



RFPR Commentary
Financial Year 2024/2025

Contents

Abbreviations	3
1 Purpose & Background	4
2 Executive Summary	4
3 Key Financial Performance Measures	5
4 Key Operational Performance Measures	5
5 Overview of Regulatory Performance	6
5.1 Return on Regulatory Equity ("RoRE")	6
5.2 Reconciliation to Revenue and Profit	7
5.3 Capex- Reconciliation	8
5.4 Opex- Reconciliation	9
5.5 Incentives and Other Revenue	10
5.6 Financing and Net Debt Position	10
5.7 RAV	11
5.8 Taxation and Tax Reconciliation	12
5.9 Financial Resilience	12
5.10 Corporate Governance	12
5.11 Executive Remuneration Policies	14
5.12 Dividend Policy	14
5.13 Pensions and Other Activities	14
6 Data Assurance Statement	15
Appendix A – Corporate Ownership Structure	16
Appendix B –DISTRIBUTION POLICY	17

Abbreviations

CM	Corrective Measures
COD	Commercial Operations Date
CoD	Cost of Debt
CCS	Carbon Capture Storage
DESNZ	Department for Energy Security and Net Zero
NEP	Northern Endurance Partnership
PCFM	Price Control Financial Model
RAV	Regulatory Asset Value
RFPR	Regulatory Financial Performance Report
RIG	Regulatory Instruction and Guidance
RoRE	Return on Regulatory Equity
RP	Remediation Plan
SRAV	Shadow Regulatory Asset Value

1 Purpose & Background

The Carbon Dioxide Transport and Storage Licence sets out reporting obligations for the Licensee to provide information, which Ofgem requires to carry out its functions including administering the standard and special conditions (as may be relevant) of the Licence.

The Licensee's reporting obligations include Regulatory Financial Performance Reporting (RFPR), that aims to provide a comprehensive transparent, accessible and accurate measure of the licensee's financial performance under the regulatory framework.

The RFPR consists of two elements:

1. Ofgem's RFPR template for reporting data
2. The RFPR commentary

This document provides commentary to support the RFPR template and is intended to provide insights into the Licensee's financial and operational performance under the regulatory framework during the 10th Dec 2024 to 31st March 2025 Reporting Period.

2 Executive Summary

Net Zero North Sea Storage Limited ("Licensee") is the legal entity of the Northern Endurance Partnership ("NEP"), which is developing onshore and offshore infrastructure needed to transport CO₂ from carbon capture projects across Teesside and Humber – collectively known as the East Coast Cluster - to secure storage under the North Sea.

In December 2024, the Licensee was awarded an Economic License from the Secretary of State, and achieved financial close, giving the green light to proceed to the execution phase of the UK's first CO₂ transportation and storage infrastructure network that will serve three initial carbon capture projects on Teesside: NZT Power, H₂Teesside and Teesside Hydrogen CO₂ Capture.

During the period from Licence Award to 31 March 2025 ("Reporting Period") the Company was engaged in the early stages of project, including, assembling the project team, establishing necessary processes, awarding key contracts and the mobilisation of key contractors to develop the infrastructure that will transport Carbon Dioxide from carbon capture projects in the Teesside region to secure offshore storage under the North Sea.

The Company also progressed development work to facilitate expansion of the network to enable transportation of Carbon Dioxide from carbon capture projects in the Humber region. Development activities included engineering, supply chain procurement and permitting and licensing for a Humber Carbon Capture Pipeline; and the drilling of appraisal wells, data gathering, front-end engineering, permitting and licensing for Expansion Storage Systems.

At the end of the Reporting Period, the Licensee remained on track to deliver the approved activity by the key milestone dates and within the license Capex and Devex allowances.

3 Key Financial Performance Measures

The key financial performance measure within the RFPR submission is Return of Regulatory Equity ("RoRE") financial performance. The Licensee's financial performance for 24/25 relates to the optimisation of our debt utilisation, details of this can be found in the section 5.1, 5.6 and 5.8.

4 Key Operational Performance Measures

The key operational performance measures during the Reporting Period within the RFPR 24/25 submission is RoRE operational performance. Most operational performance measures are assessed during the operational period.

During the construction and commissioning phase, the primary measure of operational performance in relation to RoRE is the SRAV Capex and Opex Incentive. This incentive is calculated by comparing cumulative actual spend against the cumulative allowance and is therefore likely to be obtained towards the end of construction and commissioning period. At the end of the Reporting Period, the Licensee remained on track to deliver the approved activity by the key milestone dates and within the license Capex and Devex allowances.

