allocated to individuals with reference to factors outlined above.

ESO Board of Director Remuneration Framework

Band	Target APP % of Salary	LTIP Award	Pension DC Contribution	Car Allowance	PMI	Holiday	Flexible Benefits
Executive Director / CEO (Band A)	32.5%	Up to 90% of base salary	20%	£12,000	Family	28 days annual leave plus	A range of benefits including a Sharesave

Executive Director (Band B/B+)	17.5%-25%	40-75% of base salary	15%	£8,500 - £12,000	Family*	public holidays	scheme, employee assistance programme and flex benefits scheme

*Any new hires will be eligible for Pension DC Contribution of 12% and Employee only PMI

Annual Remuneration Increases

The level of remuneration for the Executive Director and Chair of the ESO is reviewed and approved annually by the National Grid plc Group CEO. Remuneration levels for the other ESO Executive Directors are reviewed and approved annually by either the ESO committee or the responsible Shared Service area where they are not directly employed by the ESO.

Performance Related Remuneration

Performance based elements of remuneration form a significant portion of the total remuneration package for the Executive directors of the ESO. Typically, performance-based (reward at risk) elements account for 50-60% of the total remuneration opportunity; these are linked to both business performance measures and individual performance and typically comprise an annual element (the Annual Performance Plan, APP) and a longer-term element (the Long-Term Performance Plan, LTIP).

Short-Term Incentives

The Annual Performance Plan (APP) comprises reward for achievement against ESO scorecard measures (60%) and achievement against individual objectives (40%). Performance measures and targets are normally agreed at the start of each financial year and are aligned with ESO strategic business priorities. Targets are set with reference to the budget, which is reviewed and approved annually by the ESO Committee.

Individual performance will be determined by an assessment of the achievement of objectives set at the start of the financial year and demonstration of leadership behaviours and business values. Operational performance of ESO during the year will be assessed against metrics and targets set at the start of the financial year. The ESO Committee will also, where appropriate, reflect on business outcomes not directly included in the APP, such as items related to demonstrating service levels to our customers and communities before finalising the plan pay-outs. Awards are subject to malus and clawback provisions.

Long-Term Incentives

ESO operates a cash based long-term incentive plan (LTIP) under which awards may be granted to Executive Directors and senior managers each year, with the intention to provide an appropriate incentive to ESO employees and to encourage outstanding long-term performance of the ESO business. Vesting occurs at the third anniversary of the award with the vesting value flexing with the value of the ESO business during the vesting period. The ESO Committee reserves the right to apply discretion on overall vesting outcome taking into consideration the underlying business, financial and operational performance. LTIP awards are subject to malus and clawback provisions.

Employee Benefits

Benefits for Executive Directors and senior management include a company car (Electric Vehicle) or a cash alternative, private medical insurance, life insurance, opportunity to purchase additional benefits under flexible benefit schemes available to all employees and opportunity to participate in HMRC tax-advantaged all-employee share plans, currently:

- Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period.
- Share Incentive Plan (SIP): UK employees may use their gross salary to purchase shares. These shares are placed in trust.

Pension

Externally hired employees will participate in a Defined Contribution (DC) arrangement. The maximum contribution for Executive Directors is shown in the table above. Executive Directors may alternatively choose to receive cash in lieu. In line with market practice, pensionable pay for employees is basic salary.

Recognition Scheme

All employees are eligible to receive awards under the NG 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.

CEO Pay Ratio

We have disclosed our CEO (The Executive Director) pay ratios comparing the CEO single total figure of remuneration to the equivalent pay for the 25th quartile, median, and 75th quartile UK employees (calculated on a full-time equivalent basis). The results highlight a key feature of our remuneration strategy to weight Executive and senior leadership compensation more heavily towards longer-term performance reward. Across the wider workforce, employee compensation is largely focused on in-year annual delivery.

For reference, the NG plc Group-wide pay ratio and NG UK ratio are disclosed in the NG plc Group Annual report.

The ratios are based on total pay and benefits inclusive of short-term and long-term incentives applicable for the respective financial year 1 April – 31 March. The reference employees at the 25th, 50th and 75th percentile have been determined by reference to pay and taxable benefits as at the last day of the respective financial year, 31 March, with estimates for the respective APP pay-outs and performance outcomes of the LTPP and dividend equivalents.

Most employees are eligible for a performance-based annual payment. Our principles for pay setting and progression in our wider workforce are the same as for our executives – mid-market approach to total reward sufficiently competitive to attract and retain high-calibre individuals without over-paying.

Dividend Policy (applicable to ESO)

The ESO Board has a residual dividend policy which considers the company's operating and investment requirements and ensures compliance with regulatory and licence conditions. We confirm that no dividend or other form of distribution as described in the RIGs was paid in respect of the 2023/24 financial year. In accordance with the RIGs we are providing a copy of the ESO dividend policy as set out below.

