Regulatory Financial Performance Reporting

2023-24

September 2024

Electricity Distribution

nationalgrid

Contents

Executive Summary

We present the 2023/24 RFPR templates and commentary for National Grid Electricity Distribution (NGED). This document contains information for the four Distribution Network Operators (DNOs) owned by NGED; NGED West Midlands (WMID), NGED East Midlands (EMID), NGED South Wales (SWALES) and NGED South West (SWEST).

NGED continues to promote transparency of performance and returns as a way of demonstrating the legitimacy of energy network returns. We hope this report provides clear and transparent reporting on NGED's financial and operational performance, including NGED's performance against incentives under the RIIO ED2 price control arrangements.

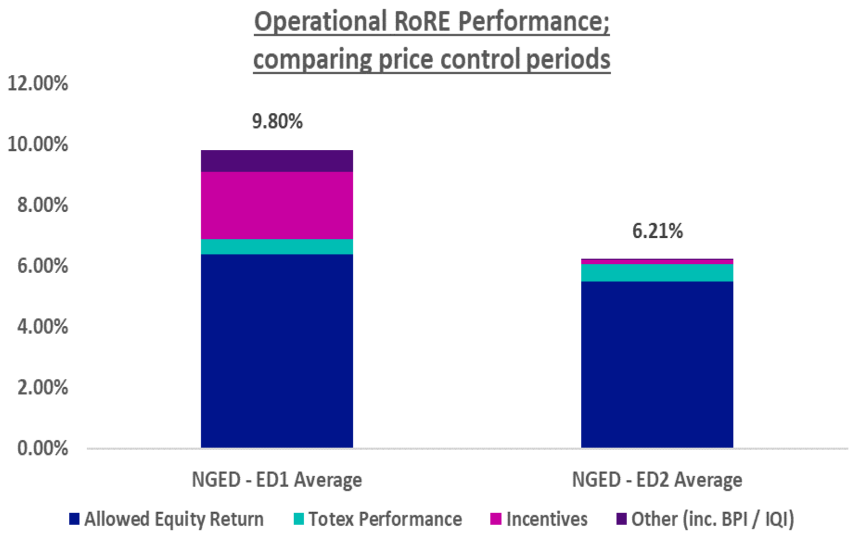
As a business that distributes energy, we face exciting challenges as the UK works towards a net zero carbon future. We deliver an essential public service and our focus on customer service has ensured that we have continued to drive great results for customers whilst adapting to the changing environment within which we operate.

This is our first Regulatory Financial Performance Report under the RIIO-ED2 price control.

Within the RIIO-ED2 price control period there are a number of changes that affect Return on Regulatory Equity (RORE) reporting relative to RIIO-ED1.

- The price index has changed from RPI to CPIH. Amongst other areas, this affects our Financial Performance
- The allowed returns on equity are significantly lower. In RIIO-ED1 the baseline return to equity was 6.4% (RPI based) with this being 5.5% in RIIO-ED2
- Opportunity for out-performance is more constrained in RIIO-ED2 with Ofgem noting that in RIIO-ED1 strong performing networks can deliver double digit returns. In RIIO-ED2 this has significantly reduced, particularly in relation to performance on Output Delivery Incentives.
- A further example of reduced incentive properties include sharing factors which are now set to 50% sharing between customers and networks (compared to 70% in RIIO-ED1).

As a consequence, our RIIO-ED2 RoRE figures are currently forecast to be lower over the average of the new price control relative to RIIO-ED1, see the chart below. Performance against our Totex Allowances and demonstration of cost control remains consistent to RIIO-ED1, it is in the Incentives where our RoRE is most notably reduced when comparing price control performance. This is not to say our standards of performance and customer focus levels have reduced relative to RIIO-ED1, it's a result of the restricted return mechanisms in place. Performance levels are re-baselined for RIIO-2 with continuous improvement on cost and customer performance expected through the price control.



Our 2023/24 operational performance highlights include:

- Maintaining Broad Measures Customer Satisfaction of 8.97/10 whilst achieving Major Connections Customer Satisfaction of 8.59/10;
- Establishing our independent Distribution System Operator (DSO) Panel. Our DSO has continued to create and engage with flexibility opportunities across the network, increasing the number of flexibility assets to 70,000 and releasing significant capacity through flexibility procurement that has enabled the deferral of £80m traditional network reinforcement (to date, in nominal pricing);
- Delivering on our commitment to become a net zero organisation by 2043, meeting the in-year target for our validated science-based target
- Delivering a reliable network whilst responding to significant storm events. 2023/24 presented a series of challenges for network resilience with 13 named storms and one significant event, yet our teams still managed to restore 99.9% of customers within 24 hours
- Achieving 99.993% network availability;
- Supporting over 23,000 customers to make savings of £19.5million on their energy bills through our Customer Vulnerability programme;
- Earning an Operational RoRE of 5.8% for the first year of the RIIO-ED2 period;

In 2023/24 our expenditure is around 15% below our Totex allowances. This level of expenditure was in line with our expectations, however we recognise that further work is required to enable us to meet the challenging new targets set for RIIO-ED2. As some of this under spend is a result of workload phasing, we adjust for this as part of our Enduring Value calculation to give a true picture of performance over the RIIO-ED2 price control period. More information can be seen on this in our chapter on Totex reconciliation and in Appendix 2 of this document.

We believe there is demonstrable evidence of how NGED is delivering its ED2 commitments whilst continuing its journey to build capability, drive efficiency and ensure it is a leading distribution network and system operator that delivers for customers.

Who we are and what we do

National Grid Electricity Distribution (NGED) is a Distribution Network Operator (DNO) and distributes electricity to 8 million customers across the Midlands, South Wales and the South West. We operate four of the fourteen DNO licence areas within the UK. National Grid, through a separate company outside of NGED, owns and operates the high-voltage electricity transmission network in England and Wales.

The NGED Group was acquired by National Grid in June 2021. As part of the integration into the National Grid Group, on 20 September 2022 the names of the companies were changed from Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc and Western Power Distribution (South West) plc to National Grid Electricity Distribution (West Midlands) plc, National Grid Electricity Distribution (East Midlands) plc, National Grid Electricity Distribution (South Wales) plc and National Grid Electricity Distribution (South West) plc.

NGED's network is the largest in the UK, operating from the Lincolnshire coast, across the Midlands, South Wales and the South West to the Isles of Scilly.

NGED is regulated by Ofgem which sets our revenues through a process known as a price control. The price control covering the period 2023/24 until 2027/28 is known as RIIO-ED2.;

Our role is to:

