

National Grid Electricity System
Operator Limited

Annual Report and Accounts 2023/24



National Grid Electricity System Operator Limited
Number 11014226

ESO

Annual Report and Accounts



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Foreword from our Chair

Welcome to the Annual Report and Accounts 2023/24 for National Grid Electricity System Operator (ESO).

This year, we have continued to adapt to meet the challenges of efficiently operating a rapidly changing electricity system and accelerating progress towards our net zero ambition. This marks our last annual report as the ESO.



Soon, we will transition to become the new National Energy System Operator (NESO) an independent, public corporation with responsibility for planning Britain's electricity and gas networks and operating the electricity system. We'll be taking on new roles, with a whole system perspective, and play a central role in ensuring that Britain's energy system is secure and affordable-forging the path to a sustainable future for everyone.

Building trust with our customers and stakeholders remains a top priority and we have been working hard with industry, UK Government and Ofgem to build trust and credibility for our organisation. Our new Customer Service and Relationship Management team is improving our communication and responsiveness, and we will have a dedicated Customer function as part of our transition to NESO to drive a more customer-centric culture.

This past year, reflecting the ambitious pace and scale of change needed to decarbonise the GB energy system, we have made meaningful progress in a number of areas. We have revolutionised our ability to manage the electricity network in real time by launching phase one of the Open Balancing Platform. This supports better utilisation of the more numerous, smaller-scale mix of generation assets we now see on the network.

Critical steps to ensuring we can deliver our ambition to operate the system for periods at zero carbon in 2025 have been taken through the go-live of more Pathfinder projects. These are helping us to manage the complex demands of a modern electricity system with increasing amounts of energy generated from renewable and low carbon sources.

This work is demonstrating results. Between April 2023 and April 2024, we broke the record for lowest carbon intensity of the electricity generation powering GB three times and saw the record fall below 20g of CO₂ per kilowatt hour of electricity produced for the first time in history.

To enable viable projects to connect to the grid quicker and get Britain building we are showing continued leadership in transforming the connections process, putting forward ambitious reform proposals that have the potential to halve the size of the queue.

In March, we outlined a £58bn investment plan in our Beyond 2030 report, which set out a blueprint for a decarbonised electricity system in Great Britain. We will continue to build on this, in particular as we start to undertake new strategic spatial energy planning and regional energy strategic planning responsibilities as NESO. Central to all of this will be increased collaboration across all parts of the energy sector, and with society and communities across the country.

We also need the right markets in place to reduce electricity costs, encourage maximum use of flexible assets and improve system operability, so I'm pleased that we've continued to build on our relationship with the Department for Energy Security and Net Zero through the Review of Electricity Markets Arrangements (REMA) process, and continue to work closely with the department and wider stakeholders as part of the REMA Programme Board to deliver these important reforms.

It's a transformative and busy year ahead for us. Our vision of an energy system that is secure, reliable and fair for everyone has never been more relevant or important. We're privileged and motivated to be part of delivering that vision, and excited for what the future means for us.



Fintan Slye

Fintan Slye

Chair, Electricity System Operator

National Grid Electricity System Operator Limited
1-3 Strand, London WC2N 5EH
Registered in England and Wales
Number 11014226

Our business in numbers – key financial highlights at a glance

	2023/24 £m	2022/23 £m	Percentage change
Revenue	3,809	4,579	(17)%
System balancing costs	2,506	4,109	(39)%
Operating profit	849	106	701%
Profit before tax	877	110	697%
Cash generated from operations	1,017	399	155%
Cash invested in intangible assets and PPE	148	107	38%
Regulatory assets value	425	360	18%
	2023/24 £m	2022/23 £m	Percentage change
Adjusted operating profit*	29	20	45%

*Adjusted operating profit excludes exceptional items, remeasurements and regulatory timing differences, which since 1 April 2023 includes the collection of balancing costs. See [page 62](#) for further details.

We provide additional information about both our financial performance and our assets and liabilities to help our investors understand our business.

About the Electricity System Operator



What we do

i) Our Role

Electricity is the life blood of society and the economy. When someone flicks a light switch in their home or office, they know the light will come on. That, in a nutshell, sums up our primary responsibility. We move high voltage electricity from where it's generated, such as a wind farm, through the energy system. We make sure that Britain has the energy it needs by making sure supply meets demand every second of every day.



To achieve this we perform three core roles:

- 1** Control Centre Operations: reliable, secure system operation, to deliver electricity when consumers need it.
- 2** Market development and transactions: transforming participation in smart and sustainable markets.
- 3** System insight, planning and network development: unlocking consumer value through competition and driving towards a sustainable, whole energy future.

You can learn more about these roles, and how we will deliver them in our Business Plan [here](#).

ii) How we are regulated

We are regulated by Ofgem, who make sure we're delivering value for existing and future consumers, while supporting the transition to a more decentralised and decarbonised electricity system. One of the ways Ofgem does this is by setting regulatory price controls – these detail the services we'll provide, activities we will deliver and the amount we can recover from consumers for delivering them.

The services we provide and investment we need is informed by our own work and what our stakeholders think we should deliver. Our plans are then reviewed by Ofgem to determine our allowed revenue and how our performance will be evaluated.

Ofgem's regulatory framework is known as RIIO (Revenue = Incentives + Innovation + Outputs). This model offers energy companies incentives for securing investment and driving innovation, so they can develop sustainable energy networks and system operation services at the right cost for current and future consumers. We are currently in the RIIO-2 framework period. Due to our unique role within industry, we have a bespoke regulatory framework, with the 5-year RIIO-2 period split into smaller Business Plan periods. In 2022 we submitted our second Business Plan, co-created with stakeholders, setting out our mission, ambitions, and planned activities. The Business Plan 2 (BP2) period runs from April 2023 to March 2025. This was approved by Ofgem in March 2023 and their Final Determination published, confirming funding of the full totex (total expenditure) request of £651m for the BP2 period.

Our funding uses a pass-through mechanism (where all efficiently incurred costs can be recovered through regulated revenues), and we have the flexibility to deviate from our published plans, delivering additional activities where there is an opportunity to benefit consumers. The RIIO-2 regulatory framework includes a return on our Regulated Asset Value (RAV) but also provides additional non-RAV funding for roles and risks not linked to an asset base. Unlike other network companies in RIIO-2 we are not incentivised to underspend our allowed revenue, which means that we have greater flexibility to adjust spending to deliver our ambitious Business Plan and maximise consumer benefit.

Our performance continues to be assessed via an evaluative incentive approach and the value for the BP2 period ahead of the establishment of NESO remains the same as the BP1 period, with a total maximum reward of £30m and maximum penalty of £12m for the two-year period. As part of this incentive scheme, a Performance Panel of industry stakeholders scores the ESO on its performance, informing the reward or penalty awarded by Ofgem at the end of the two year period. For the BP1 period we were awarded a reward of £1.8m following the review of the Performance Panel and Ofgem's assessment. As the Company transitions to NESO it will be funded on a 'not-for-profit' making basis. This means the incentive regime becomes reputational only in nature.

As we become NESO, we are working closely with stakeholders, including Government and Ofgem, to ensure that our regulatory framework is fit for purpose and enables us to deliver the benefits for consumers that we believe we can achieve. We will have two new licences, an Electricity System Operator licence, and a Gas System Planner licence, and we will continue to be regulated by Ofgem. Discussions are ongoing regarding changes to planning and performance framework beyond Day 1, noting that as a non-profit public corporation we will not be subject to any financial reward or penalty relating to incentives arrangements.

iii) Our Mission and Ambitions

Our ambition statements are action-oriented and highlight the importance of both people and technology in achieving our mission.

They provide the context for our Business Plan, with all activities aligned with at least one of our ambitions.

Our mission /

To drive the transformation to a fully decarbonised electricity system by 2035 which is reliable, affordable and fair for all.

This includes preparing Britain's electricity system to be able to run on zero-carbon electricity by 2025. Over the last ten years, we're proud to say the amount of carbon based electricity in our system has reduced by an impressive 73.9%. But there's still plenty more to do before we reach our zero-carbon target.

Our ambitions /



Ensuring the electricity system can operate carbon free by 2025



Driving competition for the benefit of consumers



Being innovative, digital and data driven



Engaging as a trusting partner



Being the net zero employer of choice

Our values /

We know that how we deliver is as important as what we deliver. If our mission sets out 'what' we want to achieve, our values are the 'how'. They help shape what guides us. We adapt and develop our values to align with the expectations of our customers and communities, without losing sight of the things that make us strong today.

Every day we do the right thing by:

- keeping each other and the public safe, complying with all relevant rules, regulations and policies;
- respecting our colleagues, customers and communities;
- saying what we think and challenging constructively.

Every day we find a better way by:

- delivering excellent performance for our customers;
- sharing knowledge and implementing best practices for continuous improvement;
- embracing opportunities to grow ourselves and the business.

We make it happen by:

- delivering positive outcomes and achieving results;
- making decisions in a timely way;
- getting things done efficiently.

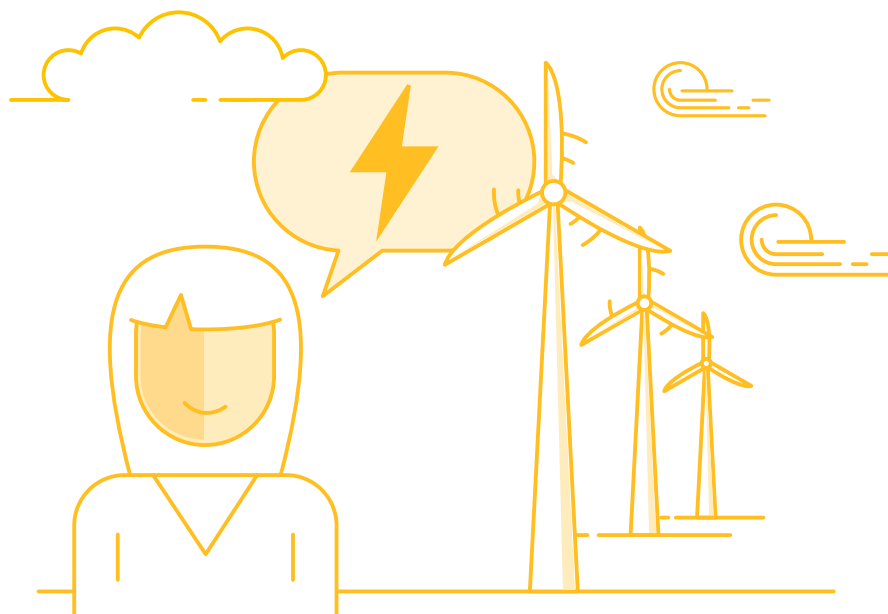
iv) National Energy System Operator - how we are evolving

The UK Government and Ofgem have decided to separate the ESO from National Grid plc, establishing an independent Public Corporation with responsibilities across both the electricity and gas systems and the ability to expand its remit to additional energy vectors when needed.

In May 2022, the Government introduced its Energy Bill in Parliament, setting out the legislation to enable the creation of the new entity. This reached Royal Assent in October 2023, creating an Act of Parliament. In January 2024, the ESO confirmed that the new name will be National Energy System Operator (NESO).

NESO will be able to drive progress towards net zero, deliver value for consumers, improve whole energy system decision-making, and support energy security. Our ESO colleagues are fundamental to the success of NESO, and we have been further strengthening this capability through recruitment which will support us in delivering against our new obligations. Additionally, the UK Government have also announced NESO's new Chair-designate, Dr Paul Golby.

As we prepare to transition to NESO, we continue to engage and work closely with Government, the regulator and industry stakeholders as we implement our delivery plans towards this significant milestone for the ESO and wider industry.



Who we are – Board



Fintan Slye

Chair of the Board

Fintan Slye is Executive Director of the ESO and Chair of the Board. He joined the ESO in 2018. Prior to this he was CEO of the EirGrid Group, the electricity system and market operator in Ireland and Northern Ireland. He has previously worked for McKinsey & Company and ESB Group. Fintan is both a Fellow of the Institute of Engineers Ireland and the Energy Institute. He holds a Masters in Engineering Science and an MBA from University College Dublin.



Baroness Gillian Merron

Independent Non-Executive Director

Baroness Merron of Lincoln is a Life Peer and Shadow Minister for Health and Social Care, as well as a Whip. She is also a Visiting Professor at the University of Lincoln, a Vice President of Liberal Judaism and Ambassador for Smart Works. Formerly Chief Executive of the Board of Deputies of British Jews, Baroness Merron was the MP for Lincoln between 1997 and 2010. During this time, she served in government as a Senior Whip, and as a Minister in the Health, International Development, and Transport Departments as well as in the Cabinet Office and Foreign and Commonwealth Office.



Hannah Nixon

Independent Non-Executive Director

Hannah has extensive experience in economic regulation across a range of industries. She was the inaugural CEO of the Payment Systems Regulator and a senior partner at Ofgem, where she had responsibility for the networks division. She is currently Chair of the Single Source Regulations Office and holds Non Executive Director roles on the Boards of Thames Water, Worldpay UK and the Financial Reporting Council. She was formerly a NED of the Jersey and Guernsey Competition and Regulatory Authorities.





Janice Crawford

Independent Non-Executive Director

Janice Crawford is a Chartered Engineer and has had a career stretching from an apprentice in a Glasgow shipyard (where she was the first female apprentice in a British shipyard) to executive and board posts for international engineering and project delivery companies. She is a Fellow of the Institution of Mechanical Engineers and became a Fellow of the Royal Academy of Engineering in 2013. Janice has worked in diverse international companies in the petrochemical, oil and gas, LNG, mining and pharmaceutical related industries, and up until April 2022, Janice was the Director of Global Capital Projects for Johnson Matthey, the FTSE 100 global science and chemical company. Janice also served as a Non Executive Director of the Health and Safety Executive Board for five years.



John Linwood

Independent Non-Executive Director

John has held senior technology roles in Microsoft and Yahoo and was formerly Chief Technology Officer at several companies including BBC and Wood Mackenzie. He has been a Non Executive Director (NED) of both FTSE and AIM listed companies since 2012 and is currently on the Board of Brooks Macdonald, an AIM listed Wealth Management company where he is also chair of the Remuneration Committee. He is also on the Board of Intercede Group plc, an AIM listed Cyber Security company.



Paul Plummer

Independent Non-Executive Director

Paul is an experienced business leader and strategic thinker now working as Professor of rail strategy, Non Executive Director, and mentor. He is Director of the University of Birmingham Centre for Rail Research and Education (BCRRE) and lead for the UK Rail Research and Innovation Network (UKRRIN). Until recently he was CEO of the Rail Delivery Group (RDG) and Association of Train Operating Companies. Prior to that he was on the Board of Network Rail where responsibilities included the system operator activities. His earlier career spanned the regulated utilities as an economist and adviser working for governments, companies and regulators.

Who we are – Board



Charlie Pate

Chief Finance Officer

Charlie joined the ESO in 2023 and is a chartered public finance accountant. As Chief Finance Officer he is responsible for the financial management of ESO, together with the procurement, property and portfolio management functions. Prior to the ESO, Charlie had a career in the UK Government Civil Service including working in HM Treasury in various public spending teams, working as part of the team delivering the London 2012 Olympic Games and latterly as CFO of the Ministry of Defence.



Kayte O'Neill

Chief Operating Officer

Having been appointed as Chief Operating Officer (COO) in January 2024, Kayte oversees ESO's delivery across energy networks and markets and the real time operations of the electricity transmission system. With more than 20 years of experience in the energy sector, Kayte was most recently accountable, on behalf of ESO, for the design and delivery of NESO. She has previously led the Strategy and Markets teams and spent 3 years in Boston with National Grid's US electricity distribution businesses. Kayte is a Non Executive Director on the Board of Jersey Electricity.



Zoe Morrissey

Legal & Regulation Director

Zoe is an experienced energy and regulatory lawyer having spent 10 years advising a number of the UK National Grid business units. Prior to that she worked at Ofwat as a legal advisor and in 2008 qualified as a solicitor in private practice specialising in competition and procurement law.

Who we are – Executive Committee



Fintan Slye
Executive Director



Kayte O'Neill
Executive Director
Chief Operating Officer



Charlie Pate
Executive Director
Chief Finance Officer



Zoe Morrissey
Executive Director
Legal & Regulation Director



Andreia de Melo Cabral
Chief People Officer

Andreia joined the ESO in June 2024 and is a highly experienced People Executive with expertise in international companies focusing on strategic HR management and systems, Diversity Equity and Inclusion (DEI), talent acquisition and employer branding. She has extensive experience of working at board level within varied companies such as TFS Healthcare, Maersk Oil, Peta Foundation and Ovarmat working across the globe in Angola, the US, Qatar and the UK.



Shubhi Rajnish
Chief Information Officer

Shubhi joined the ESO in July 2022. She joined from British American Tobacco where she was Head of Digital and IT. Prior to this she spent 15 years at BP in senior roles leading digital transformation.



Jake Rigg
External Affairs Director

Jake joined the ESO in September 2021 from Affinity Water. Starting out as a journalist he has also worked on sustainability issues as a consultant to clients including DuPont and 3M and was an advisor to a former Secretary of State for Energy and Climate Change. He has a Modern History degree from Oxford and is currently completing research on quantifying political and regulatory risk at Yale.



Claire Dykta
Strategy & Policy Director

Claire joined the ESO in October 2022. She has over 20 years of experience within the National Grid Group, spanning European and UK gas and electricity regulatory policy, electricity operations and corporate strategy, including M&A. She is a graduate of the Oxford Saïd Business School.

The Year in Review

Key operational statistics



New records set on the network for carbon intensity and wind generation.

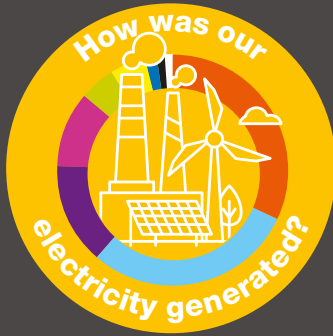
- On 15 April 2024, the GB Electricity network had the highest proportion of transmission zero carbon generation at 92.2%. This has been to date the highest level of zero carbon generation on the network.
- On 21 December 2023, the GB Electricity network had the highest day of wind generation at 21.8GW. Enough to power all UK homes for over a day.
- On 20 April 2023, the GB Electricity network had the highest day of solar generation at 11GW.

Generation mix

Zero carbon (wind, nuclear, solar and hydro) sources continue to make up a growing share of electricity generation.

In total, on average they contributed 50% across the year (an increase from 46% average contribution in FY2022/23).

By early 2025 it's our ambition, when the market presents enough zero carbon generation, to make it possible to be able to operate the system at 100% zero carbon.



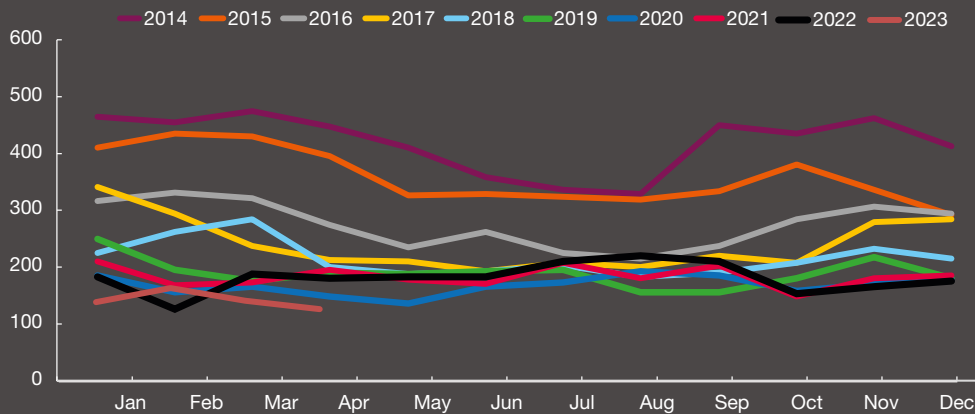
Technology Type	% Share 2023/24	% Share 2022/23
Gas	32.0%	33.7%
Wind	29.4%	29.0%
Nuclear	14.2%	12.3%
Imports	10.7%	14.1%
Biomass	5.0%	4.7%
Solar	4.9%	3.1%
Hydro	1.8%	1.7%
Coal	1.0%	0.5%
Storage	1.0%	0.9%

Carbon intensity

15 April 2024 saw the lowest level of carbon dioxide on the network, with a record low of 19gCO₂/kWh.

The greenest month in history is now April 2024 with a carbon intensity of 88gCO₂/kWh.

Carbon intensity
(gCO₂/kWh)



↓ **73.9% decrease** from 2013 to 2023

2013 **529** gCO₂/kWh

2014 **477** gCO₂/kWh

2015 **443** gCO₂/kWh

2016 **330** gCO₂/kWh

2017 **266** gCO₂/kWh

2018 **248** gCO₂/kWh

2019 **215** gCO₂/kWh

2020 **181** gCO₂/kWh

2021 **188** gCO₂/kWh

2022 **177** gCO₂/kWh

2023 **138** gCO₂/kWh

- Completion of the Distributed ReStart project, which demonstrated the value of using distributed energy resources, such as solar, wind and hydro, to restore power to the transmission network in the unlikely event of a blackout.
- Delivery of the Enduring Auction Capability (EAC) platform which enables market participants to bid on opportunities to deliver multiple frequency response services simultaneously for the first time.
- Launched our new Balancing Reserve product, enabling us to procure reserve services a day ahead, which will reduce our reliance on carbon emitting generation and could deliver a consumer saving of £639m across the next four years.
- Our Demand Flexibility Service for Winter 23/24 grew by ~50% compared to Winter 22/23 and evolved to allow us access to volume within day.
- Launched our world-first Megawatt Dispatch service which enabled 7.3GW new Distributed Generation to connect by allowing management of the interface between transmission and distribution networks.
- Network Services Procurement launched three new tenders across Constraints, Voltage and Stability; all creating savings for the consumer whilst progressing zero carbon operation.

Role 1: Control Centre Operations



What we do

In Role 1 we play a vital role every second of every day, ensuring we operate a safe and reliable supply of electricity to Great Britain. The unprecedented global conditions mean this role has been more challenging than it has ever been. We have successfully operated a secure reliable electricity system while continuously breaking records in levels of zero carbon generation. This gives us confidence that we are on track to achieve our ambition of operating a zero carbon electricity system in 2025.



Delivering value for consumers in Control Centre Operations

Balancing costs – In our efforts to operate an evolving system and minimise balancing costs, we have undertaken a huge range of initiatives within our balancing costs strategy. Over BP1, balancing costs rose significantly due to a multitude of factors including extremely high wholesale costs. In BP2, we have seen wholesale costs come down and the impact of our balancing costs strategy, which was implemented in BP1 take effect. As a result, balancing costs over the first year of BP2 were £2.5bn compared to £3.1bn and £4.1bn in the first and second years of BP1.

Our balancing costs strategy has improved our performance against Metric 1A and includes several key initiatives including the Constraints Management Pathfinder, launch of the Balancing Reserve service and trading outside of the Balancing Mechanism (BM) to meet system and energy needs at minimum cost. We have also optimised and improved our outage procedure to maximise flows on the electricity system whilst minimising constraint costs. At the start of BP2, we updated the methodology for Metric 1A so it more accurately reflects the drivers of balancing costs that are within our control. Metric 1A has exceeded expectations against the benchmark in 8 of the 12 months over the first year of BP2, and has met expectations overall.