1. The Company will distribute to its shareholder, surplus funds from its distributable profits, as may be determined by the Board, subject to consideration of:
    - Future liquidity requirements, including; capital expenditure, investments and working capital;
    - Any potential accounting changes;
    - The requirement to retain reserves to maintain its credit rating; and
    - Any applicable laws.
2. Calculating the amount to pay
    - The ESO must have the available **distributable reserves.** This is normally the level of retained earnings as presented in the latest financial year per the ARA. However, directors should also consider the current trading period since the date of the ARA to ensure these have not been diluted e.g., management accounts showing reported losses.
    - The ESO also needs to assess whether it will retain sufficient liquidity in the business, after the dividends have been paid, to meet debts that are falling due shortly. This is assessed by considering the **Going Concern** of the business.
    - Although technically not a limiting factor, the ESO should have consideration for **its regulatory gearing** level. Ofgem have a notional gearing level (when assessed against the value of the RAV) which if the ESO remains geared below this level means there can be no tax clawback on the level of interest paid by the company should this amount exceed its cost of debt allowance.

3. Regulatory Procedures

- Before a dividend can be declared and paid, the ESO must provide Ofgem with a **signed certificate**, approved by the Board, that it is in compliance with its Standard Licence conditions including ring fencing; availability of resources; credit ratings; indebtedness; and the provision of information to the authority. The certificate must be approved not more than 14 days before the date on which the declaration, recommendation or payment is to be made. For final dividends, this aligns to the timing of the approval of the annual certificate.

4. Corporate Governance

- Interim dividends can be declared by the directors alone. ESO expects to pay an interim dividend only by exception.
- Final dividends can be recommended by directors, but it is the shareholder that makes the formal declaration at either the AGM or by a written resolution. In the case of the ESO, the Shareholder is NGH One plc.

5. Dividend Agreement Process

The process is a collaborative one, ensuring all relevant parties are aware of the anticipated dividends. The following steps will take place;

1. The ESO Finance Director is responsible for preparation of the analysis which supports a proposed **Residual Dividend Payment** for the relevant financial period. This analysis is performed with input from the ESO business and with input from the relevant central finance functions (Treasury & Tax, Regulatory Finance and Group Finance).
2. The ESO Finance Director will present the dividend proposal to the ESO Executive for approval, after consideration, to proceed to the next governance step.
3. An informal view of the dividend payment is shared with the Shareholder and ESO Board.
4. Once alignment is gained, formal ESO Executive approved papers are brought to the ESO Board for consideration.

   For interim dividends, the process stops once the Board have been presented with and considered the paper and approved the dividend. Approvals are provided to the Group banking team to process the payment from ESO to NGH One plc.

   For final dividends, the additional step is for the ESO Company Secretary to advise the Company Secretary of NGH One of the proposed dividends and to arrange for the AGM to be called to approve the dividend by the Corporate Shareholder.
5. In the unlikely event of a difference of opinion between the ESO Board and the Shareholder on the level of ESO residual dividend payment, a meeting shall be convened to find an agreement. This meeting will include:

- From the ESO: the FD, Chair and at least 1 NED
- From the shareholder: at least two from the Group CEO, CFO and Company Secretary.

R10 – Pensions and Other Activities

Apportionments between Established and Incremental Deficit are driven by the outcome of the 2023 Pension Deficit Allocation Methodology (PDAM) exercise. The figures shown in rows 14 and 15 are both derived from the 2023 PDAM exercise and are consistent with apportionments shown in previous RFPR disclosures (sheet "R10 - Pensions & Oth Activities").

Regulated fraction apportionments between NGETO (75.7%) and NGESO (23%) are historic and unchanged since their confirmation in the TPCR4 Rollover Final Proposals document. The figures shown for ESO are both derived from this regulated fraction apportionment and are consistent with apportionments shown in previous RFPR disclosures (sheet "R10 - Pensions & Oth Activities").

Ofgem has previously acknowledged that pension costs, particularly deficit costs disclosed in table R10, are largely outside of the direct control of network operators. Nevertheless, where some element of pension cost mitigation is possible, National Grid consistently sought to reasonably reduce pension costs associated with its defined benefit pension schemes, as detailed in the 2023 submission to Ofgem's Reasonableness Review which formed part of the 2023 PDAM exercise.

That said, ESO pension deficit payments (in row 12) were once again broadly in line with previous years and remained consistent both with expectations and with figures submitted as part of the RIIO-2 budget submissions for pension deficit payments.

The pension scheme valuation is performed tri-annually, and the valuation data presented in the 2023/24 RFPR reflects the finalised results of the triennial actuarial valuation at 31 March 2022 (which is the most recent set of valuation results accepted by Ofgem).

The EDE and PPH figures shown in rows 21 to 23 reflect the most recent final pension allowances published by Ofgem on 24 November 2023 following Ofgem's decision outcome from the 2023 PDAM exercise.

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 (where deemed appropriate)
5. Director Sign Off

Appendices

Reconciliation

Not applicable for ESO.

Enduring Value Adjustments

Not applicable for ESO.

Basis of any estimates and allocations

Not applicable for ESO.

Other Relevant Information

Not applicable for ESO.

NESO
National Energy
System Operator