

nationalgrid

EU Taxonomy Report

**National Grid
2022/23**



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The EU Taxonomy Regulation

The EU Taxonomy is a classification system, establishing a standardised list of sustainable economic activities. The system is intended to create a common language and clear definition of what is sustainable. It is designed to create security for investors by protecting them from greenwashing, help companies become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

The Taxonomy Regulation establishes six environmental objectives

1. Climate change mitigation

2. Climate change adaptation

3. The sustainable use and protection of water and marine resources

4. The transition to a circular economy

5. Pollution prevention and control

6. The protection and restoration of biodiversity and ecosystems

The EU Taxonomy Regulation and its first two objectives were adopted by the European Commission in the prior financial year and these are the only objectives considered in our reporting for 2022/23.

This report assesses the eligibility and alignment of National Grid's economic activities for the financial year to 31 March 2023, based on the EU Taxonomy Regulation, including its associated legislative acts (the Delegated Acts) described below, as well as any additional guidance released since their adoption:

- **The Climate Change Delegated Act** – Establishes the technical screening criteria (TSC) for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation (Annex 1) or climate change adaptation (Annex 2), and for determining whether that economic activity does no significant harm (DNSH) to any of the other environmental objectives.
- **The Disclosure Delegated Act** – Specifies the content and presentation of information to be disclosed, concerning environmentally sustainable economic activities, and specifies the methodology to perform that assessment.
- **The Complementary Climate Delegated Act** – Establishes the TSC and associated DNSH for the Annex 1 and Annex 2 objectives in relation to natural gas and nuclear energy activities.

The European Commission has published a draft Delegated Act and detailed annexes for a new set of EU Taxonomy TSC for economic activities, making a substantial contribution to the remaining four environmental objectives. We will evaluate the provisions of this new Delegated Act before making a decision on their adoption in a future period.

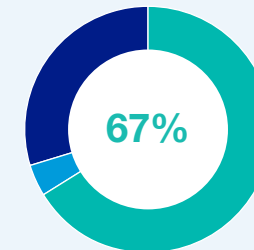
EU Taxonomy reporting includes two levels of reporting, one a subset of the other:

- **Eligible activities:** These are economic activities identified by the legislation as having the potential to substantially contribute to one of the six objectives.
- **Aligned activities:** Eligible economic activities that:
 - meet the minimum safeguards required by the EU Taxonomy;
 - fulfil the TSC laid out by the Delegated Acts of the EU Taxonomy; and
 - DNSH to any other objectives of the EU Taxonomy.

Results summary – 2022/23

Group aligned (green) turnover

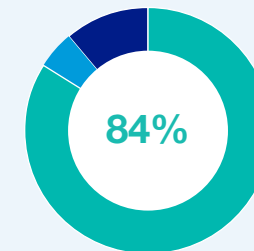
£14.4bn (2021/22: 67% £12.4bn)



- ◆ Taxonomy aligned activities **67%**
- ◆ Taxonomy eligible but not aligned activities **4%**
- ◆ Taxonomy non-eligible activities **29%**

Group aligned (green) opex

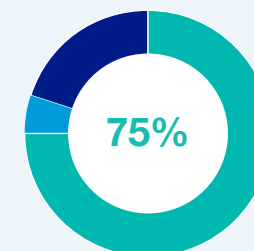
£6.5bn (2021/22: 84% £5.3bn)



- ◆ Taxonomy aligned activities **84%**
- ◆ Taxonomy eligible but not aligned activities **5%**
- ◆ Taxonomy non-eligible activities **11%**

Group aligned (green) capex

£5.6bn (2021/22: 73% £4.5bn)



- ◆ Taxonomy aligned activities **75%**
- ◆ Taxonomy eligible but not aligned activities **5%**
- ◆ Taxonomy non-eligible activities **20%**



Early voluntary adoption

At National Grid, our vision is to be at the heart of a clean, fair and affordable energy future. One of the responsibilities we take seriously in meeting this vision is demonstrating our commitment to external stakeholders through reliable, comparable and decision useful sustainability reporting, and maintaining our position as a global leader in this space.

In 2021/22, National Grid was one of the first companies in the world to publish EU Taxonomy eligibility and alignment disclosures. We did this on a voluntary basis because we support the objectives of the classification system in bringing standardisation and comparability to defining and measuring a business's sustainable activities. We continue to consider the EU Taxonomy to be the most advanced, credible and widely adopted system of this kind.

In this report, we voluntarily disclose our 2022/23 KPIs aligned to our interpretation of the EU Taxonomy, to provide our stakeholders with a transparent view of our alignment to the objectives adopted at the reporting date: climate change mitigation and climate change adaptation.

In applying the latest guidance available at the reporting date, we have identified areas where judgement is required due to subjectivity and currently low levels of adoption. In such instances, we have sought to disclose all judgements made to support the understandability of our KPIs, maximise transparency and allow users of our reports to interpret the impact of alternative judgements.

We believe this second EU Taxonomy disclosure demonstrates our continued commitment to create security for our investors and protect our stakeholders from greenwashing. We have made every effort to adhere to the requirements of the relevant EU Taxonomy Delegated Acts and corresponding guidance, in consultation with third-party advisory partners and industry peers. We understand that the EU may issue new amendments or clarifications subsequent to our disclosure this year, which could inform or alter our approach in future years.

Further, we are monitoring developments from the UK Green Technical Advisory Group (GTAG) on the implementation of a UK Green Taxonomy. Our current expectation is that, as a Group with a primary listing in the London Stock Exchange and operations in the UK and US, we would transition to the UK Green Taxonomy as soon as reasonably practicable.



Governance

Since our first EU Taxonomy disclosure in 2021/22, we have taken steps to further embed the EU Taxonomy into our strategic sustainability decision making by applying its alignment criteria to calculate our green investment forecasts and associated monitoring processes. Most recently, we announced that around £29 billion (c.73%) of our £40 billion investment programme over our five-year framework to 31 March 2026 would be aligned to the EU Taxonomy.

Further, we have developed an internal sustainability reporting regime within which all sustainability information, including our EU Taxonomy performance, is monitored through our quarterly forecasting processes.

In pulling this year's reporting together, the following steps were taken:

- the project team was led by the ESG Centre of Excellence within Group Financial Control, with support and expertise from wider internal stakeholders. In addition, we engaged with industry peers and external advisers and their respective working groups in the reporting year, to improve and challenge our understanding of the EU Taxonomy.
- in order to perform our detailed eligibility and alignment assessments, the project team engaged with over 15 different departments across the Group, obtaining senior management approvals for all business level data submissions.
- relevant members of the Board, Executives and senior management were kept up-to-date on major outcomes and assumptions throughout the process, including reporting of findings to the Audit & Risk Committee ahead of publication.