Market Monitoring – In line with our BP2 planned deliverables, we commissioned an independent review of the market monitoring function. The objective of this review was to ensure that we are fulfilling the licence condition and REMIT obligations of proactively monitoring ESO balancing markets for suspicious activity. The review concluded that we have attained a high standard of practice within a short time, and that policies, processes and risk assessments are well designed and clearly written.

We have developed robust and fuel-specific methodologies for assessing reasonableness of bid and offer prices. We identified many periods across 2022 and 2023 where the overall cost of marginal bids from units that hold Contracts for Difference (CfD) were extremely high because of avoided CfD repayments to Low Carbon Contracts Company (LCCC). This led to £160m in excess balancing costs to the consumer. This issue was identified as a flaw in the interaction between the CfDs and the Balancing Market (BM). Collaborative efforts with LCCC, Ofgem and Department for Energy, Security & Net Zero (DESNZ) led to the decision that a Balancing and Settlement Code (BSC) modification was the best solution, resulting in the creation of BSC workgroup P462 to address the issue.



Control Centre Operations Plan Delivery in 2023/24

In BP1 we managed the electricity system through unprecedented Global conditions. We have continued to operate a safe and reliable supply of electricity to Great Britain over the last 12 months and are delivering against our BP2 commitments. However, we do recognise the need to continue to remove barriers to facilitate smaller scale assets entering our markets. We have achieved the following over the last year:

- Continued to deliver against our balancing costs strategy with costs £0.2bn lower than our Metric 1A benchmark for the first year of BP2 (£2.5bn vs £2.7bn). Costs were also £1.6bn lower compared to the final year of BP1.
- Launched Release 1 of the Open Balancing Platform (OBP) which will deliver enhanced dispatch capability to meet fast-changing customer requirements. In the first year of BP1, we assess the benefits to have been in the order of £16m. In response to stakeholder feedback, co-created a plan with industry detailing how we will enhance the use of storage assets in the BM. We are currently on track against this plan and have completed 16 activities so far in BP2.
- Continued to open access to markets for ‘small’ participants through relaxing operational metering standards, which allows technologies such as Electric Vehicles (EVs) (currently c.1000) into the market to be dispatched for balancing. This will build on circa 2GW of small units that have entered our markets since the Wider Access initiative was launched in 2019.
- Completed our Distributed ReStart project; a world-first initiative exploring how distributed energy resources can be used to restore power to the network and initiated delivery of our first distributed restoration zone in the South East region in collaboration with UKPN.
- Made significant tactical improvements in our wind generation forecasting and are now seeing improved performance against Metric 1C which underperformed at the start of BP2.



As well as elements of the above we will also be addressing the following over the coming months:

- Removing barriers for distributed flexibility to participate in our markets and improving our performance.
- Delivering the on target plan to be able to operate the system at zero carbon in 2025.
- Further developing our balancing costs strategy, publishing a new report and continuing to minimise costs for consumers.
- Delivering our IT investments including further OBP releases, opening up more opportunities for new market participants and reducing costs for consumers.
- Embedding our new Resilience and Emergency Management role which will take a whole system perspective when considering resilience and security for Great Britain.

Control Centre Operations Performance:

To view our success against performance metrics and key indicators please see Role 1 content in the ESO End of Year Performance Report [here](#).

Role 2:

Market Development and Transactions

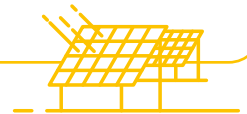


What we do

We reform, develop and run markets and market frameworks in GB. Through driving competition and embracing innovation, we deliver significant consumer value as well as accelerating towards net zero.

We advise policymakers on GB electricity markets, including wholesale, capacity and retail and help shape emerging markets such as flexibility. As we transition to NESO our remit includes whole energy and gas markets. This provides NESO with a unique and holistic whole energy system view to market design.

We deliver balancing services reform to ensure the balancing market is coherent with a net zero economy, provides investor confidence to unlock the scale of required investment as well as to promote competition and drive efficiency in our operational activities. We continue to design new balancing services and procurement methodologies that harness innovation and continue to remove barriers to entry to the balancing market for a wide range of contributors, such as new technologies and new type of assets.



Delivering value for consumers in Market Development and Transactions

- In response to feedback on how we have delivered market reforms in the past, we have focused on improved governance arrangements and engagement channels to collaborate differently with market stakeholders to ensure our markets are developed and delivered at highest consumer value:
 - As part of our Flexibility Strategy, we are working closely with all Distribution System Operators and engaging with Flexibility Service Providers to co-create a strategy from a whole system perspective.
 - We are trialling a new approach to designing market services – our **Constraints Collaboration project** – where we shared the challenge with the industry to collectively identify a range of possible solutions, which we are in the process of assessing and will share the outcome publicly this summer.
 - To provide more effective engagement channels with our Markets’ teams we have also reformed our approach to the **Markets Forum events**.
- Our innovative **Demand Flexibility Service (DFS)** continues to grow. Winter 2023/24 has seen 2.4m households and businesses sign up and deliver 346MW across both live and planned tests, demonstrating continued interest and commitment to electricity flexibility.
- We delivered the Contracts for Difference allocation process and the Capacity Market Auctions, which secured capacity of 7.6GW for 2024/25 and 42.8GW for 2027/28 to support medium term security of supply. We have also provided ongoing advice to DESNZ and Ofgem on their policy and regulatory change programmes and have been an active participant on the CM Advisory Group.
- We launched our new **Enduring Auction Capability (EAC)** platform, which enables market participants to bid on opportunities to deliver multiple Frequency Response services simultaneously. In the first round of auctions, we saw clearing prices fall 35% across our Dynamic Frequency Response markets.

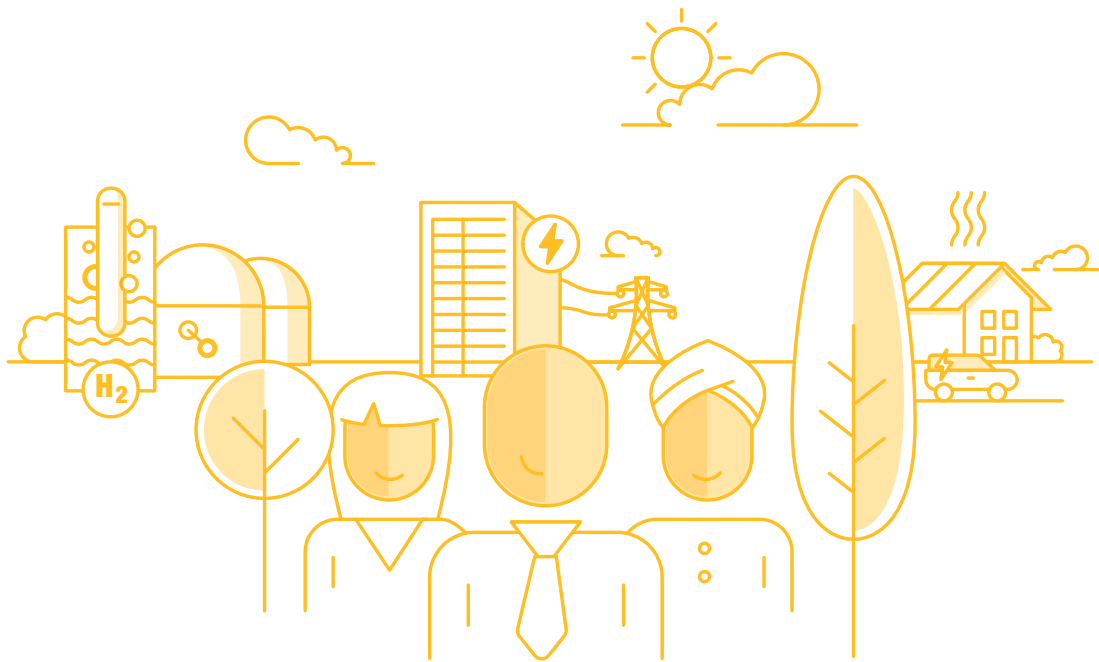
Market Development and Transaction Plan Delivery in 2023/24

We have:

- Completed phase 4 of the **Net Zero Market Reform** and supported government to narrow reform options through their Review of Electricity Market Arrangements (REMA) programme.
- Opened the new **Capacity Market Portal** for registrations in preparation for the 2025 Capacity Market Auction. We are pleased to be back on track against our latest plans.
- Our dynamic suite of frequency response products, Dynamic Containment, Dynamic Regulation, and Dynamic Moderation have matured since launch resulting in greater market liquidity. We have also reduced the volume of non-day ahead procurement, as we phase out services such as Dynamic Firm Frequency Response.
- We are now accelerating reserve reform with new reserve products being launched before or during 2025 including **Balancing Reserve** which was launched in March 2024. These services will offer new routes to market for stakeholders.
- We have supported industry with continuing to progress 83 modifications across four industry codes to facilitate positive industry change over the last 12 months.
- We have also continued to lead the TNUoS Taskforce in conjunction with Ofgem and industry to focus on key changes to the charging arrangements in the short to medium term.
- In July 2023, we completed the stability market design NIA **project** and launched GB's first ever market for stability services. The **mid-term (Y-1) stability market** will open up competitive inertia procurement to many technologies for the inaugural delivery year commencing October 2025. Further development of the long-term (Y-4) and short-term (D-1) stability markets is also continuing in parallel.
- Our **Single Markets Platform (SMP)** continues to deliver its prioritised backlog bringing user functionality, additional balancing services and integration with other ESO systems regularly through monthly releases.

Market Development and Transactions Performance:

To view our Markets success against performance metrics and key indicators please see Role 2 content in the ESO End of Year Performance Report [here](#).

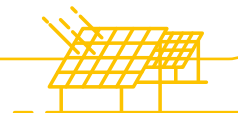


Role 3: System Insight, Planning and Network Development



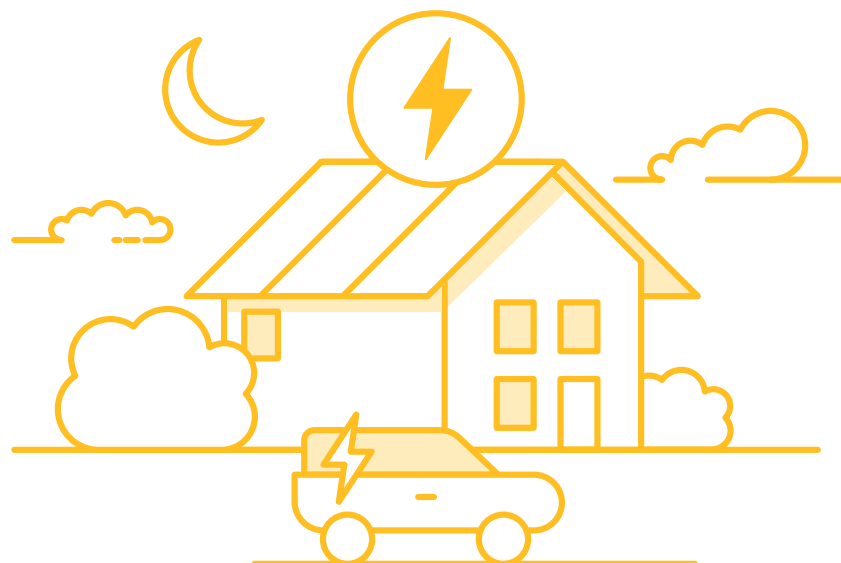
What we do

The flow of electricity in Great Britain is getting more complex. At the ESO we annually develop plans for our future networks to ensure we can meet Great Britain's electricity system requirements. We're also preparing to operate at zero-carbon by 2025 as part of the UK's net zero target for 2050. Our System Insight, Planning and Network Development involves looking for solutions to challenges faced by both the ESO and other industry stakeholders in the electricity system. Ultimately, we want to find innovative new ways to operate the electricity system of today and tomorrow and keep costs down for consumers and connect customers in a timely and efficient way. We have continued to lead the world in our thinking across our network strategic development, whole energy planning and zero carbon operation activities. We have also taken on new roles such as Strategic Spatial Energy Plan (SSEP) and Regional Energy Strategic Planner (RESP).



Delivering value for consumers in System Insight, Planning and Network Development

- Published our second Transitional Centralised Strategic Network Plan (tCSNP2) with a recommendation of £59bn onshore and offshore network investment, and progressed the methodology development for the Centralised Strategic Network Plan (CSNP).
- Achieved 91.3% Zero Carbon Generation Output and recorded lowest carbon intensity of 27gCO₂/kWh in first year of our BP2, and another record of 19gCO₂/kWh was achieved immediately after in April 2024. We are well on track to operate a zero carbon electricity transmission system for short periods in 2025.
- Progressed our connections reform activities alongside our more tactical connections actions plans.
- Launched our world-first Megawatt Dispatch service – an innovative solution to manage the transmission and distribution interface which enabled 7.3GW new Distributed Generation to be connected.
- Built our capability for our new strategic planning roles in Strategic Spatial Energy Plan (SSEP) and Regional Energy Strategic Planner (RESP).



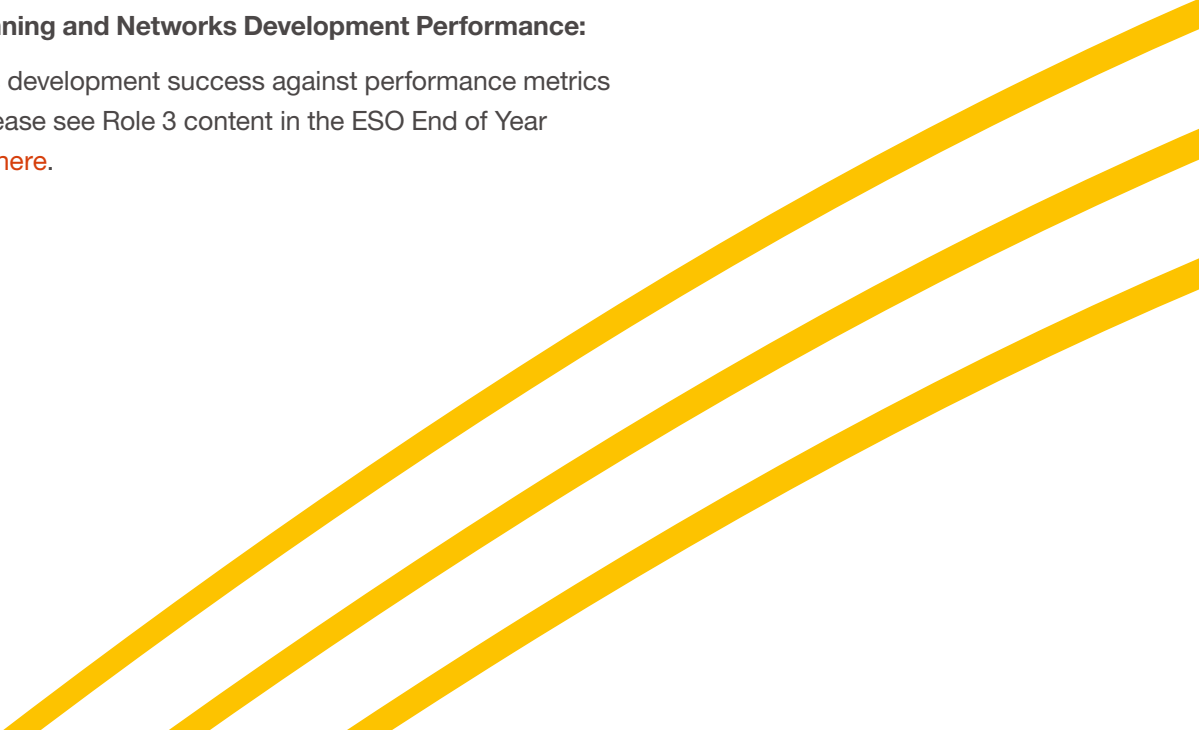
System Insight, Planning and Network Development Plan Delivery in 2023/24

- Delivered East Anglia study by following the Offshore Coordination Support Scheme (OCSS) announcement. We independently assessed different circuit options that could transfer power around and across the region, which will optimise cost, mitigate deliverability and operability challenges, and minimise environment and community impacts.
- In March 2024, we published the Beyond 2030 report. It delivers the second tCSN2, which has made a set of network recommendations throughout the 2030s, and it will facilitate the connection of an extra 21GW of offshore wind as well as a breadth of other low carbon generation across Britain. Our recommendation is one coordinated onshore and offshore network design totalling £59bn investment. This design encompasses the outputs of the Holistic Network Design Follow-up Exercise (HNDFUE) and the enhanced NOA and will facilitate offshore wind connections from the Crown Estate Scotland's ScotWind leasing round.
- We launched FES 2023 last July and significantly scaled up on stakeholder engagement, we have also continued with our Topic Table Talk Day for FES 2024 which build upon the success and stakeholder feedback from last year.
- We have increased engagement with our stakeholders particularly across our connection activities and strategic planning. In 2023 we hosted five in-person grid connection events, attended by over 550 customers and stakeholders. We ran monthly webinars to provide updates across connections and send regular newsletters to over 1,100 people. We have developed a stakeholder engagement plan for CSNP.
- Our plans to deliver new services, policies and processes are enabling us to get closer than ever to Zero Carbon Operation (ZCO) of 100%. The Loss of Mains Change Programme, Frequency Risk and Control Report (FRCR), Voltage and Stability Pathfinders, and Dynamic Containment (DC) have led to new maximum PV and Wind generation levels, minimum carbon intensity from electricity generation and a new maximum ZCO%.

- In December 2023, we published our final connections reform recommendations. We believe that these will significantly reduce times to connect for viable, net zero aligned projects, and materially improve the connections experience and journey for customers. We hosted a series of events to share the recommendations in more detail and show how they link to wider industry reforms. These reforms include Ofgem and DESNZ's Connections Action Plan and Transmission Acceleration Action Plan, and initiatives to improve connections to the distribution network being coordinated by the ENA. We are also delivering several short-term initiatives through our five-point plan, including Code Modification CMP376 – Inclusion of Queue Management process within the Connection and Use of System Code (CUSC) which will allow us to proactively manage the connections queue. We published an update on our connections reform proposals in April 2024 detailing an enhanced approach on queue management to enable viable, net zero aligned projects to be connected more quickly.
- We launched the world's first Megawatt (MW) Dispatch service, developed jointly with UK Power Network (UKPN) and National Grid Electricity Distribution (NGED). We are currently working with both DNOs on the evolution and enhancement of the service and underpinning processes.
- Regarding our new roles in both RESP and SSEP, we have been working closely with the government to develop both initiatives to bridge the gap between government policy and Network Development Plans. We are setting the new teams and developing relationships with key stakeholders, and will be supporting government as they lead the design of the RESP function, governance and boundaries.

System Insight, Planning and Networks Development Performance:

To view our Networks development success against performance metrics and key indicators please see Role 3 content in the ESO End of Year Performance Report [here](#).



Key Transformational Projects

The ESO continues to play a leading role in major transformational projects. These will deliver significant positive impacts for consumers by promoting competition, holistic thinking, and putting consumer interest at the heart of what we do. Some of our key initiatives are set out below.

Zero carbon operability

Our plans to deliver new services, policies and processes are enabling us to get closer than ever to Zero Carbon Operation (ZCO) of 100%. The Loss of Mains Change Programme, Frequency Risk and Control Report (FRCR), Voltage and Stability Pathfinders, and Dynamic Containment (DC) have led to new maximum PV and Wind generation levels, minimum carbon intensity from electricity generation and a new maximum ZCO%. On 28 December 2023, we achieved 91.3% Zero Carbon Generation Output and recorded lowest carbon intensity of 27gCO₂/kWh on 18 September 2023. The remaining programme of work will close the gap to 100% ZCO and extend our ability to operate a zero carbon transmission system across more market and system scenarios.

Network planning for net zero

Our electricity transmission network planning process is evolving to ensure network design and investment processes are fit for the future. In BP1, our Holistic Network Design (HND) and Network Options Assessment (NOA) work were the first steps towards a more centralised, strategic network planning approach. This work is critical for delivering affordable, clean and secure power, as we journey towards our net zero future.

In March 2024, we published the Beyond 2030 report. It delivers the second tCSN2, which has made a set of network recommendations throughout the 2030s, and it will facilitate the connection of an extra 21GW of offshore wind as well as a breadth of other low carbon generation across Britain. Our recommendation is one coordinated onshore and offshore network design totalling £59bn investment. This design encompasses the outputs of the Holistic Network Design Follow-up Exercise (HND FUE) and the enhanced NOA and will facilitate offshore wind connections from the Crown Estate Scotland's ScotWind leasing round.

The second iteration of the tCSNP is an intermediate step in our transition to a new planning approach under CSNP. It will provide broader coordinated network planning activity and combine more energy vectors, whole system thinking and third-party solutions. A high-level initial methodology for CSNP is under development to focus on the proposed areas of change in Ofgem's CSNP consultation decision. It will capture the key processes of the new framework, concentrating on electricity transmission network planning. To align with this consultation, we have developed a new framework for FES 2024 and tested this with stakeholders at our dedicated framework workshop. In Spring 2024, we will commence a consultation on the methodology to provide opportunity for feedback from a broad range of stakeholders. A more comprehensive, final methodology for the CSNP will be published later in 2024.

Net Zero Market Reform

Our Net Zero Market Reform programme was established in early 2021 to examine holistically the changes to the GB electricity market design that will be required to achieve net zero. Having completed phase one "scoping", phase two "case for change" and phase three of "assessment of operational elements", in 2023 we moved on to the fourth phase of investment policy assessment with a focus on the holistic packages of market and policy reform.

In November 2023, we published our conclusions for this phase. We found that the current package of market design and policy is no longer fit for purpose and if left unchanged, it will lead to significant unnecessary costs and risk missing GB carbon targets. We also reinforced our principle that wholesale market signals remain the foundation for efficient operation and investment whilst additional investment policy support remains critical to de-risk and accelerate the investment needed to achieve net zero.

Throughout this programme, we have been working closely with the government and Ofgem assessing how particular reforms considered in REMA could impact System Operation. We are now working as official partners in the latest phase of DESNZ's REMA programme. A key area of focus in this next stage is our work on Scheduling & Dispatch: responses to DESNZ's first consultation found there is strong industry appetite for reform to current balancing arrangements. DESNZ is also assessing whether moving to more centralised dispatch could help meet its REMA objectives. ESO is supporting DESNZ by leading the 'Dispatch' workstream in REMA: we are assessing the pros and cons of dispatch reform, including possible changes to the BM and Central Dispatch. Our work will feed into DESNZ's wider consideration of how the various reforms (wholesale, access, investment policy etc.) need to be considered holistically.

Flexibility Market Strategy

We believe that distributed flexibility is critical to achieve the net zero ambition. We therefore established a dedicated team in 2023, working closely with our industry colleagues to develop our first Flexibility Market Strategy to unlock the potential of distributed flexibility. We have defined ESO's vision, desired 2028 outcomes, and identified 6 workstreams to help us achieve the outcomes as well as develop a roadmap of actions. Our proposal has been tested with various industry colleagues via Markets Forum, industry workshops and bilateral conversations.

