

# **Regulatory Financial Performance Report (RFPR) - 2023/24**

**September 2024**

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# 1. Executive Summary Including Key Financial & Operational Performance

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This report sets out our financial & operational performance in 2023/24 and supports our RFPR tables submitted to Ofgem in September 2024. Further details of performance, both financial and operational which include how we act in a sustainable and environmentally responsible way, can be found within NGN's RIIO-2 Strategic Commentary 2023-2024 Report.

The financial highlights for the year ended 31 March 2024 are:

- We outperformed the allowances by 1.5% this year, being a significant reduction compared to prior years of RIIO-2, as was forecast. Workload increases and cost pressures, against a reducing allowance will lead us to deliver a forecast 4.3% outperformance over RIIO-2. Note, our allowances this year include c.£41m of reopener monies relating to: HSE policy £16.5m, Streetworks £11.5m, Cyber £8.5m and Net Zero £4.9m.
- We expect to maintain our customer service performance in future years, delivering £7.7m incentive over RIIO-2. We expect to pay no penalties under the Complaints and Unplanned Interruptions. We were in penalty in the first year under the Environmental Emissions Incentive, but this has been recovered in all other years of the price control.
- We delivered more Tier 1 mains replacement work than targeted, and 39km more than we delivered in 2022/23. We will continue to deliver above targets over GD2 to recover the shortfall seen during the Covid-19 pandemic.
- The Regulatory Asset Value (RAV) increased in line with expectations as we continue to invest in our assets.

## **Note on enduring value adjustments**

Enduring value is defined as an adjustment made to a licensee's financial or operational performance to reflect true performance against regulatory targets. This could include any timing differences (past or future) on delivery when compared to the allowance, any future uncertainty mechanism claims, and any future close out mechanism adjustments. NGN do not consider it appropriate to make any enduring value adjustments as at 31 March 2024.

## **Estimates and allocations**

No significant estimates are made. No allocations are made that do not fall within the guidance of the Regulatory Financial Performance Reporting Regulatory Instructions and Guidance, unless stated within this document.

## **Data assurance**

The submission process is compliant with NGN's Regulatory Reporting Policy, which requires a full secure audit trail for the submission, segregated roles and responsibilities including independent completion and detailed checking roles. Step by step processes have been documented. All tables are allocated to members of the

NGN Finance Management Team, and have been reviewed through departmental internal sign off in accordance with our policies.

Much of the financial data is based on other Regulatory Submissions including those detailed under Condition A40 in our Licence and it has been reconciled to the March 2024 audited statutory accounts. As such the base data is subject to the controls inherent in those processes.

## 2. (R1) Return on Regulatory Equity (RORE)

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Ofgem use the Return on Regulatory Equity (RORE) to measure the potential financial returns or penalties on the portion of the value of the company that is financed by equity. RORE is calculated by using the cost of equity (Allowed Equity Return) as the starting point as this amount is funded directly in revenue. The cash value of any outperformance from the incentive mechanisms is then divided by the 40% notional equity portion of the Regulatory Asset Value to calculate the additional return on equity earned.

RORE: %	21/22 actual	22/23 actual	23/24 forecast	24/25 forecast	25/26 forecast	RIIO-2 average
Operational performance	6.95	6.83	5.78	4.82	5.33	5.93

Our RORE this year is 5.78% and over the price control period has an average of 5.93%.

After the Allowed Equity Return, the main driver is the Totex incentive mechanism. We expect our out-performance against the Totex allowances to reduce over time, partly due to workload movements, but also due to the tightening of the allowances, which includes a very stretching efficiency assumption. In addition, allowances have increased relative to last year on a 2018/19 price basis, mainly driven by additional re-openers values in relation to HSE, and local authority street-works requirements. We expect to earn further rewards under the Customer Satisfaction Incentive, whilst the Shrinkage Management Incentive is forecast to be a slight positive over the price control.

Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2023-2024 Report.

## 3. (R2) Reconciliation to Revenue & Profit

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At the beginning of the price control Ofgem set our Base Revenue, assuming we deliver in line with the allowed costs and workload. Our Allowed Revenue is then calculated based on our actual cost and workload performance and is used to set customer bills. However, because of movements in customer numbers and levels of consumption our Collected Revenue for that year is unlikely to match the Allowed Revenue. Any under or over collection is simply adjusted for in the following years' Allowed Revenue.