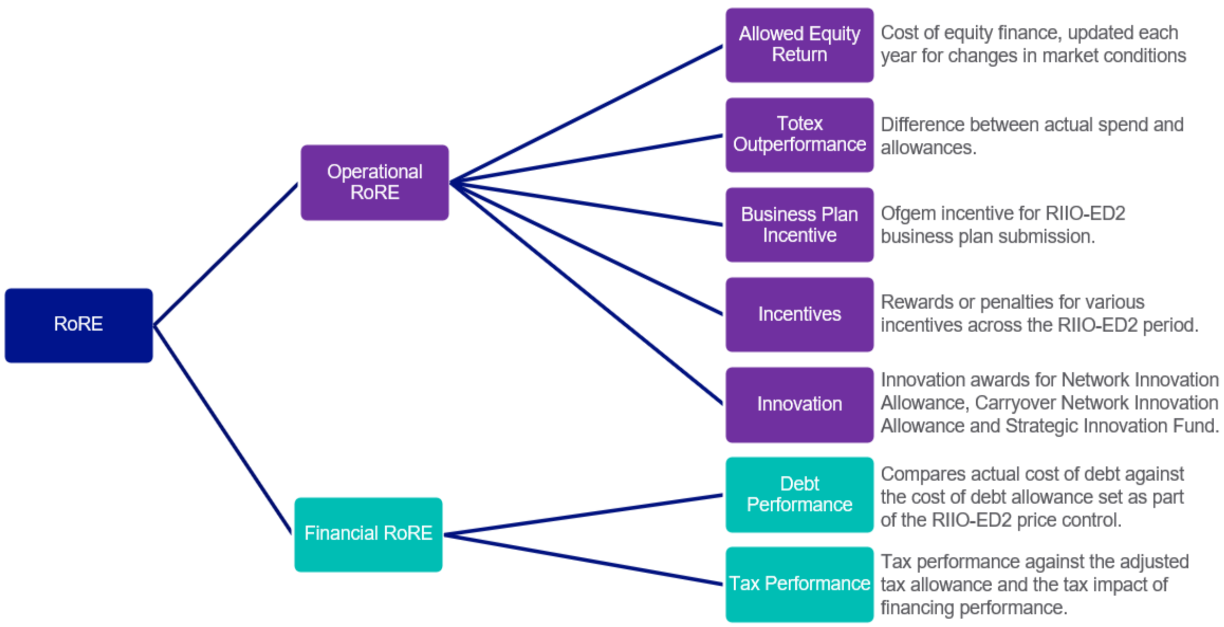
- operate our network assets to 'keep the lights on';
- maintain our assets so that they are in a condition to remain reliable;
- fix our assets if they get damaged or if they are faulty; and
- upgrade existing networks or build new ones to provide additional electricity supplies or capacity to existing and new customers.

Purpose of this report

Ofgem introduced Regulatory Financial Performance Reporting (RFPR) in October 2018 and published licensees' completed 2017/18 RFPR templates for the first time in March 2019. NGED has published its RFPR annually since then. The purpose of the RFPR is to provide a framework to allow Ofgem to collect accurate and consistent information from licensed network operators. The RFPR is submitted to Ofgem, and published on NGED's website, by 30 September each regulatory year.

The values in this document are in nominal prices and in £millions unless otherwise stated. Regulatory years run from 1 April until 31 March, for example regulatory year 2023/24 runs from 1 April 2023 until 31 March 2024, and is labelled 2024 in charts. There may be minor rounding differences in summary tables and charts between totals and the sum of components. Historical values reconcile to the audited statutory accounts for WMID, EMID, SWALES and SWEST.

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



Key Financial Performance Measures

Regulated Revenue

NGED's Regulated Revenue for the regulatory year to 31 March 2024 was £1,853m. Table 1 below shows how this revenue breaks down. All Regulated Revenue figures are calculated using Ofgem's Price Control Financial Model (PCFM) and this goes through multiple iterations and assurance before the final version is published.

Table 1: 2023/24 Regulated Revenue, nominal prices, £m

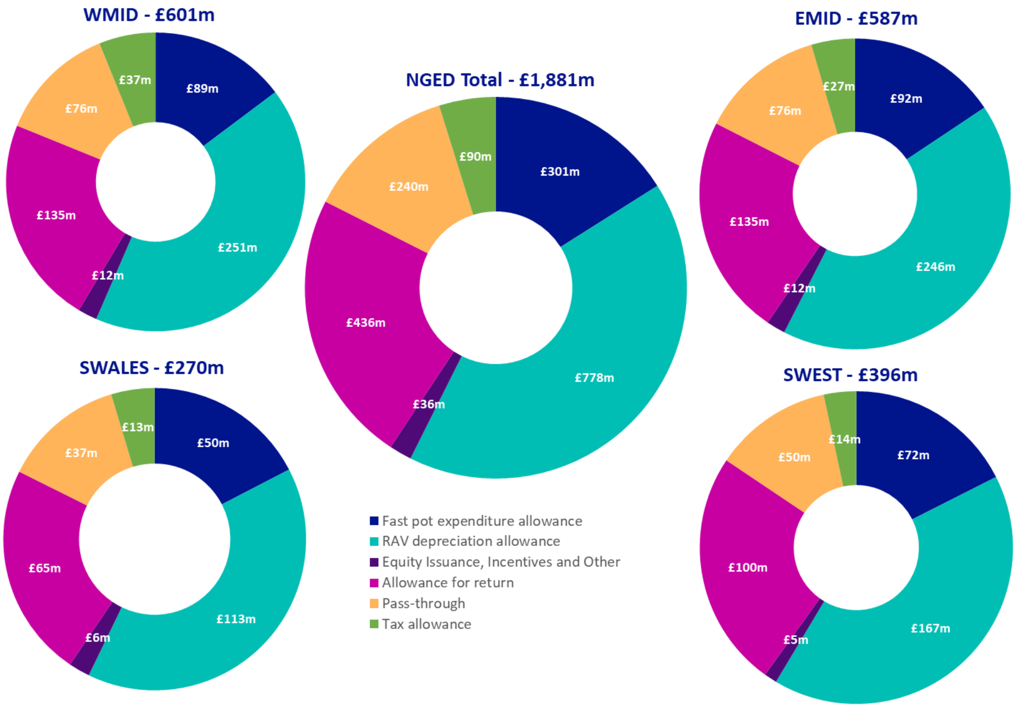
2023/24 Regulated Revenue, in nominal prices	WMID	EMID	SWALES	SWEST	NGED Total
Calculated Revenue	601	587	285	408	**1,881**
Under/(Over) recovery and K factor	8	(2)	0	(6)	**0**
Legacy Allowed Revenue	4	(11)	(15)	(6)	**(29)**
Regulated Distribution Network Revenue	**613**	**574**	**270**	**396**	**1,853**

Unit rate pricing tariffs are set 15 months in advance, based on forecast volumes of units distributed, and provided to energy suppliers for inclusion in customer bills. Any actual amounts under or over recovered are adjusted through future years' revenues. This is the Under/(Over) recovery, and K factor is the true up of this previous under/(over) recovery.

Calculated Revenue

This is the largest element of NGED's Regulated Revenue. NGED's 2023/24 Calculated Revenue was £1,881m. The charts below show the breakdown of this:

Figure 1: NGED 2023/24 Calculated Revenue breakdown by component & DNO, £m



- Under the RIIO-ED2 framework, NGED receives a Totex allowance, 20% of which is received in the year incurred; this is the **Fast Pot expenditure allowance**. The remaining 80% is added to the Regulatory Asset Value (RAV) and funded over time through the **RAV depreciation allowance**.

- Non controllable opex allowances relate to costs recovered on a 'pass through' basis; these **Pass-Through** costs include Ofgem licence fees, business rates and Transmission Connection Point charges.

- **Allowance for return** is calculated using the cost of capital and comprises an indexed allowance for the cost of debt and an allowance for the cost of equity as set at the start of the RIIO-ED2 price control period.

- **Equity issuance, Incentives & Other** includes an allowance for cost associated with issuing equity, output delivery incentive, business plan incentive and an allowance for other revenues.

- The **Tax Allowance** allows network operators to recover the current regulated tax charge, calculated by Ofgem's methodology. The Tax Allowance figures include the impact of the UK Government super deduction regime

Return on Regulated Equity (RoRE)

Ofgem assesses overall financial performance of network operators against the price control settlement using a measure called Return on Regulatory Equity (RoRE). RoRE performance is compared to the cost of equity allowed at the start of the price control. It is a key financial and regulatory performance measure.

For 2023/24 Operational RoRE is 5.78% averaged for NGED, with Totex out performance adding 0.33%, 0.13% additional from the Business Plan Incentive and a further 0.04% from Output Delivery Incentives. These figures are inclusive of enduring value adjustments which align allowances with the latest view of Totex spend across the whole of RIIO-ED2.