Looking ahead to 2024, we are committed to deepening the collaboration with industry, focusing on identifying and prioritising the blockers and pain points to enhance accessibility of ESO flexibility markets for distributed resources. Facilitating ESO-DSO market stacking to optimise the use of distributed assets will be another focus area. Additionally, we are dedicated to supporting the design and implementation of the Market Facilitator and various industry wide transformational programmes. A Call for Input on our strategy will be launched shortly to make our engagement more effective and inclusive.

Single Market Platform

Single Markets Platform (SMP) is a key digital deliverable within the ESO and is being developed to support a seamless and consistent customer experience in facilitating participation in the balancing service market so that we "become a better buyer". SMP is being developed in an agile way and since the foundational release in February 2022 there have been a further 20 new products/functionalities/improvements delivered, and we are now delivering regularly on a monthly cadence. This approach allows us to deliver at pace and fosters a "progress over perfection" mentality that allows us to actively re-prioritise our backlog based on customer feedback, other project timetables or significant changes within the industry. Stakeholder engagement is central to the evolution of SMP and we have a series of routes to inform our backlog including through our monthly Show and Listen webinars, fortnightly drop in surgeries or direct 121 engagements. SMP has also recently conducted a proof of concept with UKPN and Electralink to demonstrate how ESO and DSO / Flexibility markets could more readily integrate in the future.



Connections Reform

The growth in connections application volumes and connection offers continues at unprecedented levels. Applications are currently at 20GW per month and around 250GW has been added to the queue in the last year. The transmission queue currently stands at over 530GW, with over 80GW already connected. In December 2023, we published our final connections reform recommendations. We believe that these will significantly reduce times to connect for viable, net zero aligned projects, and materially improve the connections experience and journey for customers. We hosted a series of events to share the recommendations in more detail and show how they link to wider industry reforms. These reforms include Ofgem and DESNZ's Connections Action Plan and Transmission Acceleration Action Plan, and initiatives to improve connections to the distribution network being coordinated by the ENA. We published an update on our connections reform proposals in April 2024 detailing an enhanced approach on queue management to enable viable, net-zero aligned projects to be connected more quickly.

Progress against objectives

ESO has a range of metrics against which overall performance is measured. The metrics in this section are aligned to our strategy and are reported to the Board.



1) Safety

The health and safety of our employees is paramount. We closely monitor our safety performance and seek feedback from employees through surveys to gauge safety leadership and culture. We also measure safety using the Lost Time Injury Frequency Rate metric. This industry standard approach measures the number of lost time injuries occurring for every 100,000 hours worked and allows us to benchmark ourselves against others.

Progress in 2023/24

This year's result was strong again, with no injuries causing lost time during 2023/24. The ESO in conjunction with Group Safety colleagues and our local Health, Safety and Wellbeing champions continue to improve our targeted plans to address any emerging risks areas and build on the work done to date.

2022/23



Target:



2023/24



2) Balancing costs

Electricity can't be efficiently stored in large quantities in a cost-effective way, part of the ESO's role is to find ways to match supply with demand. We call it balancing, and we do it minute by minute. To help us with balancing, we buy in services from suppliers. These are "Balancing Services" and we use them to keep the transmission system running reliably and economically.

The target is based on a rolling average over five years (with adjustments for significant cost drivers).

Progress in 2023/24

Balancing costs fell significantly in 2023/24, totalling £2.5bn compared to £4.1bn in 2022/23. The key drivers for this are the relatively lower wholesale prices for electricity compared to last year, which significantly decreases the cost of all balancing actions in the Balancing Mechanism. Significant savings have also been achieved across 2023/24 through several key ESO initiatives, including the Constraint Management Pathfinder (Intertrip Service), trading

outside of the BM to meet system and energy needs at minimum cost and optimising and improving our outage procedure to maximise flows on the electricity system by minimising constraint costs.

Our balancing strategy has helped us to improve our performance across 2023/24. In February 2023 we established a new balancing cost team. The team's purpose is to provide analysis and commentary around causes and influences of balancing costs, and to drive business and industry change with the aim of finding the right balance between minimising balancing costs and the impact on consumers while still providing market signals for investment. In September, we published a new balancing costs webpage to showcase our strategy and portfolio of initiatives to minimise balancing costs, along with unique insights and analysis.

In May 2024 we published our annual review of balancing costs outlining costs incurred in 2023/24 and an overview of how cost components may evolve over the next decade. Constraints are expected to be the main driver of future balancing costs, however, the extent to which this will influence balancing costs will vary with any step changes in policy, market reform, wholesale prices, wind generation, etc. We are also undertaking a wide range of initiatives within our balancing costs strategy that are aimed at minimising balancing costs and mitigating this increase. The full report is available [here](#).

Our strategy to managing balancing costs will mitigate the rise in balancing costs by c£18bn out to 2030. Some of the largest savings will come from network upgrades, which will act to lower balancing costs by alleviating thermal constraints (£5bn). Other significant savings will be achieved through our Pathfinders, Balancing Programme, enduring service development and a wide range of other initiatives. We have also been further optimising and improving our outage procedure to maximise flows on the electricity system by minimising constraint costs.

Our Outage Optimisation initiatives have saved £1,543m in balancing costs from across FY23/24. These activities will continue to help us minimise balancing costs in future years.

The role of the ESO is changing and as we become the National Energy System Operator (NESO) we will be in a better position and more empowered to be a trusted advisor to assist government policy and provide expert advice on network planning. This opens further opportunities for us to reduce balancing costs through Network planning and Optimisation initiatives, which we are acting on already.

2022/23

Balancing Costs
(inc winter contingency contracts) £4,109m

Benchmark:

Balancing Costs
(inc winter contingency contracts) £2,659m

2023/24

Balancing Costs
(inc winter contingency contracts) £2,506m



3) Financial Performance

The financial results are set out on [pages 60-66](#).

Progress in 2023/24

The ESO Underlying Financial Performance was above the expectations we set for the year predominantly due to reaching agreement with Ofgem that the FSO separation costs, including any capital spend, should be recovered as 100% fast money and lower IT project and run the business operating cost expenditure.

Revenues decreased in the year by £(770)m compared to FY23 largely due to the reduced pass-through balancing costs, though this was partly mitigated by the introduction of BSUoS fixed tariffs decoupling revenues from the balancing costs incurred in the year. Adjusted operating Profit of £29m was up £9m against FY23 of £20m principally due to increased totex spend including the agreement with Ofgem to collect FSO programme expenditure as 100% fast money. Capital investment of £155m (excluding right of use assets) in the year was £47m higher than the prior period as we continue to invest in critical IT projects needed to deliver the RIIO-2 Business Plan. Further information is set out within the financial review later in this report.

2022/23

Adjusted Operating Profit* £20m

Target:

Adjusted Operating Profit* £13m

2023/24

Adjusted Operating Profit* £29m

* Adjusted operating profit excludes exceptional items, remeasurements and regulatory timing differences, see [page 62](#) for further details.



4) Employee Engagement and Enablement

We recognize that our employees are our biggest asset, the cornerstone of our success, and the most passionate ambassadors for our vision and objectives. Their insights and experiences are invaluable, shaping our journey and driving our progress. They are at the heart of everything we do, so it is vital for us to be aware of their thinking on a wide range of business matters – our culture and employee experience, our key strengths, opportunities for improvement, and much more.

Progress in 2023/24

Despite the significant organizational changes during our transition to NESO, we are proud to report a marked improvement in our 2023/24 Grid Voice scores across all four key areas: Enablement, Engagement, Safe to Say, and Leadership. Particularly, Enablement rose to 74% and Engagement to 79%, each reflecting a 2 percentage point increase from the previous year. Safe to Say improved by 1 percentage point to 76%, and Leadership saw a 2 percentage point increase to 89%.

We've introduced a fresh cohort of Grid Voice Champions aligned with our new operational structure, who have been instrumental in developing Local Action Plans. These plans are tailored by each team to address feedback and foster improvements at a local level. This year, we are excited to launch an ESO-wide Action Plan, steered by the Executive, to address cross-team feedback and promote uniformity across the organization.

Our Champion's network is the driving force behind these initiatives, convening monthly to review progress and strategize further enhancements. Empowerment is key: we encourage teams to take ownership of the feedback and actively pursue improvements. Collaborating closely with HR and Corporate Affairs, as well as our Grid Voice Champions, we're in the process of redefining our survey structure to resonate with our NESO identity, complete with a new name and provider.

Our Enablement and Engagement scores are a testament to our commitment to providing our employees with the necessary tools and support to excel in their roles and to fostering a workplace that resonates with our collective aspirations. These KPIs are derived from the percentage of favourable responses to consistent questions within our employee surveys.

2022/23



Target:



2023/24





5) Customer Satisfaction 23/24

It is important to us to actively look at ways of improving the customer experience across the ESO and achieve our ambition of being a Trusted Partner to all our customers. Ensuring we are collaborating with, listening to, and acting on customer feedback on what we do is critical to support us deliver on our Net Zero ambitions and to realise benefits for end consumers. We pro-actively gather feedback throughout the year to help us do this and use the end of year stakeholder satisfaction (SATs) survey to help us understand where we have progressed and what we need to focus on for the year ahead.

Progress in 2023/24

The customer and stakeholder satisfaction scores for FY23/24 targeted over 1500 key contacts across the business with 325 responses. We are below our 8.15 target this year and we need to continue to focus on delivery on our commitments externally and speed of response to queries, working hard to deliver this specifically for our Connections customers. During 23/24 we started a number of new initiatives to help drive future improvements in these areas of customer frustration. We stepped up a new Customer Service team in November 2023 to begin managing our repeatable customer queries more centrally and providing a more streamlined channel for our customers into the business to get queries resolved. Alongside this we added a new Relationship Managers team who were tasked in the first 6 months to start working with and understanding the issues from our customers who continued to show dissatisfaction. Within the business we used Customer Delivery Plans to take customer issues and turn them into trackable action plans within each business area to fix these known pain points with their engagements with the ESO.

Looking ahead, we need to build a customer centric culture, with a focus on leading data to enable to us to improve our customer experience. One focus area will be on collecting data in CRM looking at all key interactions, BI (behavioural indicator) scores and the associated themes to help us getting ahead of customer issues and understand what the impact on our customers are much sooner. Alongside this we will be setting up a centralised ESO customer hub to make sure we can see this data holistically and act on the key issues. To help our teams internally understand what is expected of them when engaging with our customers and for our customers to see that we are taking our commitments to them seriously we are developing a new customer charter which will bring this to life for NESO moving forward.

2022/23



Target



2023/24



Strategic Report

The Directors present their Strategic Report on the Company for the year ended 31 March 2024. This includes an overview of the ESO's structure, 2023/24 performance and strategic outlook, including risks and uncertainties.



Our people

Our people are fundamental to our success and achieving our 2025 ambitions and beyond. To successfully operate the system of the future and deliver a whole energy system strategy that supports Net Zero by 2050, we have focused on delivering a blended talent sourcing strategy to ensure we have the right people with the right capabilities at the right time. The ESO's success will be built on our sustained ability to attract, retain, train, motivate and engage our people. We need to continue this momentum to deliver our commitments, whilst we enhance a resilient, agile, capable and diverse workforce with the capabilities required to enable Net Zero.

i) Diversity, Equity, Inclusion and Belonging (DEIB)

ESO	Gender Split (M/F)	Ethnic diversity
Workforce	62/38%	36%
Executive team	37/63%	13%
Board	44/56%	0%

Our focus on DEIB has continued and strengthened and as a result our DEIB metrics have improved again this year, our workforce diversity has increased to 38% female representation and 36% ethnic minority representation.

This year we have focused on creating a new DEIB Strategy that will support our Belonging ambition as we become the National Energy System Operator (NESO) in late summer 2024. We will be forging a path to a sustainable future for everyone, and in order to achieve this our ambition is to:

- Increase diversity at all levels of the organisation, whilst encouraging and attracting great people from a full range of backgrounds.
- Enable a sense of belonging for our workforce and ensure our people understand their responsibility to help others belong and fully contribute.
- Engage more with the diversity of energy consumers and allow this to inform our broader role as we become a leading voice within the whole energy system.

The organisation is going through a period of huge change and growth. As we move through this transition, we need to ensure the feeling of belonging remains with our colleagues. A key part of our DEIB Strategy is therefore to establish Employee Resource Groups (ERGs) fit for our future organisation. We've been working closely with our National Grid colleagues and existing ERGs to agree the transition of existing ERG members and establishment of four new ERGs for NESO.

To support this, we have also refreshed the role of the Belonging Forum within the organisation, its chair and executive sponsor. The Belonging Forum have supported the creation of the new Belonging Strategy for the National Energy System Operator (NESO) and will now help to put areas of the belonging strategy into action, by coordinating ERGs and Interest Networks. The Belonging Forum has run a workshop for leaders on our new value 'Create Belonging', providing practical advice for leaders on the importance of belonging and how to create it.

The Forum has also identified 4 key actions to focus on for the year ahead:

- 1** Understanding the barriers to belonging for colleagues within our organisation.
- 2** Providing material to support the creation of belonging.
- 3** Development of our role in industry DEIB forums.
- 4** Celebration of different role models.

ii) Capability

As the ESO undergoes significant growth due to the expansion of our role as the National Energy System Operator and the journey to Net Zero, we have been focusing on enhancing the capabilities of our colleagues to deliver on our new roles, whilst we continue to develop our existing capabilities.

Through the development of new roles within NESO, it was identified that an increase in capability in certain areas, such as gas analysis, was required. To achieve this, two main routes were pursued: direct recruitment and targeted training. We have successfully filled over 395 new positions in the business, and another 106 who are, as of mid-May 2024, going through the offer-to-onboarding process totalling 501 from August 2023 to May 2024. Our talent acquisition efforts are ongoing, and we are committed to further increasing this number.

In addition, we developed a gas training programme for network analysis in partnership with National Gas Transmission. This comprehensive 5-month programme included both classroom training and real-life examples, allowing participants to learn from experts in the field. These efforts have significantly enhanced our capabilities in gas analysis and other areas, positioning NESO for continued success in the future.

We have also worked with the Executive team to create a set of People Capabilities that are relevant to all colleagues within our new business. The new people capabilities are:

- Whole Energy System Awareness
- Digital & Data Literacy
- Critical Problem Solving
- Holistic Thinking
- External Engagement

These capabilities are deemed absolutely necessary for all of our colleagues across the business to have a good baseline understanding of, in order for our business to succeed as NESO. Four proficiency levels have been created against each of the capabilities: foundation, skilled, expert, advanced.

Whilst we recognise that the skills and capability requirements will be different within teams across the business, the organisation has made it a priority to get everybody to the same starting point ahead of day 1 of NESO. Analysis was completed last year to understand where the gaps are across the business within the foundation proficiency level for the 5 capabilities. A programme was created where identified learning modules have been rolled out to the business in order to upskill people to the foundation level of understanding. Some learning material is already available at the higher levels of proficiency, for teams or individuals who wish to further their learning ahead of day 1.

We have been working to transfer current leadership and staff development programmes from National Grid, in order to continue with the development of our workforce and to develop future leaders for NESO. Work has also begun on creating Technical Leadership pathways. These include career pathways for technical or specialist roles, which don't necessarily include people management. The aim is to ensure clear routes of progress for such roles, enabling us to retain key talent and attract talent externally.

Where gaps have been identified we have developed a tool that directs and sign posts line managers to the most appropriate sourcing strategy to fill that gap (e.g., buy, boost, build, borrow, bridge, bot).

We are also considering the behaviours our leaders and all colleagues will need in the future to facilitate movement towards the desired company culture.

We have established an internal network of school ambassadors that we can leverage to build engagement with schools to boost their understanding of the changing energy landscape and road to net zero, and recently worked with the Institution of Engineering and Technology (IET) to develop teaching resources for teachers in primary and secondary schools on subjects such as climate change, net zero and reducing energy usage in the home.

As part of our attraction strategy, we have reviewed the New Talent entry routes we offer, and our options for increasing these touch points with people early in their careers. We are now working with third party companies to establish 'experience' placements, secondments, and rotational programmes, thus offering opportunities to our talents to develop outside the organisation and bring that learning back to NESO.

iii) Rewards and benefits

We aim to offer fair and competitive pay to our employees to attract and retain the best talent. We do this by checking our remuneration package every year against relevant peer groups to make sure it is both fair and competitive. We do this in line with an annual benchmarking exercise against appropriate peer groups to make sure we remain competitive.

In addition to market data, we also consider factors such as business performance and individual contribution, the individual's skills and experience, scope of the role and include any changes in responsibility.

iv) Health, Safety and Wellbeing

Our diverse people lie at the heart of our organisation and we take steps to ensure we protect the safety, mental and physical health and wellbeing of our people whether they work from home, in the office or in our control room environment. We promote the positive behaviours expected from us all to create a culture where safe, healthy, engaged and supported colleagues are able to succeed and thrive. This is essential to ensure that we deliver on our commitments in a rapidly changing and challenging industry.

We know that flexibility is key for our employees, so we continue to be agile recognising the importance home working brings in terms of work life balance but also the benefits such as collaboration and creativity gained from being together in the office. We gather employee insights via surveys so that we can target what will work well for our different employees across multiple locations.

We respond quickly to changes in external guidance, legislation and from feedback from our employees. Our health, safety and wellbeing campaigns focus on our key risk areas, and we use many different communication channels to optimise engagement and communicate effectively to all groups within our hybrid working environment. Recognising the additional impact and demands that winter brings to our organisation, we have implemented additional support options (made available through our health provider partner) to those who need it.

We have increased our Health, Safety & Wellbeing champion network which has given greater focus and emphasis to help raise awareness of topics, facilitate campaigns and cascade key messages across the business. A suite of mental health training courses is available to all employees with some targeted specifically for managers to provide important knowledge and skills on how to recognise signs and symptoms of poor mental health, how to have supportive conversations and signpost to available support. We provide an employee assistance programme which includes access to a self-support app providing immediate help 24/7.

Within the year we have seen an improvement in our safety and wellbeing measures, providing positive and objective indication that our service offering along with our internal support teams continue to provide a great environment for our people to thrive.

Following a detailed needs assessment which includes insights from our business, feedback from our champions, our existing performance and in consideration of our legal and ethical obligations, we have identified our Health, Safety and Wellbeing strategic aims and objectives, these have enabled development of our strategy and delivery model which aims to ensure that our business improves through happy, healthy, safe and motivated colleagues. Our KPIs & supporting measures ensure that Health, Safety and Wellbeing is appropriately managed.

v) Employee regulation

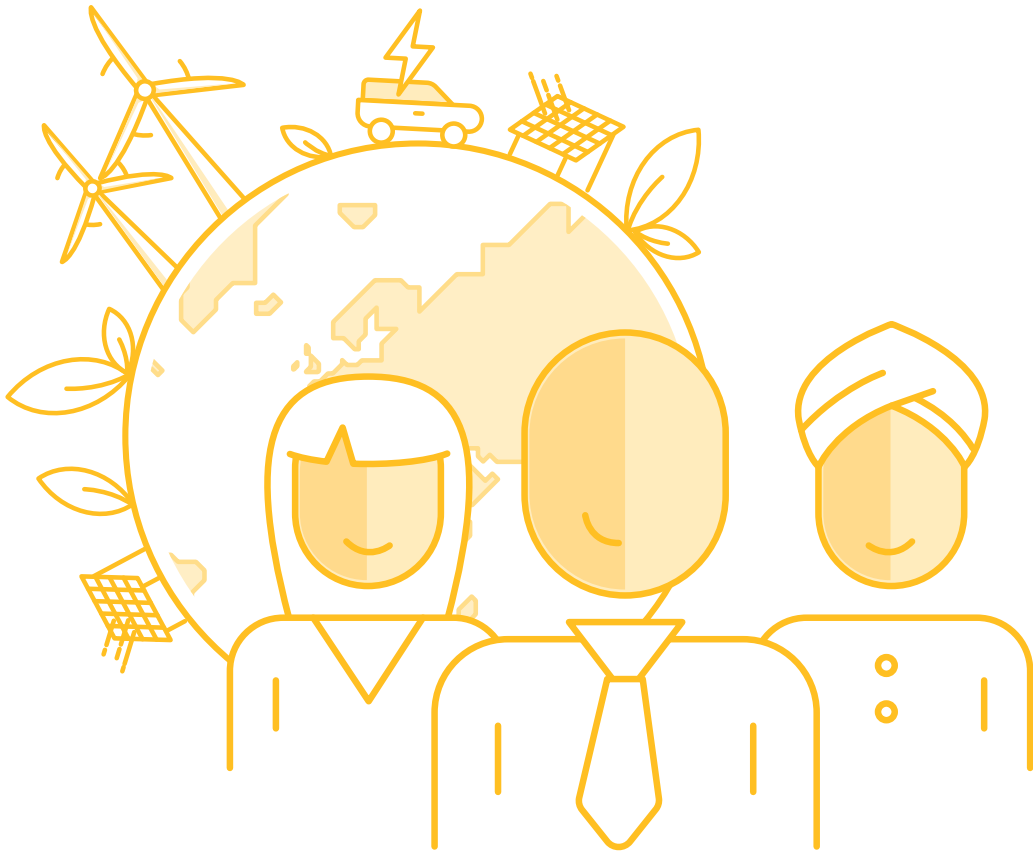
Our values, outlined on [page 10](#), guide our strategy, decisions, processes and culture. The values are defined in the National Grid Group 'Code of Ethical Business Conduct' and outline the behaviour we expect of all our people, from the Board down.

The Board has adopted the National Grid standards and policies for governance, finance, digital risk and security, safety, health and environment, procurement, anti-slavery and human trafficking, and anti-fraud and bribery. All employees undertake training to embed the principles into our culture and values.

Senior management submit an annual declaration confirming the steps they have taken during the year to promote a positive ethical culture, in line with the requirements of the Ethics Business Management System, and that all employees are aware of the 'Code of Ethical Business Conduct' and complete its e-learning module.

If any employee wishes to highlight any potential breaches to the Code of Conduct, they can contact the independent whistleblowing services provider and a formal investigation follows, with anonymous reporting to the National Grid Audit & Risk Committee.





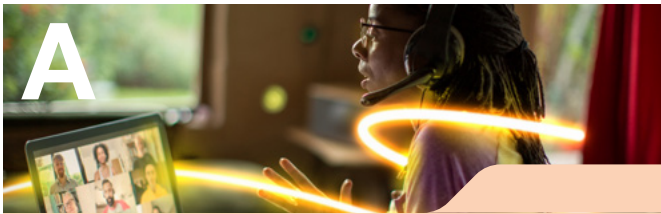
Our business environment

ESO operates in a changing environment, one that is driven by concerns over climate change and the acceleration of the UK Government's Net Zero target to 2035. That is why our business plans are designed in two cycles, which enables the transition to a flexible, low carbon energy system. We are regulated by Ofgem who delivered their final determination on our first Business Plan (BP1) in December 2020. This marked the start of our next price control period (known as RIIO-2) from April 2021.

Our Priorities in BP2

Our stakeholders have consistently told us that they see us at the heart of driving towards a reliable, affordable and fair net zero energy system and, in today's context, it is more important than ever for us to carefully consider how we can best deploy our resources to ensure successful outcomes. Accordingly, we have identified 11 priorities for the ESO in the BP2 period.





