



Business Update

October 2024



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The date of this Presentation is 1st November 2024.

Operational Performance

GAS

Performance Highlights

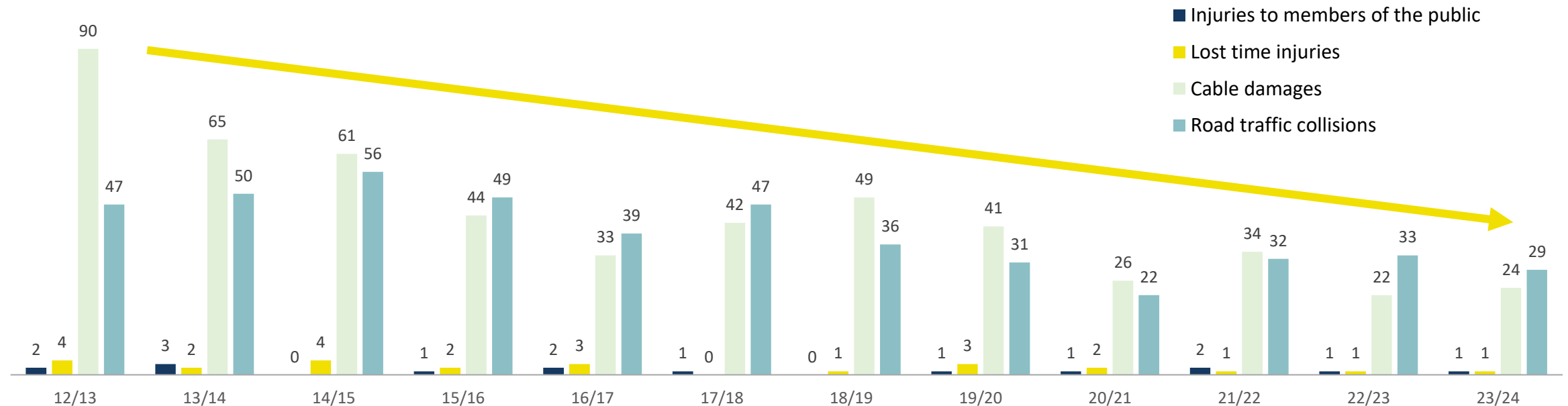
- ✦ Market leading efficiency (tier 1 repex unit cost of £142/mtr, 37% cheaper than nearest competitor).
- ✦ Productivity drive — increased by 21.7% since 2020 — all direct labour colleagues now measured on a weekly basis.
- ✦ Frontier efficiency pension position with 2023 buy-in.
- ✦ Market leading cyber resilience amongst GDNs / embedded S4 platform with automated reporting.
- ✦ Exceptional safety standards continue within 2024.
- ✦ Customer scores remain above 9 out of 10 throughout GD2.
- ✦ Moody's — Baa1 stable / S&P — BBB+ stable (Spring 24).
- ✦ We value difference and are committed to promoting diversity and inclusion, we have active colleague communities and are training all colleagues.
- ✦ Regular, consistent colleague communication & engagement to ensure satisfaction & engagement.
- ✦ Local investment — Autumn 24 apprentice recruitment — 902 applications for 12 positions.



Operational Safety Performance — Employees / Customers

Continued strong performance against KPIs with low numbers of adverse events recorded.

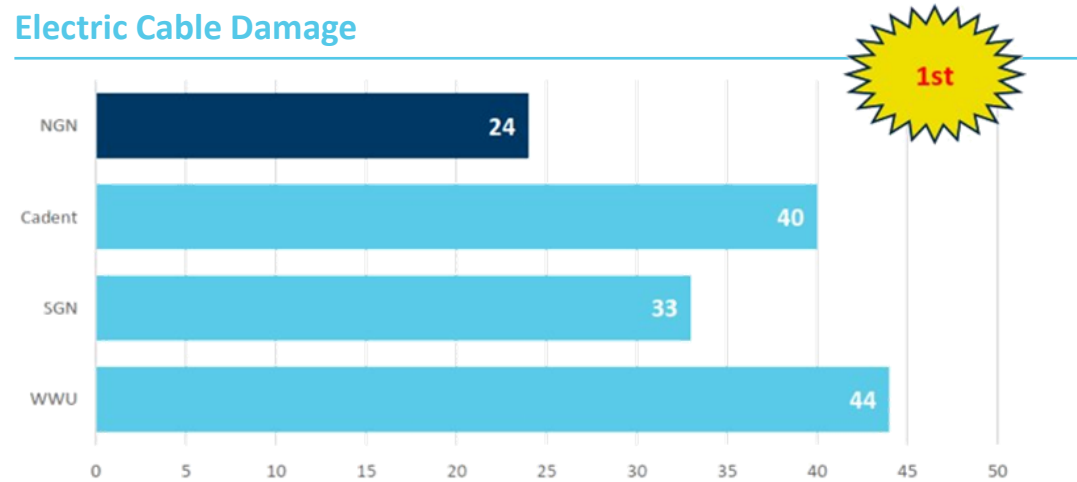
- A recent review identified a correlation between safety incidents and employees not correctly following formal procedures. This is being tackled by placing a greater focus on enhancing engagement through improved communications and by adopting a colleague-led approach to deliver safety improvements:
 - Targeted briefings.
 - Increased management site visits to identify issues and reinforce positive behaviours.
 - The commissioning of a safety survey targeted at all colleagues to deliver insights to support the development of a more positive and inclusive safety culture and a bespoke programme of activities and learning tools to help to address areas of potential improvement.



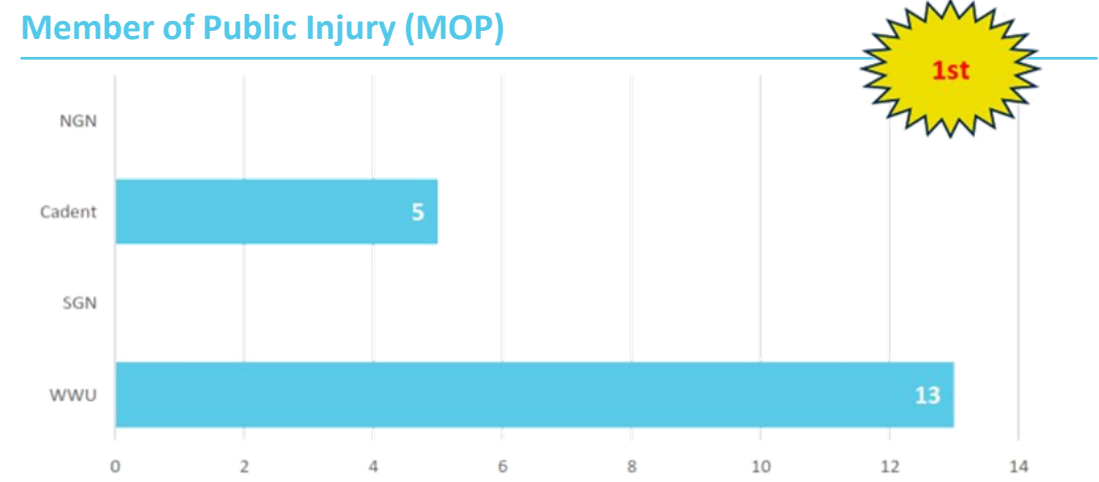
Operational Safety Performance — Employees / Customers *(cont'd)*

Our improvements over time have seen us outshine our peers.