RoRE over the average of RIIO-ED2 is slightly higher due to Allowed Return on Equity increasing by 21bps (to 5.50% from 5.28%) and with the delivery of efficiencies and performance improvement plans, our Totex performance increasing to 0.57%

Financial Performance

To get from Operational RoRE to Total RoRE you need to include Financial Performance, this is split into Debt performance & Tax performance measures

Using notional gearing, NGED's RoRE financial performance across the period is forecast to outperform against regulatory cost of debt and tax allowances across the period by 1.8%; comprising 1.6% debt performance and 0.2% for tax outperformance.

Financial performance in 2023/24 is 8.1%, comprising 7.8% debt performance and 0.3% tax performance. The 23/24 debt performance figure is significantly influenced by the inflation component of the nominal finance cost and the proportionately lower RAV in 2023/24. This inflation factor unwinds over RIIO-ED2

The financial RoRE values based on actual gearing differ slightly to their notional equivalents with 6.0% debt performance and 0.3% tax performance in 2023/24 and RIIO-2 average financial performance of 1.5% and tax performance of 0.2%.

Key Operational Performance Measures

2023/24 is the first year of the ED2 price control period, NGED has maintained it's high levels of service from ED1 in all key areas. The performance summary below demonstrates outputs which are directly related to financial outturn. These are outputs where a reward or penalty can be applied by the regulator as a result of over or under delivery.

Table 2: Operational performance KPIs

	WMID Actual 23/24	Target	EMID Actual 23/24	Target	SWALES Actual 23/24	Target	SWEST Actual 23/24	Target	NGED Actual 23/24	Target
Customer Interruptions (CI) (Excludes exceptional events)	44.7	48.9	44.2	39.3	46.4	42.4	57.5	51.6		
Customer Minutes Lost (CML) (Excludes exceptional events)	32.9	29.8	26.1	22.8	26.1	24.5	46.9	39.0		
Connections time to connect days:										
Time to Quote LVSSA	2.13	3.26	1.93	3.26	1.89	3.26	2.92	3.26		
Time to Quote LVSSB	3.99	5.47	4.32	5.47	4.28	5.47	4.48	5.47		
Time to Connect LVSSA	27	29	27	29	29	29	39	29		
Time to Connect LVSSB	31	35	33	35	35	35	47	35		
Major Connections Customer Satisfaction Score									8.59	7.41
Customer Satisfaction Survey Interruptions	8.94	9.12	8.96	9.12	9.18	9.12	8.95	9.12		
Customer Satisfaction Survey Connections	8.83	9.12	8.92	9.12	8.94	9.12	8.79	9.12		
Customer Satisfaction Survey General Enquiries	9.16	9.12	9.32	9.12	9.38	9.12	9.02	9.12		
Customer Satisfaction Survey Overall	8.93	9.12	9.01	9.12	9.10	9.12	8.88	9.12		

- Performance against Customer Interruptions (CIs) and Customer Minutes Lost (CMLs) targets has proved challenging across all four licence areas for 2023/24. During this period our region experienced 13 named storms, and one significant event. Five of these storms were recognised as exceptional events meaning that our teams were responding to more than 8-times their usual number of faults and yet still managing to restore 99.9% of customers within 24 hours. We recognise that further work is required to enable us to meet the challenging new targets set for RIIO-ED2 and we have therefore initiated further analysis of faults in order to identify underlying causes and any trends that may provide us with the opportunity to minimise repeat incidents.

- Connections has been a key area of focus for the industry, Government, Ofgem and wider society over the last year, with a shared ambition to drive reform and speed up the pace of connections to the UK electricity networks. We are working hard in this area to find new ways of managing the connections pipeline and delivering better outcomes for our customers and stakeholders. We are working with other network companies, regulators, policy makers, industry partners and customers to find solutions and share best practices. We are listening to our communities and customers to understand what they need and want and to deliver value for money

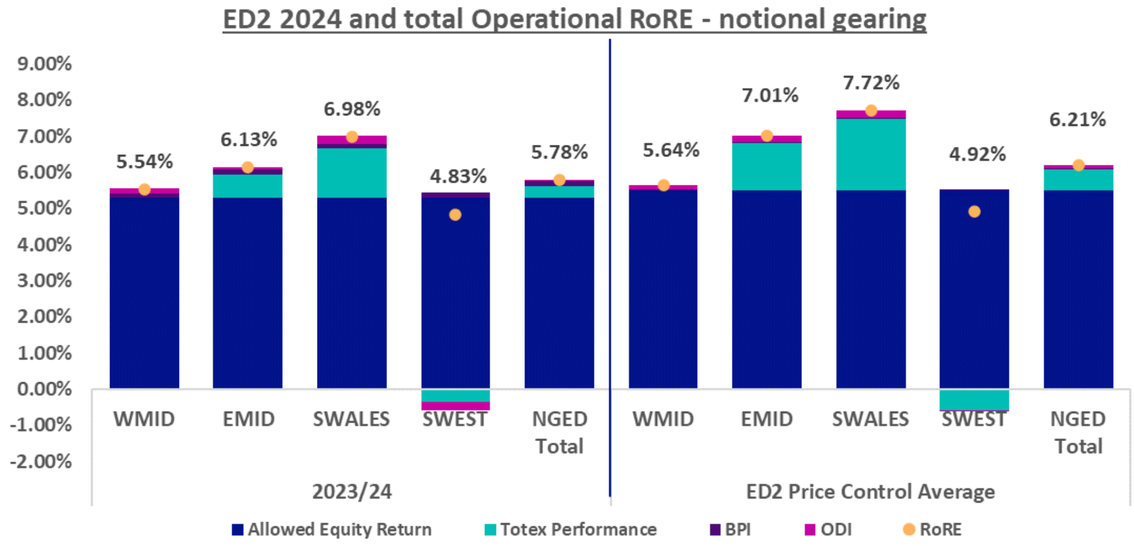
- Whilst we continue to deliver good customer service the change in customer service targets has presented a challenge which we are committed to addressing. During 2023/24 we have initiated a number of projects in order to better understand the needs and expectations of our customers.

Return on Regulatory Equity (RoRE)

The RORE tab within the RFPR pack expresses the Return on Regulated Equity based on both notional gearing and actual gearing, as well as showing the monetary value of performance for each year of RIIO-ED2 in constant prices.

The overall operational RORE is for NGED is 5.78% in 2023/24 and 6.21% over the average of RIIO-ED2. The chart below shows the split by network

Figure 2: Operational RoRE at notional gearing



As a continuation from RIIO-ED1, EMIDs and SWALES continue to be our strongest performing networks.

The challenge to deliver efficiently against allowances is greatest in SWEST. This was a known issue through the ED2 Determinations process, where SWEST was an outlier in terms of its assessed inefficiency, despite the SWEST business plan being prepared and the licence area being operated on a consistent basis to all other NGED DNOs. Cost assessment modelling approaches, including the consideration of sparsity and density and the use of MEAV as a cost driver, will require further review ahead of RIIO-ED3.

2023/24 saw a significant amount of work across NGED's DNO activating plans to build and develop enhanced capabilities to enable local decarbonisation pathways to net zero. This, and further plans gearing up to deliver RIIO-ED2's output deliverables resulted in underspending Totex relative to our Allowances in year 1 of RIIO-ED2. A lot of this outperformance based on workload delivery phasing is corrected for in our enduring value adjustments, more information on this can be seen in Appendix 2. In addition the anticipated increase in demand for which network reinforcement was planned is expected to occur later in the RIIO-ED2 period. This means activity driving the underspend in year one is now forecast to be rephased across the remainder of RIIO-ED2.