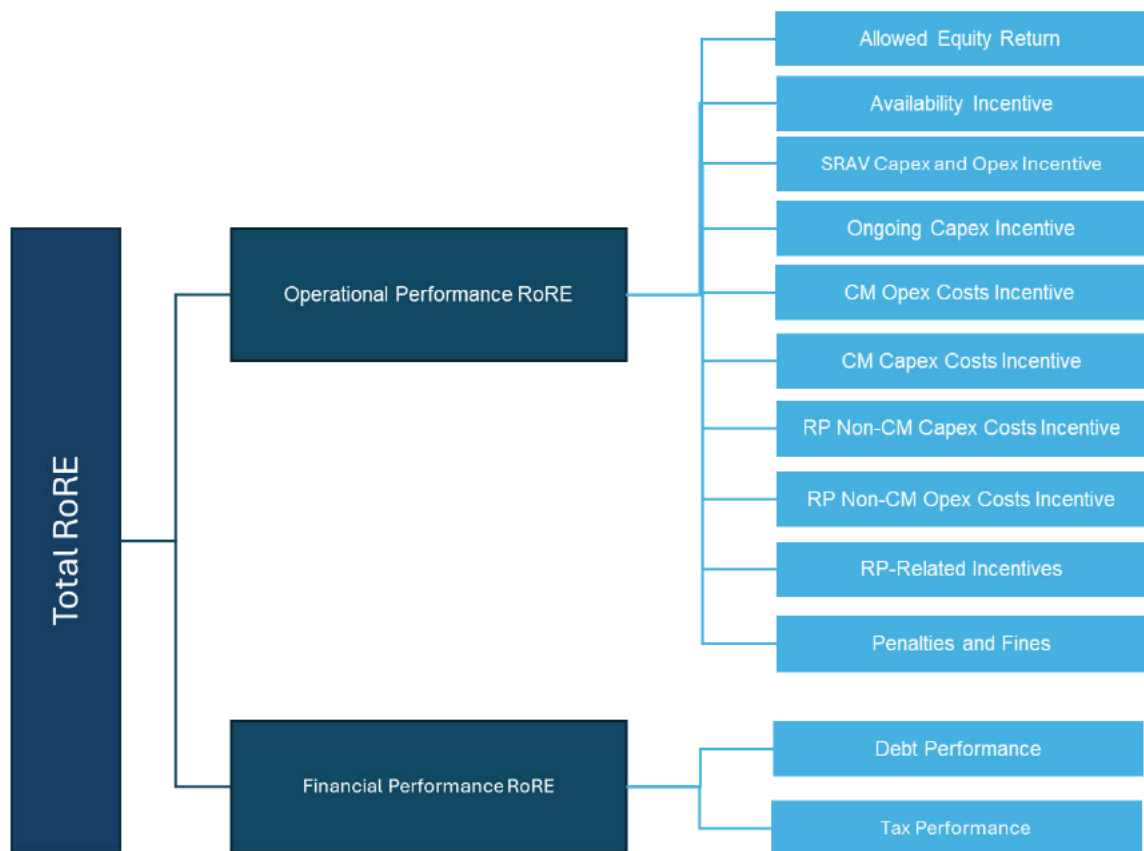
5 Overview of Regulatory Performance

5.1 Return on Regulatory Equity (“RoRE”)

The section outlines the Licensee’s RoRE. Ofgem uses RoRE to measure the financial return achieved by shareholders during the price control period. It calculates the returns equity investors earn inclusive of both baseline equity returns and the impact of incentives.

RoRE is presented in terms of both notional gearing and actual gearing. Notional gearing is set by Ofgem at 60% to allow for comparison of financial performance between Licensees.

RoRE is divided into both operational and financial components. The operational RoRE includes cost and allowances related to the regulated business, while the financial component includes both financing and tax performance.



The Licensee’s cumulative RoRE to March 2025 can be seen in the table below both on a notional and actual gearing basis:

Cumulative Gearing to 2025	Notional Gearing	Actual Gearing
Allowed Equity Return	■	■
Availability Incentives	■	■
SRAV Capex and Opex Incentive	■	■
Ongoing Capex Incentive	■	■
CM Opex Costs Incentive	■	■
CM Capex Costs Incentive	■	■

RP Non-CM Capex Costs Incentive	████	████
RP Non-CM Opex Costs Incentive	████	████
RP-Related Incentives	████	████
Penalties and fines (Other Activities)	████	████
RoRE - Operational performance	████	████
Debt performance	████	████
Tax performance	████	████
RoRE - including financing and tax	████	████

RoRE based on notional gearing is █████.