A

Ensuring excellence in system operation

As we transition to a fully decarbonised energy system and the way in which consumers use energy continues to evolve, the volume and characteristics of the assets on the electricity system will change significantly.

We will prioritise:

- 1 – Keeping the lights on
- 2 – Managing balancing costs
- 3 – Maintaining resilient and secure operations



C

Driving to net zero

Ensuring we have the right generation resources, networks and markets at the right time is critical to achieving net zero.

We will prioritise:

- 6 – Holistic planning and development for net zero
- 7 – Driving towards a Whole System Energy System approach



B

Building efficient and effective markets

A key part of our role is in creating the environment required to stimulate the necessary investment in technology and infrastructure to operate a secure and affordable zero-carbon system.

We will prioritise:

- 4 – Reforming our balancing and ancillary service markets
- 5 – Supporting wider market reform



D

Enabling our organisation to perform

To deliver on the outcomes and priorities we have set out, we will also need to evolve as an organisation; delivering a scaled technology programme at pace, seeking to attract and retain the industry’s best talent, and responding to changing stakeholder needs with agility and flexibility.

We will prioritise:

- 8 - Innovation and change through digital, data and technology
- 9 - Developing our people, capability and culture
- 10 - Focusing on our stakeholders
- 11 - Transitioning to the Future System Operator

In August 2022 we submitted our final plans for our second RIIO-2 business plan (BP2) to cover the next stage of the RIIO-2 period. This was a full refresh of BP1. The diagram provides a high-level summary of our priorities for the BP2 period, you can read full details [here](#).

The external environment has changed significantly since we published BP1, including an acceleration of the UK Government's Net Zero target to 2035, the impacts of Covid-19 on operating the system and the energy cost crisis. These factors have meant we've refreshed our mission and

ambitions and taken on new work e.g., market monitoring, Offshore Coordination, Net Zero Market Reform or rethought our plans to include what we've learnt since BP1.

In May 2023 we published our End of Scheme report, which can be found [here](#). This report outlined how we had delivered against our BP1 commitments, meeting almost all of our critical targets whilst also delivering additional activities which were incremental to BP1, including the Holistic Network Design and Early Competition.

We launched the world-leading Demand Flexibility Service, at pace, to meet the challenges of Winter 2022/23, with over 1.7m homes and businesses signing up to take advantage of the payments offered to reduce usage at times of system need. And we remained on track to achieve our ambition of operating at net zero carbon in 2025.

More recently, in May 2024, we published our BP2 mid-scheme incentives report, outlining our progress over the first year of the period, with record-breaking periods of solar and wind power output achieved, the launch of new platforms to improve our customer experience, including the first release of the Open Balancing Platform (OBP) and our new Enduring Auction Capability (EAC) platform, and continued work in strategic network development with the publication of our Beyond 2030 report.

To find out more about our progress and areas where we plan to deliver improvements to meet the needs of our stakeholders our report can be found [here](#).

Alongside the publication of BP2 we also set out an indicative plan for the work needed to deliver NESO. Ofgem delivered their Final Determinations on 28 March 2023 confirming our funding and financing arrangement for the BP2 period allowing us to deliver on our vision for the period. Further details on this can be found [here](#). Our BP2 mid-scheme report also looks at the new roles we will undertake as this new organisation.

In October 2023, the Energy Bill reached Royal Assent, to become an Act of Parliament, and established in law NESO and Planner (ISOP). We now know that this new organisation will be known as National Energy System Operator, and we look forward to its launch in late summer 2024.



Our commitment to being a Responsible Business

Our business is at the heart of Britain's energy landscape. We have a unique and exciting opportunity to bring about critical changes to the way our country's power is moved and balanced. Now more than ever, we must be a positive force for good and a catalyst for change across Britain. We want to operate our business in the most responsible and sustainable way possible for the benefit of our planet, our employees, our customers, and our communities. Tackling climate change is truly the challenge of our generation; addressing energy security, sustainability and affordability for everyone is at the forefront of the global agenda and drive to meet net zero. It is our job to transform the whole energy system to meet these challenges and transition to a low-carbon future, embracing new technologies and cleaner generation sources, always with the cost to the consumer in mind.

1. Helping to create a sustainable environment

We want to create a future where everyone has access to clean, affordable, reliable energy. This means we are working round-the-clock to ensure that by 2025, we can achieve our goal of transforming the operation of the electricity system such that it can be operated safely and securely at zero carbon whenever there is sufficient renewable generation available to meet national demand. By 2035, the government's target is that our electricity grid should be running 100% clean, green energy, all the time. Our modelling shows that Great Britain needs between 123-147GW of low carbon transmission generation by 2030 to be on track to meet net zero and we already have 81GW connected. A critical aspect of our work includes ground-breaking innovation projects, and this year, we refreshed our ESO Innovation Strategy which sets out our innovation priorities for 2024-25, helping us to focus our efforts to drive the decarbonisation agenda for Great Britain. Given our uniquely central position, we aim to facilitate innovation across the whole energy system. We know innovators outside our organisation will be leading the effort to solve the toughest problems we face as an industry, which is why we are here to work together to enable change.

Our commitment to the environment

As our business grows and undergoes critical changes, we are committed to ensuring we are being responsible, accountable and transparent. We have recently stood up our environmental function, including appointing a subject matter expert, who will be responsible for reviewing our environmental reporting function and capabilities. This includes establishing relevant performance indicators and targets as well as implementing a business wide sustainability strategy following stakeholder consultation. We will explore opportunities for setting more ambitious targets as our business and data maturity grows.

We are always looking at ways we can enhance our network, helping us to deliver cost effective, clean energy from offshore wind and take it to where it's needed across Great Britain.

Earlier this year we published our Beyond 2030: a national blueprint for a decarbonised electricity system in Great Britain Report. This landmark publication contains a set of onshore and offshore network recommendations, building on the Holistic Network Design (HND), further mapping the way to a clean, secure energy future. The HND, published in 2022, facilitated the connection of 50GW of offshore wind by 2030.

Case Study

Our report takes us beyond that by recommending network options that connect a further 21GW of offshore wind off the coast of Scotland for use across Great Britain. It recommends an extra £58bn of investment into the electricity network to be delivered through 2030s. In the report, we are proposing both coordinated offshore infrastructure and a new electrical spine to transfer the green energy being produced in and around Scotland to cities across Britain. The scale of these recommendations can't be underestimated, they include:

- 900 km of existing network upgrades
- 3800 km new offshore network recommendations
- 1600 km new onshore network recommendations

If delivered, this will create the capability to connect up to 86GW of Offshore Wind by 2035. This would equip Great Britain with the single largest offshore wind fleet in Europe.

Key environmental metrics are presented below:

Metric	FY24	FY23
ESO energy consumption (Gas & Elec)	11.5 GWh	10.8 GWh
Energy consumption (Gas & Elec) per person	0.008 GWh pp	0.01 GWh pp
Scope 1 – Building heat & business vehicles ▲	169 tonnes CO ₂ e	228 tonnes CO ₂ e
Scope 2 – Electricity ▲ (Location based)	1,055 tonnes CO ₂ e	1,268 tonnes CO ₂ e
Scope 3 – Purchased services, flights & other travel ▲	49,663 tonnes CO ₂ e	43,276 tonnes CO ₂ e
Total ESO employee miles travelled by air ▲	601,716 miles	393,343 miles
ESO employee miles travelled by air per person	420 miles pp	403 miles pp
% of electric mgmt. vehicles (Mgmt. company car fleet)	89%	76%
Total office waste	78.84 tonnes	98.09 tonnes
Office waste per person	0.05 tonnes pp	0.09 tonnes pp
Waste diverted from landfill	78.84 tonnes	96.08 tonnes

▲ denotes FY24 metrics included within PwC's independent limited assurance scope, see note on [page 54](#).

We have improved our methodology for calculating the emissions from purchased goods and services. Working with a third-party consultant, we have identified some improvements to the way we calculate emissions from the goods and services we procure – our supply chain emissions. These emissions are calculated by applying category-specific emissions factors (e.g. IT equipment) to the amount of expenditure we have incurred in each of these categories. We have better aligned our expenditure with these emissions categories, resulting in reported emissions that are more reflective of our actual emissions.

This recalculation has resulted in reported emissions in 2022/23 of 259,306 tonnes of CO₂e being restated as 43,276 tonnes of CO₂e. These emissions increased to 49,663 tonnes in 2023/24 due to increased activity in our business operations.



2. Our communities

We are responsible for making sure that Great Britain has the essential energy it needs by ensuring supply meets demand every second of every day – we keep the lights on, we keep homes powered, we help economies to thrive. We strive to represent the communities we serve and ensure we take a responsible approach in engaging with them. Our power is our people. We wholeheartedly embrace the opportunity to work hand-in-hand with government, industry, and organisations to deliver social and economic value to our communities. We want to encourage our employees to engage with local communities and organisations in ways that are beneficial to them, focusing on igniting curiosity in young people, sharing knowledge and skills, and empowering people to have a voice in the energy industry.

For the past two and a half years, we have sponsored Bright Green Future, a free 6-month environmental leadership and empowerment programme for 16- to 19-year-olds across Britain. It is provided at no cost to ensure it is accessible and inclusive, enabling us to bring together a diverse cross section of society. BGF is centred around a carefully curated programme of in person and online activities giving students the skills, confidence, and connections for their journey towards a meaningful energy or environmental career and enabling them to bring a sustainability perspective to every job. By partnering with the Centre for Sustainable Energy in the delivery of BGF we will contribute to the ESO's Responsible Business targets and support our ambitions, including:

- Increase employee volunteering hours. Through volunteering, our people will help equip the future generations to participate in the clean energy transition.
- Develop skills for the future, with a focus on lower income communities, providing access to skills development for young people.
- Achieve greater diversity in all ESO new talent programmes.

Case Study

Protection of the environment is a significant component of our reputation as a responsible business. It is critical that we do the right thing for the local communities in which we operate.

We are proud to have continued our partnership with The Conservation Volunteers (TCV) at our office estate in Wokingham. TCV is a volunteering charity focused on environmental conservation through practical tasks undertaken by volunteers. Our partnership with TCV offers our employees the opportunities to learn new skills and make a difference to their community, as well as offering health and wellbeing benefits.

We have a fantastic opportunity to support woodland management initiatives such as stump treatment, invasive species management, pond maintenance and tree planting.

In 2023/24 the ESO's partnership with BGF has enabled a further 46 students (50 students were enrolled in 2022/23 and 100 students in 2021/22) to develop their skills and ambition to pursue environmental careers. After taking part, 92% of students enrolled felt their knowledge of sustainability issues had increased, and 96% felt more confident considering sustainability in their career choices.

Students have the opportunity to join the BGF's rich network of highly skilled professionals keen to share knowledge and expertise with participants through offering interactive career webinars, helping to unlock their potential as future environmental leaders. Bright Green Future also aims to contribute to better representation of young people from diverse backgrounds in careers with a positive environmental impact, ensuring they have a voice and feel empowered to have a career in the energy industry.

Data explaining our Responsible Business approach to our communities:

Metric	FY24	FY23
No. of young people given access to skills training	46	50
ESO contribution to UK consumer electricity bills ▲*	£4.88	£2.46
Service Quality – Number of Voltage & Frequency Excursions	0	0
Lost time injury frequency rate	0.0%	0.0%

▲ denotes FY24 metrics included within PwC's independent limited assurance scope, see note on [page 54](#).

*The methodology for calculating this metric is based only on revenues collected from final demand suppliers for domestic charges and excludes amounts collected from generators. Prior to 1 April 2023 BSUoS charges were collected 50:50 from generators and final demand suppliers and so only 50% of the BSUoS charges were included in the prior year metric. From 1 April 2023 100% of the charges were collected from final demand customers and included in the calculation of the metric.

3. Our people

Our people are fundamental to our success and achieving our 2025 ambitions and beyond. To successfully operate the system of the future and deliver a whole energy system strategy that supports Net Zero by 2050, we have focused on delivering a blended talent sourcing strategy to ensure we have the right people with the right capabilities at the right time. To build the skills we need for the energy transition and create a diverse and inclusive culture, we will hire about 150 people in Warwick and Wokingham through July 2024 and 427 to March 2025. We have a bold RIIO-2 business plan that needs these skills to succeed. You can find more information on our people commitment on [page 41](#).

Data explaining our Responsible Business approach to our people:

Metric	FY24	FY23
Ethnic diversity of senior leadership	12.5%	25%
Gender diversity of senior leadership (% female)	62.5%	62.5%
Ethnic diversity of workforce	35.6%	33%
Gender diversity of workforce (% female)	37.7%	36%
Managers completing mental health support training*	88.8%	46%
Living Wage Paid	100%	100%
Employee engagement index (Grid:Voice)	79%	77%
Employee enablement index (Grid:Voice)	74%	72%
Mean 'base' gender pay gap	9.2%	12.3%
Mean 'incentive' gender pay gap	13.1%	10.4%
ESO CEO to Median remuneration ratio	9:1	10:1

* We are pleased to report that 88.8% of our Leaders and Senior Leaders completed the mental health support training. It should be noted that we were on track to achieve the overall target however, the onboarding of several new managers in February and March reduced the overall completion percentage.

4. The economy

Our economic contribution to society comes primarily through delivering secure and reliable electricity. We power businesses and homes, and partner with regulators, our business partners, suppliers and other key stakeholders.

We make sure energy reaches homes and businesses safely, reliably and efficiently. But our contribution as a responsible, purpose-led business also comes as an employer, a tax contributor, a business partner, a community partner and a member of the B Team movement. Commitments include:

- Maintain reinvestment in our infrastructure and show the consumer benefits of our delivery plans;
- Continue to invest in developing technologies and innovations that benefit the industry and society, meeting or exceeding the B Team Responsible Tax Principles;
- Work across our supply chains to ensure that, together, we reflect the diversity of the communities we serve;
- Continue to influence our supply chain to operate as Responsible Businesses.

Data explaining our Responsible Business approach to the economy:

Metric	FY24	FY23
Supplier payments made to contractual terms	95%	83%
Suppliers with a carbon reduction target	94%	95%
Corporation tax (received)/paid	£198m	£28m
Other taxes paid	£10m	£9m
VAT collected	£990m	£1,037m
Innovation spend	10.9m	£7m
Employment (jobs) at 31 March	1,433	1,074

5. Our governance

We will make sure our governance mechanisms reflect our values and commitments, and that the principle of responsibility guides us in everything we do. This approach covers nine areas of focus and is common across National Grid Group.

Human rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our Code of Ethical Business Conduct.

Our Global Supplier Code of Conduct (GSCoC) makes sure our suppliers comply with all legislation relating to their business, as well as the principles of the United Nations Global Compact, the International Labour Organisation Minimum Standards, the Ethical Trading Initiative Base Code, and the UK Modern Slavery Act 2015. For UK suppliers we also include the requirements of the Living Wage Foundation.

Preventing modern slavery

We expect our suppliers to be compliant with the Modern Slavery Act and to publish a Modern Slavery Statement if required. Each year National Grid updates the Group's Modern Slavery statement and publishes this online [here](#). The Statement is independently reviewed by the Business and Human Rights Resource Centre.

National Grid is a member of the United Nations Global Compact Working Group, focusing on Modern Slavery, and is working with Achilles to develop a community approach to the issue and review our procurement process, so that modern slavery criteria and identifying risks forms part of our sourcing process.

Anti-bribery and corruption

In National Grid there is a company-wide framework of controls to prevent and detect bribery. We thoroughly investigate all allegations of ethical misconduct and, where appropriate, take corrective action and share learnings.

We record trends and metrics – only a small percentage of these relate to bribery or corrupt practices, so we do not consider them to be material for reporting purposes.

Data explaining our Responsible Business approach to anti-bribery and corruption:

Metric	FY24	FY23
Employees completed anti-fraud and bribery training	100%	100%

Governance and oversight

We regularly review our framework to be sure procedures remain proportionate to the principal risks. The National Grid Group Ethics and Compliance Committee (ECC) oversees the Code of Ethical Business Conduct and awareness programmes. Cases alleging bribery are referred to the ECC so its members can make sure cases are investigated promptly and acted on. Lessons learnt are communicated across the business.

Anti-bribery policy

The National Grid Group Policy Statement 'Anti-Fraud and Bribery' sets out our zero-tolerance approach. It applies to all permanent employees, temporary agency staff and contractors. To make sure of compliance with the UK Bribery Act 2010, we conduct annual fraud and bribery risk assessments. We have an e-learning course for all employees setting out our zero-tolerance approach.

Whistleblowing

Confidential external whistleblowing helplines are available 24/7 to all employees so that concerns can be reported anonymously. This helpline is publicised internally and on the external website. Our policies make it clear that we will support and protect whistle-blowers and any retaliation will not be tolerated. This process is a shared service within National Grid Group and there is also an independent mechanism for reporting System Operator Financial Information concerns, for issues arising due to legal separation.

Ethical business conduct

Our Code of Ethical Business Conduct sets out the standards and behaviours we expect from all employees. It is issued to all employees and is supported by a communication and training programme to promote a strong ethical culture.

Data explaining our Responsible Business approach to ethical business conduct:

Metric	FY24	FY23
Employees completed ethics training and compliance statement	98%	99%

Suppliers

Our Supplier Code of Conduct sets out our requirements that have procedures in place to prevent and detect bribery and corruption, in accordance with all applicable local, state, federal or national laws or regulations, including the UK Bribery Act 2010. We provide guidance and briefings for high-risk areas, so contractors, agents and others acting on behalf of ESO do not engage in any illegal or improper conduct. The National Grid Group Procurement team carries out regular supplier screening to identify any requirements for prosecutions or sanctions within our supplier base.

Compliance framework

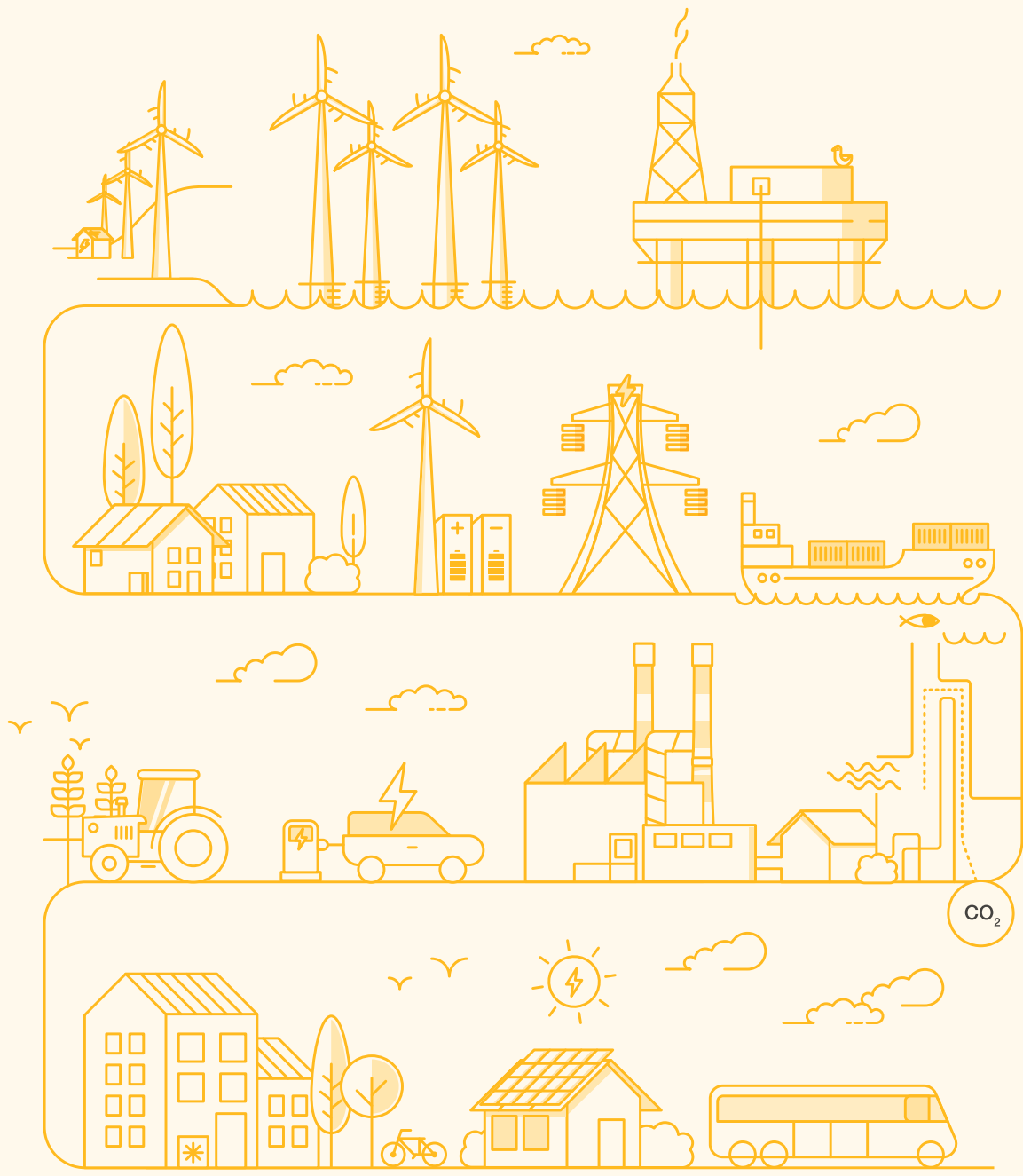
All business areas in the ESO and across National Grid Group Support Functions are required to consider their specific risks and maintain a compliance framework, setting out its controls to detect and prevent bribery. As part of our compliance procedure, the ESO assesses its controls and provides evidence that supports its compliance.

Assurance

We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and ISAE 3410: 'Assurance Engagements on Greenhouse Gas Statements'. The Board of Directors of National Grid Electricity System Operator Limited has reviewed and approved the Annual Report and Accounts for the 12-month reporting period ended as at 31 March 2024. We confirm that the information and data provided is accurate and in line with mandatory requirements. PwC have provided an unqualified opinion in relation to the KPIs that are identified with the symbol ▲ and featured on [pages 50-51](#).

Each year we reassess our assurance scope to ensure that we obtain external assurance for the most material metrics, and this year, we have once again increased our external assurance scope. We intend to evolve our assurance approach in line with market developments, and we will actively explore opportunities to incorporate more rigour into our approach in future years. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in terms of the risk assessment procedures which include an understanding of internal control, as well as the procedures performed in response to the assessed risks. Non-financial performance and, in particular, green house gasses (GHG) quantification is subject to more inherent limitations than financial information. It is important to read the responsible business information in this report in the context of [PwC's full limited assurance opinion](#) and [Our Reporting Methodology](#).

For reference, the National Grid Responsible Business Report can be found [here](#).





Internal control and risk management

The Board is committed to protecting and enhancing the ESO's reputation and assets, while safeguarding the interests of our stakeholders. The ESO is exposed to threats, opportunities and uncertainties that could impact its financial situation, its operational results, and its reputation. The ESO's risk management and control framework is in place to identify, assess, manage, monitor and escalate risks and ensure internal controls are implemented to provide mitigation. The Board sets and monitors the amount of risk the ESO is prepared to seek or accept in pursuing its strategic objectives through the implementation of its risk appetite.