Process

The table below summarises the process we have undertaken in order to analyse our business activities against the eligibility and alignment criteria for the two climate change objectives, so that we can ultimately calculate our final KPIs for green turnover, operating expenditure (opex) and capital expenditure (capex).

We discuss these stages in more detail in the next sections.

Eligibility assessment

- Group definition of eligibility in line with relevant Delegated Act agreed.
- Group-wide assessment of eligibility in line with the relevant Delegated Act to ensure completeness.
- Business units assess their business activities to determine their eligibility.
- List of eligible activities identified.
- Eligibility KPIs calculated.



Further reading
pages 6 – 9

Alignment assessment

Substantial contribution

- Establishment of Group-wide policy and assumptions in compliance with the definitions within the relevant Annexes, to the best of our ability.
- Consulted with ESG assurance partners and EU Taxonomy advisory working groups on approach.
- Data collection to assess the impact of material activities.

DNSH

- Evaluation of the DNSH criteria with key internal stakeholders for all environmental objectives.
- Establishment of Group-wide policy and integration into future decision-making to ensure improved future alignment.
- Continued refinement, iteration and review processes to ensure we do no significant harm to objectives over time.

Minimum safeguards

- Group-wide assessment mapping policies, procedures and practices to the EU Taxonomy's principles.
- Review of cases of non-compliance and claims brought against the Company to ensure no breaches of minimum safeguards.
- Continued refinement, iteration and review of processes to ensure minimum safeguards are maintained



Further reading
pages 10 – 21

Calculation of KPIs

- Based on the eligibility and alignment assessments performed, final KPIs calculated at a defined activity level.
- Reconciliation of revenue and capex denominators to audited financial statements.



Further reading
page 22

Ongoing consultation with third-party assurance and advisory partners, and industry peers.



Eligibility assessment

Initial materiality assessment

We engaged with stakeholders across the business to understand our external revenue-generating activities, as well as any activities for which there was capital expenditure for future potential revenue, such as research and development (R&D). Applying an initial, clearly trivial, financial materiality threshold of £5 million as well as a high-level comparison of our activities with the eligibility definitions designated within the respective Delegated Acts, all non-core activities were stripped out of the eligibility assessment for 2022/23, as they were in the prior year. Each of these will continue to be assessed on an annual basis.

These business areas are broadly described below:

- **Core activities (potentially eligible):** Electricity transmission (including interconnectors and smart meters); electricity distribution; gas distribution; and electricity system operation (ESO).
- **Other major activities (potentially eligible):** Gas-powered electricity generation; gas storage; and solar PV and wind-powered electricity generation.
- **Non-core activities (non-eligible):** Investment fund business for future energy solutions; captive insurance business; property investment business; and telecommunications business.

To align with the requirements of the Disclosure Delegated Act, we have not considered joint ventures (JVs) in our KPIs this year as this would prevent the total turnover and capex figures from being directly reconcilable with our audited Group financial statements. However, it should be noted that many of our sustainable activities, such as the construction and operation of renewables generation in the US, are in JV partnerships with other organisations. On this basis, we would expect our green KPIs to be higher if JVs were included.

Economic activity definition

In accordance with the Disclosure Delegated Act, we consider eligible activities as those described in the Delegated Acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2) and Article 15(2) of Regulation (EU) 2020/852, but do not consider the technical screening criteria of DNSH considerations of those Delegated Acts.

In particular, Activity 4.9 in the Climate Change Delegated Act clarifies that “a ‘system’ means the power control area of the transmission or distribution network where the infrastructure or equipment is installed”.

On this basis, we have developed our own definition of an economic activity which applies directly to our core activities, following the EU Taxonomy guidelines:

An eligible economic activity is defined as a single system which delivers its objective, distinguishable by region at a network and operational level, and meets the eligibility criteria defined by the EU Taxonomy Delegated Acts. All non-direct costs which are not directly essential to the running of these activities are excluded.

A similar logic has been applied to our other major activities described in the previous section.



Eligibility assessment continued

Eligible activities

To assess eligibility, we compared the economic activities for each National Grid entity, using the definition above for guidance, with the sustainable activity definitions set out in the Climate Change Delegated Act. In performing this evaluation, we identified the following 28 National Grid economic activities as eligible or partially eligible, and five major activities as non-eligible:

UK Regulated Business

Economic activity	Taxonomy activity	Activity description	Eligible?	Reason
UK National Grid Electricity Transmission (NGET)	4.9 Transmission and Distribution of Electricity	Construction and operation of the entire electricity transmission network in England and Wales, a single interconnected system.	Yes	Involves construction and operation of transmission systems that transport electricity.
UK Electricity System Operation (NGESO)	4.9 Transmission and Distribution of Electricity	Operation of the electricity system for Great Britain, balancing supply and demand to ensure electricity demand is affordably met.	Yes	Activities essential to the operation of Great Britain's electricity transmission and distribution network.
UK West Midlands Network – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of the entire electricity distribution network in the West Midlands, UK.	Yes	Involves construction and operation of distribution systems that transport electricity.
UK East Midlands Network – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of the entire electricity distribution network in the East Midlands, UK.	Yes	Involves construction and operation of distribution systems that transport electricity.
UK South Wales Network – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of the entire electricity distribution network in South Wales, UK.	Yes	Involves construction and operation of distribution systems that transport electricity.
UK South West Network – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of the entire electricity distribution network in the South West of England, UK.	Yes	Involves construction and operation of distribution systems that transport electricity.

US Regulated Business

Economic activity	Taxonomy activity	Activity description	Eligible?	Reason
US Niagara Mohawk Power Corporation (NMPC) – Electricity transmission	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity transmission facilities in the areas of central, northern and eastern New York.	Yes	Involves construction and operation of transmission systems that transport electricity.
US New England Power Company (NEP) – Electricity transmission	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity transmission facilities in Massachusetts, New Hampshire, Vermont and Rhode Island.	Yes	Involves construction and operation of transmission systems that transport electricity.
US Massachusetts Electric Company (MECO) – Electricity transmission	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity transmission facilities in Massachusetts.	Yes	Involves construction and operation of transmission systems that transport electricity.
US Massachusetts Electric Company (MECO) – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity distribution in Massachusetts.	Yes	Involves construction and operation of distribution systems that transport electricity.
US Niagara Mohawk Power Corporation (NMPC) – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity distribution in eastern, central, northern and western New York.	Yes	Involves construction and operation of distribution systems that transport electricity.
US Nantucket – Electricity distribution	4.9 Transmission and Distribution of Electricity	Construction and operation of electricity distribution on the island of Nantucket.	Yes	Involves construction and operation of distribution systems that transport electricity.