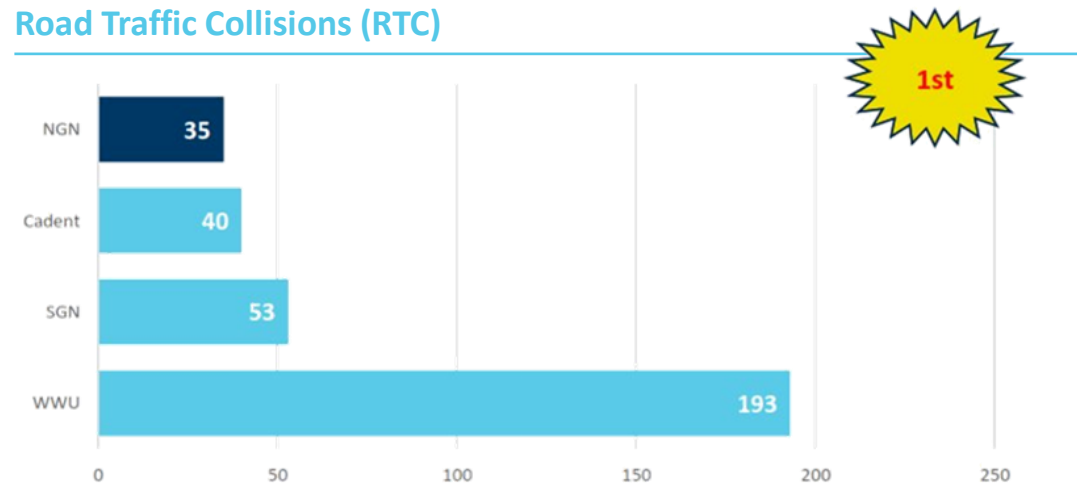
Electric Cable Damage



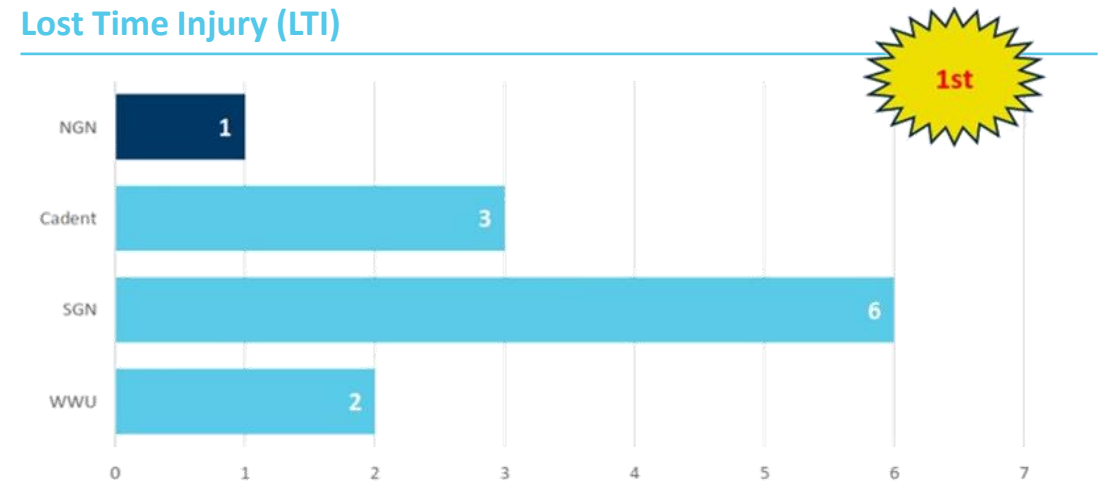
Member of Public Injury (MOP)



Road Traffic Collisions (RTC)



Lost Time Injury (LTI)



Operational Safety Performance — Escapes

- We attend around 180 gas escapes a day. We go over and above to meet our 1 & 2 hour (controlled / uncontrolled) response obligations achieving very close to 100%, way ahead of the regulatory target of 97% and other GDNs.
- We also continue to reduce the number of outstanding escapes and increase how many we close (repair) within 28 days.