The Audit and Risk Committee is responsible for overseeing the effectiveness of ESO's risk management framework and the Board with support from the Executive are responsible for the appropriate identification of our principal risks and the effective implementation of mitigating activities.

i) Risk management process

The ESO accepts that it is not possible to identify, anticipate or eliminate every risk and that taking appropriate risks is an inherent part of doing business. However, the risk management process provides assurance that we understand, monitor and manage the key risks and uncertainties we face in delivering our objectives.

The ESO has an approved Risk Management Framework in place which is supported by risk champions who aid the business in its application. The ESO identifies appropriate risk owners to be accountable for controlling and mitigating their respective risks. Our risk profile contains the risks that cover the enterprise activities of our business, of which the ESO has identified 10 Principal Risks (PRs). These Principal Risks are designed to be either enduring risks to doing business, or to cover key strategic ambitions. These have been agreed upon, reported on, and challenged with the Executive Team and the Board on a regular basis. We report on our enterprise risk landscape quarterly to the Audit and Risk Committee and conduct at least monthly dashboard reporting.

ii) Risk appetite

The ESO operates a 5-point appetite framework (Averse, Conservative, Balanced, Tolerant and Risk Taking), each of which has a tolerance indicator. The Board's appetite continues to be used by the business to help inform and assess risks and the associated responses.

iii) Top-down, bottom-up assessment

The ESO has a 'top-down, bottom-up' approach where all risks and controls are mapped to the Board's principal risks and appetite. Each risk is assessed by considering the financial, operational and reputational impacts, and how likely the risk will materialise. The risk owner identifies and implements key controls, to manage and monitor the risks. Our principal risks are reported to the Executive, Audit and Risk Committee and the Board.

iv) Changes during the year

The Board focused on the risk taxonomy, principal risks, Board appetite and supporting risk tolerance ranges in November 2023. In this period we have made further refinements, resetting the principal risk landscape to bring a focus to 10 overarching enterprise risk statements. These are made up of 7 Threat risk statements and 3 which are cited as Opportunity risks.

The Board has returned the risk Taxonomy to a framework of 7 overarching categories of risk, these are underpinned by several key sub-categories. The appetite status for each was set. The Principal Risks have been connected into the model, linking them to the relevant overarching category.

In line with best practices, we expect to see continual improvement and refinement of our defined Principal Risks and the framework in place to support it.

For the purposes of this report, we provide summarised details of the principal risks in place as of the year end 2023/24.

Threat risk statements

Principle Risk	Description	Mitigation
Physical and Cyber Security	Protecting assets (data, systems, sites, people) from accidental or malicious cyber and physical threats.	<ul style="list-style-type: none"> • Established cyber security monitoring and testing • Active system health monitoring • Tactical upgrade programmes • Strategic systems change programmes
Operational-Security of Supply	Balancing supply and demand in real-time in the most secure and economic way.	<ul style="list-style-type: none"> • Long and short-term energy forecasting and market information provision • Network design and analysis • Codes and obligation management • Emergency exercises and industry testing • Enhanced and increased Market Monitoring activity • Short-term technology fixes to improve system security
Effective Corporate Governance	Operating effective governance & risk frameworks.	<ul style="list-style-type: none"> • Executive governance framework • Codes and obligation management
Financial Stability and Management	Managing financial resources and ensuring financial stability for the organisation, demonstrating financial responsibility.	<ul style="list-style-type: none"> • Governance and testing • Strong credit management process • Significant credit facilities • Bad debt management and recovery • SOX controls
Operational-Strategic Energy Planning	Adequacy of planning – Strategic, through to week ahead. Utilising commercial tools, processes and our wider safety management systems.	<ul style="list-style-type: none"> • Close engagement with energy suppliers, Ofgem, DESNZ (BEIS), Interconnected TSO's and the wider European energy industry to maximise supply, manage demand, and implement contingency arrangements • Demand flexibility service • Media strategy ahead of winter to control the messaging • Extensive assessment of European energy risks
Operational-Business Operations	Disruption to business operations (i.e. the day to day running of the organisation).	<ul style="list-style-type: none"> • Oversight of all non-Critical National Infrastructure and cross-functional systems that support our business operations • Active monitoring of data and the protection thereof • Governance of market design that are not covered by strategic planning or security of supply
FSO Delivery	Delivery of the transition of the ESO to NESO at an appropriate pace to enable the organisation to meet its new mandate and the internal and external expectations.	<ul style="list-style-type: none"> • Programme board and associated governance frameworks • Regular cross party engagement (DESNZ/Ofgem/ESO/NG Group) • Robust Programme Management against agreed plan • Developed clear purpose, vision and strategy for NESO • Targeted external customer and stakeholder engagement plan • Engaged expert external partners to supplement internal expertise

Opportunity risk statements

Principle Risk	Description	Mitigation
Reputation	Communication with all stakeholders in a unique distinctive voice. Building trust, driving a positive stakeholder & customer experience. Responding swiftly to changes in political priorities and geo-political events.	<ul style="list-style-type: none"> • Customer handling processes and strategies in place and being reviewed • Pro-active communication to promote our reputation and brand • Stakeholder management processes • Public affairs engagement including external review of both stakeholder and public affairs approaches by third party experts • Tracking, management and reporting of our RIIO-2 commitments • Established, and independently tested, routes for crisis communication • Live social and media monitoring
Strategy Development & Delivery	Delivering a clear ambition and strategy for the business that addresses the challenges of the energy transformation. One that meets our customers' needs and positions the organisation correctly within the context of a rapidly changing macro-environment.	<ul style="list-style-type: none"> • Corporate strategy cycle delivering fully aligned business strategies (e.g. Customer Strategy, Innovation Strategy, Digitalisation Strategy) and action plans • Internal business planning procedure translates strategies and action plans into annual rolling annual business plans • Business wide horizon scanning process linked to monitoring of emerging risks and opportunities
People Management, Development & Wellbeing	Ensuring that we have the right people with the right capabilities in place at the right time in order to meet both current and future needs.	<ul style="list-style-type: none"> • Attraction and retention activities, supported by a reward package that includes competitive salaries, flexible working, and a contributory pension scheme • Holistic workforce planning • Talent management and acquisition • Health and safety management systems (policies, procedures and management tools)

v) Assurance

National Grid Group Corporate Audit provide independent assurance to the Audit and Risk Committee as to the effectiveness of controls put in place to mitigate risks. Internal Assurance is in place to support the first line, improve the maturity of their risk and control landscape.

Financial review

Revenue for the year 2023/24 was £3,809m (2023: £4,579m) with an adjusted operating profit of £29m and operating profit of £849m (2023: adjusted operating profit £20m and operating profit £106m). The increase in adjusted operating profit of £9m reflects Ofgem's decision to allow us to collect our capital expenditure on the FSO programme through current year revenues rather than having to collect over 7 years via the depreciation on the regulatory asset value (RAV). Further details relating to the collection of revenues can be found in Note 2 of the financial statements.

From 1 April 2023 the fixed Balancing Service Use of System (BSUoS) tariff regime came into effect. This provides customers with more certainty on the level of BSUoS charges they will incur in any particular period. Tariffs are now set 9-months in advance of the start of the 6-month tariff period, which commence on 1 April and 1 October each year. This significantly increases the cash flow risk for the Company and also can lead to fluctuations in reported operating profit.

We agreed with Ofgem, ahead of the introduction of the fixed tariff, that our downside risk be limited to £300m at anytime. If this position is forecasted to be reached then tariffs can be re-set. Ofgem did not implement any mechanisms to repay any over-recoveries within a fixed tariff period. Tariffs 1 and 2, which covered 2023/24, included a central forecast that 'BSUoS' costs would be £3,190m and there would be an additional £175m for Winter Security of Supply costs. The actual BSUoS costs for the year were significantly lower at £2,506m driven by reductions in wholesale gas prices; lower constraint costs and no additional winter security of supply expenditure. This £859m reduction in the level BSUoS costs led to an overall net over-recovery of £820m which is the principal reason for the increase of £743m in the reported operating profit. When setting tariff 3 and 4 for 2024/25 we reduced them by £686m being the mechanism by which we expect to return much of the amount over-recovered back to customers. This is likely to result in the reporting of an operating loss for the 2024/25 financial year.

Our funding position continues to be strong with our balance sheet at 31 March 2024 showing cash, cash equivalents and financial investments of £1,224m up from £523m at 31 March 2023 and we had undrawn facilities with our ultimate parent undertaking amounting to £550m. We continue to carefully monitor our liquidity and working capital position increasing focus as the 2023/24 over-recoveries are returned to customers.

RIIO Price Control

As we operate as a monopoly, our business is regulated by Ofgem. The regulator puts in place an incentive regime that ensures our interests are aligned with those of customers and society.

Ofgem's regulatory regime for the energy industry is titled RIIO, which stands for Revenue = Incentives + Innovation + Outputs. It is designed to encourage companies to invest in efficiency and innovation.

RIIO-2

The RIIO-2 price control period started on 1 April 2021 and introduced a new bespoke funding framework for the ESO. The framework builds on the existing regulatory funding arrangements already in place for network companies, whereby licensees earn an allowed return on their Regulated Asset Value (RAV), but also provides additional funding for risks and activities that do not have an associated RAV. Additionally, the ESO funding framework has been designed to encourage the ESO to be agile and adapt quickly to market evolution. This is through the introduction of a pass through funding approach for efficiently incurred expenditure and Business Plans being submitted every 2-years to Ofgem covering funding requests. Finally, the framework incentivises the ESO to deliver on its ambitions and to provide value for money for consumers through the inclusion of incentive scheme.

Every year allowed revenue to fund an efficient level of expected costs ("totex") is split between RIIO "fast" and "slow" money categories using specified ratios that are fixed for the duration of the 2-year business plan periods. Fast money represents the amount of totex we can recover in the year of expenditure. Slow money is added to our Regulatory Asset Value ("RAV"). In each year we can recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance.

In the year, RAV grew by 20% driven by slow money expenditure (capital expenditure) and inflation adjustments in-line with CPIH offset partly by regulatory depreciation. 2024 opening RAV was adjusted to reflect changes in the funding for FSO programme expenditure incurred during 2022/23 as this became funded in the year of expenditure with none added to the RAV.

Regulatory Asset Values

	2024 £m	2023 £m
Opening Regulated Asset Value (RAV)	360	297
Opening RAV Adjustments	(5)	0
Adjusted Opening RAV	355	297
Asset additions (slow money) (actual)	137	106
Performance RAV or assets created	0	0
Inflation adjustment (CPIH)	13	26
Depreciation	(80)	(69)
Closing RAV	425	360

Becoming the National Energy System Operator (NESO)

The Company will continue to be regulated by Ofgem once it becomes NESO under the RIIO price control mechanisms. These are expected to be amended such that all expenditure is considered to be fast money and recovered in the year the expenditure is incurred. This will mean there are no further additions to the RAV which is expected to be repaid over a number of years. The Company will also be funded on a 'not-for-profit' making basis. This means the incentive regime becomes reputational only in nature.

The current funding facilities which are provided by the ultimate parent undertaken will be replaced with new facilities provided by DESNZ via HM Treasury. These facilities are expected to be in place by the date of any separation from National Grid.

Use of adjusted profit measures

In considering the financial performance of our business, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year attributable to equity shareholders, into two components.

The first of these components is referred to as an adjusted profit measure, also known as 'underlying' or a 'business-performance' measure. This is used by management and forms part of the incentive target set annually for remunerating employees and Executive Directors.

The adjusted profit measure excludes exceptional items, remeasurements, and timing differences. These are reported collectively as the second component of the financial measures in actual profit.

We believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are better understood when separately identified and analysed.

The presentation of these two components of financial performance is in addition to, and not a substitute for, the comparable total profit measures presented. Management uses adjusted profit measures to monitor financial performance. These measures are also used by National Grid Group in communicating financial performance to its investors in external presentations and announcements of financial results.

Reconciliation of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit:

	Years ended 31 March	
	2024 £m	2023 £m
Operating profit	849	106
Timing in respect of BSUoS revenues	(820)	(86)
Adjusted operating profit	29	20

There were no exceptional items or remeasurements included within operating profit and adjusted operating profit for the year ended 31 March 2024 (2023: nil).

Under the regulatory arrangements the level of actual revenues collected from customers can differ to the allowed regulatory revenues. This can give rise to timing differences.

As detailed in Note 2 of the financial statements, for 'TNUoS' revenues we act as agent for the GB Transmission Owners and for certain revenues relating to UK Interconnectors. As an agent we recognise an asset or liability for such timing differences.

As noted previously, on 1 April 2023 fixed BSUoS tariffs were introduced. Prior to this BSUoS revenues were based on daily calculated tariffs allowing revenues to collect balancing costs and most other regulatory allowed revenues in-line with the regulatory allowed revenues. During the year, the BSUoS costs for balancing the system were £859m lower than the level forecasted within the tariffs set for the year.

We also collected £29m more than our allowed regulatory revenues as actual totex spend was lower than anticipated levels. These over collections of revenues were partly offset by recharges from National Grid plc of £55m for costs they incurred on supporting the separation of the Company from the National Grid Group. Ofgem has agreed to fund National Grid separation costs up to a capped amount, with these costs being recovered through future BSUoS tariffs. Other under-collections of £13m meant that overall we collected £820m more than our allowed regulatory revenues. When setting tariffs for 2024/25 we reduced them by £686m being the mechanism by which we expect to return much of the amount over-recovered back to customers.

In 2022/23 we collected £46m more on our allowed regulatory revenues associated with an underspend on totex and collected £40m of additional revenues associated with various Covid-19 industry support scheme deferral programmes implemented by Ofgem. These resulted in 2022/23 revenues being £86m higher than the allowed regulatory revenues.

Income statement commentary:

Income Statement

	Years ended 31 March	
	2024 £m	2023 £m
Revenue	3,809	4,579
Operating costs	(2,960)	(4,473)
Total operating profit	849	106
Finance income	42	8
Finance costs	(14)	(4)
Profit before tax	877	110
Taxation	(219)	(19)
Profit after tax	658	91

Revenue

Revenue for the year ended 31 March 2024 was £3,809m (2023: £4,579m). The ESO is the system operator for Great Britain, which involves the procurement of services to balance the electricity transmission network. For this activity the company applies a BSUoS charge, which since 1 April 2023 is payable only by suppliers of electricity (prior to this generators were also liable for BSUoS charges). The ESO also holds the role as revenue collection agent for charges to customers on behalf of the owners of the transmission network. These TNUoS revenues are collected in accordance with IFRS 15 and revenues are shown on a net basis. Further details relating to the collection of revenues can be found in Note 2 of the financial statements.

Most revenues, £3,763m (2023: £4,533m) are earned through the operation and balancing of the electricity system. This includes recovery of costs directly incurred to balance the electricity system, recovery of incentive revenue and amounts allowed under our regulatory framework to cover the internal costs of our operations. The reduction in revenues in the year reflected a reduction in the forecasted levels of balancing costs included in the 2023/24 tariffs than those incurred during 2022/23.

The ESO Forward Plan incentive scheme rewards performance on progress against an ambitious plan to meet the ESO commitments and targets in relation to the future energy transformation. Under RII0-2, performance is assessed at the end of the second year for both years ending 31 March 2024 and 2025. The scheme is evaluative with the outcome determined by Ofgem following the recommendations of a performance panel including industry stakeholders. The final assessment for the 2-year period will not be known until August 2025. As the Company moves to become NESO outside the National Grid Group on a not for profit regulatory regime, the incentive assessment will be reputational only. We collected no incentive income during the year within our allowed revenues (2023: £10m).

TNUoS revenues of £46m (2023: £46m) reflect the recovery of costs we directly incur through the regulatory arrangement, including Ofgem licence fees. Further detail on this can be found in Note 2 of these financial statements.

Operating costs

Operating costs for the year ended 31 March 2024 were £2,960m (2023: £4,473m). Of this, £2,506m (2023: £4,109m) relates directly to balancing system costs which have reduced during the year as gas prices fell. We continue to have to balance the system as record levels of renewable energy generation continue to be brought onto the transmission network, which requires additional balancing work. Although the war in Ukraine continues, there was less concern over security of supplies over the winter period than in 2022/23. Accordingly there were no additional costs in 2023/24 unlike 2022/23 where we contracted with three coal plants to remain open and available to support our balancing activities over that winter. Other costs of our operations of £342m (2023: £263m) included payroll, licence payments and other running costs. The increased level of costs reflects the costs to deliver more transformation over the RIIO-2 BP2 period and costs incurred on the FSO programme to establish the Company as NESO. Depreciation, amortisation and impairment totalled £112m for 2024 (2023: £101m), driven substantially by depreciation of intangible IT assets which are seeing a significant increase in the level of investment over the transformation RIIO-2 period as well as charges for accelerating depreciation on IT systems now expected to be replaced earlier than originally anticipated.

Under the separation agreement with National Grid Electricity Transmission plc, and in accordance with the regulatory requirements set by Ofgem, the company paid no pension deficit contributions into the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of ESPS) (2023: £13m).

Net finance costs

For the year ended 31 March 2024, net finance costs before exceptional items and remeasurement were a credit of £(28)m (2023: £(4)m). This includes interest paid on the fixed term loan to National Grid plc offset by interest received on centrally managed treasury banking arrangements. The Company also pays fees to external providers of working capital facilities. Interest is also charged on balances owed from or to external customers during the normal course of business. The increase in level of interest received reflects the interest received on the over-collected BSUoS income retained by the Company during the year. Under the regulatory regime when monies are returned to customers through reduced future tariffs this will include an additional amount for interest charged on the over-recovery balance.

Taxation

The tax charge on profits before exceptional items and remeasurements was £219m (2023: £19m) at a rate equal to the standard UK tax rate of 25%.

Statement of financial position commentary:

Statement of financial position

	Years ended 31 March	
	2024	2023
	£m	£m
Non-current assets	469	411
Current assets	1,796	1,008
Total assets	2,265	1,419
Current liabilities	(1,161)	(979)
Non-current liabilities	(77)	(71)
Total liabilities	(1,238)	(1,050)
Net assets	1,027	369

Non-current assets

Property, plant and equipment

The total net book value (NBV) of property, plant and equipment was £103m as at 31 March 2024 (2023: £106m), including capital additions of £20m. Of the additions, £13m are right of use assets primarily leases on 2 data centres and new office accommodation in Glasgow.

Intangible assets

The total net book value (NBV) of intangible assets was £363m as at 31 March 2024 (2023: £304m).

This included additions of £148m in the year relating to software projects, offset by £87m of amortisation and impairments.

The remaining amount within Non-current assets relates to our investment in joint ventures (£0.6m relating to Coreso SA) and £2m of deferred tax assets.

Current assets

Trade and other receivables

Trade and other receivables totalled £572m at 31 March 2024 (2023: £485m), with the main component being accrued income of £384m (2023: £297m). The accrued income element comprises of TNUoS billing accruals of £68m (which will be invoiced in June 2024 following the annual demand reconciliation) with the remaining balance including BSUoS income accruals of £316m. The increase in the level of accrued income is for BSUoS balances which have increased following the introduction of the fixed tariff which has decoupled the level of monthly income from the monthly BSUoS balancing cost charges. The level of TNUoS accrued income has reduced following the implementation of a new Transmission Demand Residual (TDR) tariff which removes much of the volume volatility on TNUoS revenue collections.

Trade receivables of £79m (2023: £52m) were held as at 31 March 2024, net of £4m of bad debt provision (2023: £5m). The increase in trade receivables is principally on BSUoS amounts not yet due for payment, with the increase impacted by the higher March fixed tariff charges than the variable charges in March 2023. Bad debt levels have not changed significantly during the year with a stable customer base.

Other receivables of £99m (2023: £136m) includes £13m (2023: £59m) for amounts expected to be recovered from coal plants contracted to provide security of supplies over the 2022/23 winter period. As any unused stocks of their coal are sold, these monies are to be returned to the Company who in turn pass these monies back to BSUoS customers. The remaining balance relates to capital contribution amounts not yet invoiced to customers.

Other current assets of £1,224m (2023: £523m) relate to balances classified within net debt, for which the in year movement is explained in the cash flow statement commentary and represents monies loaned up to National Grid plc from the over collection of BSUoS revenues.

Current liabilities

Trade and other payables

Trade and other payables as at 31 March 2024 were £1,025m (2023: £849m). This includes £291m (2023: £296m) of trade payables, of which £204m (2023: £225m) related to BSUoS cost accruals at the year end.

Deferred income as at 31 March 2024 of £36m (2023: £117m) was generated through the deferral of TNUoS revenues.

Similar to the reduction in TNUoS accrued income, the introduction of the TDR tariff has reduced the volatility of TNUoS collections leading to lower levels of deferred income. Amounts will be credited to customers following the annual demand reconciliation in June 2024.

Social security and other taxes as at 31 March 2024 of £231m (2023: £222m) related predominantly to £229m (2023: 220m) of quarterly VAT payable. The large VAT balance is driven by two key factors:

- a. The Company is part of the National Grid Group VAT group and settles VAT quarterly. This leads to the large VAT liability reflecting TNUoS and other charges from National Grid Electricity Transmission not being subject to VAT.
- b. Cost incurred on balancing the system are largely subject to the Domestic Reverse Charge with nil net effect on the VAT liability, but the BSUoS invoicing is subject to VAT leading to an asymmetry and net liability.

Other payables as at 31 March 2024 of £279m (2023: £182m) include capital contributions of £189m (2023: £135m). These relate to revenues collected on behalf of the Transmission Owners for construction projects for which the ESO have not yet been invoiced for. There was £65m (2023: £nil) of payments in transit to suppliers which were delayed in clearing the bank due to the timing of the Easter bank holidays. There is also £20m (2023: £41m) of TNUoS revenue timing differences that were over collected in the year and will be returned to customers in 2024/25.

Other current liabilities of £182m (2023: £32m) comprise of amounts due to fellow subsidiaries of National Grid plc for amounts yet to be settled for services they provide to the ESO for centralised Support Services. The March 2024 balance also included £96m for capital contribution charges and £18m for charges related to the FSO separation costs which were recognised but were awaiting approval for payment from Ofgem.

Provisions

Total provisions have reduced to £2m with restructuring provisions being fully utilised in the year.

Borrowings

Borrowings amounted to £134m (2023: £127m) principally relating to a loan due to the ultimate parent undertaking with 2023 including a £4m bank overdraft.

Non-current liabilities

Other non-current liabilities

Other non-current liabilities totalled £66m (2023: £71m) as at 31 March 2024. This consisted of £66m (2023: £71m) for application fees (relating to advance payments by customers for feasibility studies and connections).

Net debt

The net debt position as at 31 March 2024 was cash positive at £1,079m (2023: £396m) and is detailed in the following section.

Cash flow statement commentary

Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical or intangible assets, and the cash raised from debt or share issues and other loan borrowings or repayments (financing activities).

Our electricity system operations are subject to a multi year regulatory agreement.

For the year ended 31 March 2024 cash flow from operations was an inflow of £1,017m. This was driven by operating profit adjusted for depreciation, amortisation, and provisions of

£960m and a working capital inflow of £57m. The increase in the cash flow from operations reflects the high level of BSUoS over-collections that resulted from the implementation of the fixed tariff regime from 1 April 2023. As we noted last year, the introduction of the fixed tariff increases the cash flow volatility of the Company. Tariffs for 2024/25 have been reduced by £686m being the mechanism by which we expect to return much of the amount over-recovered back to customers.