Eligibility assessment continued

US Regulated Business continued

Economic activity	Taxonomy activity	Activity description	Eligible?	Reason
US Massachusetts Gas (MA Gas) – Gas distribution	4.14 Transmission and distribution networks for renewable and low-carbon gases	Construction and operation of natural gas distribution facilities across Massachusetts.	No / Partial	No: The vast majority of the operations associated with this activity are not eligible as this business currently only distributes fossil fuel gas. Partial (capex only): A portion of capex is spent on replacing leak-prone pipes with plastic pipework to prevent current methane leakage and to prepare the system for introducing RNG and hydrogen in line with our Clean Energy Vision. Only this portion of capex is eligible.
US Niagara Mohawk Power Corporation (NMPC) – Gas distribution	4.14 Transmission and distribution networks for renewable and low-carbon gases	Construction and operation of natural gas distribution facilities in the areas of central, northern and eastern New York.	No / Partial	No: The vast majority of the operations associated with this activity are not eligible as this business currently only distributes fossil fuel gas. Partial (capex only): A portion of capex is spent on replacing leak-prone pipes with plastic pipework to prevent current methane leakage and to prepare the system for introducing RNG and hydrogen in line with our Clean Energy Vision. Only this portion of capex is eligible.
KeySpan Energy Delivery New York (KEDNY) – Gas distribution	4.14 Transmission and distribution networks for renewable and low-carbon gases	Construction and operation of natural gas distribution facilities in the boroughs of Brooklyn and Staten Island, and two-thirds of the borough of Queens, all in New York City.	No / Partial	No: The vast majority of the operations associated with this activity are not eligible as this business currently only distributes fossil fuel gas. Partial (capex only): A portion of capex is spent on replacing leak-prone pipes with plastic pipework to prevent current methane leakage and to prepare the system for introducing RNG and hydrogen in line with our Clean Energy Vision. Only this portion of capex is eligible.
KeySpan Energy Delivery Long Island (KEDLI) – Gas distribution	4.14 Transmission and distribution networks for renewable and low-carbon gases	Construction and operation and retail of natural gas distribution facilities in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York.	No / Partial	No: The vast majority of the operations associated with this activity are not eligible as this business currently only distributes fossil fuel gas. Partial (capex only): A portion of capex is spent on replacing leak-prone pipes with plastic pipework to prevent current methane leakage and to prepare the system for introducing RNG and hydrogen in line with our Clean Energy Vision. Only this portion of capex is eligible.
US New England Hydro-Transmission Electric Company Interconnector	4.9 Transmission and Distribution of Electricity	Construction and operation of New England interconnector connecting New England transmission into other networks.	Yes	Involves construction and operation of transmission systems that transport electricity.
US New England Hydro-Transmission Corp Interconnector	4.9 Transmission and Distribution of Electricity	Construction and operation of New England interconnector connecting New England transmission into other networks.	Yes	Involves construction and operation of transmission systems that transport electricity.
New England Electric Transmission Corp Interconnector	4.9 Transmission and Distribution of Electricity	Construction and operation of New England interconnector connecting New England transmission into other networks.	Yes	Involves construction and operation of transmission systems that transport electricity.



Eligibility assessment continued

National Grid Ventures (NGV) business

Economic activity	Taxonomy activity	Activity description	Eligible?	Reason
National Grid Renewables – Solar PV	4.1 Electricity generation using solar photovoltaic technology	National Grid Renewables (100% owned) develops solar projects throughout the United States, which are in various stages of development and construction.	Yes	Involves the construction of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology.
National Grid Renewables – Wind Power	4.3 Electricity generation from wind power	National Grid Renewables (100% owned) develops wind projects throughout the United States, which are in various stages of development and construction.	Yes	Involves the construction of electricity generation facilities that produce electricity using wind energy technology.
National Grid Generation LLC (Gen-Co)	4.29 Electricity generation from fossil gaseous fuels (from the Complementary Delegated Act)	Operation of 50 fossil fuel-powered electricity generation units with approximately 3,800 megawatts of electric generation capacity, located in Long Island.	Yes	Operation of electricity generation facilities that produce electricity using fossil gaseous fuels.
Interconnexion France-Angleterre (IFA1) – Interconnector	4.9 Transmission and Distribution of Electricity	Operation of the subsea electricity link between Great Britain and France.	Yes	Involves construction and operation of transmission systems that transport electricity.
Interconnexion France-Angleterre II (IFA2) – Interconnector	4.9 Transmission and Distribution of Electricity	Operation of the second subsea link between Great Britain and France.	Yes	Involves construction and operation of transmission systems that transport electricity.
North Sea Link (NSL) – Interconnector	4.9 Transmission and Distribution of Electricity	Operation of the subsea interconnector linking the electricity systems of Great Britain and Norway.	Yes	Involves construction and operation of transmission systems that transport electricity.
Viking Link (Viking) – Interconnector	4.9 Transmission and Distribution of Electricity	Operation of the subsea interconnector link between the electricity transmission systems of Great Britain and Denmark.	Yes	Involves construction and operation of transmission systems that transport electricity.
Multi-Purpose Interconnectors (MPI) – Interconnector	4.9 Transmission and Distribution of Electricity	MPIs could enable offshore wind and interconnection to work together as a combined asset, allow clusters of off-shore wind farms to connect all in one go, plugging into the energy systems of neighbouring countries.	Yes	Involves construction and operation of transmission systems that transport electricity. Note: This technology is still being developed. If approved, build is expected to commence in FY25 and we expect MPIs to be operational from FY29. We have included this activity on the basis that it is expected to be operational within 10 years.
National Grid Smart UK (Electricity Meters)	4.9 Transmission and Distribution of Electricity	Electricity smart meter upgrade projects.	Yes	Meets the functionality requirements of Article 20 of Directive (EU) 2019/944.
UK Grain LNG import terminal and storage	4.12 Storage of hydrogen	Natural gas import terminal and storage on the Isle of Grain.	No	As there are no formal plans to convert the import and storage facilities to be hydrogen-ready, this activity is not eligible.

Among our core and other major activities, the Group's notable non-eligible activities were our:

- US gas distribution operations, other than those associated with low carbon and hydrogen readiness capex; and
- UK LNG terminal and storage facilities.



Alignment assessment

Substantial contribution assessment

In order to perform this assessment, the project team worked with the various engineering and sustainability teams across the Group to establish the extent to which each of the 28 eligible activities met the criteria set out in Annex 1 and Annex 2 of the Climate Change Delegated Act and Complementary Climate Delegated Act respectively.