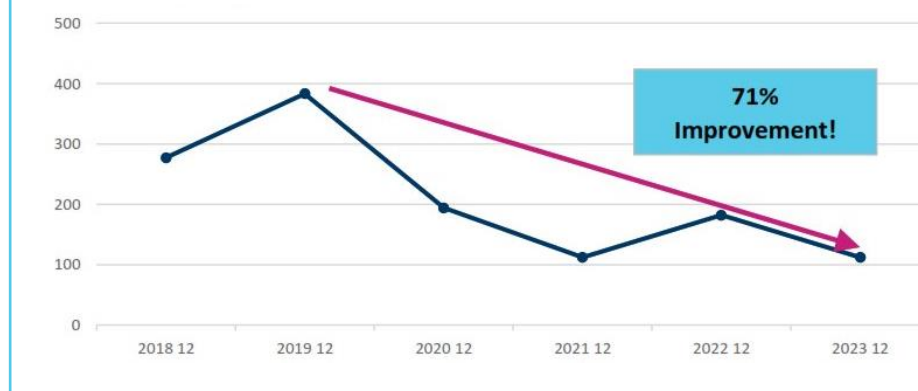
1 Hr Escape Response



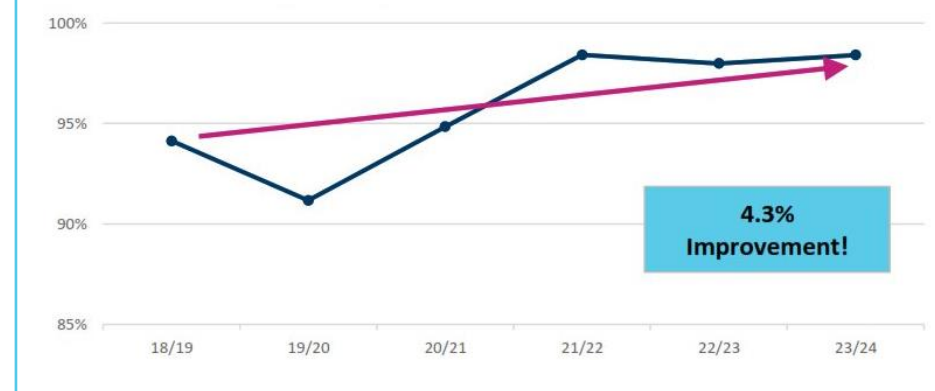
2 Hr Escape Response



Outstanding Escapes



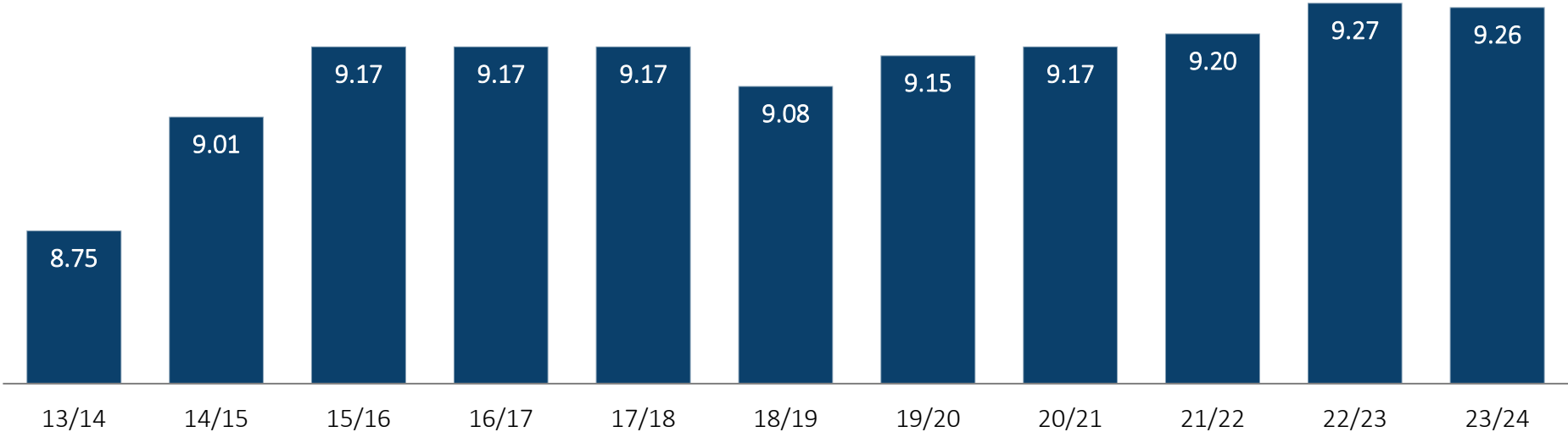
% of Escapes Closed within 28 Days



Customer Satisfaction Performance History

We have continued to improve the way we survey our customers. Now that our survey formats of postal, telephone and email are firmly established, we have begun to further interrogate the verbatim feedback, which has led to us asking additional questions regarding the customer journey during the survey process. This will drive continuous improvement through all aspects of the customer journeys.

From the start of GD2, we also have a better understanding of how customers registered on the Priority Service Register (PSR) score on satisfaction surveys, giving us better understanding of how customers may need additional support to view our services.



Customer Satisfaction Performance — 2023/24 Comparison

Connections

Network	Score
Eastern	9.25
Scotland	9.18
London	9.17
Northern Gas Networks	9.09
North-West	9.07
Wales & West	8.99
West Midlands	8.99
Southern	8.92

We have completed a full update of our website and letters over the past year, including new guidance sheets, reinstatement leaflets, applications and general information around the process. We are now in the process of building an intelligence storyboard for surveyors to use to reduce the time spent writing up surveys which will speed up the return and quotation time. We have completed the initial design work for a text messaging service to be rolled out this year.

Emergency & Repair

Network	Score
Wales & West	9.69
Scotland	9.67
Eastern	9.66
North-West	9.66
Northern Gas Networks	9.65
West Midlands	9.61
Southern	9.56
London	9.55

In addition to 'Making Every Contact Count' (MECC), we offer a repair and replace service via our contracting partner, where customers requiring extra support can have appliances repaired or replaced, if eligible. We have introduced 'Services Beyond the Meter' following suspected carbon monoxide call outs. Through this scheme, one of our specially trained engineers will carry out additional safety checks for vulnerable customers, with the aim reconnecting the supply, if safety checks are clear.

Planned

Network	Score
Northern Gas Networks	9.04
Eastern	9.03
Scotland	9.03
Southern	8.96
North-West	8.92
Wales & West	8.82
West Midlands	8.75
London	8.70

Trial using supplier customer data to provide additional details via text message and email in relation to upcoming planned works as supplemental communication to our advance notification process.

Vulnerability and customer service training is being rolled out for all colleagues to recognise different vulnerabilities and understand the extra support they can put in place.

Overall

Network	Score
Eastern	9.31
Scotland	9.29
Northern Gas Networks	9.26
North-West	9.22
Wales & West	9.17
Southern	9.15
London	9.14
West Midlands	9.12

Vulnerability and customer service training is being rolled out for all colleagues to recognise different vulnerabilities and understand the extra support they can put in place.



Environmental, Social & Governance

ESG Highlights

Our approach to ESG remains committed and holistic, underpinned by our People & Planet Strategy and ESG Committee.

Social:

- Look to recruit in different ways to ensure we attract a diverse workforce reflective of our communities. Currently 27% female senior leaders.
- Established Colleague Communities (disability / women's / ethnic minority / parents and carers / LGBTQIA+) to empower our under-represented colleagues and drive improvements.
- £25m social programme supporting vulnerable customers over 2021 to 2026.
- Stakeholder engagement to identify priorities and perceptions for use in our business planning using best practice methods (AA1000 Stakeholder Engagement Standard).
- 80% of our spend is with suppliers who have adopted our sustainability code of conduct.
- Inclusion and belonging training for staff – 600 hours delivered in 2023.
- Employee assistance scheme and wellbeing survey leading to actions such as free physio services for those who need it.
- 2 paid volunteering days for each colleague every year. 980 hours volunteered in 2023 by our colleagues.
- 86% score in 2023 Business in the Community Responsible Business Tracker assessment.

Environment:

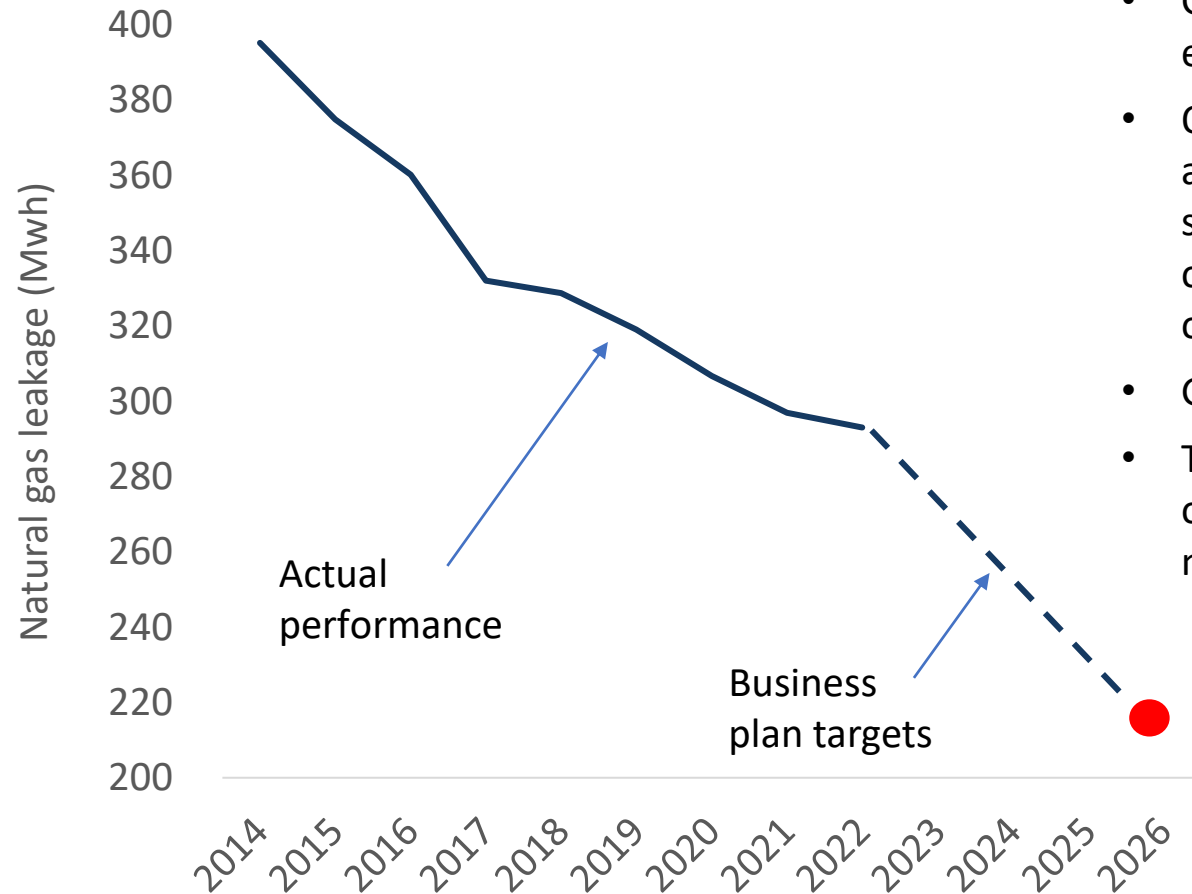
- ISO14001 certified environmental management system.
- We attended over 99% of uncontrolled gas escapes within 1 hour to ensure safety and minimise gas leakage.
- We replace c.500km of aged metal pipes with new plastic pipes annually to ensure safety and reduce gas escaping from the network.
- 39% reduction in gas leakage 2013 to 2024.
- Total carbon emissions reduced by 6% 23/24 vs 22/23 and 15% 23/24 vs 21/22.
- 200,000+ tonnes of waste created annually, 0% to landfill in 2023/24.
- We are planting 40,000 trees and building homes for nature on our land during GD2.
- Reducing single use plastics where possible. Removed bottled water for colleagues saving 3t of plastic annually.