A second enduring value adjustment has also been used to reflect the cost efficiencies across the remainder of RIIO-ED2 which we plan to make as a result of the business transformation work which has been carried out in first year of the price control, the impact of this is also detailed in Appendix 2.

Table 3: RoRE with notional gearing;

RoRE REGULATORY YEAR 2023/24; NOTIONAL GEARING

	WMID	EMID	SWALES	SWEST	NGED Total
Allowed Equity Return	5.3%	5.3%	5.3%	5.3%	**5.3%**
Totex outperformance	0.0%	0.7%	1.4%	(0.3)%	**0.3%**
Business Plan Incentive	0.1%	0.1%	0.1%	0.1%	**0.1%**
Time to connect ODI	0.1%	0.1%	0.1%	0.0%	**0.1%**
Broad Measure of Customer Service ODI	(0.0)%	0.0%	0.1%	(0.1)%	**(0.0)%**
Interruptions incentive scheme ODI	(0.1)%	(0.2)%	(0.1)%	(0.4)%	**(0.2)%**
Distribution System Operator ODI	0.2%	0.2%	0.2%	0.2%	**0.2%**
Other	0.0%	0.0%	0.0%	0.0%	**0.0%**
RoRE - Operational performance	**5.5%**	**6.1%**	**7.0%**	**4.8%**	**5.8%**
Debt performance - at notional gearing	6.5%	8.1%	9.7%	7.9%	**7.8%**
Tax performance - at notional gearing	0.3%	0.2%	0.3%	0.3%	**0.3%**
RoRE - including financing and tax	**12.3%**	**14.5%**	**17.0%**	**13.0%**	**13.8%**
Regulatory Equity £m, 20/21 prices	**1061**	**1068**	**511**	**783**	**3423**
Weighting	**31.0%**	**31.2%**	**14.9%**	**22.9%**	**100.0%**

RoRE RIIO-ED2 AVERAGE; NOTIONAL GEARING

	WMID	EMID	SWALES	SWEST	NGED TOTAL
Allowed Equity Return	5.5%	5.5%	5.5%	5.5%	**5.5%**
Totex outperformance	0.0%	1.3%	2.0%	-0.6%	**0.6%**
Business Plan Incentive	0.0%	0.0%	0.0%	0.0%	**0.0%**
Time to connect ODI	0.1%	0.1%	0.1%	0.0%	**0.1%**
Broad Measure Customer Service ODI	0.0%	0.1%	0.1%	(0.1)%	**0.0%**
Interruptions incentive scheme ODI	0.0%	0.0%	0.0%	(0.1)%	(0.1)%
Major connections ODI	0.0%	0.0%	0.0%	0.0%	**0.0%**
Consumer Vulnerability ODI	0.0%	0.0%	0.0%	0.0%	**0.0%**
Distribution System Operator ODI	0.1%	0.1%	0.1%	0.1%	**0.1%**
Other	0.0%	0.0%	0.0%	0.0%	**0.0%**
RoRE - Operational performance	**5.6%**	**7.0%**	**7.7%**	**4.9%**	**6.2%**
Debt performance - at notional gearing	0.8%	1.7%	2.7%	1.8%	**1.6%**
Tax performance - at notional gearing	0.2%	0.2%	0.2%	0.1%	**0.2%**
RoRE - including financing and tax	**6.6%**	**8.9%**	**10.6%**	**6.8%**	**8.0%**
Regulatory Equity £m, 20/21 prices	**1,113**	**1,134**	**562**	**866**	**3,675**
Weighting	**30.3%**	**30.9%**	**15.3%**	**23.6%**	**100.0%**

Areas where NGED's performance in the 2023/24 regulatory year impacts the Operational RoRE are described below:

- Totex outperformance 0.3% for 2023/24 is driven by efficiencies including the Totex impact of avoided secondary reinforcement costs as a result of implementation of flexibility contracts

  The challenge to deliver efficiently against allowances is greatest in SWEST. This was a known issue through the ED2 Determinations process, where SWEST was an outlier in terms of its assessed inefficiency, despite the SWEST business plan being prepared and the licence area being operated on a consistent basis to all other NGED DNOs.

- Achievement of the Business Plan Incentive which adds 0.1% to RoRE in 203/24;

- Output Delivery Incitive performance faced totalling 0.04% made up of:

  - 0.1% Time to Connect ODI
  - (0.2)% Interruptions incentive scheme ODI
  - 0.2% Distribution System Operator ODI

- The aggregate impact of the above movements is that the 2023/24 operational RoRE for NGED Total is 5.8%. Further movements affecting Financial performance are:
- Debt performance at notional gearing is 7.8% for 2023/24, largely driven by the impact of inflation in 2023/24 in the RFPR calculation of actual real debt costs. Note Debt performance at actual gearing is 5.5% for 2023/24; and
- Tax performance at notional gearing is 0.3% for 2023/24; this is also impacted by inflation in 2023/24.

For information on RoRE at actual gearing is shown below in Table 4. The most noticeable difference being on Allowed equity return. Totex, and other performance areas are lower due to the higher equity portion of RAV

Table 4: RoRE for the 2023/24 regulatory year; actual gearing

RoRE REGULATORY YEAR 2023/24; Actual GEARING	WMID	EMID	SWALES	SWEST	NGED TOTAL
Allowed Equity Return	3.9%	4.4%	4.6%	4.7%	**4.3%**
Totex outperformance	0.0%	0.6%	1.2%	(0.3)%	**0.3%**
Business Plan Incentive	0.1%	0.1%	0.1%	0.1%	**0.1%**
Time to connect ODI	0.1%	0.1%	0.1%	0.0%	**0.1%**
Broad Measure of Customer Service ODI	(0.0)%	0.0%	0.1%	(0.1)%	**(0.0)%**
Interruptions incentive scheme ODI	(0.1)%	(0.2)%	(0.1)%	(0.3)%	**(0.2)%**
Distribution System Operator ODI	0.1%	0.1%	0.2%	0.2%	**0.1%**
Other	0.0%	0.0%	0.0%	0.0%	**0.0%**
RoRE - Operational performance	**4.1%**	**5.1%**	**6.0%**	**4.3%**	**4.7%**
Debt performance - at actual gearing	4.4%	6.4%	7.9%	6.7%	**6.0%**
Tax performance - at actual gearing	0.3%	0.3%	0.3%	0.3%	**0.3%**
RoRE - including financing and tax	**8.8%**	**11.8%**	**14.3%**	**11.3%**	**11.0%**
Regulatory Equity £m, 20/21 prices	**1446**	**1278**	**592**	**888**	**4204**
Weighting	**34.4%**	**30.4%**	**14.1%**	**21.1%**	**100.0%**

Reconciliation to Revenue & Profit

The purpose of Table R2 is to report Allowed and Collected Regulated Network Revenue ("collected revenue") and to reconcile collected revenue to the turnover reported within the statutory accounts. Table R2 also provides a reconciliation for regulated network profit to profit as per the statutory accounts. The statutory accounts can be located on the National Grid website[1]

The majority of the difference between the regulated distribution network revenue and the revenue as reported in the Statutory accounts is caused by revenue for directly remunerated services where connections work for activities outside of the price control is carried out.