In addition to our Allowed Revenue, the gas networks collect revenue to pay for the National Transmission System (NTS) Exit Capacity charges, and the Supplier of Last Resort payments. These are pass through costs – the gas networks have no control over the charges and simply collect the revenue to be passed on. However, they are a significant part of the end customer's bill.

Our statutory revenue in 2023/24 was £538.1m (nominal prices) with a reconciliation of this and Allowed Revenue provided within the RFPR table R2. Statutory profit after tax in 2023/24 was £153.5m (nominal prices) as set out within the RFPR table R2. Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

## 4. (R3) Totex

### Summary

All data within this section is detailed in 18/19 prices unless stated otherwise.

This year we outperformed Totex allowances by £3.8m.

Totex: 18/19 prices £m	21/22 actual	22/23 actual	23/24 actual	24/25 forecast	25/26 forecast	Total forecast
Opex (controllable) and Capex	114.2	125.1	138.8	163.1	152.9	694.1
Repex	100.7	95.8	103.8	102.5	103.7	506.5
<b>Totex</b>	<b>214.9</b>	<b>220.9</b>	<b>242.6</b>	<b>265.6</b>	<b>256.6</b>	<b>1,200.6</b>
Allowance	256.2	257.2	246.4	246.5	248.5	1,254.8
Variance	<b>(41.3)</b>	<b>(36.3)</b>	<b>(3.8)</b>	<b>19.1</b>	<b>8.1</b>	<b>(54.2)</b>

As shown in the above table, we expect costs to increase with outperformance over the 5 years to be £54.2m. Further details of this year's performance are provided below and a more detailed analysis is provided within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

### Controllable Opex

Our Controllable Opex costs were £93.0m this year, 7.3m higher than the previous year. The increased spend compared to prior year is detailed below.

#### Work Management and Work Execution - £5.1m above prior year

- **Holder Demolition and Environmental Remediation** costs, which were £1.5m lower than last year, can vary materially by size, condition, and other site factors. This year we demolished 5 holders, 5 less than last year and 1 more than planned. This is purely phasing of work, leaving 1 holder remaining, and results in lower expenditure for the remainder of RIIO-2 and an outperformance against our plan through efficient delivery of the programme. We spent in line with our Environmental Remediation plan this year, and expect work on these complex projects to increase over the later years of RIIO-2, so that overall we expect to complete our planned work over RIIO-2 in line with our planned costs.
- Expenditure in **Emergency and Repair** has decreased by £1.1m. Emergency costs reduced by £0.2m to £10.0m as, despite 23 additional engineers recruited to date in RIIO-2 to improve resilience and a move towards Health and Safety Executive fatigue requirements, we provided additional Purge and Relight support to our Repex programme as enabled by reduced PREs. PRE workload in the year was 23% below forecast in a year due to a mild winter. Repair costs reduced by £0.9m as Repair volumes were 9% lower than the previous year but continue to be above our forecast due to ageing network and associated increase in ratio of PREs to Repairs.
- We spent £5.4m more on **Maintenance** this year, as we have caught up on the Annual Maintenance Plan (AMP) as well as investing additional resources to deliver work, provide long-term resilience and

reduce the age profile in this part of the business. Additional costs have also been incurred in Other Direct Activities, as well as additional Apprentices as part of our strategy to replenish skills and experience within our workforce.

- We spent £1.2m more on **Operations Management** this year. The main driver was additional contractor costs associated with security across our operational sites due to increased theft and damage.
- We spent £0.3m more on **Customer Management** this year due to additional variable costs associated with the Emergency Call Handling contract as volume of calls increased.
- We spent £0.7m more on **Other Direct Activities** than forecast, £0.7m higher than each previous year. Increased costs were incurred on overcrossing remedials, asset decommissioning and several incidents. Costs in this area can vary year on year, driven by non-routine activities, the number of district incidents we encounter and our success at recovering costs from third parties if they caused the incident.