NGN's People & Planet Strategy

- Launched June 2022.
- We have 9 commitments linked to UN Sustainable Development Goals each with short term (to 2026), medium term (to 2030) and long term (to 2050) targets with assigned business owners.
- Performance against each commitment tracked via engagement with owners and our ESG Committee.



Our Carbon Footprint



- Gas leakage contributes c.90% of NGN’s total greenhouse gas emissions.
- Our gas leakage reduction strategy involves replacing c.500km of aged metallic pipes with robust plastic pipes annually, installing smart system pressure management technology, and treating our gas with a chemical which helps seal leaking joints in our older pipes.
- Gas leakage reducing — we targeting a 46% reduction by 2026.
- This transformation reduces our emissions now and transforms our network so it is ready for conversion to hydrogen to enable a net zero energy system.

Social Initiatives

NGN's *Customers in Vulnerable Situations Strategy* has been in place since 2015. This helps guide and support the decisions that we made about the support we offer, both through our operational activities, and wider support in our communities and through partnership work. To date in GD2 we have provided both immediate and longer-term support.

- Supported over **4,500 most at risk fuel poor customers** with expert advice, face to face, to support improved health and financial wellbeing
- Supported a further **130,000 customers with signposting and referral services**
- Over **£550,000 provided in essential fuel crisis payments**
- Unlocked over **£6m in financial savings** for customers
- Delivered over **54,000 face to face carbon monoxide door-step safety information sessions**
- Over **11 million opportunities to see carbon monoxide safety information** created through broad reaching awareness campaigns
- Over **23,000 customers referred onto the Priority Services Register**
- **9.3/10 PSR Customer Satisfaction Score**
- Only GDN to **reallocate Theft of gas revenue** into providing vulnerable customer support
- **82 NGN Specific** Projects
- **34 GDN Collaborative** Projects



Publications

- Annual Sustainability Report
- Annual Environmental Report
- Our People & Planet Strategy
- Our Sustainability Policy

[www.northerngasnetworks.co.uk/
document-library](http://www.northerngasnetworks.co.uk/document-library)



Sustainability Report

together
we are
the network



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Our People and Planet Strategy



we are
the network



Annual Environmental
Report 2022-23
November 2023

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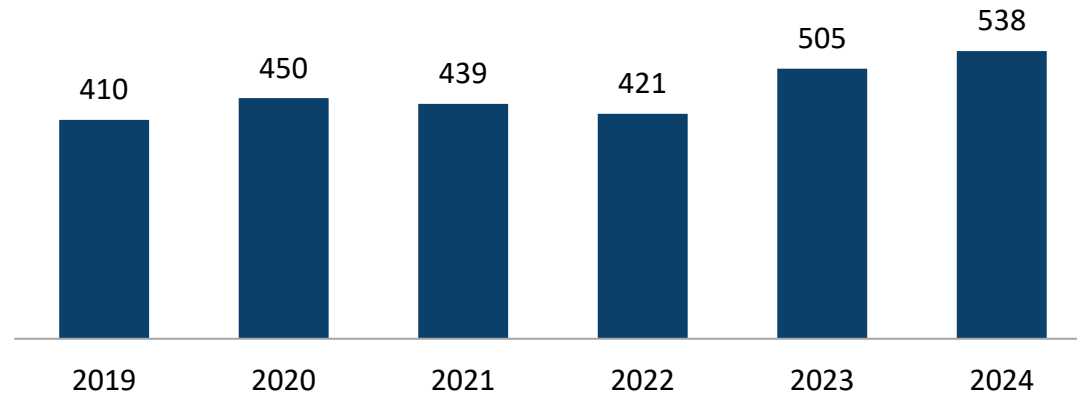
Financial History

NORTHERN GAS NETWORKS
APOLOGISE FOR ANY
INCONVENIENCE DURING
THESE ESSENTIAL WORKS
EMERGENCY TEL No
0800 111 999

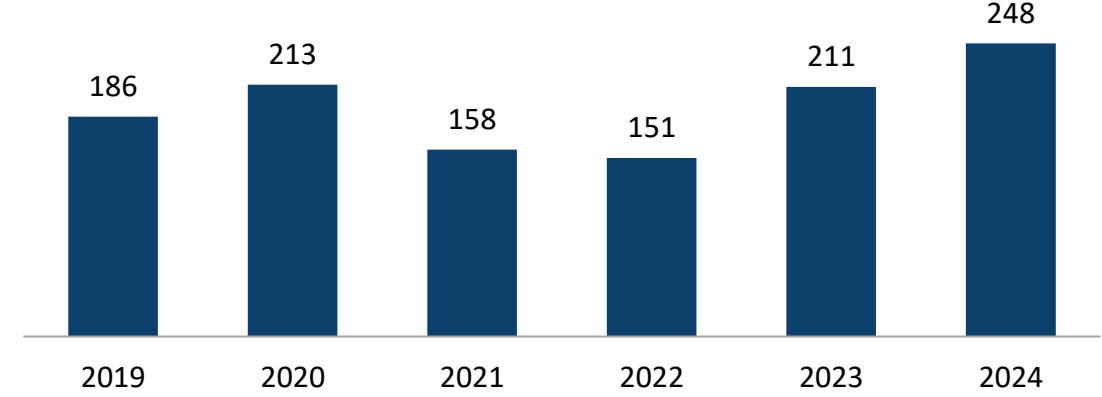
NO SMOKING

Financial Track Record

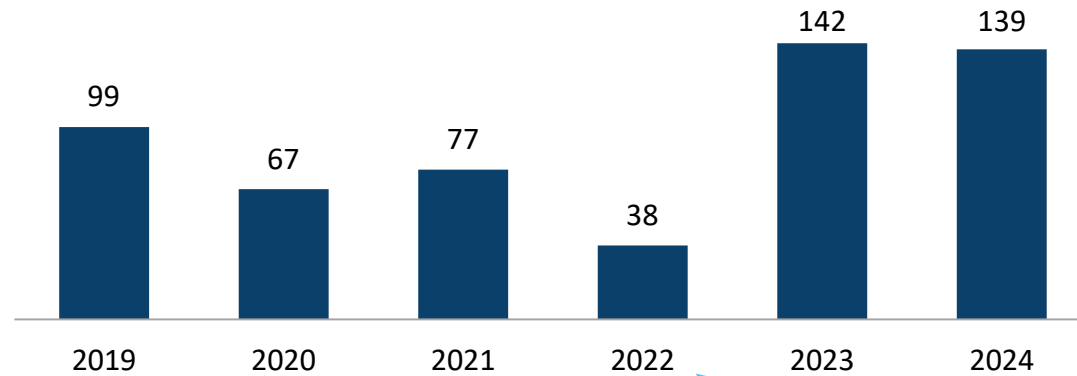
Turnover (£m)