[1] https://www.nationalgrid.co.uk/about-us/annual-reports-and-financial-statements

Totex – Reconciliation

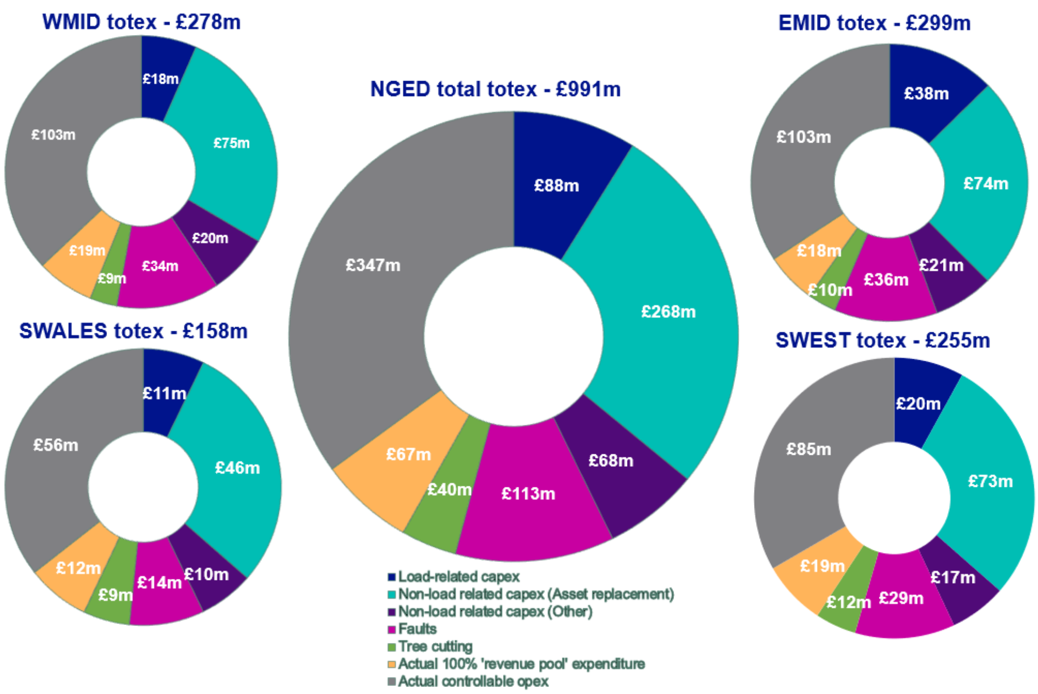
The purpose of Table R3 includes three elements, calculation of Totex performance, inclusion of enduring value adjustments and reconciliation of regulatory Totex to the actual opex and capex costs as per each of the NGED licensee's statutory accounts with actual reported Totex.

Totex Performance

Under RIIO-ED2, NGED's costs are assessed on a Total Expenditure (Totex) basis for its regulated business activities which includes both capital and operating expenditure. Totex is a key feature in the business plan submission to Ofgem, as part of the price control review process, as it underpins the Regulated Revenue set by Ofgem.

During 2023/24 NGED's Totex spend was £991m, compared to an allowance of £1,166m, before Enduring Value adjustments. The charts below in Figure 3 represent NGED's 2023/24 actual costs broken down into the seven key reporting activities within Totex:

Figure 3: NGED 2023/24Totex breakdown, £m



In RIIO-ED2, network operators are incentivised to spend efficiently through the Totex Incentive Mechanism (TIM). Under the TIM, NGED retains/(bears) 50% of any under/(over) spend on Totex, whilst the remaining 50% is returned/(funded) through adjusted allowances. Before Enduring Value adjustments NGED Totex underspend was £175m for 2023/24. Of this, £88m (50%) will be retained by NGED and £88m (50%) will be returned to customers. Deducting the £88m returned to customers from the original allowance of £1,166m gives the 'post-TIM Totex' NGED allowance of £1,078m.

Over the course of RIIO-ED2 NGED is forecast to continue to outperform Allowances, delivering £209m cost reductions over RIIO-ED2, continuing to deliver efficiencies and improvements for our customers.

Totex Reconciliation

The reconciliation between Totex as reported in the NGED RRP submissions and the costs as reported in the individual licensee statutory accounts for each of the networks mainly accounts for difference between accounting treatment in the two methodologies.

In addition pass through costs and activity based costs for things such as connections outside of the price control are excluded from Totex but included in the statutory accounts.

Initiatives and Other Revenue

Incentives

The Key Operational Performance Measures discussed in this section demonstrate where outputs are directly related to financial outturn. These are outputs where a reward or penalty can be applied by the regulator as a result of over or under delivery.

Table 5 below sets out the financial impact of the key output incentives, and the percentage of the maximum reward available.

Table 5: 2023/24 Incentive Revenue; in year performance – pre-tax, nominal prices

Incentive Revenue - In year performance - Pre-Tax, 2020/21 prices

	WMID		EMID		SWALES		SWEST		NGED Total	
	£m	% of max reward	£m	% of max reward	£m	% of max reward	£m	% of max reward	£m	% of max reward
Time to connect	0.9	52%	0.8	47%	0.3	40%	0.2	19%	2.3	41%
Broad Measure of Customer Service	(0.4)	(9)%	0.5	11%	0.4	19%	(0.6)	(18)%	(0.1)	(1)%
Interruptions incentive scheme	(0.8)	(5)%	(2.4)	(14)%	(0.6)	(7)%	(2.9)	(22)%	(6.7)	(12)%
Distribution System Operator	1.8	40%	1.8	40%	0.9	40%	1.4	40%	6.0	40%
Total incentive payments	**1.5**		**0.8**		**1.1**		**(1.9)**		**1.4**	

- Connections has been a key area of focus for the industry, Government, Ofgem and wider society over the last year, with a shared ambition to drive reform and speed up the pace of connections to the UK electricity networks. We have achieved targets for the majority of the measures which feed in to this ODI, however we continue to analyse performance in order to identify areas where improvements are possible.

- In relation to the Broad Measure of Customer Service (BMCS), whilst we continue to deliver good customer service the change in customer service targets has presented a challenge which we are committed to addressing. During 2023/24 we have initiated a number of projects in order to better understand the needs and expectations of our customers.

- Performance against Customer Interruptions target has proved challenging across all four licence areas for 2023/24. During this period our region experienced 13 named storms, and one significant event. Five of these storms were recognised as exceptional events meaning that our teams were responding to more than 8-times their usual number of faults and yet still managing to restore 99.9% of customers within 24 hours. We recognise that further work is required to enable us to meet the challenging new targets set for RIIO-ED2 and we have therefore initiated further analysis of faults in order to identify underlying causes and any trends that may provide us with the opportunity to minimise repeat incidents.

- We have established strong foundations for the DSO through collaboration with stakeholders and partners and will continue to deliver the benefits that the DSO can unlock in the energy transition.

Other Revenue

NGED publishes an Innovation Strategy on an annual basis. We continue to innovate within our business to improve efficiency and support net zero. Our strategy is focused on the long-term development of our distribution assets, network operations and customer service in response to changing system and customer needs. Future innovation allows us to identify improvements in all primary output areas.

A summary of our innovation stimulus funding is shown below in Table 6:

Table 6: Innovation

Measure	DNO	£m awarded to date in RIIO-ED2	£m spent to date in RIIO-ED2	Number of projects RIIO-ED2 to date
Network Innovation Allowance (NIA)	WMID	0.3	0.1	2
	EMID	0.4	0.1	
	SWALES	0.2	0.0	
	SWEST	0.2	0.0	
Network Innovation Competition (NIC)	WMID	5.2	-	1
	EMID	4.1	1.7	
	SWALES	2.5	-	
	SWEST	3.6	-	
Carry-over Network Innovation Allowance (CNIA)	WMID	3.0	0.8	13
	EMID	3.0	0.8	
	SWALES	1.4	0.4	
	SWEST	2.0	0.5	
Strategic Innovation Fund (SIF)	WMID	1.0	1.0	8
	EMID	0.4	0.1	
	SWALES	-	-	
	SWEST	-	-	

Financing and Net Debt position

NGED's 2023/24 gearing, calculated in the RFPR as Average net debt/average RAV, ranges from 45% in WMID, to 52% in EMID, 54% in SWALES and 55% in SWEST. Ofgem's notional gearing assumption for RIIO-ED2 has reduced to 60%, from 65% in RIIO-ED1.