Net capital cash expenditure

Net capital investment was £148m (2023: £107m) in the year. This is mostly software and computer hardware within IT system development projects.

Net interest received

The net interest received was £26m (2023: £3m), with the increase reflecting amounts earned of surplus cash loaned to the ultimate parent company as part of the centrally managed treasury banking arrangements.

Tax paid

Tax paid in the year of £198m (2023: £28m) has increased on the higher operating profit generated by the high level of BSUoS revenue collected above the allowed regulatory level.

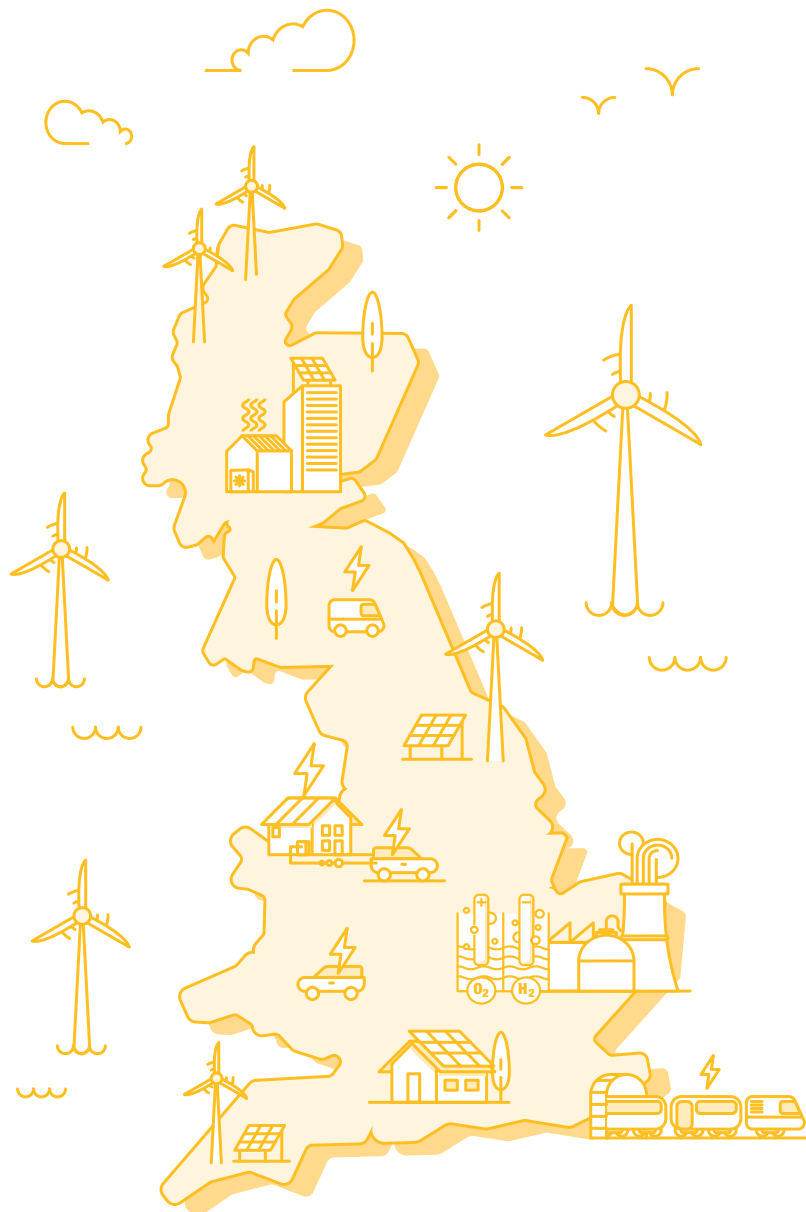
Dividends paid

No dividends were paid in the year (2023: £nil).

Reconciliation of cash flow to net debt:	2024	2023
	£m	£m
Cash generated from operations	1,017	399
Net capital expenditure	(148)	(107)
Business net cash flow	869	292
Net interest received	26	3
Tax paid	(198)	(28)
Net disposals of short-term financial investments	(4)	2
Net proceeds from loans	(686)	(231)
Payment of lease liabilities	(1)	-
Dividends paid to shareholders	-	-
Increase in cash and cash equivalents	6	38
Increase in financial investments	699	232
Increase in borrowings and related derivatives	(13)	-
Net interest received on the components of net debt	(9)	(2)
Net debt increase	683	268
Opening net debt	396	128
Closing net debt	1,079	396

Section 172 Statement

The ESO aims to achieve high standards of leadership and governance. For the year ended 31 March 2024, under The Companies (Miscellaneous Reporting) Regulations 2018, we have applied the Wates Corporate Governance Principles for Large Private Companies. These corporate governance principles serve as a framework for the Board in managing long-term strategic business decisions that promote the success of the Company, while having regard to the matters set out in Section 172(1) of the Companies Act 2006 (CA 2006).



Corporate governance

Corporate governance statement





1 Principle Purpose and leadership

 **An effective board develops and promotes the purpose of the Company, and ensures that its values, strategy and culture align with that purpose.**

Purpose

As the Electricity System Operator for Great Britain, we hold a unique position at the heart of the energy industry. We run the UK's network of high voltage electricity wires, making sure that Great Britain has the essential energy it needs by ensuring supply meets demand every second of every day. This purpose is at the heart of everything we do.

Strategy

The Board is responsible for the overall strategy and direction of the Company. Our mission is to drive the transformation to a fully decarbonised electricity system by 2035 which is reliable, affordable, and fair for all.

On 26 October 2023 the Energy Bill became the Energy Act, paving the way for the creation of NESO. This organisation will be at the heart of the energy sector taking a whole system view to deliver a net-zero energy system that balances sustainability with affordability and security.

We have an unparalleled opportunity to partner with government and industry to realise the benefits of the energy transition, solve the challenges that lie in our path and accelerate progress towards a net zero future. Whilst at the same time recognising the needs of energy consumers in the shorter term, against a backdrop of a major cost of living crisis and with energy costs at an unprecedented level. Knowing that how we deliver is as important as what we deliver. The ESO's five core ambitions are at the core of what we do and are shaped by our values, see [page 10](#). These ambitions are used by leadership in making critical decisions supporting our reputation as a truly progressive and trusted organisation.

The ESO's ambitions are:



Ensuring the electricity system can operate carbon free by 2025;



Engaging as a trusted partner;



Driving competition for the benefit of consumers;



Being the net zero employer of choice;



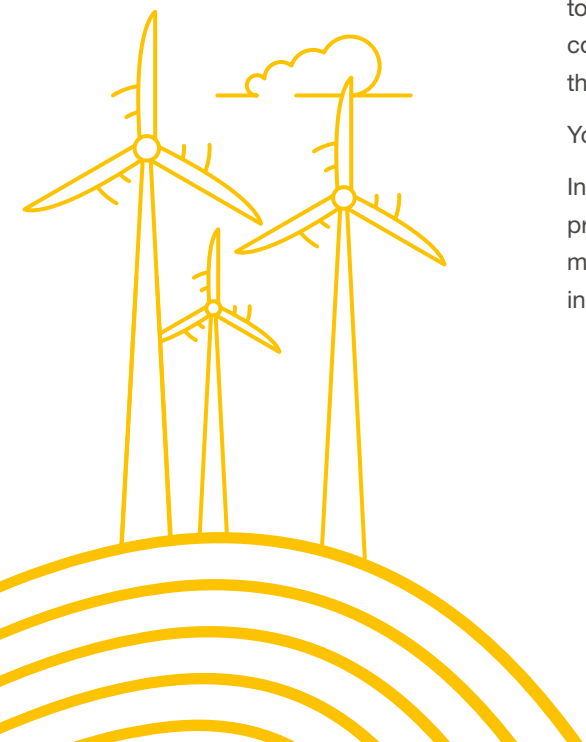
Being innovative, digital and data driven.

As part of the ESO's continued drive to become more sustainable and transparent, the Board has continued to focus on matters of environmental, social and governance ("ESG") strategic importance in the year – these are discussed in the Sustainability Report on [page 48](#).

Ofgem's RIIO performance model sets out the price controls to ensure that we are delivering for consumers. RIIO-2 covers the five-year period 2021-2026, with two year planning cycles, recognising that the ESO's plans need to remain flexible and agile in the face of unprecedented change in the energy industry. In the summer of 2022, we published our second Business Plan (BP2) setting out the goals for 2023-2025 of the RIIO-2 period. The plan includes activities to accelerate the transition to net zero, supporting our mission and delivering value for customers and consumers. In March 2023 Ofgem approved BP2, confirming funding of £651m for the period.

You can read more about our RIIO-2 business plan [here](#).

In May 2024, we published our BP2 mid-scheme incentives report, setting out the progress we have made so far over the first year of the BP2 period. You can read more about how we are performing against our BP2 ambitions in our mid-scheme incentives report [here](#).



2 Principle Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the Company.

Balance, Diversity, Size and Structure

As of 28 June 2024, the Board comprises a majority of five Non-Executive Directors (NEDs) and four Executive Directors. The Board considers that there is an appropriate balance between Executive and Non-Executive directors and there is sufficient independence in the overall composition. The Chair of the Board is also the Executive Director of the ESO; this is considered appropriate for ESO as a subsidiary company of a large group.

The NEDs bring a range of experience, perspective, and challenge from outside the energy industry and play an important role in challenging a broad range of areas across the business.

The size and composition of the Board is appropriate to the ESO's size, nature, and complexity of the business. It also complies with the requirements of our licence.

The Board recognises that diversity is a challenge for the energy sector and strives to appoint directors that add an appropriate level of expertise, objectivity and diversity to the Board. The Board is committed to encouraging increased diversity throughout the workplace and having a workforce that reflects our society. Initiatives are in train to create opportunities for employees to progress to the most senior levels of our organisation. A biography for each Board director can be found on [page 12](#).

There is open debate and constructive challenge at meetings, with Board members demonstrating good engagement with the business and a sound understanding of the ESO's strategy, risks, and challenges. As the business must balance costs against the prudent management of risks inherent in the operation of the electricity system, there are often trade-offs between different stakeholders over the longer-term and the directors carefully consider this as they evaluate decisions. The NEDs bring independent and objective judgement to Board deliberations, challenging and monitoring performance of executive

management and obtaining assurance that the Company's legal and regulatory requirements have been met. The Directors have equal voting rights when making decisions, except the Chair, who has a casting vote in the event of a tie. All Directors have access to the advice and services of the Company Secretary and may also take professional advice at the Company's expense.

All Board appointments are made in consultation with our Shareholder and in line with National Grid's Procedure for the Appointment of Directors to Subsidiary Companies.

Effectiveness

The Board undertakes an annual evaluation of its own performance and that of its committees. The last formal effectiveness review was carried out in 2021. In 2023, an informal effectiveness evaluation was conducted by the Chair. Recommendations and actions from the annual internal Board evaluation have been analysed and are being acted on. Each committee also separately undertakes an internal annual evaluation, with the results being discussed by the Board and the committees. Some minor recommendations to strengthen the corporate governance have been implemented, but overall it was concluded that the committees are working cohesively and effectively, and performing their role in a proper and appropriate manner.

The Board uses continuous review at the end of each meeting, seeking to stay focused on betterment, building on the existing strong foundations to become even more effective through a series of small changes. Directors update their knowledge and familiarity with the ESO by meeting with senior management and key external stakeholders, by attending company events and visiting operations. Induction materials and briefings are provided to new Directors.

The Board receive updates and deep dive presentations on key operational matters and specific initiatives within the business and the wider operating environment to strengthen their knowledge and understanding of the business and operational matters. These visits and briefing sessions create further links between the business and the Board room. Going forward, under the newly created NESO organisation we plan to have an independent Chair.

3 Principle Director responsibilities

Accountability



The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

The Board recognises the importance of a strong corporate governance framework and is collectively responsible for governance and oversight of the business, and compliance with all relevant laws and regulations, including compliance with its obligations under its ESO Licence. To facilitate this, we have established a comprehensive governance framework, which is aligned to the wider National Grid plc governance framework, as applicable.

The Board had six principal meetings in the year. These are scheduled in advance providing all Directors with sufficient notice to attend. Board attendance is set out below and expressed as the number of meetings attended out of the number possible or applicable for the individual director during the year to 31 March 2024.

Attendance

		Attendance
John Linwood	Non-Executive Director	6 of 6 (100%)
Baroness Gillian Merron	Non-Executive Director	6 of 6 (100%)
Zoe Morrissey	Executive Director	6 of 6 (100%)
Hannah Nixon	Non-Executive Director	6 of 6 (100%)
Kayte O'Neill	Executive Director	5 of 6 (83%)
Paul Plummer	Non-Executive Director	6 of 6 (100%)
Fintan Slye (Chair)	Executive Director	6 of 6 (100%)
Janice Crawford	Non-Executive Director (appointed 17 July 2023)	5 of 5 (100%)
Charlie Pate	Executive Director (appointed 11 September 2023)	4 of 4 (100%)

Additional supplementary Board meetings were scheduled to allow discussion of urgent issues or to allow greater focus on specific matters, there were 4 in 2023/24, principally to discuss matters relating to the establishment of NESO, Principal Risks and the new ESO Brand. All Directors were either present or had the opportunity to provide feedback to the Chair prior to the meeting.

The Board, upon recommendation from management, determines the strategic direction of the ESO, establishes policies for corporate management, makes decisions on major initiatives and ensures the leadership is in place to implement these policies and decisions.

The Board operates a forward agenda of standing items appropriate to the operating and reporting cycles and receives regular and timely information on all key aspects of the business, including risks and opportunities, operations, financial and regulatory reporting, market conditions, relationships with regulatory bodies and human resources, legal, compliance, and regulatory matters, supported by a KPI Scorecard allowing supervision of performance against

our strategic initiatives. The Board is prepared for meetings through the review of detailed pre-read materials and pertinent updates between meetings, where relevant.

The Directors have a clear understanding of their roles and responsibilities. The five NEDs are wholly independent in that they have no business or relationship with the ESO or the wider National Grid Group that would compromise their influence or objectivity. The Chair has regular short meetings with the NEDs, without the other Executive Directors being present.

The ESO is proud of its reputation for operating one of the most reliable electricity systems in the world. Our licence to operate is dictated by the way we are perceived by stakeholders, so the Board gives the highest priority to maintaining its reputation for high standards of business conduct. It identifies and monitors external developments likely to impact on our reputation and ability to run our business as a good corporate citizen. For more information see our section on acting as a Responsible Business on [pages 48-54](#).

Areas of focus in 2023/24 were:

Governance	<ul style="list-style-type: none"> • Oversight of the establishment of the new governance framework designed to set the Company up for transition to NESO • Reviewing the composition of the Board, including succession planning and memberships of Board committees, together with their Terms of Reference • Established a new Remuneration Committee • Act on recommendations from the annual internal evaluation of the Board and Committees • Actively supporting Stakeholder engagement opportunities
Strategy	<ul style="list-style-type: none"> • Transition to the National Energy System Operator • RIIO-2 Business Plan 2 • Security of Supply • ESO Innovation Strategy 2023/24 • Network Planning • Connection Reform • Grow our organisational capability ahead of taking on new roles and responsibilities as NESO – people and technology • Assessing economic and geopolitical factors on wholesale energy prices • Cyber security maturity
Finance	<ul style="list-style-type: none"> • Approval of the annual financial plan & budget • Assessment of the ESO's financial performance, reviewing quarterly and annual results • Approval of the Annual Report and Accounts • Capital Expenditure Considerations • Financial sustainability
Risk and opportunity	<ul style="list-style-type: none"> • Continue to strengthen ESO's risk framework • Keep under review the ESO's principal risks and set the Board's risk appetite • Continuing assessment of significant and emerging risks, including geopolitical uncertainty and changes to the global and UK energy landscape • Considered movements in key risks from changes to likelihood or business impact
Corporate Social Responsibility	<ul style="list-style-type: none"> • Commitment to being a responsible business • ESO Community Fund • Volunteering commitment • Bright Green Futures Charity Partnership • Delivering on our 2025 zero carbon operation ambition

Integrity of information

Financial information is collated by our finance function from its accounting systems to enable the Board to assess financial performance. Internal control systems help to ensure the financial information generated is reliable, consistent, timely and complete. Financial information is externally audited by Deloitte LLP annually and financial controls are routinely reviewed by National Grid's central internal Assurance and Corporate Audit functions. Other key information is prepared by the relevant business and internal functions, which are also subject to periodic reviews by the ESO's Assurance function.

Committees

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

Each committee is chaired by a NED and the NED members provide independent challenge and support for effective decision making.

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. At each Board meeting, directors receive reports on the key discussion items, activities and recommendations from the Chairs of the Committees that have met in the period.

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.

Below is a summary of the committee structure and members:

	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

The Board also delegates certain powers and responsibilities to the following:

Electricity System Operator Executive Committee (ExCo):

In February 2024, a new organisational design was introduced, designed to set the Company up for growth, increase our capability and capacity, and focus on the right capabilities for our future new roles as NESO. The ExCo meets at least weekly, to provide appropriate oversight and drive the organisation's strategic direction. The ExCo's is accountable to the Board and comprises the four Executive Directors and other senior executives.

The gender balance in the ExCo is 37/63 (male/female).



4

Principle Opportunity and risk



The Board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value, and establish oversight for identification and mitigation of risks.

Opportunity

The ESO's strategy is based on a long-term vision for Britain's electricity system to be able to run on purely zero carbon electricity by 2025, supporting the UK's 2050 Net Zero commitment. This allows the Board to explore opportunities that align with this strategy. The transition to NESO fully aligns to this purpose and presents a considerable opportunity for the organisation. Innovation is a key element of the strategy and at the same time the Board continues to explore opportunities that support this – such as Virtual Energy System, CrowdFlex project, Reactive Power Market Design, Zero Carbon Transition and Connection Reform.

Major opportunities, in excess of thresholds, are considered and approved by the Board in accordance with the Company's Articles of Association and Delegated Authorities. Interesting and significant initiatives are presented to the Board alongside these.

Risk

Effective risk management is fundamental to our long-term success. The Strategic Report on [pages 40 – 67](#) includes an assessment of the ESO's principal risks and uncertainties and describes our internal controls and risk management.

The Board approves the Company's risk appetite and undertakes an assessment of the Company's risk management framework at least annually to ensure that it remains appropriate. The external and internal risk landscape continues to evolve quickly, and it remains a priority that the ESO embeds and matures its integrated risk management framework in response.

The Executive considers risks as part of the routine management of the business. A primary area of focus, in the period, has been the risks and opportunities from the establishment of NESO and the new responsibilities this will bring. There was also a particular focus on the potential risk to the ESO's current and future performance, in terms of security of supply and balancing costs. The Board continued to monitor any risks that could impact oil or gas supplies. The Audit & Risk Committee reviews the ESO's internal control and risk management systems and receives reports from management on the effectiveness of the established systems and conclusions of any testing carried out by internal and external auditors. At each meeting, the Committee undertakes a 'Deep Dive' into one or more of the Principal Risk areas.

The Committee approves the annual internal audit and ESO's assurance plan, ensuring that these are aligned to the key risks of the business. The plans are sufficiently flexible, to help react to and address new and emerging risks. The Committee receives regular summaries of this work and monitors and reviews the effectiveness of these activities and any mitigating action plans in the overall context of the ESO's risk management system. The Audit & Risk Committee's Chair is responsible for keeping in touch on a continuing basis with key people involved in the ESO's governance including the ESO's Finance Director, Corporate Audit and the external audit lead partner.

5 Principle Remuneration



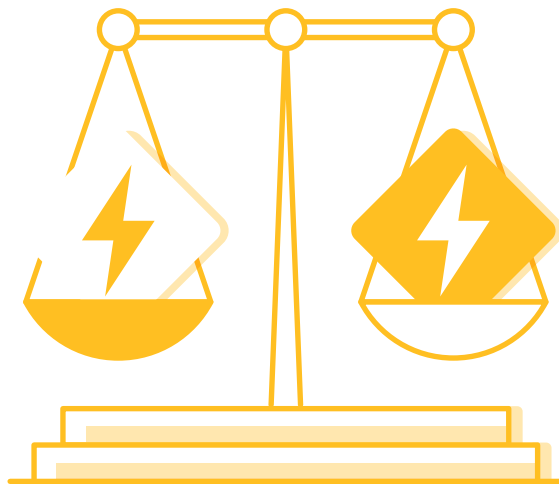
A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the Company.

Directors are not separately remunerated for their Board role, except for the NEDs, who are paid an annual fee to attract and retain a balanced skill set and provide strong stewardship and governance.

Directors' remuneration is determined in accordance with National Grid's remuneration policies for employees. See the Annual Report and Accounts of National Grid plc for further information. In accordance with the requirements of the ESO licence, incentivisation of the Executive Directors is linked to the performance of ESO only.

The Remuneration Committee is responsible for reviewing, and where appropriate, making recommendations to the Shareholder in respect of the remuneration policies and benefits framework for all ESO employees to ensure that they support the strategic objectives, culture and values of the Company.

The ESO is committed to ensuring all employees are paid fairly for the role they undertake and our gender and ethnicity pay data is scrutinised and discussed by the Remuneration Committee, who ensure that the Company is taking action to reduce the pay gap. Initiatives to increase the diversity of our workforce, up to the most senior levels of the organisation should lead to important improvements in the gender and ethnicity pay gap. For further details, please refer to the Company's latest Gender Pay Gap Report which can be found [here](#).



6 Principle Stakeholder relationships and engagement



Directors should foster effective stakeholder relationships aligned to the Company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

As the Electricity System Operator for Great Britain, the ESO's actions have far-reaching consequences. The Board promotes accountability and transparency with all stakeholders, encouraging meaningful engagement with employees, customers and external stakeholders and considering their views when taking decisions. Maintaining strong stakeholder relationships is crucial to achieving our aims and delivering long-term success. Stakeholders are impacted by, or benefit from, decisions made by the Board in different ways and therefore the Board considers the interests of these various stakeholder groups through reports and presentations at Board meetings to inform the decisions made in Board meetings. However, it is the Board's priority to ensure that the directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of Section 172 of the Companies Act 2006.

Directors and Senior Executives within the business have regular interactions with Ofgem, DESNZ and other Industry stake holders. External guest speakers are regularly invited to talk to the Board on industry-specific topics.

Many of our business initiatives require regular and detailed stakeholder and customer input to provide valuable scrutiny and challenge; such as our independently chaired Independent Stakeholder Group, the [Operational Transparency Forum](#), the [ESO Networks Stakeholder Advisory Group](#), the [ESO Markets Advisory Council](#), [Codes Administration](#), and the [ESO Power Responsive](#) programme.

We engage with the wider stakeholder community via our core channels, which include website, social media, live events, workshops, webinars, podcasts, knowledge shares and newsletters.

We run a UK and European public affairs engagement programme to engage with and inform key industry stakeholders. We are members of industry collectives such as the Energy Networks Association, Coreso and ENTSO-E.

The customer and stakeholder satisfaction scores and progress against the KPI are collected bi-annually and reported to the Board, enabling it to monitor progress in engagement. A new Customer Service Operating Model was launched in the year, enabling the ESO to be more responsive to feedback on the drive to become a more customer focused company.