#### Business Support and Apprentices - £2.1m above prior year

- We spent £0.6m less on **IT and Telecoms** this year as we replaced both our cloud hosting and WAN/LAN service providers, resulting in a reduced annual cost.
- Our **Property** costs have increased by £0.7m this year. The main increase is due to utility bills across our offices and depots linked to the energy crisis with a benefit from the purchase of our Thorpe Park Head Office reducing rent.
- We spent £0.6m more on **Audit, Finance and Regulation** this year, from costs associated with development of the RIIO-3 business plan. These costs have been marginally offset by benefits from our Theft of Gas Team.
- We spent an additional £0.2m this year on **Insurance** due to increased premiums. The insurance market has seen a shift in premium costs, which we are now experiencing.
- We have spent an additional £1.1m on **Apprentice's** as we look to secure continuity in the services we deliver.

#### Capex

Our Capex costs were £45.8m this year, £7.3m lower than the allowance. We expect costs and workload to increase in the next 2 years so that we are more in line with our Business Plan over the five years of RIIO-2. The key reasons for lower than forecast performance are set out below.

- **LTS, Storage and Entry** costs were £9.7m, £6.8m lower than forecast. The main driver for this has been delays in starting work on some of the major projects associated with the Network Rail-driven TransPennine Electrification project. We continue to experience delays with long lead items and a shortage of expert contractor resource, driven by general economic conditions and wider demand from expert delivery partners across the utility sector.
- **Net Connections** costs were £5.4m this year, c£0.2m higher than forecast. Workload reduced on total mains by 2% and increased on total services by 1% compared to last year. Costs increased in the year

due to a higher proportion of Non-Domestic connections and stranded overhead costs resulting in increased unit costs.

- **Mains reinforcement** costs excluding governors were £4.4m this year. We delivered 13.6km of mains, compared to 15.2km in 2022/23, at a unit cost of c£293 per metre, a 4.6% increase from £280 per metre in 2022/23. Costs and workload have reduced due to minimal enquiries from large load energy producers resulting in unused allowance, that we plan to utilise for network reinforcement associated with enabling efficient delivery of our Repex programme.
- **Replacement governor** costs were £2.6m this year, c£1.0m above forecast, which is also reflected in the workload delivered – 213 district governor projects were completed in 23/24 compared to 3 in 2021/22 and 78 in 2022/23. The commencement of our service governor programme in the year and our site upgrade programme, resulting in a significant amount of governor housing being replaced, were key drivers to increased volumes.
- **Other Capex** costs were £23.7m this year, c£4.3m below forecast. The main drivers for this underspend were: lower expenditure on IT and Telecoms than planned due to insourcing a sizeable proportion of our IT development team providing more efficient and agile delivery of projects; and lower expenditure on Pipelines as we continue to experience issues with Network Rail as well as contractor resourcing issues on our overcrossings projects.

We expect costs and workload to increase in future years and to be more in line with our business plan specifically on overcrossings and pipelines as we recover the position outlined above. We do expect to see some cost pressures on vehicles, especially as part of our EV trials as well as on areas such as electrical equipment, plant, tools and equipment.

## Repex

This year we have delivered a total of 590.0km of mains abandonment.