The Allowed Equity Return percentage was set before the beginning of the first price control period. The level of return was set at █████ per year (on a notional gearing basis), based on prevailing market rates at the time. The █████ for this reporting period reflects that the license was awarded midway through a financial year.

As 24/25 was the Licensee's first regulatory year, no incentives were earned, as these typically accrue during operations or at the end of construction and commissioning. The SRAV Opex and Capex Incentive forecast for 2028/29 currently reduces RoRE due to a small Phase 1 Capex overspend. This relates to additional costs expected to be added to the allowance via an uncertain cost event reopener, which has not yet been reflected.

Financing and tax performance decreased RoRE by █████. This is an artefact of the calculations in the RFPR workbook, driven by regulator's requirement to maintain a standardised workbook across all networks to enable fair comparison. Actual Debt outperformance was █████ More details on Debt and Tax performance can be found in Sections 5.6 and 5.8.

The Licensee's RoRE based on actual gearing is █████

The Allowed Equity Return of █████ is driven by a simplified calculation for Equity Return on RAV, more details can be found in section 5.6.

Debt performance of █████ reflects the fact that a significant portion of the Licensee's interest costs are hedged and therefore protected during periods of higher inflation. Any increase in inflation above the levels assumed in the hedged interest rate will raise the 'inflation in interest' adjustment, thereby reducing the 'real' cost of debt for fixed nominal borrowings

5.2 Reconciliation to Revenue and Profit

This section outlines the reconciliation of regulated revenue and profit against revenue and profit stated in the statutory accounts. The reconciliation to revenue and profits stated in Statutory Accounts is based on Company's underlying account records.

Regulated allowed revenues have been calculated in the PCFM in accordance with the relevant licence conditions. As the Licensee is in the first year of its licence and currently in the construction phase of the project, there is no regulated revenue for Reporting Period. The Licensee will begin receiving regulated revenue when the project reaches COD, which is expected in February 2029. The Licensee reported no revenue in the company's statutory account.

Differences between regulatory and statutory profit are expected and arise from the differing treatment of items under regulatory and statutory frameworks. Net Profit reported in the statutory account was £61.7m, or £45.3m after deducting capitalised interest and expenses, as required by the RFPR template.

The main component of the Licensee's statutory net profit was the unrealised gain on its interest rate swap. The regulated net profit is reported as -£15.6m, which is £60.9m lower than the statutory figure. This difference is driven by two main factors: firstly, unrealised gains are excluded from regulatory net profit (-£85m) and secondly the deferred tax adjustment (+£23m).