Operating Profit (£m)



Profit After Tax (£m) — exc. one-off tax rate changes



Fall in fair value of financial instruments created a £25m cost

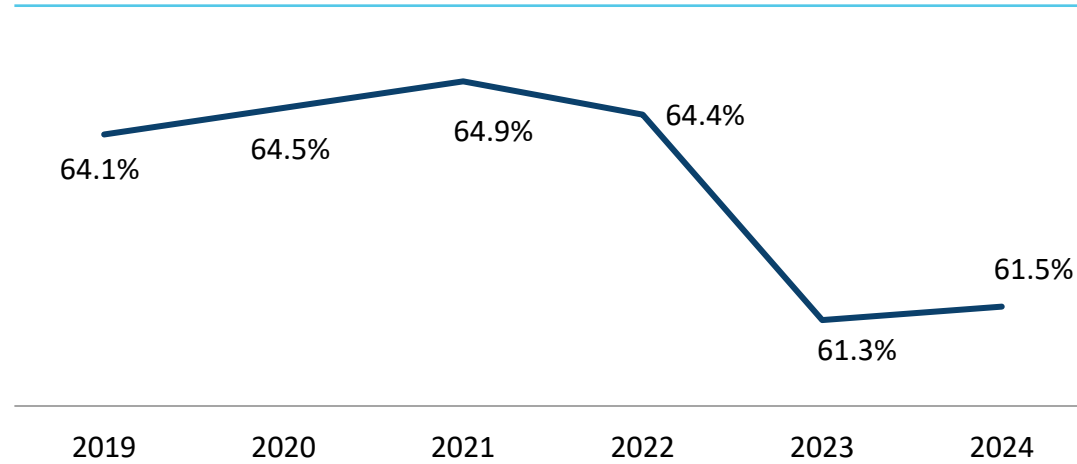
2021 & 2022 cost increases
GD2 environmental provision set up for gas holders / pass through cost jump (recovered in future revenue)

NGN is a profitable business:

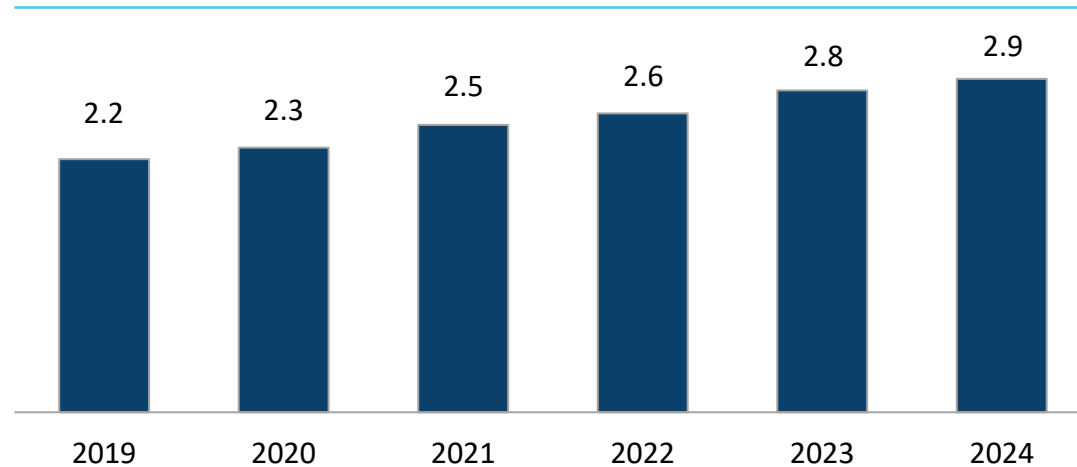
- Revenue growth profile
- Operating profits seen in all years — key variable being provisions and funded pass-through costs

Financial Track Record *(cont'd)*

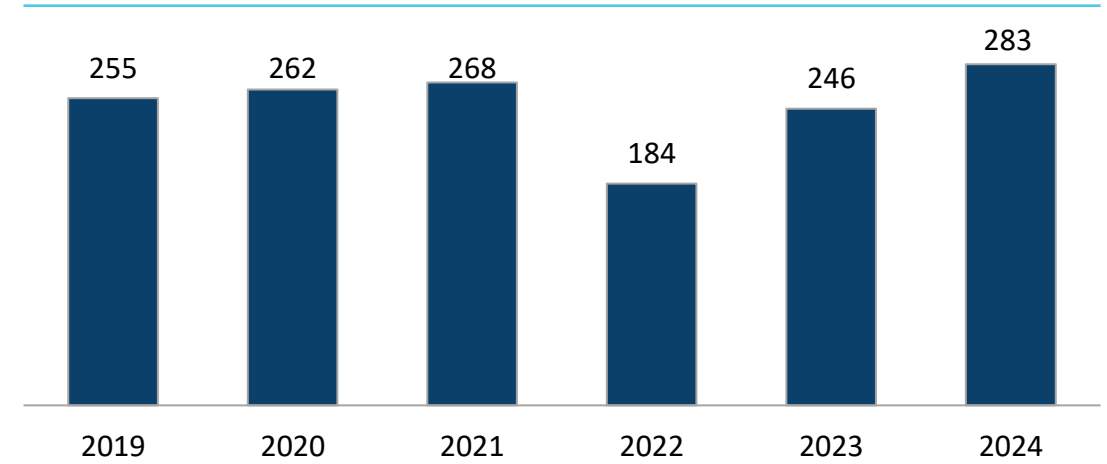
Net Debt/RAV



Regulatory Asset Value (£bn)



Operating Cashflow (£m)



2022 impacted by pension deficit repair payments as we moved towards a buy out

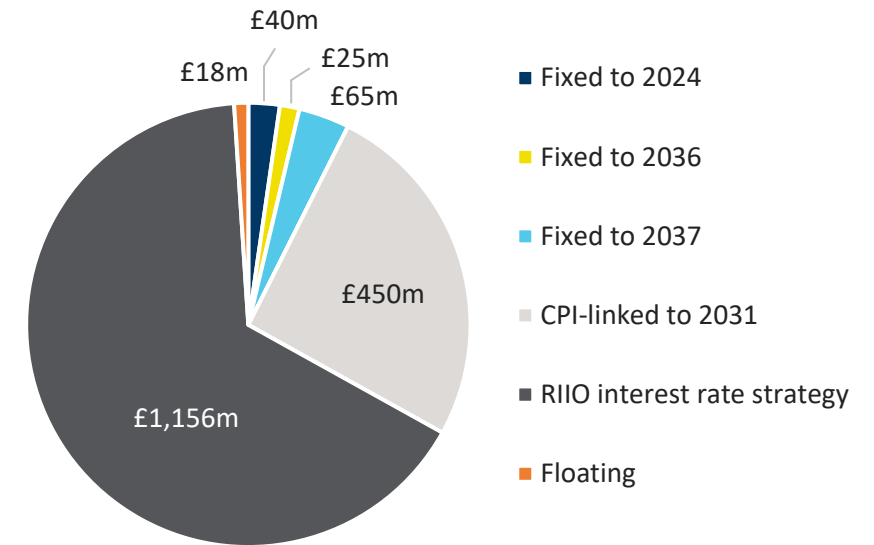
Track record of:

- Strong operating cash flow
- Regulatory asset value growth
- A prudent Debt/RAV position