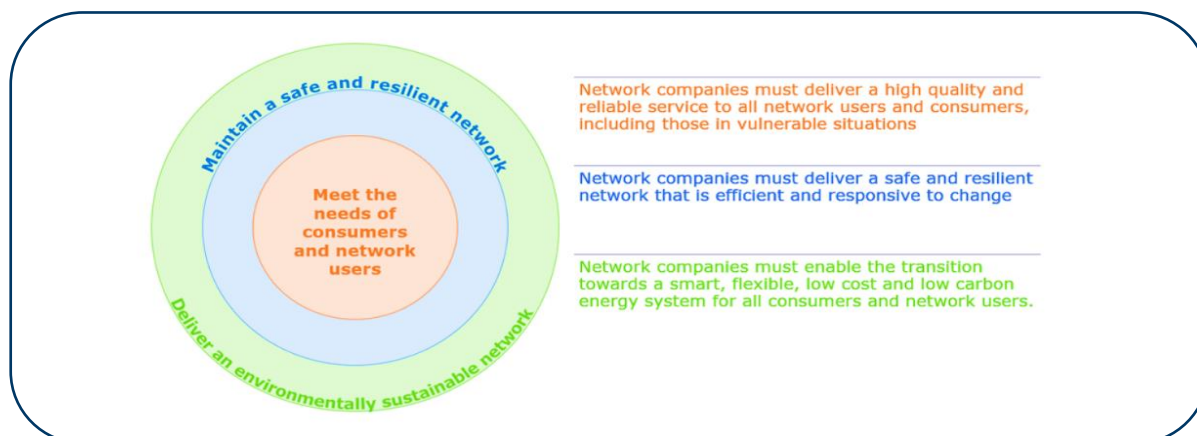
Our Repex costs were £103.8m this year, £6.2m higher than the allowance. The main driver was additional Tier 1 workload delivery as we recovered the previous year's shortfall and moved ahead of target. This year we decommissioned 469.6km of Tier 1 mains against a RIIO-2 annual target of 437.3km, a further 32.2km delivered in the year. Increase to delivery costs has also been a key driver of cost increase as unit costs are c£7 per metre above corrected allowance across all Tiers. These increased costs are expected to continue through the remainder of RIIO-2 and into RIIO-3.

Tier 1 Stubs work has continued in the year, with no allowance, as Ofgem provided allowances for the first two years of RIIO-2 as the HSE policy was under review at the time, and so the volume and timing of work was uncertain. It is now clear under HSE policy that many Tier 1 stubs still need replacing, and so our cost forecast takes this into account for all RIIO-2 years. This is one of the drivers for the overspend against allowance in the remaining years of RIIO-2, as we have included costs with no associated allowance.

We have delivered 101.8% of our targeted workload over the first three years of RIIO-2.

## 5. (R4) Incentives & Other Revenue

The adoption of an output and incentive-based framework is a key element of the RIIO regulatory contract. By defining the outputs companies need to deliver and any incentives or penalties they will receive for over or under-performance, as well as setting cost allowances, companies are incentivised to innovate and deliver the services that customers require at least cost. An outputs-based framework also provides greater transparency for customers and the networks as to what services and standards the networks need to deliver.



### Performance summary

We expect to increase our customer service performance each year, delivering an £7.7m incentive over the RIIO-2 period. We expect to pay no penalties under the Complaints and Unplanned Interruptions. We were in penalty in the first year under the Environmental Emissions incentive, but expect to recover this over the RIIO-2 period to earn £0.8m.

Output Incentives: 18/19 prices £m	21/22 actual	22/23 actual	23/24 actual	24/25 forecast	25/26 forecast	Total forecast
Customer service	1.4	1.6	1.6	1.6	1.6	<b>7.7</b>
Complaints	-	-	-	-	-	-
Unplanned interrupt	-	-	-	-	-	-
Shrinkage mgt	(0.3)	0.4	0.4	0.3	0.1	<b>0.8</b>

Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2023-2024 Report.



## 6. (R5 - R6) Financing and Net Debt

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### Cost of debt

In 2023/24 NGN's net interest cost on a nominal basis (per the regulatory definition) was £39.7m before the impact of accretion on index-linked swaps (2022/23 £30.9m) and £60.4m after accretion (2022/23 £78.8m).

Relatively high inflation in the year, coupled with c70% of NGN debt being subject to nominal interest rates, means that on a real basis (using Ofgem's methodology) NGN's net interest cost was -£31.0m net of accretion on index-linked swaps (2022/23 -£58.6m). That translates to £55.9m of cost of debt outperformance in the year (in 18/19 prices at actual gearing), (2022/23 £84.4m) contributing +6.4% to RoRE for the year (2022/23 +10.0%). As with the previous year, in our view this is not a true reflection of outperformance as the methodology is based on the premise that the inflation element embedded in our debt costs is equal to the short-term inflation of the reporting year, which is not the case in reality.

As an infrequent issuer of debt NGN is not able to manage its actual debt costs against the regulatory allowance purely through the timing of debt issuance. Derivatives (interest rate swaps) are therefore used to manage the extent to which NGN's actual debt costs are sensitive to market rates in any particular year.

### Net debt

Regulatory net debt increased from £1.72bn in March 2023 to £1.80bn in March 2024. The additional debt was used to fund investment in the network and supporting IT infrastructure.