Annex 1: Substantial contribution to climate change mitigation

In line with the Climate Change Delegated Act, we assessed the substantial contribution of each of our 28 eligible economic activities against the technical screening criteria (TSC).

We considered the criteria for each of the relevant activities from Annex 1 of the Climate Change Delegated Act:

4.9 Transmission and distribution of electricity

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

- 1) **The transmission and distribution infrastructure or equipment is in an electricity system that complies with at least one of the following criteria:**
 - a) the system is the interconnected European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinate systems;
 - b) more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100g CO₂e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period;
 - c) the average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100g CO₂e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period.

Infrastructure dedicated to creating a direct connection or expanding an existing direct connection between a substation or network and a power production plant that is more greenhouse gas intensive than 100g CO₂e/kWh measured on a life cycle basis is not compliant.

Installation of metering infrastructure that does not meet the requirements of smart metering systems of Article 20 of Directive (EU) 2019/944 is not compliant.

Following our review, it was established that:

- The UK electricity transmission and distribution networks, including the ESO and interconnectors, met criterion 1(a) as these networks are part of the interconnected European system. However, any turnover or costs associated with infrastructure dedicated to direct connections to fossil fuel plants does not meet the criteria and is to be excluded.
- The US electricity transmission and distribution networks are not part of the interconnected system, and so they had to meet criteria 1(b) or 1(c). Through our assessment, it was found that all our New York transmission and distribution systems and our New England distribution systems were compliant with 1(b), with over 90% of newly enabled generation over the past five years being from renewable sources. However, our New England transmission networks were not compliant, and therefore not aligned, on a technicality in that there had been no new direct connections of any kind over the past five years. Once again, any turnover or cost associated with infrastructure dedicated to direct connections to fossil fuel plants does not meet the criteria and is excluded.



Alignment assessment continued

4.14 Transmission and distribution networks for renewable and low-carbon gases

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

1. The activity consists of one of the following:
 - a) construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;
 - b) conversion/repurposing of existing natural gas networks to 100% hydrogen; or
 - c) retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low carbon gasses in the gas system.
2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.

Our US gas distribution business does not currently cater for renewable and low-carbon gases, and so the majority of it is non-aligned. However, a portion of capex is related specifically to the replacement of leak-prone pipes with plastic, which is compliant with 1(c) because it is expected to integrate renewable natural gas (RNG) and hydrogen based on global research performed to date and in line with our **Clean Energy Vision**, and is also compliant with criterion 2 as it minimises the leakage of methane in the shorter term. We will continue to monitor technological progress and the laws and regulations around the future of gas in the Northeast US, and re-evaluate this assessment each year.

4.1 Electricity generation using solar photovoltaic technology

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

The activity generates electricity using solar PV technology.

The Solar PV activity of our National Grid Renewables business is developing solar PV electricity generation projects and therefore meets the substantial contribution criteria.

4.3 Electricity generation from wind power

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

The activity generates electricity from wind power.

The Wind Power activity of our National Grid Renewables business is developing wind power electricity generation projects and therefore meets the substantial contribution criteria.

4.29 Electricity generation from fossil gaseous fuels

According to the Complementary Delegated Act for gas and nuclear generation activities, the eligible economic activity must comply with the following:

The life-cycle GHG emissions from the generation of electricity using fossil gaseous fuels are lower than 100 g CO₂e/kWh.

Our fossil fuel powered electricity generation facilities (Genco) in New York do not meet this threshold and are therefore not aligned.

Annex 2: Substantial contribution to climate change adaptation

In accordance with Annex 1 of the Disclosure Delegated Act, we have separated out any individual capital expenditure which meets the substantial contribution criteria for climate change adaptation. Climate change adaptation expenditure in the year related to building resilience in our electricity transmission and distribution networks to storms and assessing flood defence needs.

We considered the criteria for each of the relevant activities from Annex 2 of the Climate Change Delegated Act.

4.9 Transmission and distribution of electricity

According to the criteria for substantial contribution to climate change adaptation, the eligible economic activity must comply with the following:

The economic activity has implemented physical and non-physical solutions ('adaptation solutions') that substantially reduce the most important physical climate risks that are material to that activity.

1. The physical climate risks that are material to the activity have been identified by performing a robust climate risk and vulnerability assessment.
2. The climate projections and assessment of impacts are based on best practice and available guidance and take into account the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports, scientific peer-reviewed publications and open source or paying models.
3. The adaptation solutions implemented:
 - a) do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of other economic activities;
 - b) favour nature-based solutions or rely on blue or green infrastructure to the extent possible;
 - c) are consistent with local, sectoral, regional or national adaptation plans and strategies; and
 - d) are monitored and measured against pre-defined indicators and remedial action is considered where those indicators are not met.

A portion of the capex for a number of UK and US networks is related to flood and storm defence solutions to protect assets from physical climate risks that would materially affect the functioning of the output of the activity. A robust climate risk and vulnerability assessment has been performed across our asset base to identify the regions and materials most susceptible to physical climate risks, and these areas will continue to be addressed to ensure asset base resilience. As this activity meets the substantial contribution criteria for climate change adaptation, we have included it as an additional line item in the capex assessment. Climate change adaptation investment has been added as a separate, distinguishable line within our KPI tables, separate to climate change mitigation for the relevant activities, to eliminate double counting.



Alignment assessment continued

DNSH assessment

Meeting the DNSH criteria means that an economic activity which significantly contributes to one of the environmental objectives (TSC) does no significant harm to the other five environmental objectives.

Once our 28 eligible economic activities were assessed against the climate change mitigation and adaptation criteria as part of the TSC assessment in the previous section, we performed further assessments of the remaining objectives in relation to DNSH. We have applied the guidance in Article 2 of the regulation to assess our eligible economic activities against the DNSH principles.

We conducted an in-depth Group-wide exercise working with sustainability experts in the US and UK to develop an assessment framework for all of the environmental objectives across the following economic activities:

- 4.9 Electricity distribution, transmission, system operations and interconnectors;
- 4.14 Transmission and distribution networks for renewable and low carbon gases (leak-prone pipe improvements only);
- 4.1 Solar PV generation; and
- 4.3 Wind power generation.

Note: 4.29 Electricity generation from fossil gaseous fuels was deemed not aligned following our TSC assessment and 4.12 Storage of hydrogen was deemed not eligible per the eligibility assessment, so these were not considered in the DNSH assessment.

