

National Grid Electricity System Operator Limited - Statement of compliance with Section 42C 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 (“ESO”) holds a licence as an electricity transmission system operator, in order to carry on activities subject to price regulation. Section 42C 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, ESO 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 2021.
2. Service standards are standards which relate to the quality of service received by customers or potential customers of the company.
3. ESO has adopted the remuneration policy and approach set out in this Statement. These arrangements are compliant with ESO’s legal Separation Compliance Statement.
4. The Executive Director and Chair of NGESO, Fintan Slye’s, remuneration is reviewed and approved annually by the National Grid Group Chief Executive. Levels of remuneration of the other ESO executive directors are reviewed and approved annually by the ESO Committee, in order to ensure they are appropriate and continue to attract, retain and motivate senior leaders of sufficient quality to deliver the objectives of ESO.
5. Performance based elements of remuneration form a significant portion of the total remuneration package for the executive directors of ESO. Typically, performance-based elements account for 50-60% of the total remuneration opportunity; these are linked to both business performance measures and individual performance and typically comprise an annual element (the Annual Performance Plan, APP) and a longer-term element (the Long Term Performance Plan, LTPP)
6. For 2020/21, the Annual Performance Plan (APP) applicable to executive directors will be directly linked to the financial and operational performance of ESO 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 ESO values.
 - In terms of the operational performance of ESO during the year, this will be assessed against metrics and targets set at the start of the financial year.
 - The ESO Committee will also, where appropriate, 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 outcomes.
7. Executive directors are also eligible to receive long-term incentive awards which are settled in cash. The amount received is dependent on:
 - a) a broad view of the executive director’s value to ESO and their performance, which is indirectly impacted by demonstrated service levels to ESO’s customers; and
 - b) the value of the ESO business over a three-year period, with a potential for adjustment to be made in the event of poor / exceptional operational performance.
8. Executive directors are also eligible to receive awards under the National Grid Group staff 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 rather than the executive directors.

9. On rare occasions, ESO may make an award to one of its executive directors on an exceptional basis 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 executive director who ESO has deemed to not have enabled our delivery of sufficient service levels to ESO's customers.
10. The ESO independent non-executive directors 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.