NGN raised £300m of new debt in 2023/24 being a 6.125% 10-year public bond. NGN also retained a further £150m of the same bond for potential future sale to secure further funds.

Proceeds from the bond issue were used in part to pre-pay floating rate loans from the European Investment Bank. Loans of £25m and £100m were repaid in June 2023 and a loan of £60m was repaid in July 2023.

The only other debt repaid in the year was a £1.8m amortisation payment on an EIB loan.

Credit facility drawings decreased from £31.0m in March 2023 to £0.0m in March 2024. Cash increased from £10.7m to £39.1m.

NGN extended the maturity of its £160m syndicated credit facility from October 2025 to October 2026. No further maturity extension options are available.

### Completion of tables R5a & R6a

The finance charges / interest costs ("Income statement (P&L) charge") in table R5a are linked to tables F3-5, based on data input in table F6. There is a mismatch between the values derived from these calculations and the corresponding P&L values in NGN's accounts for 2021/22 to 2023/24. This mismatch arises from a number of sources, including, but not necessarily limited to:

- Inflation swap accretion is calculated in the RFPR with reference to CPIH. NGN's inflations swaps are based on CPI so accounting values differ.
- The interest on floating rate loans and the floating legs of interest rate swaps is based on monthly averages of SONIA in the RFPR. In reality, rates are based on average SONIA over specific periods, some of which will straddle regulatory year-ends. Moreover, accrued interest at year-end is based on forecast SONIA for the remaining duration of each interest period and NGN's treasury system forecasts may differ from Ofgem assumptions.
- The calculations embedded in the RFPR do not take account of different day count bases for calculating interest (e.g. actual/actual, actual/365, 30/360), which is especially relevant where interest is calculated for only part of a year.

- The RFPR methodology assumes that an instrument beginning on 31 March only “counts” from 1 April, and that an instrument maturing on 31 March attracts interest on that day. Both assumptions are “incorrect” by one day.
- For 2021/22 some differences will have arisen as a result of Libor transition – in the RFPR an instrument can only have its floating rate classified as being referenced to LIBOR or SONIA, whereas in 2021/22 all swaps and floating rate loans will have been subject to both at different times.

In table R5a, for the purpose of reconciling interest calculated by RFPR with finance costs per NGN’s income statement, we have therefore populated rows 50-57 with adjustments to correct for the mismatch described above for 2022 to 2024. The adjusted values also contribute to the total “Net Interest Per Regulatory (RIIO-2) Definition” in row 117. For the purpose of forecasting, we have assumed that the calculations embedded in the RFPR will reflect actual interest costs in all future years.

In table R6a we have added accretion on index-linked swaps to *Total Net Debt* to derive an appropriate value for *Total Net Debt per Regulatory Definition*, in order that gearing is correctly calculated (this feeds into table R6 at row 29).

Accumulated swap accretion is included in debt for the purpose of calculating gearing ratios in NGN’s debt covenants. This is also consistent with rating agency methodology for calculating debt-related credit metrics. In NGN’s financial statements, accumulated accretion, although separately disclosed, is included in swap creditors rather than as debt. Economically, however, it is a debt-like obligation, requiring full settlement at maturity (whereas interest rate swap fair values will be nil at maturity). In 2031, when the various swaps mature and accretion falls due for payment, NGN will have to arrange funding to make the payments, thereby increasing debt and gearing. This amount is currently expected to exceed £150.0m. Failing to include the ongoing amount as part of regulatory debt would bring about a cliff-edge in 2031/32 as the accretion is paid down and new debt raised.

## 7. (R7) RAV

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The table below shows our RAV position in RIIO-2. This has been calculated using the latest Ofgem PCFM updated to include all inputs from the revenue interface tab from the Regulatory Reporting Pack. The RAV shown below includes Totex performance from 21/22, 22/23, 23/24 and a forecast position thereafter.