NGN's Debt and Hedging

NGN's Debt

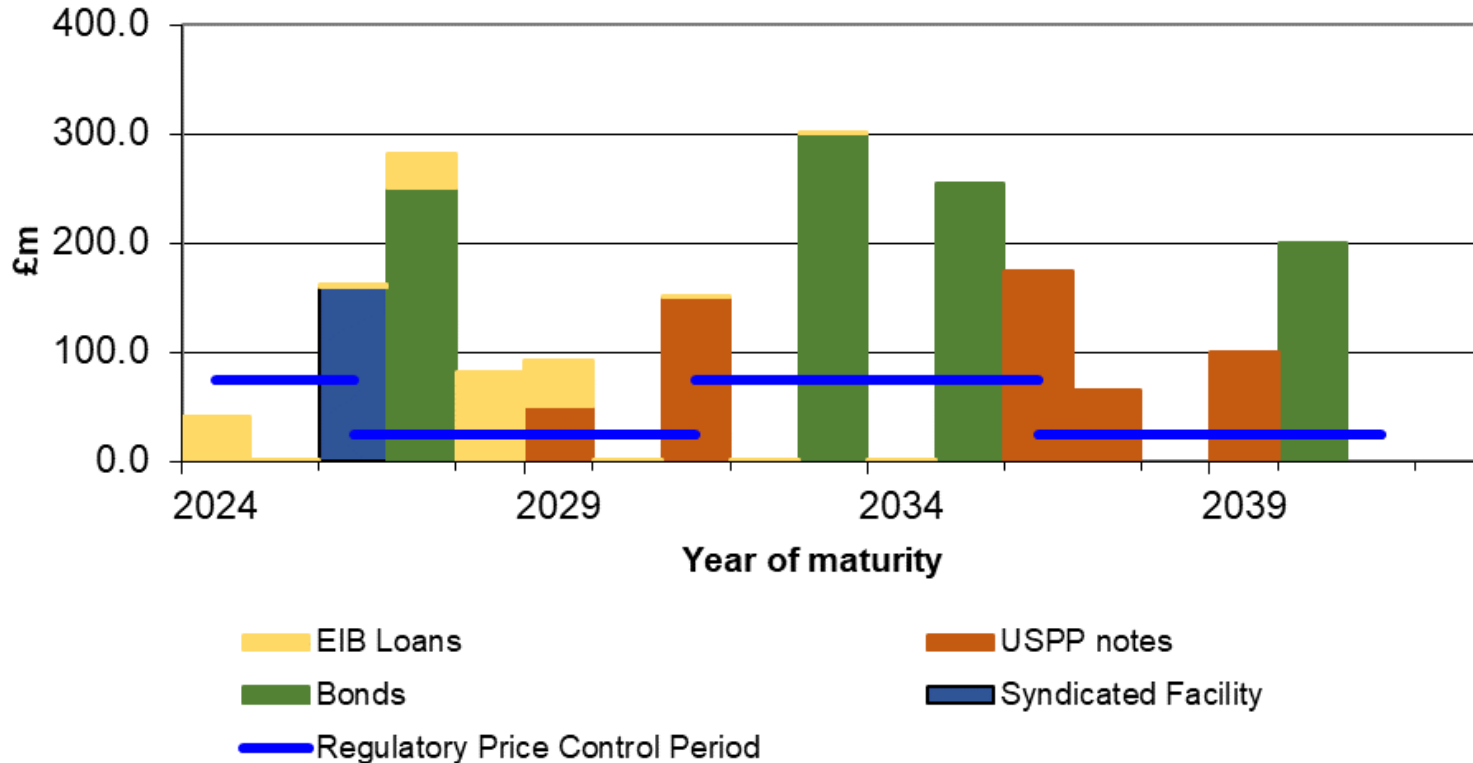
- £40m fixed rate EIB loan maturing 2024.
- £25m & £65m fixed rate USPP notes 2036/2037.
- £805m fixed rate bonds maturing 2027–2035 and £200m USPP notes maturing 2029–2031 swapped to floating rate for life and re-fixed under RIIO hedging strategy (see below).
- £150.9m floating rate EIB loans swapped to fixed rate under RIIO hedging strategy.
- £250m 2036/2039 USPP notes & £200m 2040 bond swapped to CPI to 2031 (see below).
- £17.5m unhedged amortising EIB loan.



Hedging

- The regulatory cost of debt allowance for gas distribution is based on a trailing average of observed utility bond yields and is reset annually.
- NGN's rate hedging strategy involves periodically re-fixing the rate on actual debt in amounts and for periods that correspond to the underlying allowance mechanics. (e.g. for the final year of RIIO-GD2, where the bond yields up to the previous October will account for 1/14th of the overall allowance, NGN will have fixed c1/14th of hedged debt for 14 years).
- A DIY approach using vanilla interest rate swaps mean that the strategy can be refined in response to changes to the allowance.
- Index-linked swaps convert c30% of NGN debt to a CPI basis, in line with the regulatory assumption. This reduces regulatory risk as well as providing an inflation hedge on revenue and gearing and improving cash interest cover ratios.

NGN's Debt Maturity



- Refinancing risk is managed by spreading debt maturities across a number of years.
- Other than a £40m EIB loan repayable in December 2024, the next maturity of core debt is a £250.0m bond in June 2027.
- Drawings under NGN's £160.0m syndicated credit facility are nil (as at 30 September 2024).

Credit Ratings

- Strong investment grade credit ratings of Baa1 with Moody's and BBB+ with S&P have been maintained unchanged since 2005.
- Underpinned by conservative capital structure with gearing (debt to RAV) currently c65% at NGN.
- Both ratings have a stable outlook.

What S&P say:

- Excellent business risk.
- Supportive owner.
- Strong Operational track record.
- Prudent financial risk management.

S&P Global
Ratings

What Moody's say:

- Transparent regulatory framework.
- Stable and predictable cash flows.
- Strong operational performance.
- Solid financial profile.
- Continued outperformance of regulatory cost of debt allowance.

MOODY'S

The Future

Regulation — RIIO-GD 3 (5 years ending 31 March 2031)

In December 2023 Ofgem published its Sector Specific Methodology Consultation (SSMC) and in July 2024 published the Sector Specific Methodology Decision (SSMD) and suite of Business Plan Guidance and templates for RIIO-3 business plans. Four key outcomes can be seen:

Infrastructure fit for a low-cost transition to net zero

Companies must facilitate a low-cost, environmentally sustainable, low-carbon energy system that enables the transition to net zero, with infrastructure built at pace.

Secure and resilient supplies

Companies must deliver a safe, secure and resilient network that is efficient, data rich and responsive to change. Consumers should have access to gas and electricity supplies that are resilient to physical, financial, climate and cyber shocks.

High quality of service from regulated firm

Companies must deliver a high quality and reliable service to all consumers and network users, including those who are in vulnerable situations.

System efficiency and long-term value for money

Companies must deliver an efficient cost of service, minimise the costs to consumers of system transformation and ensure consumers and network users get a fair deal.

Gas Futures — Gas as an Intermediate Fuel

The UK gas networks play a crucial role in ensuring energy security by meeting diverse demands across every sector.