At National Grid, we maintain a Group-level Environmental Sustainability Business Management System (BMS). This applies to everyone employed by or carrying out work on behalf of any National Grid business. All our employees shall work in accordance with the BMS, and our leaders ensure this is embedded across all levels of the organisation. We publish a Responsible Business Charter, Climate Transition Plan, Taskforce for Climate-Related Financial Disclosures (TCFD) Report and Responsible Business Report, which include strategic targets and ambitions in this space.

The BMS commitments relevant to our DNSH assessment are (relevant strategic targets in brackets):

- identifying our environmental risks, including climate change, and developing plans to mitigate them (net zero by 2050);
- protecting the environment, considering prevention of pollution in the design of all our assets;
- using resources more efficiently by using sustainable materials and reducing waste (adopting the principles of the circular economy, we will design assets that can be recycled, refurbished and reused. We are committed to reducing the use of single-use plastics and sending zero waste to landfill, where possible, in our main offices);
- identifying opportunities to use alternatives to hazardous materials;
- seeking ways to enhance the natural value of the areas where we work for the benefit of local communities and the environment (increase the natural capital value of land we own by 10% by 2030);
- ensuring all our employees have the training, skills, knowledge and resources necessary to achieve the requirements of our internal standards; and
- setting expectations of those who work on our behalf to demonstrate the same commitment to the environment as we do.

The BMS is predominately actioned throughout the business through the implementation and management of ISO 14001 certified environmental management systems.

These management systems provide us with the framework we need to confidently manage the environmental impacts of our business operations and meet the requirements of applicable regulations. Within the management systems, we maintain several standards or procedures that we believe help us meet the DNSH assessment criteria for EU Taxonomy requirements.

Our sustainability teams have performed a line-by-line review of the DNSH assessment and a detailed analysis to map UK and US national and local laws that the Group adheres to with the European laws outlined in the Regulation. For economic activities where not all activities are aligned, we have used P for 'Partial' in the compliance column and described the aligned and non-aligned activities. Below, we present a summary of our assessment of the specific DNSH criteria against our eligible activities:

Climate change mitigation

All activities put forward which meet the TSC for climate change mitigation also meet the criteria for the DNSH assessment.

Economic Activity	Compliant	Description
4.9 Transmission and distribution of electricity	Y	The infrastructure is not dedicated to creating a direct connection or expanding an existing direct connection to a power production plant where the direct greenhouse gas emissions exceed 270g CO ₂ e/kWh, and is therefore aligned.
4.14 Transmission and distribution networks for renewable and low-carbon gases	P	Leak Prone Pipe (LPP) replacement project, involves repurposing and does not increase gas transmission and distribution capacity. The repurposing does not extend the lifespan of the networks beyond their pre-retrofit projected lifespan, unless the network is dedicated to hydrogen or other low-carbon gases, and is therefore aligned. Other activities are not aligned.
4.1 Electricity generation using solar photovoltaic technology	N/A	
4.3 Electricity generation from wind power	N/A	



Alignment assessment continued

Climate change adaptation

An in-depth Group-wide exercise was performed to identify and assess material climate risks. For in-depth analysis refer to the TCFD report in our **2022/23 Annual Report and Accounts**. This involved mapping chronic and acute climate-related risks, which have been split into the following categories:

- Temperature
- Wind
- Water
- Solid mass

We then identified what the material risks were for National Grid's operations in the US and UK in the below table:

	Temperature	Wind	Water
Chronic	Changing temperature (air, freshwater, saltwater) Heat stress Temperature variability Permafrost thawing	Wind pattern variability	Precipitation pattern and type variability (rain, hail, snow/ice)
Acute	Heatwave Cold wave / frost	Storms (including blizzards, dust and sandstorms)	Heavy precipitation (rain, hail, snow/ice) Flood (coastal, fluvial, pluvial, groundwater)

In conjunction with our material risk above, National Grid has recognised and continued to respond to climate change adaptation risks for some time, building our resilience to storms and assessing flood defence needs. As part of National Grid's ongoing assessment and management of climate change adaptation risk, we have commissioned the development of a Climate Change Risk Tool (CCRT). National Grid believes that all activities on storm and flood defence spend meet the criteria.

The CCRT helps our business and the wider communities in which we operate to understand and adapt to the impacts of climate change. Teams across the business will use an interactive dashboard to geographically plot the future impact of climate change, based on different scenarios of global warming. The CCRT will be used to accurately map how key energy infrastructure may be impacted by climate hazards – such as floods or heat waves – and to take early preventative and adaptive measures to significantly lower the risk of disruption to power networks, equipment and communities.

The tool will effectively support our decision-making process on adapting to climate change, ensuring that teams across our UK and US businesses can make decisions based on easily accessible hyper-local data, rather than waiting for bespoke projections on an asset-by-asset or project-by-project basis. The tool covers all National Grid's operations, other than NGED and National Grid Renewables (both of which are in the process of being integrated), from 2030 to 2070. Nine climate hazards have been evaluated over 2 degrees and 4 degrees Celsius via scenario analysis. In the UK, NGET has an Environmental Action Plan and NGED has a Climate Resilience Strategy. All UK business units are subject to DEFRA's Climate Change Adaption reporting requirements (ARP3).

Economic Activity	Compliant	Description
4.9	Y	Transmission and distribution of electricity
4.14	Y	Transmission and distribution networks for renewable and low-carbon gases
4.1	Y	Electricity generation using solar photovoltaic technology
4.3	Y	Electricity generation from wind power

These activities align with the above description

Sustainable use and protection of water and marine resources

National Grid has ISO 14001 (environmental management system) certifications across all businesses. These certifications define the requirements and expectations for water management, which includes water use, protection from and to water courses, and contamination prevention, and therefore meet the requirements of this objective.

Each UK business unit has specific standards and guidance for protection of water systems and quality. NGET does this through its Business Procedure 'Protection of the Water Environment'. NGED complies with its 'Relating to Works near Controlled Waters, Flood Defences and on Flood Plains' policy and adheres to its legal duties to consult with the Environment Agency and Natural Resources Wales, in conjunction with its associated Standard Techniques. NGV operates an environmental standard and guidance on 'Management of Water and Effluent Discharge'. The US has specific environmental procedures and guidance, which specifically refer to water and protection of natural resources, demonstrating our compliance with this objective.

Economic Activity	Compliant	Description
4.9	Y	Transmission and distribution of electricity
4.14	Y	Transmission and distribution networks for renewable and low-carbon gases
4.1	Y	Electricity generation using solar photovoltaic technology
4.3	Y	Electricity generation from wind power

These activities align with the above description

In case of construction of offshore wind, the activity does not hamper the achievement of good environmental status, as set out in Directive 2008/56/EC, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptor 11 (Noise/Energy), laid down in Annex I to that Directive and as set out in Decision (EU) 2017/848 in relation to the relevant criteria and methodological standards for that descriptor.