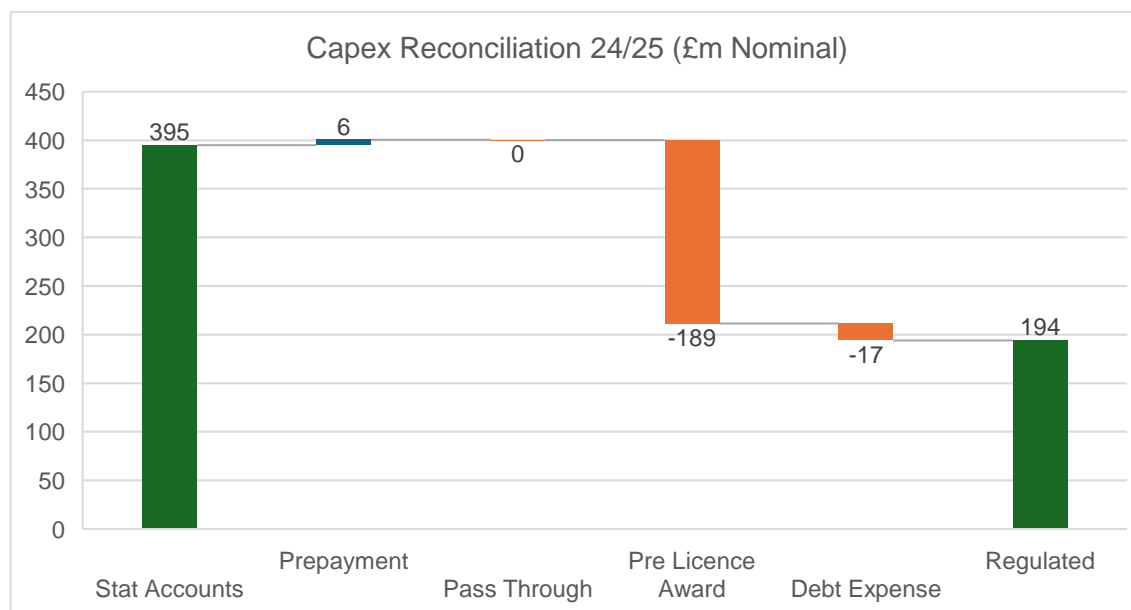
5.3 Capex- Reconciliation

This section outlines the reconciliation of the Licensee's Capex reported in the PCFM against the Capex reporting in the Licensee's statutory accounts.

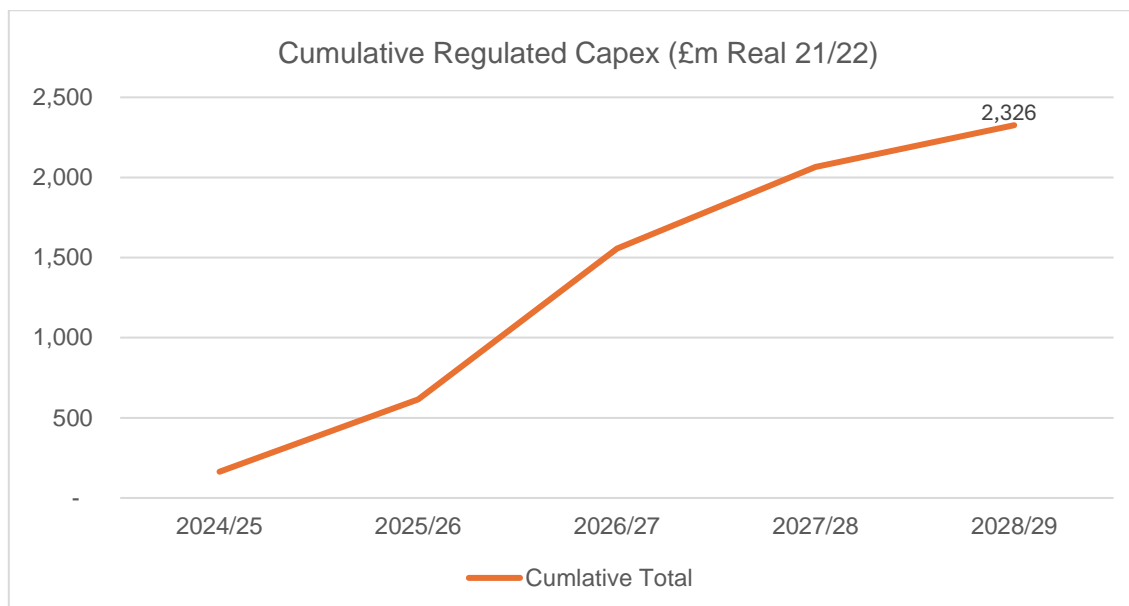
Regulated Capex costs for 24/25 were £194m (nominal), compared to £394m (nominal) reported in the statutory accounts. The difference is primarily due to differences in the reporting periods, with the statutory accounts covering the extended period from 8th of December 2023 to the 31st March 2025, during which the Licensee incurred £189m of Pre Licence Award spend, which is not part of the regulated Capex and instead forms part of the Day 1 SRAV.

Additionally, the statutory accounts include £16.4m of capitalised debt fees and interest, which are recovered via the regulated return received on the SRAV and therefore not reported as regulatory Capex.

Capex reported in the Licensee's statutory accounts is recorded on an accrual basis, whereas under the CCS RIGs, certain items may be reported on a prepayment or cash basis. For 24/25, this primarily affects insurance prepayments, with £6m added to the regulated Capex above the amount reported in the statutory accounts.