Electricity generation

- **308 power stations connected** to the gas system with a pipeline for 75 new sites, flexibly accessing gas network storage.
- **33.5 GW capacity is connected**, with 28.2GW on transmission and 5.3GW on distribution, generating ~70% of electricity.
- Power stations balance supply and demand, **highlighting electricity-gas integration in supporting demand peaks and enabling renewables.**



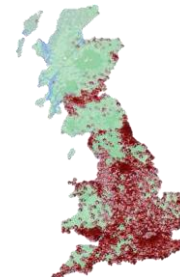
Domestic

- **~24 million domestic gas connections** across the distribution networks.
- The primary use for domestic energy is in **space heating (c.75%)**.
- All domestic gas connections **rely on the 8 distribution networks** and distribute gas to households.
- **Estimated 4.4 million households are not connected to the Gas Grid**, (15.1% domestic properties).



Industry

- **67,000 industrial connections** across transmission and distribution networks.
- **Over 99% of these are on the gas distribution system.**
- All connections **rely on gas transmission and distribution** for their energy supply and storage.
- Some of these industrial sites can decarbonise via electrifying, others **require molecular energy, like hydrogen.**



Commercial

- **460,000 commercial connections** to the gas distribution system.
- **Over 527,000 business reliant on the gas grid**, including offices, schools, hospitals, hotels, pubs and restaurants.
- Many commercial properties have **significant gas demand and will require ongoing molecular energy for heat and power.**



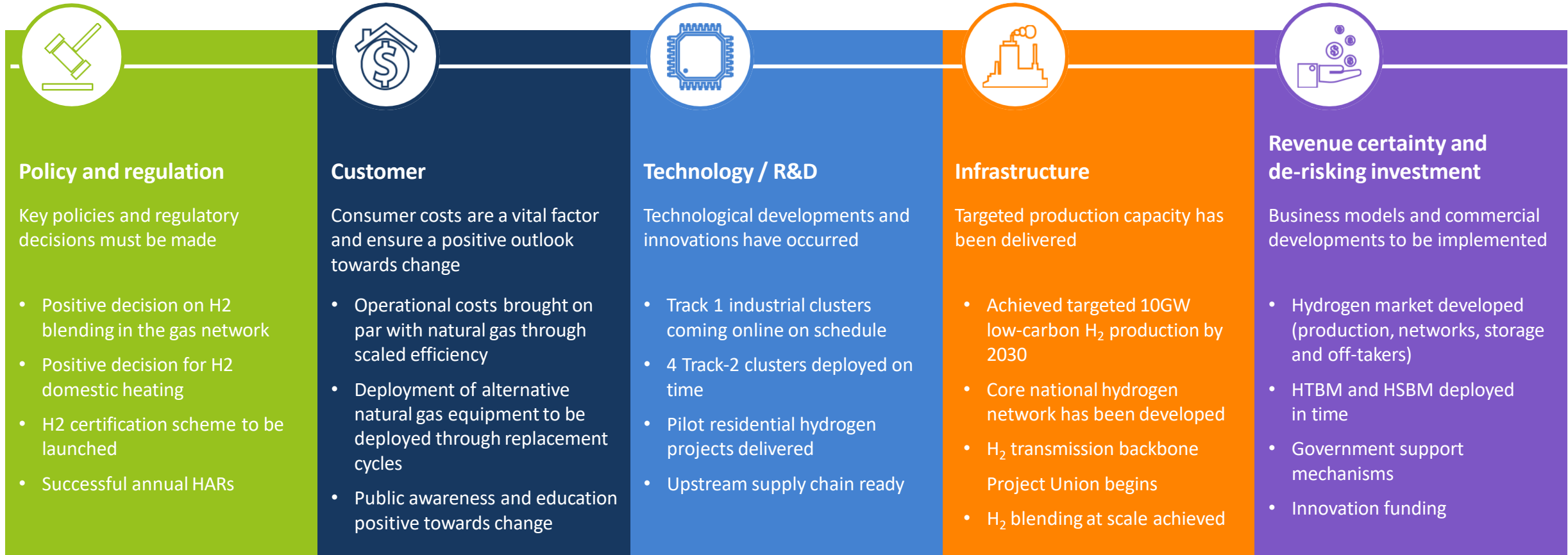
Storage

- **~7,600km of national transmission pipes and ~11,000km of local distribution pipes in GB.**
- **Networks balance energy supply and demand, providing system flexibility** by charging up with gas overnight and releasing it in the day.
- **The capacity of the gas network is over 1,700 GWh** (equivalent to 8,750 Harmony batteries).



Gas Futures — Gas as an Intermediate Fuel *(cont'd)*

More work needs to be done in a variety of areas to support the transition to Net Zero and continued use of gas networks.



Gas Futures — Gas as an Intermediate Fuel *(cont'd)*



Gas networks are crucial in today's energy landscape

Methane will be required for longer

Hydrogen is key to delivering Net Zero by 2050

What does it mean for NGN strategy in GD3, GD4 & GD5

Next steps

Natural gas remains a primary energy source for the UK market across power, heat, industry and transport.

It provides critical low cost system flexibility, resilience and security of supply.

The UK is set to miss legally binding decarbonisation targets.

The gap between those targets and the policies to deliver them suggest methane will continue to play a key role up to and beyond 2050.

Low carbon gas will play an important role in a Net Zero Energy system — but where, when and how continues to be debated.

Irrespective of those debates, a network will be required to connect supply and demand.

New funding for natural gas assets is becoming more challenging, creating implications for cost of debt which will feed through to customer bills.

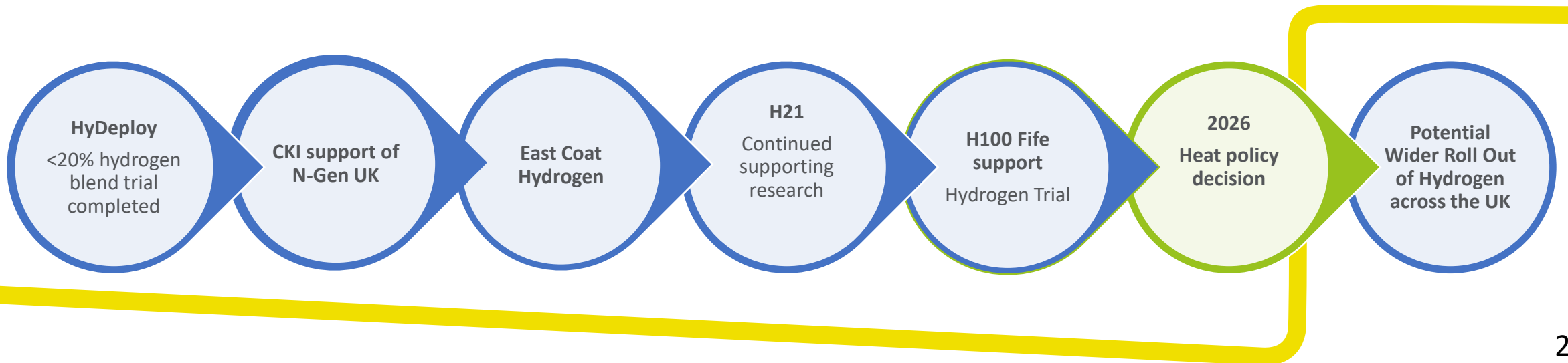
Evolution of the regulatory model is required to support the energy transition (e.g. depreciation, decommissioning).

Policy decisions continue to be pivotal in determining the pace and ambition of investment in abated gas adoption.

Through various projects and trials, NGN is well-positioned to capitalise on the opportunity this presents.