Alignment assessment continued

Transition to the circular economy

National Grid has a commitment to use resources more efficiently by using sustainable materials and reducing waste.

National Grid has a waste management system in place and ensures maximum reuse and recycling in accordance with the waste hierarchy, including through contractual agreements with waste management partners, and reflection in financial projections or official project documentation. In the US, there are environmental procedures and instructions relating to waste and, in the UK, there are waste management standards and a control of hazardous substances standard. These policies are guided by circular economy principles. NGET, NGED and NY own refurbishment centres, demonstrating alignment to circular economy principles.

Economic Activity	Compliant	Description
4.9 Transmission and distribution of electricity	Y	These activities align with the above description
4.14 Transmission and distribution networks for renewable and low-carbon gases	N/A	
4.1 Electricity generation using solar photovoltaic technology	Y	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability that are easy to dismantle and refurbish.
4.3 Electricity generation from wind power	Y	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability that are easy to dismantle and refurbish.

Pollution prevention and control

National Grid has ISO 14001 (environmental management system) certifications across all businesses, which demonstrates our compliance with this objective. The annual external assurance of our ISO certifications assesses our compliance with the standard and ensures sufficient operational controls are in place. National Grid has an Environmental Sustainability Standard and Supplier Code of Conduct which includes pollution prevention and control.

In the US, each business unit follows International Finance Corporation (IFC) Guidelines, including Environment Procedure No.17 (Construction projects), Environmental Procedure No.3 (Natural Resource Protection) and Environmental, Health & Safety General Guidelines, which cover noise and vibrations, soil erosion, air quality, solid waste, hazardous materials and contaminated land.

In the UK, each business unit has a suite of policies and standards for pollution prevention and control including for the following categories: air emissions, waste management, water system management, EMFs, noise and vibrations. NGET demonstrates DNSH through a combination of its business procedures for certain categories and Group-level standards for the remaining. NGED demonstrates DNSH through its ISO 45001 certification and its 'Relating to Pollution Prevention' policy along with a suite of Standard Techniques addressing individual categories of pollution. NGV demonstrates DNSH through its comprehensive suite of Environmental Operational Standards and Safety Standards.

At National Grid, we maintain a Group-level Environmental Sustainability Business Management System (BMS). All our employees shall work in accordance with this BMS, and our leaders ensure this is embedded across all levels of the organisation.

Economic Activity	Compliant	Description
4.9 Transmission and distribution of electricity	P	Economic activities where there is a risk that the asset contains polychlorinated biphenyls (PCBs) are not aligned. In respect to overground high-voltage lines, we have assessed the electromagnetic radiation impact: (a) for construction site activities, our activities follow the principles of the IFC General Environmental, Health, and Safety Guidelines (284); and (b) activities respect applicable norms and regulations to limit the impact of electromagnetic radiation on human health, including for activities carried out in the European Union, the Council recommendation on the limitation of exposure of the general public to electromagnetic fields (0 Hz to 300 GHz) (285), and for activities carried out in third countries, the 1998 Guidelines of International Commission on Non-Ionizing Radiation Protection (ICNIRP) (286). All other activities are aligned.
4.14 Transmission and distribution networks for renewable and low-carbon gases	Y	Fans, compressors, pumps and other equipment used which are covered by Directive 2009/125/EC comply, where relevant, with the top-class requirements of the energy label and with implementing regulations under that Directive, and represent the best available technology, and therefore are aligned.
4.1 Electricity generation using solar photovoltaic technology	N/A	
4.3 Electricity generation from wind power	N/A	



Alignment assessment continued

Protection and Restoration of Biodiversity and Ecosystems

National Grid has a land management and biodiversity standard.

In the UK, NGET has developed multiple Business Procedures: Land Management and Biodiversity, Environmental Net Gain plan, an Environmental Bulletin on undertaking construction activity near to protected species, and an Environmental Guide on Designated protected areas of land. NGET further supports a network of Environmental Education Centres demonstrating co-existence of transmission assets with nature and communities. NGED aligns its activities to its Biodiversity and Carbon Offsetting Strategy, along with direct implementation of the Town and Country Planning Act, across all major infrastructure projects. NGV has developed a Land Management and Biodiversity standard along with associated guidance and checklist, which demonstrates our compliance with this objective.

In the US, the business units operate IFC performance standard 1: Assessment and Management of Environmental and Social Risk and IFC performance management standard 6: Biodiversity Conservation and Sustainable Management of Living Resources, which demonstrates our compliance with this objective.

Economic Activity	Compliant	Description
4.9 Transmission and distribution of electricity	Y	
4.14 Transmission and distribution networks for renewable and low-carbon gases	Y	These activities align with the above description
4.1 Electricity generation using solar photovoltaic technology	Y	
4.3 Electricity generation from wind power	Y	In case of offshore wind, the activity does not hamper the achievement of good environmental status, as set out in Directive 2008/56/EC, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptors 1 (biodiversity) and 6 (seabed integrity), laid down in Annex I to that Directive, and as set out in Decision (EU) 2017/848 in relation to the relevant criteria and methodological standards for those descriptors.

Summary

As a result of the DNSH assessment, we have made the following exclusions to the Group's eligible activities:

- 1. All gas generation activities, as they do not meet the DNSH criteria.**
- 2. Activities related to polychlorinated biphenyl (PCB) assets, as they do not meet the DNSH criteria.**



Alignment assessment continued

Minimum safeguards assessment

The EU Taxonomy establishes a set of minimum safeguards which businesses must assess their economic activities against to ensure compliance with the following international standards and guidelines:

1. The OECD Guidelines for Multinational Enterprises;
2. The UN Guiding Principles on Business and Human Rights;
3. The principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work; and
4. The International Bill of Human Rights.

Social and governance criteria are set out in the minimum safeguards to ensure that environmentally beneficial activities are not detrimental to wider objectives. Material topics for the consideration around minimum safeguards are:

- human rights, including impacts on our own labour force, our wider value chain partners and those of our consumers; and
- ethics and anti-bribery, including fair business practices, bribe solicitation and extortion, anti-trust considerations and compliance with tax laws.

To perform this analysis, the project team prepared a template covering all of the principles within the minimum safeguards described above, which was populated by representatives from our Company Secretariat, People & Culture, Ethics & Risk and Global Procurement teams, and other relevant stakeholders across our UK and US businesses, capturing our responses with accompanying evidence.

We believe that we are substantially compliant with the minimum safeguards, but we have identified areas for improvement from this exercise, which we are working to address.