NGN’s closing RAV position at 31<sup>st</sup> March 2024 is £2.3bn in 18/19 prices as shown below:

<b>RAV: 18/19 prices £m</b>	<b>21/22 actual</b>	<b>22/23 actual</b>	<b>23/24 actual</b>	<b>24/25 forecast</b>	<b>25/26 forecast</b>
Closing	2,263	2,293	2,322	2,353	2,382

## 8. (R8 – R8a) Tax & Tax Reconciliation

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The aim of this table R8a is to reconcile the tax charge per CT600 to the regulatory tax allowance. For the 23/24 RFPR submission this is the reconciliation of the latest submitted tax computation, so for the year ended 31 March 2023.

The CT600 values for the year ended 31 March 2023 are in column D of table R8a and are compared to the PCFM values in column H of table Ra8. The key differences are explained in R8a and are summarised in Appendix 1 of this commentary.

We have also included additional supporting documentation to evidence where the numbers included in column D of table R8a come from (the CT600) and how this reconciles to the different headings used in column A of table R8a. This is a separate PDF document “R8a workings – supplement to RFPR commentary Mar 24”.

There is a new requirement for the 23/24 RFPR, for the board of licensee to provide assurance over the table via a Tax Reconciliation Assurance Statement, that is approved, by resolution of the board of directors. This has been provided as a separate PDF document.

## 9. (R9) Corporate Governance / Financial Resilience

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### Ownership structure

Northern Gas Networks Limited is a fully owned subsidiary of Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, which is the ultimate parent company and the ultimate controlling party.

The Shareholders of Northern Gas Networks Holdings Limited are a consortium comprising of:

PG (April) Limited, incorporated in England & Wales	(47.1%)
Beta Central Profits Limited, incorporated in England & Wales	(41.3%)
SAS Trustee Corporation, incorporated in Australia	(11.6%)

The ultimate parent undertakings of the companies above are as follows:

<u>Shareholder</u>	<u>Ultimate parent undertaking</u>
PG (April) Limited (47.1%)	CK Infrastructure Holdings Limited (CKI)
Beta Central Profits Limited (41.3%)	Power Assets Holdings Limited (PA)
SAS Trustee Corporation (11.6%)	Not applicable

Note: CKI own 36.0% of PA, with the rest being publically traded. CK Hutchinson Holdings Limited own 75.7% of CKI, with the rest being publically traded.

### Board of Directors

The Board of Northern Gas Networks Limited is comprised of eleven directors as at 31 March 2024, nine of whom are appointed by the shareholders, the final two being independent non-executive directors. All are independent of the day to day management of the company with the exception of the Chief Executive Officer (CEO) who is a Board member and leads the company senior management team (SMT) who in turn manage the company.

The daily operations of the business are managed by the SMT and the CEO. All significant decisions are referred to the Board of Directors (“the Board”). The decision making for the following matters is covered by either the Board (or the relevant board committee as detailed in the next section): purpose; values and strategy; and dividend policy.

The decisions in relation to Board Director nominations, evaluation and executive remuneration are made by the relevant shareholder companies (regarding the nine shareholder appointed directors). For the non-executive directors, remuneration is set by the Board and for appointments a Nominations Committee make recommendations for approval by the Board.

The Board meets at least five times a year.

The Board Directors for the year ending March 2024 of Northern Gas Networks Limited were:

	Director status	Date of appointment
Simon D Beer	Executive Director - Shareholder appointed	23 December 2016
Loi S Chan	Executive Director - Shareholder appointed	13 August 2012
Andrew J Hunter	Executive Director and Chairman - Shareholder appointed	1 December 2006
Mark J Horsley	Executive Director and CEO - Shareholder appointed	4 January 2011
Hing L Kam	Executive Director - Shareholder appointed	31 May 2005
Neil D McGee	Executive Director - Shareholder appointed	4 July 2006
Duncan N Macrae	Executive Director - Shareholder appointed	21 June 2011
Charles C Tsai	Executive Director - Shareholder appointed	28 February 2014
J K M Yu (Replacing C T Wan)	Executive Director - Shareholder appointed	1 July 2023
John Burnham	Independent non-executive	1 April 2014
Paul Rogerson	Independent non-executive	1 April 2014

### **Board committees**

The Board has seven committees, as listed below, to assist in the execution of its duties and to allow a detailed consideration of complex issues:

- Audit Committee
- Compliance Committee
- Risk Management Committee
- Treasury Committee
- Remuneration Committee
- ESG Committee
- Nominations Committee

All Board members are entitled to attend all committees under the terms of reference, with the minimum requirement being a quorum of at least two members from different shareholders. The attendance of the committees is also largely the same as for the Board.