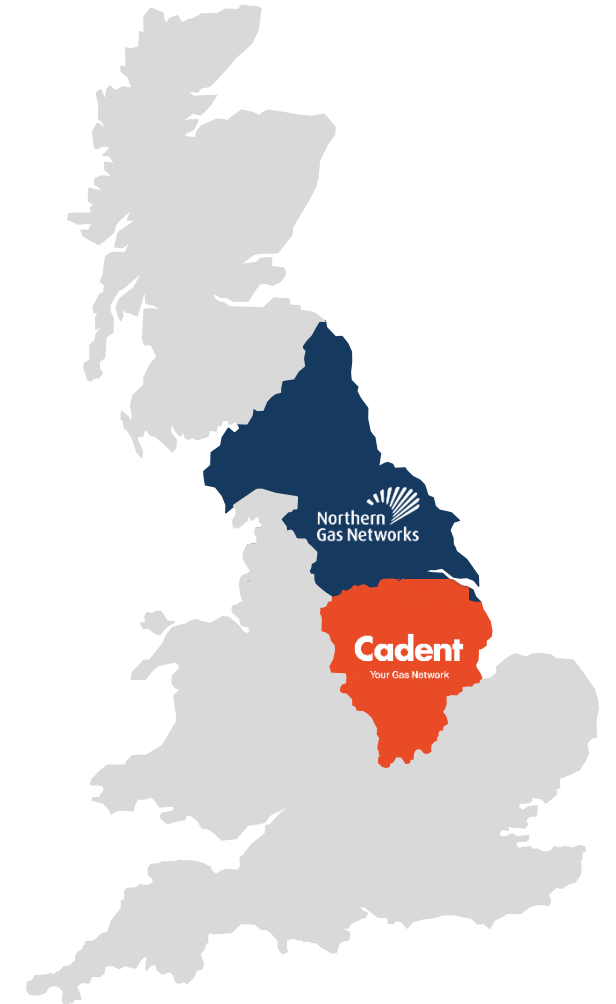
NGN Growth Opportunities — Hydrogen

- Low carbon hydrogen will play an important complementary and enabling role alongside clean electricity in decarbonising the UK energy system.
- It is suited to use in a number of sectors where electrification is not feasible or is too costly, and other decarbonisation options are limited.
- Many industrial, commercial and transport organisations need to start their low-carbon hydrogen journey now.
- Require access to a safe, reliable and competitive supply of low-carbon Hydrogen.
- NGN has and continues to support the Hydrogen agenda.

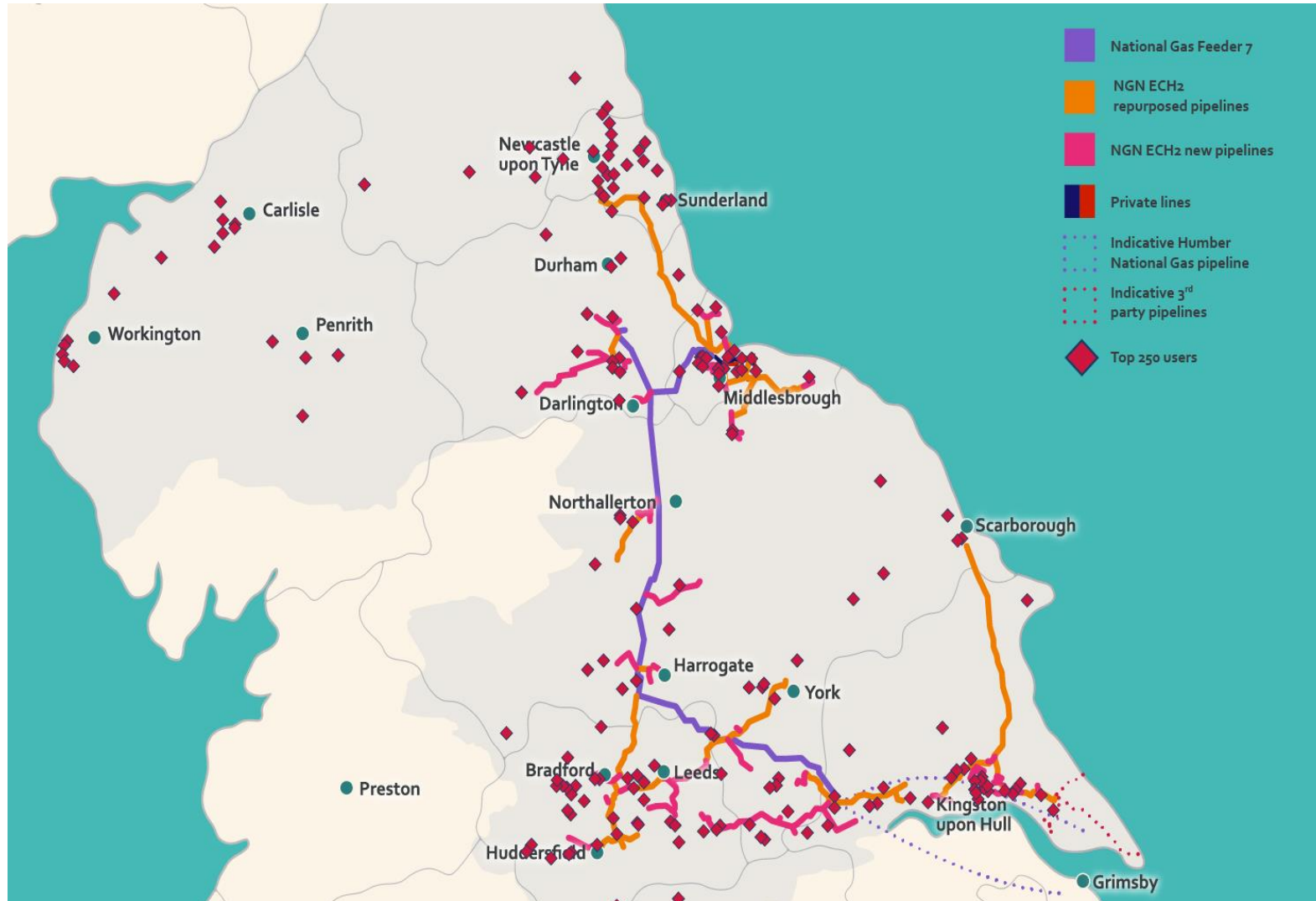


NGN Growth Opportunities — East Coast Hydrogen

- A partnership with Cadent and National Gas to create a 100% hydrogen network to serve industry, starting in the Teesside and Humber regions, before ultimately reaching our whole network.
- A great deal of interest and support for our plans, which incorporate new and existing infrastructure.
- We launched our Delivery Plan at the House of Commons in November and welcomed around 400 attendees to our webinar launch in February.
- We submitted our reopener in March 2023 and are currently in the finalizing Ofgem clarifications with decision on £15m FEED funding expected by the end of 2024.
- Our plans align with government policy and independent advisors such National Infrastructure Commission recommendations to provide industry with a solution for decarbonisation.
- A Cost Benefit Analysis by Frontier economics estimates circa £4 billion net benefit from East Coast Hydrogen to UK industry.



East Coast Hydrogen — Meeting The Needs Of Industry



East Coast
Hydrogen

- Focused on Industry and Large Commercial.
- Links Hydrogen Production and Storage with large energy users.
- Mainly Repurposed Pipelines.
- Methane supplies maintained.
- Up to 720 km 55% Repurposed.
- Meets all current UK Government strategies, policies and pathways

East Coast Hydrogen — Meeting The Needs Of Industry *(cont'd)*

Over 120 Consortium members comprising a wide range of stakeholders from across the hydrogen value chain.

Cross-value chain Hydrogen value chain participants	Upstream Hydrogen production	Downstream Sector-specific utilisation
Midstream Transportation and storage		
Local stakeholders Regional and local partners		

63 of the 68 stakeholders who have committed Letters of Support and/or provided H₂ forecasts have approved to show their logos above.