NGED does not undertake transactions in financial derivative instruments for speculative purposes. During 2023/24, EMID raised 1Bn of Euro denominated new debt. In relation to currency risk exposure, where long-term debt is denominated in a currency which is not sterling, NGED's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of Cross-currency interest rate swaps. Under a currency swap, the Company agrees with another party to exchange the principal amount of the two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the Company's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value. In 2023/24 an investor made a reverse enquiry to undertake a partial buyback of one listed bond looking to redeem their holding whilst it was at an attractive rate. This occurred in the WMIDs network.

In RIIO-ED2, NGED's real cost of debt is calculated on a trailing average basis. Given the level of inflation in 2023/24, for all NGED DNOs, this has resulted in an adjustment to remove an inflation element from interest cost that is significantly greater than the interest cost itself, resulting in a real interest 'income' being compared to the trailing average regulatory allowance for the cost of debt, and resulting in a cost of debt outperformance being presented in the RFPR for 2023/24. This cost of debt outperformance is then pro-rated upwards to convert from an actual to notional gearing basis. Given that all four NGED DNOs are below the RIIO-ED2 notional level of 60% gearing, this adjustment also has a significant impact.

RAV

The R7 – RAV table details the annual Regulatory Asset Value (RAV) position based on the actual and forecast RAV per the 2024 Dry Run 1 ED2 PCFM submission, with actuals for 2023/24 and forecast for the remainder of RIIO-ED2. The closing RAV balance is used in deriving actual gearing and the NPV neutral equity element of RAV is then used to calculate RoRE.

Table 7 below shows the adjusted closing RAV uplifted to year-end prices, for each NGED DNO, plus NGED total. This view of RAV includes the impact of Enduring Value adjustments on RAV additions. 2024/25 to 2027/28 Closing RAV is based upon the latest forecast as in the 2024 RRP submission.

RAV is impacted by the enduring value adjustments which have been made, the impact of these is shown in Appendix 2.

Table 7: Adjusted Closing RAV, nominal prices, £m

Adjusted Closing RAV, Nominal prices					
	2024	2025	2026	2027	2028
WMID	3,478	3,649	3,805	3,982	4,131
EMID	3,518	3,717	3,876	4,040	4,217
SWALES	1,697	1,808	1,929	2,052	2,199
SWEST	2,604	2,799	3,018	3,216	3,417
NGED Total	**11,298**	**11,973**	**12,628**	**13,290**	**13,964**

Taxation

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

The forecast regulatory tax liability has been calculated using the 2024 Dry Run 1 PCFM submission plus the impact of enduring value adjustment.

As per Ofgem instruction, the tax reconciliation table R8a will not be completed until 2025 due to the timing of the CT600 submission

Financial Resilience & Corporate Governance

Financial Resilience

National Grid as a group do not have securitisation requirements that limit or restrict cashflows or dividends across the group. Taken over from Western Power Distribution, NGED has legacy covenants which limit gearing at 85% embedded in each regulated Licenced entity. In addition, an intermediary holding company (National Grid Electricity Distribution plc) holds a single piece of external debt in the ownership chain. No entity within the Corporate Group structure has material economic dependencies given the number of operating companies in the group.

Furthermore, a facility exists with NG plc to remove any reliance on operating company dividends. Financing of NGED plc since acquisition has been undertaken from National Grid plc through an intercompany facility (including the refinancing of a second piece of external debt as part of the acquisition) and this is anticipated to continue until 2028 when the last remaining bond matures. Once matured this will be re-financed at NG plc. See Appendix 4 for further details on each resilience requirement as per the Ofgem RIGs.

Dividends paid and current policy

The table below summarises the dividend payments 2023/34, as presented in table R9 – Dividends in the RFPR:

Table 8: Dividend paid per Statutory Accounts, nominal prices, £m

	2024
WMID	50
EMID	100
SWALES	60
SWEST	40
NGED Total	250

The NGED Group is structured such that a proportion of the NGED Group's debt is issued by group companies other than WMID, EMID, SWALES and SWEST. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WMID, EMID, SWALES and SWEST.

The dividends shown in the table above reconcile to the individual NGED licensee company statutory accounts. As per the RIGs these dividends represent those paid in 2023/24 reflecting performance in the previous year.

For the NGED dividend policy please see supplementary document.

In considering capital distributions, NGED's Board is mindful of stakeholders' views and takes account of our latest financial position, and the long-term sustainability of the company, in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIIO-ED2 output commitments and future requirements such as DSO, to assess investment requirements.

As such, in determining what, if any, dividends to pay, acting on behalf of the Licensee the NGED Board adopts a multi-stage process:

- Determination of an appropriate dividend based on performance, followed by
- Consideration of issues associated with financial resilience, ensuring adequate financial resources and credit metrics considering both current and future price control investment requirements and any gearing targets
- Consideration of whether there are any circumstances where the owners of NGED might prefer to receive a lower dividend in any particular year.

With regard to financial resilience and resources, the NGED Board's considerations include:

- Requirements of the NGED Licence
- Current and future financial sustainability and availability of capital
- Current and future investment and financing needs
- Current and projected gearing
- Current and projected credit metrics
- Previously deferred dividends

Note that the RFPR requires an adjustment to remove the element of dividends not related to the Regulatory business. NGED's apportionment methodology is set out in Appendix 3.

The R9 Corporate Governance table also contains a table showing the executive director's remuneration. As each of the four NGED DNOs has the same set of directors an allocation of their salary, the methodology for which is detailed in Appendix 3.

Answers to specific questions from Ofgem around corporate governance, the board composition, decision making and the corporate ownership structure can be found in Appendix 4. The ratio of CEO remuneration in comparison to the company's employees is also given, this has been done using the same methodology as in the statutory accounts and is based upon NGED payroll data.

Pensions & Other Activities

Pensions

NGED operates two defined benefit schemes which fall within Ofgem's price control pension principles:

- The WPD Group of the Electricity Supply Pension Scheme (WPD Group), for which SWALES and SWEST are sponsoring companies; and
- The Central Networks Group of the Electricity Supply Pension Scheme (CN Group), for which WMID and EMID are sponsoring companies.

As at 31 March 2022, the deficit on the WPD Group of the ESPS was £66.9m, and the deficit on the CN Group of the ESPS was £39.0m.

Table R10 – Pensions shows a summarised position of the pension deficit for the defined benefit schemes attributable to NGED's DNOs. The deficit for the WPD Group of the ESPS has been reported in table R10 for both SWALES and SWEST, and similarly the deficit for the CN Group of the ESPS has been reported in table R10 for both WMID and EMID.

Ofgem Fines

There are no Ofgem fines to report

Guaranteed Standard payments

We have recorded low numbers of failures against the Guaranteed Standards of Performance in a year where we saw a significant number of storm events.

Data Assurance Statement

The data in this report has been reviewed under NGED's internal Data Assurance process, including multi-level reviews and senior manager sign-off.

The overall submission and regulatory judgments have been signed off at Director level.

Appendices

1. Reconciliation if licensees have a different statutory year from the Regulatory Year

This section is not applicable as NGED's DNOs have a 31 March year end.

2. Enduring Value adjustments

Ofgem's RFPR Regulatory Instructions and Guidance define Enduring Value as: "The true value of the regulated business over the course of the price control. The enduring value of the business factors in the financial impact of any decisions or future events, which have yet to be reflected in Revenue and RAV but are known at the time of estimation. The enduring value represents the establishment of sustained long-term value to the regulatory network or to its operation."