See [page 41](#) for details of how we engage with our employees.

Shareholder

The ESO is a wholly owned subsidiary of National Grid plc (held through National Grid Holdings One plc) although the ESO operates on a stand-alone, arm's length basis as is appropriate in the context of our licence obligations around legal separation.

National Grid Group, as ultimate shareholder of the 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. The Board, therefore, duly considers the views and interests of its ultimate Shareholder as part of any major decisions and transactions.

The Articles of Association and Matters Reserved to the National Grid Group Board describe the remit of the public limited company (plc) and are available on the National Grid website. To bring this interaction to life, the areas of ESO activity that have visibility or require approval at Group Board level include things like:

- approval of the ESO's annual budget;
- review and approval of the ESO's three year rolling financial forecast;
- visibility of the ESO's financial performance against its annual business plan;
- visibility of the ESO's principal risks;
- approval of any material extension of the ESO's activities into new business areas or any decision to cease to operate any part of the ESO's business;
- authorisation of changes affecting the capital structure of the ESO;
- approval of the long-term strategic objectives of the ESO and any major changes to the size and composition of the ESO Board and its Committees; and
- unforeseen issues that have significant or material impact on the Group (e.g. financial, reputational or principal risks).

To support operational and managerial separation of the 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 the ESO. The Director of the ESO is a member of the ESO Committee and the meetings are administered by the ESO Company Secretary.

Matters reserved for the National Grid Group Board are published on the National Grid website [here](#).

The Board holds a bi-annual meeting with the Chief Executive of National Grid plc. There is also an annual meeting held between the respective Chairs of the National Grid plc and ESO Audit and Risk Committees.

The Strategic Report was approved by the Board of Directors on 28 June 2024 and signed on its behalf by



Fintan Slye, Chair

National Grid Electricity System Operator Limited
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number: 11014226

Directors' Report

The Directors present their annual report along with the audited financial statements of the Company for the year ended 31 March 2024. The report must be read in conjunction with the Strategic Report on [pages 40 – 67](#).



Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Director	Appointment/Resignation date
Fintan Slye	
John Linwood (NED*)	
Baroness Gillian Merron (NED*)	
Hannah Nixon (NED*)	
Kayte O'Neill	
Paul Plummer (NED*)	
Zoe Morrissey	
Janice Crawford (NED*)	Appointed 17/07/2023
Charlie Pate	Appointed 11/09/2023

*Non-Executive Director

Directors Indemnities and Insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors during the year; These remain in force at the date of this report. The Company's insurance requirements are provided through policies held by National Grid group.

Principal activities and business review

A full description of our principal activities, business, key performance indicators and principal risks and uncertainties is contained on [pages 4 – 59](#) of this report.

Material interests in shares

National Grid Electricity System Operator Limited is a wholly owned subsidiary undertaking of National Grid Holdings One plc. The ultimate parent company of National Grid Electricity System Operator Limited is National Grid plc.

Dividends

In line with the Board's residual Dividend policy, the Board is not recommending the payment of a final dividend for the year to 31 March 2024 (year ending 31 March 2023: nil).

Share capital

The share capital of the company remains unchanged. See note 16 to the financial statement for further details.

Articles of Association

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders. The current Articles were adopted by shareholders on the date of incorporation, 16 October 2017.

Conflicts of Interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The Company's Articles permit the Board to consider and, if deemed fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. If a Director becomes aware that they have an interest that may arise in a conflict, they are required to notify the Board, via the Chair or the Company Secretary as soon as they become aware of any actual operating processes, executive selection and succession, strategy, or potential conflicts of interest with their duties to the Company. Internal controls are in place to make sure that any related party transactions involving Directors are conducted on an arm's length basis. The Board considers the procedures in place for reporting and considering conflicts of interest are effective.

Political donations

During the year, the Company made no political donations (2023: nil).

Research and development

Expenditure on research and development was £10.9m (2023: £10.2m) during the year. This covers spend across Network Innovation Allowance (NIA); Network Innovation competition (NIC) and Strategic Innovation Funding (SIF) programmes which are regulated by Ofgem.

Future developments

Details of future developments are contained in the Strategic Report in [pages 40 – 67](#).

Business relationships

Details of how the Directors have had regard to the need to foster our business relationships with suppliers, customers and other stakeholders and their effect on the decisions taken by the Company during the financial year are contained in the Strategic Report on [pages 40 – 67](#). In our Section 172 statement, we explain how we take account of the interests of our stakeholders in our decision making.

Employee engagement

It is ESO's policy to encourage employee involvement as the Directors consider that this is essential for the successful running of the business and recognises that our employees are fundamental to our long-term success. The Board is regularly briefed on strategic people matters and frequent updates around employee engagement and satisfaction, which has been a priority of the FSO transition programme. The Board engages in open dialogue with senior employees and meets with representatives from the Employee Resource Groups, employee led groups supporting and championing the diversity of individuals working for the ESO, at least annually to discuss the key issues facing our employees. The ESO achieved an employee engagement score of 79% in the 2023/24 survey, with a response rate of 86%. This was a 2% increase against the prior year and is particularly pleasing in a period of significant change and the substantial increase in new employees joining the Company. The average number of people employed by the Company during the year was 1,246. Details of how the ESO maintains a close relationship with employees and how Directors have had regard to employee interests in their decision making is contained in the Strategic Report on [page 40](#). Details of how the Board engages with employees are set out in the Section 172(1) Statement on [page 67](#).

Diversity, Equity & Inclusion

The ESO is an equal opportunities employer and our core values are grounded in creating an environment where our employees can perform at their best and feel fulfilled and confident in their work, regardless of age, nationality, disability, marital status, ethnic origin, religion, gender or sexual orientation.

The ESO gives full and fair consideration to applications for employment from job applicants and ESO employees with disabilities, as any other candidates. Great care is exercised in our recruitment to ensure that there is no discrimination, and that training is given to meet individual needs. The same criteria for training and promotion apply to people

with disabilities as to any other employee. If an employee becomes disabled, every effort is made to ensure their continued employment. Reasonable adjustments to the workplace and to working methods will be made wherever it is reasonable and practicable to do so. People with disabilities will have the same scope to realise their potential and the same prospects as any other employees.

See [page 41](#) for further details. Women represent 56% of the ESO Board and 63% of our Executive Committee. Overall, women make up 38% of our workforce and hold 50% of senior roles.

Fair and appropriate remuneration

We are voluntarily reporting our ESO Executive Director to Median remuneration ratio which is 9:1. The ratio is based on total pay and taxable benefits (2023/24) and comprises salary, pension, and other benefits including the vesting value for the 2020 Long Term Performance Plan award which was paid on September 2023.

Disclosure of information to auditors

The auditors have made the requisite enquiries, and so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Post balance sheet events

There were no post balance sheet events for the year ended 31 March 2024.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

The ESO Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The ESO has demonstrated its operational and financial resilience and ability to manage business risks successfully over recent years. The introduction of fixed BSUoS tariffs from 1 April 2023 increases the level of cash flow uncertainties faced by the Company. The year saw the Company over-collect revenues by £820m with £686m being included in tariffs to be returned to customers through to March 2025. This level of over-collection provides sufficient available funding to

withstand any short term balancing costs increases even if the existing undrawn NG plc revolving credit facilities are unavailable. The Company has the option to re-set tariffs, which would generate incremental cash flows within a month of their introduction.

The exact timing of the sale of the Company to create NESO is expected in the coming months. DESNZ have provided confirmation to the Directors that HM Treasury have confirmed they will provision a working capital facility to NESO from the date of the sale. The Directors have concluded that there are no material uncertainties relating to the Company's ability to operate for a period of at least 12 months from the date of approval of these financial statements. Further details can be found within the Basis of Preparation on [page 93](#). Accordingly, the financial statements set out on [pages 90 – 117](#) have been prepared on the going concern basis.

Acknowledgement

It has been another year of considerable change for the ESO. The Board recognise that change can be difficult and the Directors wish to convey their appreciation to all ESO employees for their continued commitment, hard work and dedication over the last year.

The Directors would also like to extend their thanks to all other key stakeholders for their continued support of the Company and their confidence in its management.



Fintan Slye
Chair

28 June 2024

National Grid Electricity System Operator Limited
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number: 11014226

Financial Statements

Throughout these financial statements, we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes, we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section provides details of accounting policies that apply to transactions and balances in general.



Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK and, FRS 101. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to make sure that the financial statements comply with Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the National Grid ESO website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Fintan Slye
Chair

28 June 2024

Independent Auditor's report to the Members of National Grid Electricity System Operator Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Grid Electricity System Operator Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the statement of cash flow;
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, UK Corporate Governance Code, FRS 101, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as IT, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and, following inquiry with management, reviewing material correspondence with Ofgem.

Report on other legal and regulatory requirements Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

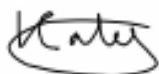
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Kate Hadley ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

28 June 2024

Statement of profit or loss and other comprehensive income

for the years ended 31 March

	Notes	2024 £m	2023 £m
Revenue	2	3,809	4,579
Operating costs	3	(2,960)	(4,473)
Operating profit	—	849	106
Finance income	4	42	8
Finance costs	4	(14)	(4)
Total profit before tax	—	877	110
Tax	5	(219)	(19)
Profit after tax/Profit for the year attributable to owners of the parent	—	658	91
Total comprehensive income for the year attributable to owners of the parent	—	658	91

Statement of changes in equity

	Notes	Called up share capital £m	Share premium account £m	Retained earnings £m	Merger reserve ¹ £m	Total equity £m
At 1 April 2022		3	327	90	(142)	278
Profit for the year		—	—	91	—	91
Total comprehensive income for the year		—	—	91	—	91
At 31 March 2023		3	327	181	(142)	369
Profit for the year		—	—	658	—	658
Total comprehensive income for the year		—	—	658	—	658
At 31 March 2024		3	327	839	(142)	1,027

¹Analysis of merger reserve has been provided within note 17.

Statement of financial position

as at 31 March

	Notes	2024 £m	2023 £m
Non-current assets			
Intangible assets	7	363	304
Property, plant and equipment	8	103	106
Investment in joint venture	22	1	1
Deferred tax assets	5	2	—
Total non-current assets		469	411
Current assets			
Trade and other receivables	10	572	485
Financial assets and other investments	9	1,194	495
Cash and cash equivalents	11	30	28
Total current assets		1,796	1,008
Total assets		2,265	1,419
Current liabilities			
Borrowings	12	(134)	(127)
Trade and other payables	13	(1,025)	(849)
Provisions	15	(2)	(3)
Total current liabilities		(1,161)	(979)
Non-current liabilities			
Borrowings	12	(11)	—
Other non-current liabilities	14	(66)	(71)
Total non-current liabilities		(77)	(71)
Total liabilities		(1,238)	(1,050)
Net assets		1,027	369
Equity			
Share capital	16	3	3
Share premium account	16	327	327
Retained earnings	—	839	181
Merger reserve	17	(142)	(142)
Total equity		1,027	369

The financial statements set out on [pages 90 – 117](#) were approved by the Board of Directors and authorised for issue on 28 June 2024. They were signed on its behalf by:

Fintan Slye, Chair



National Grid Electricity System Operator Limited
Registered Number: 11014226

Statement of cash flow

for the years ended 31 March

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Operating profit		849	106
Adjustments for:			
Depreciation, amortisation & impairment		112	101
Share-based payment charge		—	1
Changes in working capital		57	191
Changes in provisions		(1)	—
Cash generated from operations		1,017	399
Tax paid ¹		(198)	(28)
Net cash inflow from operating activities		819	371
Cash flows from investing activities			
Purchases of intangible assets		(148)	(99)
Purchases of property, plant and equipment		—	(8)
Interest received		42	5
Net movements in short-term financial investments		(4)	2
Net cash flow used in investing activities		(110)	(100)
Cash flows from financing activities			
Payments of loans to ultimate parent		(686)	(231)
Payments of lease liabilities		(1)	—
Interest paid		(16)	(2)
Net cash flow from financing activities		(703)	(233)
Net (decrease)/increase in cash and cash equivalents		6	38
Cash and cash equivalents at the start of the year		24	(14)
Net cash and cash equivalents at the end of the year²	11	30	24

¹ Refer to Note 5. Tax in the financial statements.

² Cash and cash equivalents at end of year are shown net of the company's bank overdraft as at 31 March 2024 of £nil million (2023: £4m).

Notes to the financial statements

- analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. The accounting policies applicable across the financial statements are shown below, whereas accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we have summarised new International Accounting Standards Board (IASB) and UK endorsed accounting standards, amendments and interpretations and whether these are effective for this year end or in later years, explaining how significant changes are expected to affect our reported results.

National Grid Electricity System Operator's principal activities involve the operation of the electricity transmission system in Great Britain. The Company is a limited liability company incorporated and domiciled in England and Wales, with its registered office at 1-3 Strand, London WC2N 5EH.

These financial statements were approved for issue by the Board of Directors on 28 June 2024. The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements. Accordingly, the company has elected to apply FRS 101 Reduced Disclosure Framework. The recognition and measurements requirements of UK-adopted IFRS have therefore been applied within these financial statements, with amendments where necessary in order to comply with the Companies Act 2006.

The financial statements have been prepared on a historical cost basis. These financial statements are presented in pounds sterling, which is also the functional currency of the Company. The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

a) FRS 101 exemptions

As permitted by FRS 101, the company has taken advantage of exemptions from the requirements of IFRS in relation to the following elements:

- disclosures in respect of share based payment;
- disclosures in respect of capital management;

- disclosures required by IFRS 13 'Fair Value Measurement';
- disclosures required by IFRS 7 'Financial Instruments: Disclosures';
- presentation of comparative information in respect of certain assets;
- the effect of standards not yet effective.

Where required, equivalent disclosures are given in the Group financial statements of National Grid plc, which are available to the public as set out in Note 21.

b) Going concern

As part of the Board's consideration of the appropriateness of adopting the going concern basis of accounting in preparing these financial statements, the Board has considered the impact of principal risks on the ESO's operations. The ESO Board has assessed the principal risks including by modelling cash flow forecast scenarios. These cash flow scenarios, included a reasonable worst case scenario.

The main cash flow transactions assessed in the forecast scenarios are:

- TNUoS and BSUoS under- and over-recoveries collected from or returned to customers in accordance with established regulatory structures. The risk on TNUoS collections has reduced following the principle timing risks being passed to the onshore Transmission Owners. The risks associated with BSUoS increased following the implementation of 6-monthly fixed tariffs from 1 April 2023 whereby the ESO is now exposed to changes in the level of costs incurred to directly balance the electricity system to the extent not covered by the tariff. During the year to 31 March 2024 BSUoS Tariffs saw an £820m over-recovery which has increased the level of net debt to a positive £1,079m. 2024/25 tariffs have been reduced by £686m being the mechanism to aim to return monies to customers, but this still leaves the Company with sufficient funds for normal operations. Should balancing costs be forecasted to be at a level that the Company could be cumulatively under-recovered by £300m it has the option to re-set tariffs, which would generate incremental cash flows within a month of their introduction;

1. Basis of preparation and recent accounting developments (continued)

- Significant termination payments or unfavourable timing of connection payments to Transmission Owners in advance of recovery through TNUoS tariffs;
- Bad debts, including higher bad debt costs than forecast; and
- Payment of proposed dividends to the shareholder.
- Changes in the ownership of the Company into a public corporation as part of the transition to NESO.

The Company has existing undrawn facilities from its current ultimate parent undertaking of £550m whilst it remains part of the National Grid Group and DESNZ have confirmed a facility of £700m will be provided by HM Treasury following a change in ownership.

Having considered the forecast scenarios, the Company continues to have headroom against the facilities currently provided by NG plc and those that will be provided by DESNZ via HM Treasury upon leaving the NG Group. Based on the above, the Directors have concluded the Company is well placed to manage its financing and other business risks satisfactorily, and have reasonable expectation that the Company will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement.

d) Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 7 and 8
- Agency relationship in respect of certain Transmission Network Use of Service revenues, principally those collected on behalf of the Onshore and Offshore transmission operators under IFRS 15 – note 2

There are no key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1. Basis of preparation and recent accounting developments (continued)

e) Accounting policy choices

The IFRS framework provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement where applicable.

f) New IFRS accounting standards and interpretations effective for the year ended 31 March 2024

The Company has this year adopted the following amendments to standards which have had no material impact on the Company's results or financial statement disclosures:

- IFRS 17 'Insurance Contracts';
- amendments to IAS 1 and IFRS Practice Statement 2 – 'Making Materiality Judgements';
- amendments to IAS 12 'International Tax Reform - Pillar Two Model Rules'; and
- amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

In May 2021, the IASB issued amendments to IAS 12 'Income Taxes' in order to narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences. Following the amendments, the Company recognised separate deferred tax assets in relation to its lease liabilities, and deferred tax obligations in relation to its right of use assets (see Note 5). As the balances qualify for offset, there is no impact on the consolidated statement of financial position and the opening retained earnings as at 1 April 2023.

g) New IFRS accounting standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the UK:

- amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- amendments to IAS 1 'Classification of Liabilities as Current or Non current';
- amendments to IAS 1 'Non-Current Liabilities with Covenants';
- amendments to IAS 7 and IFRS 7 'Supplier Finance Arrangements';
- amendments to IFRS 16 'Lease Liability in a Sale and Leaseback'; and
- amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

Effective dates will be subject to the UK endorsement process.

The Company is currently assessing the impact of the above standards, but they are not expected to have a material impact.

The Company has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

2. Revenue

Revenue arises in the course of the ordinary activities of the company and principally comprises balancing transmission services.

Balancing transmission services fall within the scope of IFRS 15, 'Revenue from Contracts with Customers'.

The company's role in transmission services is as the system operator for Great Britain, which involves the procurement of services to balance the electricity transmission network and ensuring security and quality of electricity supply across the transmission network. For this activity the company applies a Balancing Service Use of System ('BSUoS') charge, which from 1 April 2023 is only payable by suppliers of electricity and this revenue is recognised as the service is provided. Prior to 1 April 2023 generators were also subject to BSUoS charges.

Balancing transmission services are regulated by Ofgem, which establishes price control mechanisms that set the amount of annual allowed revenues that can be charged to customers for these services. With respect to BSUoS charges, where revenue received differs to the amount of allowable revenue permitted by the regulatory agreement, adjustments will be made to future prices to factor in these amounts. Where such differences arise, no asset or liability, depending on whether the difference between revenue received is less than or greater than allowable revenue respectively, is recognised because the adjustment relates to future customers and services that have not yet been delivered. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

Within the regulatory agreement for BSUoS charges, the ESO can also earn revenue through rewards for progress against an ambitious plan to meet its commitments and targets in relation to the future energy transformation. There can also be penalties for non-delivery of the plans. The scheme is evaluative with the outcome determined by Ofgem following the recommendations of a performance panel including industry stakeholders. Within the BSUoS charges for 2023/24 we collected £nil (2022/23: £10m) associated with the scheme.

Under RII0-2 this is a 2 year scheme and so the final outcome for the BP2 period is expected in August 2025. As the Company moves to become NESO outside the National Grid Group on a not for profit regulatory regime the incentive assessment will be reputational only.

In its role as system operator, the company is also responsible for the administration of charges to customers on behalf of the owners of the transmission network: National Grid Electricity Transmission plc, Scottish Power Transmission plc, Scottish Hydro Electric Transmission plc and various Offshore Transmission Owners. Under IFRS 15, this arrangement is considered to result in the company acting as an agent on behalf of the transmission network owners. Accordingly, revenues are presented on a net basis (amounts collected from customers and consideration paid to transmission network owners). This comprises the entire billing cycle (invoicing and cash collection) and our performance obligation is deemed satisfied when funds have been remunerated to transmission network owners.

These charges are termed Transmission Network Use of System ('TNUoS') charges and relate to use of the transmission network. Use of the transmission network involves the supply of high-voltage electricity. Revenue is billed based on capacity (for generators) and site level demand (for suppliers) and where the customer pays upfront, revenues are deferred and released when the relevant transmission network owner has provided their services to the customer.

TNUoS charges are regulated by Ofgem, which establishes price control mechanisms that set the amount of annual allowed returns for companies operating in the sector. With respect to TNUoS charges, where revenue received differs to the amount of allowable revenue permitted by regulatory agreement, adjustments will be made to future prices to factor in these amounts. Where such differences arise, we recognise either an asset or liability, depending on whether the difference between revenue received is less than or greater than allowable revenue respectively. As part of our regulatory agreements we are entitled to recover certain costs directly from TNUoS customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

2. Revenue (continued)

The company also administers other charges on behalf of transmission network owners principally for construction work they have completed for customer connections.

As system operator, we also act as intermediary for various electricity interconnectors in satisfying their regulatory obligations. Interconnectors may have a cap on the amount of revenue they are allowed to earn during any financial year (1 April to 31 March). Where actual revenues exceed this cap, the excess must be passed onto consumers. We invoice and recover this amount from the interconnectors and in turn reduce the TNUoS charges due from customers. We recognise an asset for the amounts payable from them, and a corresponding liability for the requirement to reduce customer bills, which occurs two financial years after the measurement period.

The following table details the disaggregation of revenue between TNUoS and BSUoS.

UK Electricity System Operation		
	2024	2023
Revenue for the year ended 31 March	£m	£m
BSUoS	3,763	4,533
TNUoS ¹	46	46
Total revenue from continuing operations	3,809	4,579

¹ TNUoS revenues of £46m are reported net of £4,828m (2023: £3,506m) consideration paid to transmission network owners. These revenues reflect the recovery of costs borne by the system operator in relation to TNUoS operations.

Total revenue from continuing operations are generated from operations based in the UK.

Analysis of BSUoS revenue by major customer, greater than 10% revenue contribution:

	2024	2023
	£m	£m
Customer A	548	434
Customer B	622	489
Customer C ¹	437	303

¹ Customer C's revenue was less than 10% for 2023 so was not previously disclosed.

No other single customer contributed 10% or more to the ESO's revenue in either 2024 or 2023.

3. Operating costs

Below we have presented separately certain items included in our operating costs.

These include a breakdown of payroll costs and fees paid to our auditors.

	2024	2023
	£m	£m
After exceptional items and remeasurements		
Depreciation, amortisation and impairment	112	101
Payroll costs	87	73
Pensions deficit payments	–	13
Rates and property taxes	–	1
System balancing costs	2,506	4,109
Other	255	176
Continuing operations	2,960	4,473

3. Operating costs (continued)

(a) Payroll costs

	2024 £m	2023 £m
Wages and salaries	65	56
Recharge of payroll costs from other National Grid companies	27	19
Social security costs	10	9
Pension scheme costs	12	11
Share-based payments	–	1
Severance costs (excluding pension costs)	1	–
Total payroll costs	115	96
Payroll costs capitalised	(28)	(23)
Net payroll costs	87	73

(b) Directors' Emoluments

Key management comprises the Board of Directors of the Company who have managerial responsibility for National Grid Electricity System Operator limited.

	2024 £k	2023 £k
Aggregate Emoluments	1,610	1,028

Aggregate emoluments excludes social security, pensions and share-based payments.

Post-employment benefits are accruing to one Director under a Group defined benefit scheme (2023: one). During the year, one Director exercised share options as part of long term incentive plans of the ultimate parent company, National Grid plc (2023: three).

