

**National Grid Electricity System Operator Limited - Statement of compliance with Section 42(C) of the Electricity Act 1989 (as amended by Section 61 of the Utilities Act 2000)**

1. From 1 April 2019 National Grid Electricity System Operator Limited (“NGESO”) holds a licence as an electricity transmission system operator, in order to carry on activities subject to price regulation. Section 42(c) of the Electricity Act 1989 applies to any company which is authorised by a licence to carry on activities subject to price regulation. In order to comply with this, NGESO is required to disclose any arrangements for linking the remuneration of its directors to levels of performance with respect to service standards in connection with activities subject to price regulation for the year ending 31 March 2020. NGESO did not carry out any activities subject to a price regulation prior to 1<sup>st</sup> April 2019.
2. Service standards are standards which relate to the quality of service received by customers or potential customers of the company.
3. NGESO intends to adopt the following remuneration policy and approach for the year ended 31 March 2020 with all payments being subject to the review and approval of the Group Executive Committee and Remuneration Committee of National Grid plc’s (being the ultimate holding company of NGESO) Board of Directors.
4. Levels of remuneration will be reviewed and approved annually by the NGESO Committee, in order to attract, retain and motivate directors of sufficient quality to deliver the objectives of NGESO.
5. Performance based elements of remuneration will form a significant portion of the total remuneration package for the executive directors of NGESO for the year ended 31 March 2020. For most directors, performance based elements will account for 50-60% of the total remuneration opportunity; these will be linked to both business performance measures and individual performance.
6. Remuneration will be paid to the executive directors as a result of arrangements linking their remuneration to levels of performance in respect of service standards and activities subject to price regulation. For 2019/20, the Annual Performance Plan (APP) applicable to NGESO directors will be directly linked to the financial and operational performance of NGESO, and their individual performance. The individual performance will be determined by an assessment of the achievement of objectives set at the start of the financial year and their demonstration of leadership behaviours and National Grid values.
7. In terms of the performance of NGESO during the year, the NGESO Committee will reflect on business outcomes not directly included in the APP, including items related to demonstrating service levels to our customers and communities before finalising the plan payouts.
8. NGESO directors are also eligible to receive long-term incentive awards which are settled in National Grid plc shares. The number of shares received is dependent on:
  - a) a broad view of the director’s value to the National Grid Group of companies and their performance, which is indirectly impacted by demonstrated service levels to NGESO’s customers; and
  - b) financial outcomes of National Grid plc over a three-year period, with a potential for a reduction to be made in the event of poor operational performance.
9. NGESO directors are also eligible to receive awards under the National Grid recognition programme. Awards may be made to recognise significant efforts of an individual, and could potentially be related to service levels to our customers and communities. These awards tend to be small in value, and tend to be given to employees further down the organisation than the NGESO directors.
10. On rare occasions, we may award exceptional share awards for a particular purpose, e.g. to retain a critical employee in a particularly high demand labour market. Although these awards are not based on service levels,

we would be unlikely to make an award to an employee who we have deemed to not have enabled our delivery of sufficient service levels to our customers.

11. The NGESO independent non-executive directors will receive a flat monthly fee for their services. They do not participate in the annual bonus arrangements and their remuneration is not linked to performance standards.