2023/24 Enduring Value adjustments

Enduring value adjustments have been used to rephase the impact of lower Totex spend in year one of the price control to reflect the latest forecast and give a true value of the regulated business over the course of the price control.

A second enduring value adjustment has been included in our RFPR submission to reflect additional cost efficiencies planned for delivery across the remainder of the RIIO-ED2 period and which we expect to include in the 2024 PCFM Dry Run 2 and final submissions. This will have benefits to our consumers by lowering their bills.

The Totex and allowance forecast used as the base for the RFPR is one that aligns to the PCFM dry run 1, which in turn reconciles and matches to the July '24 RRP submission. This has then been adjusted to reflect our latest view of planned efficiencies, which we expect will continue to evolve over the price control period.

Tables 8 to 11 below show the impacts on Allowed Totex, RoRE and RAV of the enduring value adjustments. Note that there is nil overall impact on performance as a result of these adjustments. There is however a timing impact on RAV which will take time to unwind.

Table 8: Enduring Value Totex Timing Adjustments

Enduring Value Totex Timing Adjustments, 20/21 prices	2024	2025	2026	2027	2028	Total
WMID	(50)	9	17	41	(17)	**0**
EMID	(47)	12	3	7	25	**0**
SWALES	(26)	1	(2)	11	15	**0**
SWEST	(30)	8	21	10	(9)	**0**
NGED Total	**(153)**	**30**	**38**	**69**	**15**	**0**

Table 9: Enduring Value Totex Performance Adjustments

Enduring Value Totex Performance, 20/21 prices	2024	2025	2026	2027	2028	Total
WMID	0	0	0	0	0	**0**
EMID	0	5	15	24	27	**70**
SWALES	0	5	5	11	8	**28**
SWEST	0	(5)	(5)	(5)	(5)	**(19)**
NGED Total	**0**	**5**	**15**	**28**	**32**	**79**

Table 10: Enduring Value Impact on RoRE

Total RoRE Impact of EV Adjustments	2024	2025	2026	2027	2028	Average
WMID	(2.4)%	0.4%	0.8%	1.8%	(0.7)%	0.0%
EMID	(2.2)%	0.8%	0.8%	1.3%	2.2%	0.6%
SWALES	(1.2)%	0.3%	0.1%	1.0%	1.0%	0.5%
SWEST	(1.4)%	0.3%	0.8%	0.1%	(0.7)%	(0.2)%
NGED Total	**(1.9)%**	**0.5%**	**0.7%**	**1.1%**	**0.5%**	**0.2%**

Table 11: Net RAV additions plus depreciation impact

Net RAV additions plus depreciation Impact of EV Adjustments	2024	2025	2026	2027	2028	Total
WMID	(21)	4	7	18	(8)	**1**
EMID	(20)	3	(5)	(7)	0	**(28)**
SWALES	(11)	(1)	(3)	1	4	**(11)**
SWEST	(13)	5	11	7	(1)	**8**
NGED Total	**(65)**	**12**	**11**	**18**	**(6)**	**(29)**

3. Basis of any estimates and allocations

Use of RRP data

Note that much of the data in the RFPR tables has been taken from the RRP tables which are also submitted to Ofgem in August 2024. NGED has not had confirmation from Ofgem that no changes are required to this data.

Details of areas of allocation processes and estimation methodologies used to derive RRP data are reported in the Strategic Performance Overview accompanying the RRP data submitted to Ofgem in August 2024.

Allocation processes and estimation methodologies

Guidance has not been provided by Ofgem for the following areas, therefore NGED sets out its methodologies below.

Allocation of dividends

The RFPR requires an adjustment to remove the element of dividends not related to the Regulatory business.

Ofgem has not prescribed a method of calculating this, therefore NGED's apportionment methodology uses RRP data in table C1 and takes:

Total Net Costs after Non Price Control allocation outside the price control

(Total Net Costs after Non Price Control allocation outside the price control, **PLUS** Total Net Costs after Non Price Control allocation inside the price control)

Calculated as a percentage for each regulatory year.

The dividend paid per the statutory accounts is then multiplied by this percentage to calculate the element paid not related to the Regulated business.

Allocation of Director's Remuneration

Since 2012/13, shared costs have been allocated across the four NGED DNOs as follows:

Allocation of Director's Renumeration	
WMID	30%
EMID	30%
SWALES	15%
SWEST	25%

The basis of this allocation has been the identification of key cost drivers which drive shared costs. Internal review in 2023/24 has confirmed that this allocation remains appropriate.

Pensions reporting

As set out above in relation to table R10 – Pensions, information for the Central Networks Group of the ESPS is reported in table R10 for WMID and EMID, and the WPD Scheme is reported in table R10 for SWALES and SWEST. As the RIGs for table R10 require that the total pension deficit repair payment made by the licensee for its share of any defined benefit schemes is reported, the non-regulated amount of any deficit repair payments into these schemes has been apportioned to arrive at the licensee share. The basis of this allocation for 2023/24 is as follows.

Total deficit repair payment for the CN scheme has been split between pre cut-off deficit repair and post cut-off deficit repair amounts based on the pre cut-off and post cut-off proportions in the last Pensions Deficit Allocation Methodology (PDAM) submission to Ofgem. These amounts are then multiplied by the respective pre cut-off and post cut-off Regulatory Fractions for WMID and EMID from the 2020 PDAM submission to derive the Established and Incremental deficit repair amounts for WMID and EMID. This then leaves a non-regulated element of both the pre and post cut-off payments to be apportioned between WMID and EMID. This is calculated by pro-rating the pre cut-off non-regulated amount between WMID and EMID depending on their relative shares of the Established deficit repair payment for the scheme, and the post cut-off non-regulated amount based on relative shares of the Incremental deficit repair repayment for the scheme.

The same approach is followed for the apportionment of the deficit repair payments into the WPD Scheme between SWALES and SWEST.

4. Corporate Governance

Answers to corporate governance questions prescribed by Ofgem

Ofgem question	NGED response
4.14. Licensees must provide details of the financial covenants, if any, contained within debt instruments issued or contracted by the Licensee or the Licensee's associated finance company with conditions that apply to the Licensee or to any or all of the Licensee's subsidiaries or holding companies, including the following information:	Net debt to RAV gearing covenants on bond debt limiting gearing to 85% of RAV for each NGED operating company. As at 31 March 2024, headroom on this covenant exceeds 20% for all impacted companies based on the covenant definition of net debt.
i. default or event of default ratios, including interest coverage and regulatory gearing and any rights for equity cures; and	If a dividend is paid despite RAV gearing as disclosed above being above 85% would constitute a default event
ii. restrictions on distributions including interest coverage and regulatory gearing and any documented remedies for breaches, for example equity cures.	The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include: - the requirement to notify by certification to certain lenders; - the percentage of debt compared with total RAV of the subsidiary must remain below 85%.
4.15. Licensees must provide details of any obligations, if any, contained within debt instruments issued or contracted by the Licensee or the Licensee's associated finance company with conditions that apply to the Licensee to declare dividends or distributions from the Licensee	Not applicable
4.16. Licensees shall use all reasonable endeavors to provide information on companies within the corporate group that have a material economic reliance on distributions and dividends from the Licensee, including companies that sit above the Licensees in the group structure. We consider it reasonable for licensees to be able to provide information that they share with the credit rating agencies for the purposes of obtaining a credit rating for the Licensee. By material economic reliance we mean:	No entity with material economic reliance given the number of operating companies in the group.
if the company is incorporated in the UK and distributions from the Licensee are required to pay 50% or more of the external debt interest costs of the company over a twelve-month period;	External debt in NGED plc which is expected to be refinanced on maturity at an NG plc level.
if the company or any economic or financial counterparty to the company has a security interest or fixed or floating charge over the shares of the Licensee.	A facility exists with NG plc to remove any reliance on operating company dividends.
4.17. The information that we require, for the companies defined in 4.16, is:	
i. details of the debt held by the company: amount, interest cost (fixed or margin plus the underlying rate), tenor and financial covenants; and	Not applicable as per above
ii. details of the interest and debt service costs for the last twelve months regulatory year (April – March) and the percentage that was paid by distributions from the Licensee; and	Not applicable as per above
iii. a forecast of the interest and debt service costs for the next twelve months regulatory year (April – March) and the percentage that is forecast to be paid via distributions from the Licensee; and	Not applicable as per above
iv. details of alternative sources to meet debt service absent of distributions from licensed entities including retained liquidity, debt service reserve facilities or support from other non-licensee entities.	Not applicable as per above