The aggregate emoluments for the highest paid Director were £650,000 for 2024 (2023: £359,000); and total accrued annual defined benefit pension at 31 March 2024 for the highest paid Director was £Nil (2023: £Nil).

(c) Number of employees, including Directors

	31 March 2024 Number	31 March 2023 Number	Monthly average 2024 Number	Monthly average 2023 Number
Electricity System Operator	1,433	1,074	1,246	977

(d) Auditors' remuneration

	2024 £m	2023 £m
Audit services		
Audit of the Company's financial statements	0.2	0.2
Other services supplied		
Other non-audit fees ¹	0.7	0.8

¹ Other services supplied represent £0.6m (2023: £0.7m) fees payables for audit services which are required to be carried out by auditors in relation to the Group's reporting requirements to NG plc, and £0.1m (2023: £0.1m) for the Contracts for difference independent audit. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), and assurance fees in relation to regulatory returns.

4. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities.

	2024 £m	2023 £m
Finance income		
Interest income and financial instruments:		
Bank deposits and other financial assets	42	8
Finance costs		
Other borrowings	(10)	(4)
Other interest	(4)	–
Net finance income/(costs) from operations	28	4

5. Tax

This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax. Cash taxes are paid via another group company.

Current tax assets and liabilities are measured at the amounts expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

5. Tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the ESO intends to settle its current tax assets and liabilities on a net basis.

Tax charged to the income statement:

	2024 £m	2023 £m
Total tax charge¹	219	19

¹ 2023 include £3m credit relating to tax rate changes, this is detailed in the table below.

The tax charge for the year can be analysed as follows:

	2024 £m	2023 £m
Current tax		
Current tax charge	225	34
Corporation tax adjustment in respect of prior years	(4)	(4)
Total current tax	221	30
Deferred tax		
Deferred tax charge	(7)	(16)
Deferred tax adjustment in respect of prior years	5	5
Total deferred tax	(2)	(11)
Total tax charge	219	19

The tax charge for the year is the same as (prior year lower than) the standard rate of corporation tax in the UK of 25%:

	2024 £m	2023 £m
Profit before tax from continuing operations	877	110
Profit before tax multiplied by UK corporation tax rate of 25%	219	21
Effect of:		
Adjustments in respect of prior years	1	1
Non taxable income	(1)	-
Deferred tax impact of change in UK tax rate	-	(3)
Total tax charge	219	19
Effective tax rate	25.0%	17.6%

5. Tax (continued)

Factors that may affect future tax charges

The main UK corporation tax rate is 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2024 have been calculated at 25%.

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax (liabilities)/assets:

	Accelerated tax depreciation	Share based payments	Total
	£m	£m	£m
At 1 April 2023			
Credited to income statement	1	1	2
At 31 March 2024	1	1	2
Deferred tax assets at 31 March 2024	1	1	2
Deferred tax liabilities at 31 March 2024	–	–	–
At 31 March 2024	1	1	2

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax assets of £2m.

6. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and meet our gearing target and pay out the remainder per our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders.

Final dividends are recognised when they are approved by shareholders.

On 28 June 2024, the Board of Directors proposed no final dividend for the year ended 31 March 2024 (2023: no final dividend).

7. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is usually between three and seven years but can be up to ten years.

Cloud computing arrangements are reviewed to determine if the Company has control of the software intangible asset. Control is considered to exist where the Company has the right to take possession of the software and run it on its own or a third party's computer infrastructure or if the Company has exclusive rights to use the software such that the supplier is unable to make the software available to other customers.

Costs relating to configuring or customising the software in a cloud computing arrangement are assessed to determine if there is a separate intangible asset over which the Company has control. If an asset is identified, it is capitalised and amortised over the useful economic life of the asset. To the extent that no separate intangible asset is identified, then the costs are either expensed when incurred or recognised as a prepayment and spread over the term of the arrangement if the costs are concluded to not be distinct.

7. Intangible assets (continued)

	Software £m	Assets in the course of construction £m	Total £m
Cost at 31 March 2022	312	95	407
Additions	—	99	99
Disposals	(6)	—	(6)
Reclassifications ¹	33	(27)	6
Cost at 31 March 2023	339	167	506
Additions	—	148	148
Disposals	(8)	(20)	(28)
Reclassifications	135	(137)	(2)
Cost at 31 March 2024	466	158	624
Accumulated amortisation at 1 April 2022	(109)	(10)	(119)
Amortisation charge for the year	(69)	—	(69)
Disposals	6	—	6
Reclassifications ¹	(10)	—	(10)
Impairment	—	(10)	(10)
Accumulated amortisation at 31 March 2023	(182)	(20)	(202)
Amortisation charge for the year	(81)	—	(81)
Disposals	28	—	28
Impairment	(6)	—	(6)
Accumulated amortisation at 31 March 2024	(241)	(20)	(261)
Net book value at 31 March 2024	225	138	363
Net book value at 31 March 2023	157	147	304

¹ The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK.



8. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them.

This includes both their purchase price and the construction and other costs associated with getting them ready for operation. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the ESO's interest comprises legally protected statutory or contractual rights of use.

	Years
Freehold and Leasehold buildings	10 to 50
Motor vehicles	5 to 7
Office equipment	3 to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such

Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually.

Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

8. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 31 March 2022	33	26	25	67	151
Additions	—	—	8	—	8
Reclassifications ¹	1	(13)	(1)	21	8
Cost at 31 March 2023	34	13	32	88	167
Additions	12	—	7	1	20
Disposals	(5)	—	(5)	(2)	(12)
Reclassifications	1	1	(25)	25	2
Cost at 31 March 2024	42	14	9	112	177
Accumulated depreciation at 1 April 2022	(12)	—	(3)	(20)	(35)
Depreciation charge for the year	(3)	—	—	(18)	(21)
Reclassifications	(1)	—	—	(3)	(4)
Impairment	—	—	(1)	—	(1)
Accumulated depreciation at 31 March 2023	(16)	—	(4)	(41)	(61)
Depreciation charge for the year	(4)	(1)	—	(17)	(22)
Disposals	5	—	5	2	12
Impairment	—	—	(3)	—	(3)
Accumulated depreciation at 31 March 2024	(15)	(1)	(2)	(56)	(74)
Net book value at 31 March 2024	27	13	7	56	103
Net book value at 31 March 2023	18	13	28	47	106

¹ The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK.

Right-of-use assets

The Company leases various property, equipment and cars. New lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The lease payments include fixed payments, any variable

lease payments dependent on an index or a rate, and any break fees or renewal option costs that we are reasonably certain to incur. The discount rate applied is the rate implicit in the lease or, if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option.

8. Property, plant and equipment (continued)

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis.

The following table shows the movements in the net book value of right-of-use assets included within property, plant and equipment at 31 March 2024 and 31 March 2023, split by category. The associated lease liabilities are disclosed in note 12.

	Land and buildings £m	Motor vehicles and office equipment £m	Total £m
Net book value at 31 March 2022 and 31 March 2023	–	–	–
Additions	12	1	13
Depreciation charge for the period	(1)	–	(1)
Net book value at 31 March 2024	11	1	12

9. Financial assets and other investments

The financial assets and other investments balance of £1,194m comprises of current loans to the ultimate parent company and restricted cash balances in relation to Network Innovation Competition (NIC) and Strategic Innovation Fund (SIF) projects.

Debt instruments that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. They are initially recognised on trade date at fair value less transaction costs and expected losses. In the current year, the transaction value equals fair value.

Interest income is recognised using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, is recognised in the income statement.

	2024 £m	2023 £m
Financial assets and other investments comprise the following:		
NIC restricted cash deposits	6	2
Loans and receivables – amount due from the ultimate parent company	1,188	493
	1,194	495

The carrying value of current financial assets at amortised cost approximates their fair values, primarily due to short-dated maturities. The exposure to credit risk at the reporting date is the fair value of the financial investments.

10. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided, accrued income which has not yet been invoiced to customers and other receivables that are expected to be settled within 12 months.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts.

Trade receivables are non-interest-bearing and generally have a 30 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. All other receivables are recorded at amortised cost. The provision for impairment of receivables as at 31 March 2024 was £4m (2023: £5m).

	2024 £m	2023 £m
Current		
Trade receivables	79	52
Amounts owed by fellow subsidiary undertakings	10	–
Accrued income	384	297
Other receivables ¹	99	136
	572	485

¹2024 includes £13m (2023: £59m) receivable from coal plants as they sell unused coal stocks. Proceeds have been refunded to customers during the year.

Provision for impairment of receivables

A provision matrix is not used to assess expected loss rates as an assessment is performed on individual debtors.

	2024 £m	2023 £m
At 1 April	5	36
Charge for the year	–	5
Write-off in the year	(1)	(36)
At 31 March	4	5

11. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates.

	2024 £m	2023 £m
Cash at bank and short-term deposits	30	28

12. Borrowings

We borrow money primarily in the form of borrowings from our ultimate parent company. These are for a fixed term and have floating interest rates.

Our price controls lead to an optimal ratio of debt to equity and, as a result, we issue debt to maintain this balance.

Borrowings are initially recorded at fair value. This normally reflects the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently, these are stated at amortised cost. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Information on our net debt is presented in note 18.

	2024 £m	2023 £m
Current		
Bank loan and overdrafts	-	4
Borrowings from the ultimate parent company	132	123
Finance Leases	2	-
	134	127
Non-current		
Finance Leases	11	-
	11	-
Total borrowings	145	127

The bank loan and overdraft is repayable on demand and the loan from the ultimate parent company matures on 1 April 2027, though this will be repaid by 30 June 2024 as part of the FSO separation activities.

At 31 March 2024, we had committed external credit facilities of £550m of which £550m was undrawn (2023: £550m of which £550m undrawn). These facilities expired on 1 April 2024. We also have £550m of intercompany credit facilities with our ultimate parent, National Grid plc of which £550m was undrawn (2023: £550m of which £550m undrawn). These facilities will remain available until the Company ceases to be at least 99.99% owned directly or indirectly by National Grid plc. All of the unused facilities at 31 March 2024 are available for liquidity purposes. Following a change in ownership DESNZ have confirmed a £700m working capital facility will be provided, via HM Treasury, for a 3-year period with the option to extend for a further year.

None of the ESO's borrowings are secured by charges over assets of the Company.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method.

12. Borrowings (continued)

	2024 £m	2023 £m
Gross lease liabilities are repayable as follows:		
Less than 1 year	(2)	-
1 to 5 years	(5)	-
More than 5 years	(14)	-
	(21)	-
Less: finance charges allocated to future periods	8	-
	(13)	-
The present value of lease liabilities are as follows:		
Less than 1 year	(2)	-
1 to 5 years	(4)	-
More than 5 years	(7)	-
	(13)	-

13. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred amounts, some of which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2024 £m	2023 £m
Trade payables	291	296
Social security and other taxes ¹	231	222
Deferred income	36	117
Amounts owed to fellow subsidiaries of National Grid plc	182	32
Capital Payables – Tangible	6	-
Other payables ²	279	182
	1,025	849

¹ Includes Value Added Tax of £229m (2023: £220m).

² 2024 includes £20m (2023: £41m) relating to TNUoS charges caused by timing difference between amounts charged to customers and that passed through to the GB Transmission Owners.

Due to their short maturities, the fair value of trade payables approximates to their book value.

14. Other non-current liabilities

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost. There is no material difference between the fair value and the carrying value of other payables.

	2024 £m	2023 £m
Other payables ¹	66	71

¹Balances held in relation to application fees collected on behalf of GB Transmission Owners.

15. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures are recognised in the income statement.

	Restructuring £m	Other £m	Total £m
At 1 April 2022	1	1	2
Additions	1	1	2
Utilised	(1)	—	(1)
At 31 March 2023	1	2	3
Utilised	(1)	—	(1)
At 31 March 2024	—	2	2

	2024 £m	2023 £m
Current	2	3
Non-current	—	—
	2	3

Restructuring provision

The provision reflects on-going cost efficiency and restructuring programmes being undertaken in the wider National Grid group for which the company receives an allocation as it takes services from centralised support functions.

16. Share capital and share premium

Ordinary share capital represents the total number of shares issued.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Number of shares 2024 millions	Number of shares 2023 millions	2024 £m	2023 £m
At 31 March 2023 and 2024 – ordinary shares of 1p each				
Allotted, called-up and fully paid	330	330	330	330

	Number of shares millions	Par value £m	Share premium £m	Total £m
At 31 March 2024	330	3	327	330

17. Other equity – Merger reserve

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

At 31 March 2024, the ESO held one form of other equity, being a merger reserve. The merger reserve arose on the acquisition of the ESO business on 1 April 2019. This acquisition did not fall within the scope of IFRS 3 Business Combinations, thus, assets and liabilities were transferred at their net book value. The difference between the net book value and consideration paid for the assets and liabilities acquired resides within this reserve.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Merger reserve £m
At 31 March 2023 & 31 March 2024	(142)

The merger reserve is principally attributable to the ESO business's exclusive licence and profitability.

Merger reserve balance remains at £142m at 31 March 2024, £57m is considered realised for the purposes of assessing the company's distributable profits and £85m is considered unrealised. Accordingly, at 31 March 2024 the profits available for distribution by the company were £782m, comprising the whole of the company's retained earnings less the realised element of the merger reserve.

18. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, current financial investments and related financing derivatives.

Funding and liquidity risk management is carried out by the National Grid plc treasury function under policies and guidelines approved by the Finance Committee of the National Grid plc Board, these policies have been deemed applicable at the ESO by their respective board of directors. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The ESO apply the National Grid plc group policy and we utilise the group treasury function. The primary objective of the treasury function is to manage our funding and liquidity requirements. A further important objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Further details can be found in the National Grid plc accounts available publicly, details on how to access can be found in Note 32.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

(a) Reconciliation of net cash flow to movement in net debt

	2024 £m	2023 £m
(Decrease)/Increase in cash and cash equivalents	6	38
Increase in financial investments	699	232
Increase in borrowings and related derivatives	(13)	—
Net interest receivable/(payable) on the components of net debt	(9)	(2)
Change in net debt resulting from cash flows	683	268
Movement in net debt in the year	683	268
Net debt at the start of the year	396	128
Net debt at the end of the year	1,079	396

18. Net debt (continued)

Composition of net debt

Net debt is summarised as follows:

	2024 £m	2023 £m
Cash, cash equivalents and financial investments	1,224	523
Borrowings and bank overdrafts	(145)	(127)
	1,079	396

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Total debt £m
At 1 April 2023	24	495	(123)	396
Cash flow	6	699	(8)	697
Other non-cash movements	—	—	(13)	(13)
Interest charges	—	—	(1)	(1)
At 31 March 2024	30	1,194	(145)	1,079
Balances at 31 March 2024 comprise:				
Current assets	30	1,194	—	1,224
Current liabilities	—	—	(134)	(134)
Non-current liabilities	—	—	(11)	(11)
	30	1,194	(145)	1,079

19. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to contracts for the purchase of assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

Future capital expenditure	2024 £m	2023 £m
Contracted for but not provided	41	40

Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Pension Scheme Contributions

The ESO is a participating employer in the National Grid ESPS defined benefit pension scheme. Following completion of the March 2019 valuation, we are responsible for making cash contributions into the scheme equivalent to 50% (average) of remaining active employees pensionable salaries including 6% for Flexible Pension Savings.

In 2023/24 we did not contribute an additional amount into the scheme relating to the funding deficit to the value (2022/23: £13m). Any additional payment is made in line with the regulatory treatment determined by Ofgem. The most recently agreed recovery plan for the scheme ran until FY24. As the ESO is not the sponsoring employer of the scheme, there is no contractual obligation or requirement to make a provision for scheme costs.

When the Company transfers out of the National Grid Group a new defined benefit pension scheme will be established for those employees who are currently members of the National Grid ESPS pension scheme. At 31 March 2024 the Company's share of the pension net assets of the existing scheme was £17m.

20. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Grid Electricity System Operator Limited. The related parties identified include fellow subsidiaries, joint ventures, associated undertakings, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2024 £m	2023 £m
Income:		
Goods and services supplied ¹	231	28
	231	28
Expenditure:		
Services received ²	(2,601)	(1,924)
Corporate services received	(2)	(1)
Interest paid on borrowings from fellow subsidiary undertakings	—	—
Interest paid on borrowings from ultimate parent	(9)	(3)
Interest received on borrowings to ultimate parent	42	8
	(2,570)	(1,920)
Balance Sheet as at 31 March		
Lending to ultimate parent (amounts due within one year)	1,188	493
Borrowings from ultimate parent (amounts due within one year)	(132)	(123)
Amounts included in Trade and other payables	(182)	(32)
Amounts included in Trade and other receivables	10	—
At 31 March	884	338

¹ Includes TNUoS related pre and post vesting charges to Western Power Distribution of £34m (2023: £28m). 2024 included charges to IFA 2 Limited £119.5m, IFA £15.8m and Nemo Link Limited £61.3m under the Interconnector cap and floor regime operated by Ofgem with no such charges or payments made in 2023.

² Expenditure includes TNUoS revenue collection for National Grid Electricity Transmission plc of £2,570m (2023: £1,852m) and £31m (2023: £71m) for balancing services from various interconnectors owned by National Grid.

In the UK, National Grid operates a centralised Support Function model. Costs for these functions including IT, procurement, and payroll services are initially borne by National Grid Electricity Transmission plc. NGESO receives an allocation of these costs based on its relative usage. The allocated costs are included within operating costs and totalled £90m (2023: £85m).

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to, and borrowings from fellow subsidiary undertakings are repayable on demand and bear interest at commercial rates.

Expenditure balances relate to the collection of TNUoS revenues on behalf of National Grid Electricity Transmission plc. Under IFRS 15 we act as an agent and these balances are shown net within our revenue figure. Further details of this relationship have been provided in Note 2.

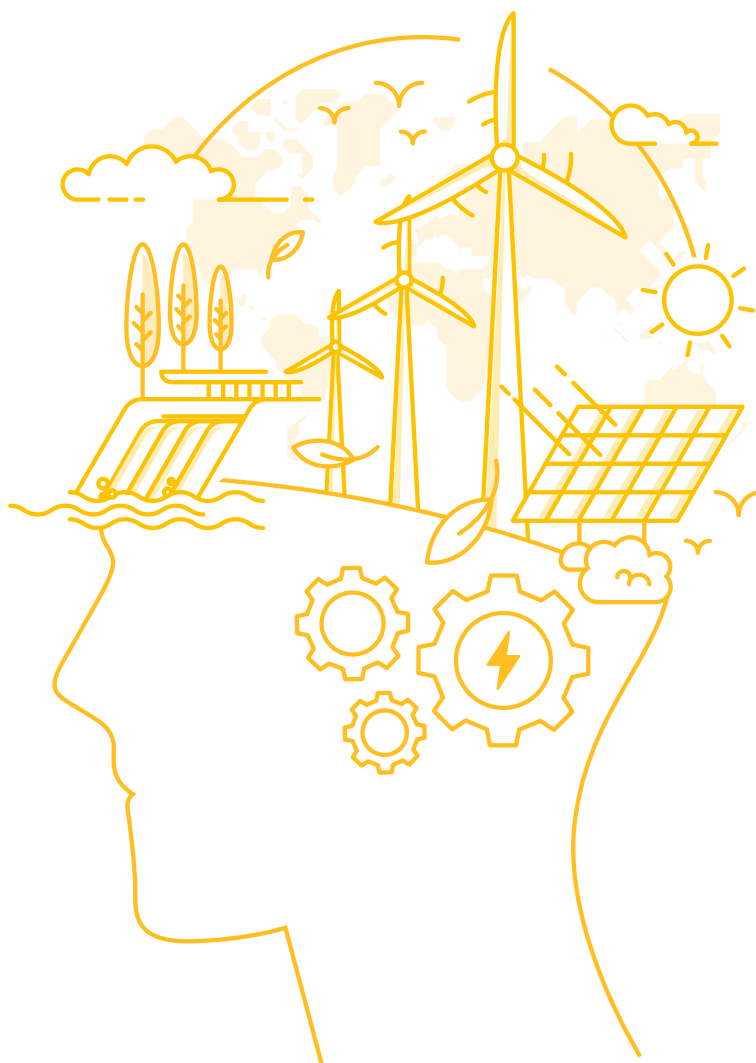
Information relating to pension fund arrangements is disclosed in Note 19.

21. Ultimate parent company

This note shows the immediate and ultimate parent companies for these consolidated financial statements.

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.

Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH, or on our company [website](#).



22. Subsidiaries and Associates

The ESO holds investments in subsidiaries and associates, the company includes contributions from associates which are detailed in the table below.

Subsidiary undertakings

The table below contains all subsidiaries held by National Grid Electricity System Operator Limited.

	Principal activity	Holding
Elexon Limited ¹ 4th Floor 350 Euston Road, London NW1 3AW	Electricity market Balancing and Settlement Code company for Great Britain	100%

¹ National Grid Electricity System Operator does not consolidate its wholly owned subsidiary Elexon Limited, as it does not control the entity.

The subsidiary is incorporated in England and Wales.

The Elexon Limited shares were inherited on the 1 April 2019 as part of the purchase of the ESO business from NGET plc. As part of the process to establish NESO we are required to transfer the ownership of Elexon Limited to other industry participants. The transfer will take place at a nominal value and on the same date that the Company is sold by National Grid plc.

Associates

The table below contains all associates included within the National Grid Electricity System Operator Limited.

	Principal activity	Holding
Coreso SA (incorporated in Belgium) 71 Avenue de Cortnbergh, 1000 Bruxelles, Belgium	Associate in relation to a European regional transmission operations coordination centre	16%

The Coreso SA shares were inherited on the 3 May 2019 as part of the purchase of the ESO business from NGET plc.

23. Events after the reporting period

There were no events after the reporting period.

Glossary and definitions



References to the 'Company', 'we', 'our' and 'us' refer to National Grid Electricity System Operator Limited itself.

Carbon intensity

The measure of CO₂ emissions produced per kilowatt hour of electricity consumed.

DESNZ

The Department for Energy Security and Net Zero.

EMR Delivery Body

Provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR, administers key elements of the capacity mechanism and contracts for difference regime and reports to the Government annually on performance against the Government's delivery plan.

Electricity Market Reform (EMR)

A Government policy to incentivise delivery of low carbon energy supplies whilst maintaining security of supply and minimising the cost to the consumer.

EU

European Union.

FRS

Financial Reporting Standard.

GAAP

Generally Accepted Accounting Principles.

GHG

Greenhouse gas.

GW

Gigawatt.

GWh

Gigawatt hours.

HSE

Health and Safety Executive.

IAS

International Accounting Standard.

IASB

International Accounting Standards Board.

IFRIC

The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS

International Financial Reporting Standard.

KPI

Key Performance Indicator.

Lost time injury

A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid

National Grid plc, the ultimate parent company of National Grid Electricity System Operator Limited and its controlling party.

Ofgem

The Office of Gas and Electricity Markets.

Regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects to inflation.

Regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

RIIO

The revised regulatory framework issued by Ofgem which was implemented in the eight-year price controls which started on 1 April 2013.

RoE

A performance metric measuring returns from the investment of shareholders' funds. UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI

UK Retail Price Index.

Tonnes CO₂ equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide.

TW

Terawatt.

TWh

Terawatt hours.

ESO

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