More information on the Board Committees can be found in the Corporate Governance Statement of the Northern Gas Networks Limited statutory accounts for the year ended 31 March 2024.

### **Executive remuneration policies**

There is only one Executive Director, the CEO, who is paid remuneration from Northern Gas Networks Limited, and this is set by the shareholder which the CEO represents. The other Shareholder appointed Executive Directors are all paid by their respective shareholder companies and Northern Gas Networks Limited has no input into their remuneration packages as their roles encompass responsibilities for several other companies outside of the Northern Gas Networks Group.

The only Executive Director to be paid a bonus by Northern Gas Networks Limited is the CEO. This bonus is decided by the shareholder which the CEO represents and paid in respect of each calendar year. The bonus is in two parts, with one being payable after the calendar year end and an amount deferred under a Long Term Incentive Plan (LTIP). The LTIP is payable 5 years after the year in which the award is earned, conditional on the Director remaining in office on the payment date.

The bonus targets, both short and long term are aligned to the strategic goals of the business, incorporating the values of the organisation, including efficiency, customer service, operational and environmental targets.

Whilst the pay of the CEO is set by the shareholder, Northern Gas Networks Limited continually seek to benchmark colleagues pay in the market, to attract and retain a talented workforce who display the company's values. The CEO pay ratios reported in the RFPR document we feel therefore reflect the market differentials in pay.

### **Dividend policies**

Dividends are paid to shareholders as determined by the Company Board by considering: forecast information and actuals for the current year; compliance with the requirements of the Companies Act; the obligations of the Regulatory contract; performance against regulatory targets; and consideration of financial resilience which includes assessment of NGN's credit rating and bank covenants (which include Debt to RAV ratio and interest coverage).

In assessing the level of dividends being paid the Board have knowledge of and attention to the following matters:

- NGN certifies under Special Standard condition A37 that it will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the activities authorised by the licence held in accordance with the obligations under the Act and such licence for a period of 12 months from the date of this certificate.
- NGN also certifies under Special Standard Condition A37(4) that it will have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents and facilities available to itself to enable the licensee to carry on the transportation business for a period of 12 months from the date of this certificate.

NGN seeks to treat the regulatory standards set for consumers as a minimum rather than target as represented by its treatment of 1 and 2 hour standards, as an example. In addition it seeks to operate as efficiently as it can on a long term basis which is in the interests of consumers. Also, as evidenced in the

2023/24 RRP submission, NGN continues to meet & exceed regulatory obligations, delivering the best value for its customers.

Dividends are declared in November (paid in December) and April (paid in June). All dividends are approved by the Board and a regulatory certificate is provided to Ofgem prior to payment. In accordance with this timetable, a quorum of the listed Directors satisfied themselves that the forementioned considerations facilitated the approval of the dividends as shown below.

Dividend – nominal prices (£m)	21/22 actual	22/23 actual	23/24 actual	24/25 forecast	25/26 forecast
Declared and paid	91.7	88.4	100.0	tbc	tbc

A copy of NGN’s dividend policy, as approved by the Board, has been included as a separate PDF document.

### **Financial resilience**

The Board ensure the company remains financially resilient through a strong corporate governance framework. Examples of this include: the forementioned dividend policy which ensures the Board are assessing bank covenants; having a hedging strategy which seeks to match the regulatory allowances for cost of debt; having an investment grade credit rating from Moody’s and S&P which has over a long period been two notches better than required in the licence; maintaining a prudent Debt to RAV ratio; and having banking facilities in place with headroom to ensure it can meet unexpected operational requires should they arise.

The bank facilities of the company have two covenants those being Debt to RAV and interest cover (PMICR), neither of which have been breached in the regulatory year or are forecast to do so within the mid term business plans of the company. The banking facility covenant for Debt to RAV is <75%, with an internal target of <70%, both of which have been achieved during the regulatory year. The banking facility covenant for PMICR is >1.3 to 1, for which no differing internal covenant exists, has also been achieved during the regulatory year.