NGED's board composition as at 31st March 2024

Name	Director Type	Appointment Date	Role
Branston, Paul	Executive	15/12/2023	Director of Regulation
Barbrook, Laura Sophie Scudamore	Shareholder-appointed non-executive	31/01/2022	Group Financial Controller
Cardew, Anthony John	Sufficiently Independent	23/03/2017	Senior Independent Director
Campbell, Justine	Shareholder-appointed non-executive	31/01/2022	Group General Counsel and Company Secretary
Fussell, Lindsey	Sufficiently Independent	21/08/2023	Senior Independent Director
Halladay, Graham Roy	Executive	14/01/2019	Director of Field Operations
O'Hara, Cordelia	Executive	01/04/2023	Electricity Distribution President
Pettifer, Darren	Executive	17/08/2022	Chief Financial Officer

The same Board composition applies to each of:

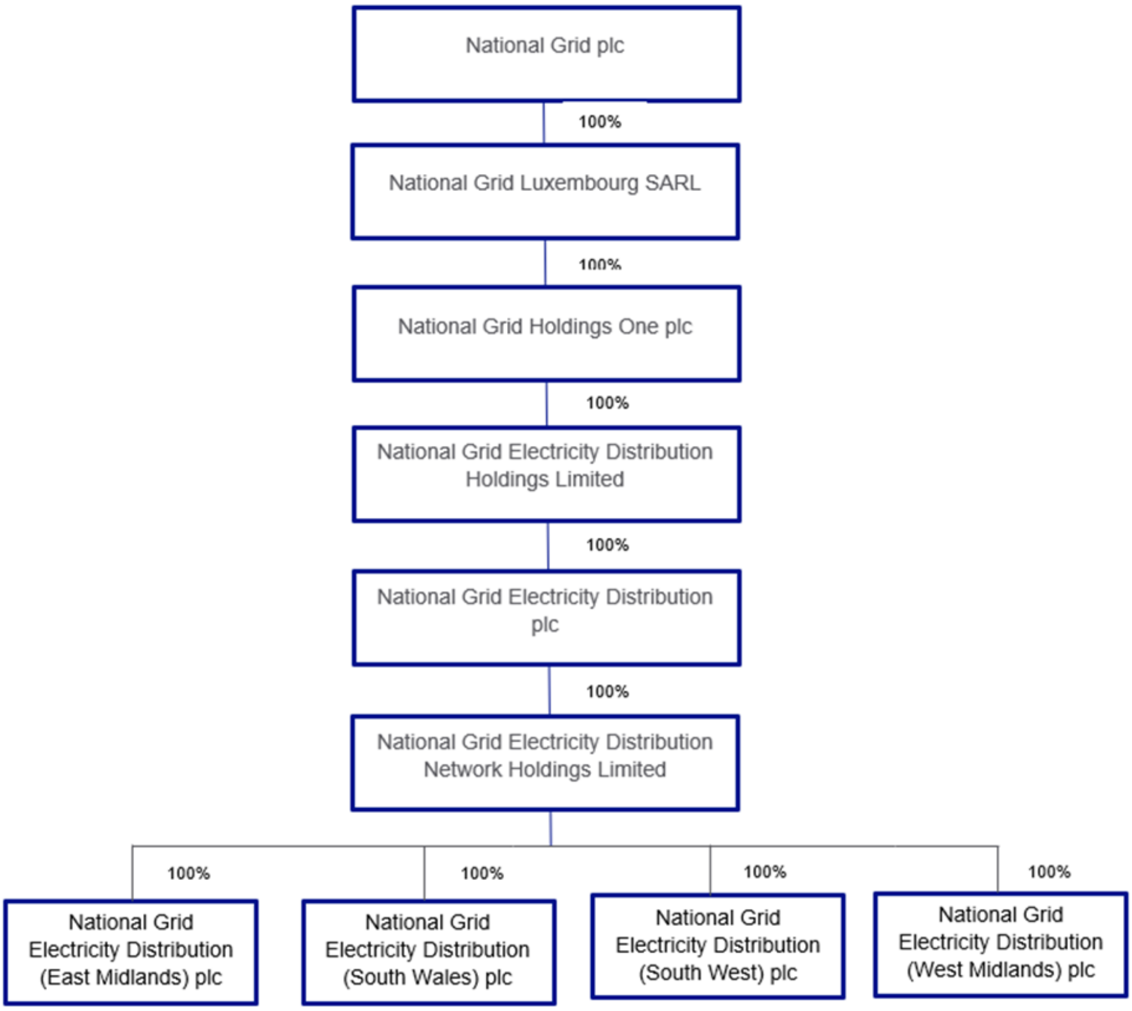
- National Grid Electricity Distribution (East Midlands) plc;
- National Grid Electricity Distribution (South Wales) plc;
- National Grid Electricity Distribution (South West) plc; and
- National Grid Electricity Distribution (West Midlands) plc.

Decision Making

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

Purpose, values and strategy	Purpose, values and strategy are matters reserved to the ultimate shareholder, National Grid plc. The Company works within the purpose, values and strategy of National Grid and the Company's Board is responsible for the oversight of the Company's purpose, values and strategy.
Board nominations	Changes to the structure, size and composition of the Board and Board Committees are matters reserved to the Company's Board. In accordance with the Company's Articles of Association, the respective Company's shareholder (being National Grid Electricity Distribution Network Holdings Limited) may appoint and remove directors by ordinary resolution.
Board evaluation	The Board evaluation process is a matter reserved for the Company's Board. Separately to the Company, the Board of National Grid plc complies with the provisions of the UK Corporate Governance Code in relation to its own evaluation.
Executive remuneration	Executive remuneration is a matter reserved to the Board of National Grid plc. Further information on this is available within the Remuneration Report of National Grid plc's 2023/24 Annual Report and Accounts on pages 98 to 114.
Dividend policy	Dividend policy is a matter reserved to the Company's Board. The Company will consult with the Board of National Grid plc to determine dividends, with final approval from the Company's Board.

Corporate Ownerships Structure:



Affiliates Holding Ofgem Licences

•National Grid Electricity Transmission plc
•National Gas Transmission Plc
•National Grid Electricity System Operator Limited

5. Other relevant information

Useful links and further information

Further information on NGED's Financial Performance can be found in NGED's Statutory Accounts:
https://www.nationalgrid.co.uk/about-us/annual-reports-and-financial-statements

NGED's RIIO-ED2 Business Plan can be found at the link below:
https://yourpowerfuture.nationalgrid.co.uk/riioed2-business-plan

Ofgem's Guide to the RIIO-ED2 Electricity Distribution Price control is intended to give stakeholders a better understanding of how RIIO-ED2 works in practice:
https://www.ofgem.gov.uk/system/files/docs/2017/01/guide_to_riioed1.pdf

nationalgrid

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nationalgrid.co.uk