The group's Code of Ethics outlines how we behave and is shaped by our three values: Do the Right Thing, Find a Better Way and Make it Happen. This in turn drives our approach to acting responsibly, and to anti-corruption and conflicts of interest. This also covers our people and human rights considerations. In addition, we publish a Modern Slavery Statement which provides details of the controls in relation to human rights.

Given National Grid operates in the UK and US, we believe the risk of modern slavery or human trafficking in our business and first tier supply chain is low. However, our Global Supplier Code of Conduct (GSCoC) integrates human rights into the way we interact with our supply chain. Our Global Procurement team has developed a sustainability assessment tool, using risk assessment criteria, to embed human rights considerations around decent working practices into our strategic sourcing process alongside other sustainability criteria. Any non-compliance is reported immediately and escalated appropriately, with the supplier being put through a review process.

We undertake a fraud and bribery risk assessment across the Company on an annual basis to identify higher-risk areas, such as system access controls, supplier fraud and potential conflicts of interest. This is to ensure adequate policies and procedures are in place to address these areas.

Our governance practices are well established, with respect to:

- **Employee relations:** National Grid is committed to collective bargaining, freedom of association and the protection of employee representatives: we engage and have a relationship with four recognised trade unions in the UK and 22 recognised trade unions in the US;
- **Diversity, equity and inclusion:** we aim for our workforce to reflect the diversity of the communities we serve. We are committed to providing an inclusive, equal and fair working environment by driving inclusion and promoting equal opportunities for all, and ensuring our workforce, whether part-time, full-time or temporary, is treated fairly and with respect;
- **Fraud and bribery:** our Anti-Financial Crimes Policy outlines our position, and all employees must complete the Anti-Bribery and Corruption training and Doing the Right Thing e-learning training every three years;
- **Fair competition:** as a heavily regulated monopoly, all aspects of our operations are thoroughly scrutinised by regulators to ensure conformance with law. Strong working relationships with these regulators ensures transparency and openness;
- **Directors' remuneration:** our Directors' Remuneration Report discloses our Directors' fixed and variable total remuneration, as well as Company pensions and other benefits; and
- **Taxation:** our approach to tax is consistent with the Group's broader commitments to doing business responsibly and upholding the highest ethical standards. We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real-time basis. We prefer to seek clarity through timely discussion and prompt disclosure of all relevant information, with a particular focus on a risk-averse tax strategy.



Alignment assessment continued

Aligned activities

We analysed our 28 eligible activities against the TSC, DNSH assessment and minimum safeguards review. Following this assessment, we arrived at the following aligned and non-aligned activities.


UK Regulated Business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
UK National Grid Electricity Transmission (NGET)			Partial	Yes	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed.</p> <p>Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity.</p> <p>DNSH and minimum safeguards</p> <p>No issues.</p>
UK Electricity System Operation (NGESO)			Yes	Yes	Yes	Yes	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system.</p> <p>DNSH and minimum safeguards</p> <p>No issues.</p>
UK West Midlands Network – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>minimum safeguards</p> <p>No issues.</p>
UK East Midlands Network – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>minimum safeguards</p> <p>No issues.</p>
UK South Wales Network – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>minimum safeguards</p> <p>No issues.</p>









Alignment assessment continued

UK Regulated Business continued

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
UK South West Network – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>Minimum safeguards</p> <p>No issues.</p>

US Regulated Business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
US Niagara Mohawk Power Corporation (NMPC) – Electricity transmission			Partial	Yes	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period.</p> <p>Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity.</p> <p>DNSH and minimum safeguards</p> <p>No issues.</p>
US New England Power Company (NEP) – Electricity transmission			No			No	<p>TSC</p> <p>Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.</p>
US Massachusetts Electric Company (MECO) – Electricity transmission			No			No	<p>TSC</p> <p>Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.</p>
US Massachusetts Electric Company (MECO) – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period.</p> <p>Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>Minimum safeguards</p> <p>No issues.</p>



Alignment assessment continued






US Regulated Business continued

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
US Niagara Mohawk Power Corporation (NMPC) – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period.</p> <p>Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>Minimum safeguards</p> <p>No issues.</p>
US Nantucket – Electricity distribution			Partial	Partial	Yes	Partially	<p>TSC</p> <p>Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period.</p> <p>DNSH</p> <p>All opex associated with PCBs must be removed.</p> <p>Minimum safeguards</p> <p>No issues.</p>
US Massachusetts Gas (MA Gas) – Gas distribution (Low carbon gas readiness capex only)			Partial	Partial	Yes	Partially	<p>TSC</p> <p>The capex associated with replacing leak-prone pipes with plastic pipework meets the 4.14 climate change mitigation TSC of (i) retrofitting gas transmission and distribution networks to enable the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gasses in the gas system and (ii) repair of existing gas pipelines and other network elements to reduce methane leakage.</p> <p>DNSH and minimum safeguards</p> <p>No issues, though we will re-evaluate this assessment if it does not align with the laws and regulations on the future of gas in our US jurisdictions.</p>
US Niagara Mohawk Power Corporation (NMPC) – Gas distribution (Low carbon gas readiness capex only)			Partial	Partial	Yes	Partially	<p>TSC</p> <p>The capex associated with replacing leak-prone pipes with plastic pipework meets the 4.14 climate change mitigation TSC of (i) retrofitting gas transmission and distribution networks to enable the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gasses in the gas system and (ii) repair of existing gas pipelines and other network elements to reduce methane leakage.</p> <p>DNSH and minimum safeguards</p> <p>No issues, though we will re-evaluate this assessment if it does not align with the laws and regulations on the future of gas in our US jurisdictions.</p>



Alignment assessment continued

US Regulated Business continued

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
KeySpan Energy Delivery New York (KEDNY) - Gas distribution (Low carbon gas readiness capex only)			Partially	Partially	Yes	Partially	<p>TSC</p> <p>The capex associated with replacing leak-prone pipes with plastic pipework meets the 4.14 climate change mitigation TSC of (i) retrofitting gas transmission and distribution networks to enable the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gasses in the gas system and (ii) repair of existing gas pipelines and other network elements to reduce methane leakage.</p> <p>DNSH and minimum safeguards</p> <p>No issues, though we will re-evaluate this assessment if it does not align with the laws and regulations on the future of gas in our US jurisdictions.</p>
KeySpan Energy Delivery Long Island (KEDLI) – Gas distribution (Low carbon gas readiness capex only)			Partially	Partially	Yes	Partially	<p>TSC</p> <p>The capex associated with replacing leak-prone pipes with plastic pipework meets the 4.14 climate change mitigation TSC of (i) retrofitting gas transmission and distribution networks to enable the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gasses in the gas system and (ii) repair of existing gas pipelines and other network elements to reduce methane leakage.</p> <p>DNSH and minimum safeguards</p> <p>No issues, though we will re-evaluate this assessment if it does not align with the laws and regulations on the future of gas in our US jurisdictions.</p>
US New England Hydro-Transmission Electric Company Interconnector			No			No	<p>TSC</p> <p>Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.</p>
US New England Hydro-Transmission Corp Interconnector			No			No	<p>TSC</p> <p>Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.</p>
New England Electric Transmission Corp Interconnector			No			No	<p>TSC</p> <p>Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100 g CO₂e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.</p>