No companies within the corporate group have a material economic reliance on the distribution of NGN.

## **10. (R10) Pensions & Other Activities**

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The pension tables within the RFPR reflect the deficit, contributions and asset / liabilities reported to Ofgem.

Appendix 1

Description of Tax Reconciliation Items	CT600	PCFM	Difference	Materiality check	Explanation of difference / Comments
	Real World £m	Regulatory World £m Nominal	PCFM vs CT600 £m		
<b>Profit/ (Loss) before taxation per accounts</b>	<b>184.3</b>	<b>169.1</b>	<b>15.2</b>	<i>Material</i>	CT600 PBT includes fair value movements on financial instruments, depreciation and amortisation (added back in tax comp rows 54, 57 and 58). The CT600 also includes collected revenue for AIP adjustments and GD1 legacy true-ups not in the PCFM figure of revenue for y/e Mar 2023.
<b>Adjustments with comparable figures in CT600 and PCFM</b>					
- Deferred revenue expenditure	-13.8	-15.1	1.3	<i>immaterial</i>	
- General pool	-24.7	-22.1	-2.6	<i>immaterial</i>	
- Special Rate pool	-28.3	-17.1	-11.2	<i>Material</i>	PCFM does not include Super Deduction allowances which grant a significant uplift in allowances for this period of 11.2m contributing to the opening balance of the regulatory pool (284.3) being different to the real pool (259.8).
<b>Adjustments with no like for like comparison between CT600 and PCFM</b>					
- FV movement on financial instruments (disregard) (not including Accretion of CPI swaps and amortisation of cos	-49.0		-49.0	<i>Material</i>	There is no adjustment for disregarded FV movements in the PCFM nor is this included in the PCFM interest calculation
- Provisions adjustments	-6.6		-6.6	<i>Material</i>	PCFM doesn't adjust the tax base for provisions
- Pensions adjustments	-8.3		-8.3	<i>Material</i>	PCFM doesn't adjust the tax base for pension contributions where relief has already been claimed. 7.2m of this adjustment had been claimed in an earlier period so could not be claimed as a deduction in a later period.
- Depreciation	77.3		77.3	<i>Material</i>	PCFM tax base includes depreciation (row 31) but is added back in tax comp
- Amortisation	10.2		10.2	<i>Material</i>	PCFM tax base includes amortisation (row 31) but is added back in tax comp
-ABC pension adjustments for corporation tax purposes	51.7		51.7	<i>Material</i>	The ABC pension arrangements were unwound in the period causing this large, one off adjustment for tax purposes.
- Capital assets expensed	4.9		4.9	<i>immaterial</i>	
- Profit/ (loss) on disposal of fixed assets	-0.4		-0.4	<i>immaterial</i>	
- Penalties and fines	0.2		0.2	<i>immaterial</i>	
- Other disallowable items	-6.0		-6.0	<i>immaterial</i>	
- Short Life Assets	-1.4		-1.4	<i>immaterial</i>	
- R&D Allowances	-1.7		-1.7	<i>immaterial</i>	
- Derivatives adjustment	-3.4		-3.4	<i>immaterial</i>	
- Non-trade loan relationship credits per adjustments	-0.9		-0.9	<i>immaterial</i>	
<b>Taxable Profit before Tax Loss Adjustments</b>	<b>184.1</b>	<b>114.8</b>	<b>69.3</b>	<i>Material</i>	The difference is a result of the above adjustments
<b>Regulatory Tax Losses</b>					
- Adjustment to losses from tax trigger		-2.0	2.0	<i>immaterial</i>	
- Profits used to offset outstanding losses (excluded from corporation tax)		2.0	-2.0	<i>immaterial</i>	
<b>Profits Chargeable to Corporation Tax (i.e. after Tax Loss Adjustments)('PCTCT') (pre group relief)</b>	<b>184.1</b>	<b>112.9</b>	<b>71.3</b>	<i>Material</i>	The difference is a result of the above adjustments
<b>Actual Corporation Tax Liability (pre group relief)</b>	<b>35.0</b>	<b>21.4</b>	<b>13.5</b>	<i>Material</i>	The difference is a result of the above adjustments