Alignment assessment continued

National Grid Ventures (NGV) business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			1. TSC	2. DNSH	3. Minimum safeguards		
National Grid Renewables – Solar PV			Yes	Yes	Yes	Yes	TSC Meets the 4.1 climate change mitigation TSC of generating electricity using solar PV technology. DNSH and minimum safeguards No issues.
National Grid Renewables – Wind Power			Yes	Yes	Yes	Yes	TSC Meets the 4.3 climate change mitigation TSC of generating electricity using wind technology. DNSH and minimum safeguards No issues.
National Grid Generation LLC (GenCo)			No			No	TSC Does not meet the 4.29 climate change mitigation TSC of having lifecycle GHG emissions of lower than 100 g CO ₂ e/kWh or any of the other TSCs.
Interconnexion France-Angleterre (IFA1) - Interconnector			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.
Interconnexion France-Angleterre II (IFA2) - Interconnector			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.
North Sea Link (NSL) – Interconnector			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.
Viking Link (Viking) - Interconnector			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.
Multi-Purpose Interconnectors (MPI) - Interconnector			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.
National Grid Smart UK (Electricity Meters)			Yes	Yes	Yes	Yes	TSC Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. DNSH and minimum safeguards No issues.



Calculating KPIs

During year-end procedures, the project team shared the EU Taxonomy template tables along with detailed instructions with each of the relevant business units. Each business unit submitted its results, and following an extensive review process, the results were collated into Group consolidated tables in order to calculate our final EU Taxonomy KPIs for the year ended 31 March 2023.

The calculation methods for shares of eligible and aligned activities were based on the provisions of Annex 1 of the Delegated Regulation 2178/2021.

All non-direct turnover and costs which are not directly essential to the running of the activities were excluded.

Turnover

We have allocated the turnover of our eligible activities, based on the alignment assessment described in pages 10-21.

The sum of A.1, A.2 and B equals the total revenue from continuing operations disclosed in our consolidated income statement (IFRS revenue) within our audited Annual Report and Accounts (ARA).

Numerator £	Eligible and Aligned Activities	=	% Green Turnover
Denominator £	IFRS 15 Revenue		

Opex

We have allocated the opex for our eligible activities, based on the alignment assessment described in pages 10-21.

The denominator, being the sum of A.1, A.2 and B, has been treated in line with Annex 1 of the Disclosure Delegated Act, as follows:

The denominator shall cover direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

Numerator £	Eligible and Aligned Opex Activities	=	% Green Opex
Denominator £	Direct non-capitalised costs		

Capex

We have allocated the capex of our eligible activities, based on the alignment assessment described pages 10-21

The sum of A.1, A.2 and B equals the total property, plant and equipment, and intangible assets additions from continuing operations disclosed in Note 2 (IFRS Capex) within our audited Annual Report and Accounts (ARA).

Numerator £	Eligible and Aligned Capex Activities	=	% Green Capex
Denominator £	IFRS Capex		

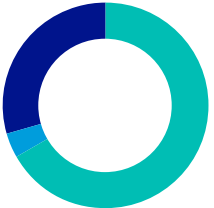



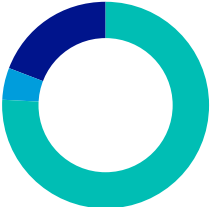

Note: The detailed tables can be found in the [Excel Data Tables](#).



Detailed results

For a detailed breakdown of our results in the EU Taxonomy tables, as set out in the Disclosure Delegated Act, please refer to our **Excel Data Book**.

Our total aligned KPIs are as follows:

2022/23	2021/22	Year-over-year change
<p>Group turnover</p> <ul style="list-style-type: none"> Total revenue from taxonomy-eligible and aligned activities (A.1) 67% Total revenue from taxonomy-eligible but non-aligned activities (A.2) 4% Total revenue from taxonomy-non-eligible activities (B) 29%  <p>£14.4bn</p>	<p>Group turnover</p> <ul style="list-style-type: none"> Total revenue from taxonomy-eligible and aligned activities (A.1) 67% Total revenue from taxonomy-eligible but non-aligned activities (A.2) 4% Total revenue from taxonomy-non-eligible activities (B) 29%  <p>£12.4bn</p>	<p>0% +£2bn</p>
<p>Group opex</p> <ul style="list-style-type: none"> Total opex from taxonomy-eligible and aligned activities (A.1) 84% Total opex from taxonomy-eligible but not aligned activities (A.2) 5% Total opex from taxonomy-non-eligible activities (B) 11%  <p>£6.5bn</p>	<p>Group opex</p> <ul style="list-style-type: none"> Total opex from taxonomy-eligible and aligned activities (A.1) 84% Total opex from taxonomy-eligible but not aligned activities (A.2) 5% Total opex from taxonomy-non-eligible activities (B) 11%  <p>£5.3bn</p>	<p>0% +£1.2bn</p>
<p>Group capex</p> <ul style="list-style-type: none"> Total capex from taxonomy-eligible and aligned activities (A.1) 75% Total capex from taxonomy-eligible but non-aligned activities (A.2) 5% Total capex from taxonomy-non-eligible activities (B) 20%  <p>£5.6bn</p>	<p>Group capex</p> <ul style="list-style-type: none"> Total capex from taxonomy-eligible and aligned activities (A.1) 73% Total capex from taxonomy-eligible but non-aligned activities (A.2) 5% Total capex from taxonomy-non-eligible activities (B) 21%  <p>£4.5bn</p>	<p>+2% +£1.1bn</p>
Climate change adaptation capex: £31m	Climate change adaptation capex: £36m	

Analysis

Overall, our green revenue, opex and capex increased in absolute terms due to revenue growth in our electricity and interconnector networks.

In addition, our green capex KPI increased to 75% from 73% in the prior year, demonstrating that we are increasingly focusing our investment on delivering the clean energy transition.

Based on our 2022/23 KPIs, we are on track to meet our £29 billion five-year green investment forecast.



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