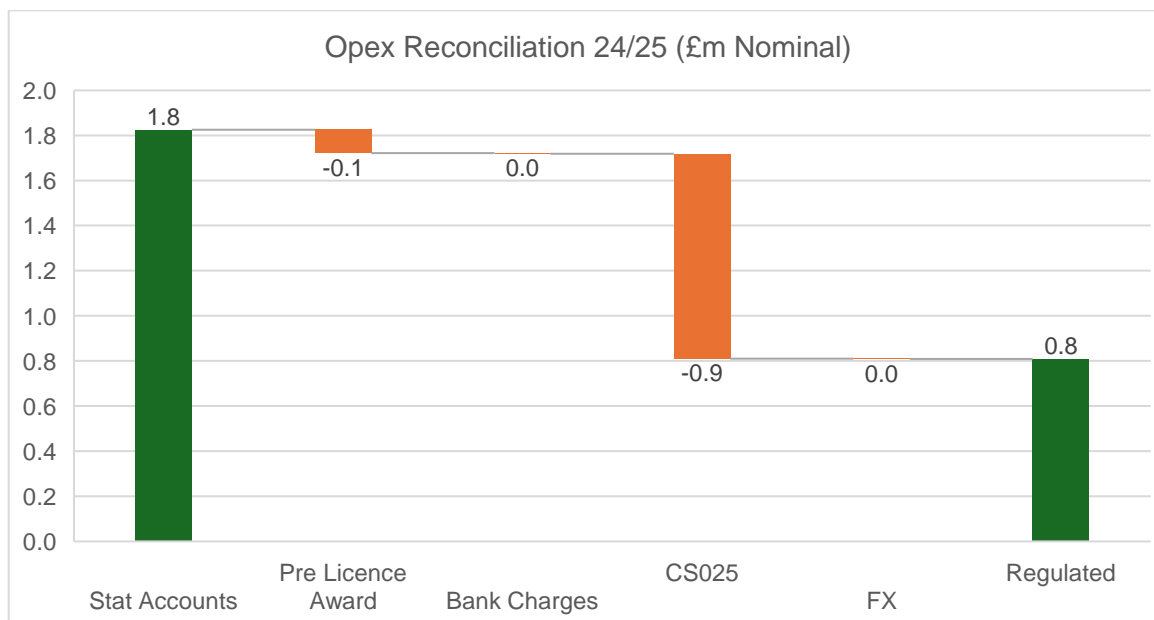
The forecast for future Capex during the construction and commissioning period, at £2,326m (real 21/22), remains broadly in-line with the allowance of £2,278m (real 21/22). The difference is due to additional costs that will be sought to be added to the Capex allowance through the Licence uncertain cost event reopener mechanism.



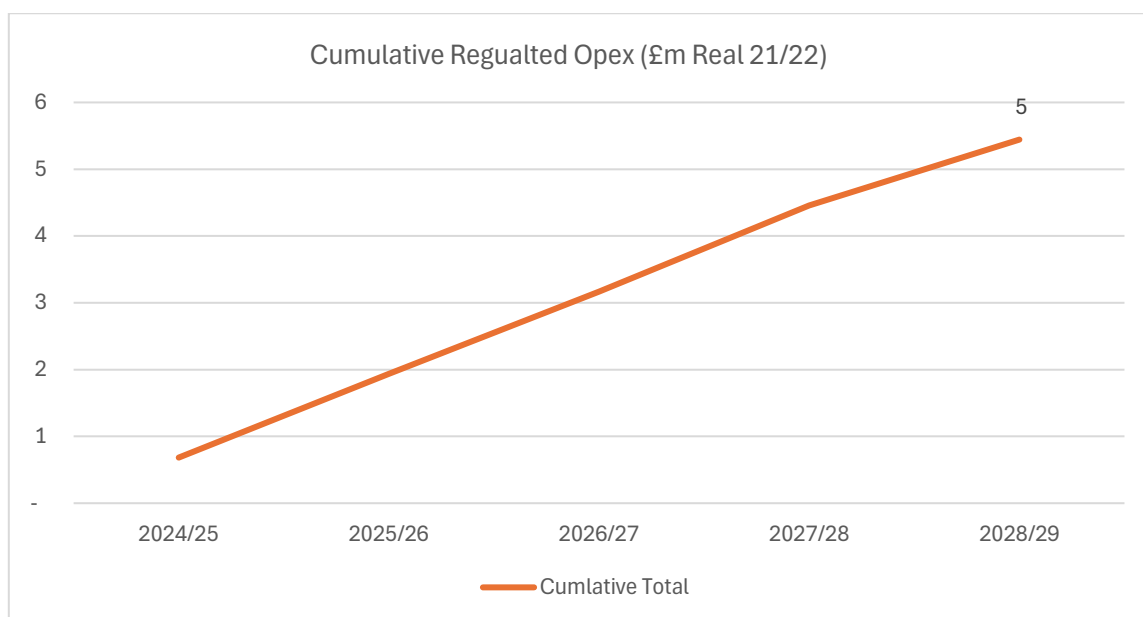
5.4 Opex- Reconciliation

This section outlines the reconciliation of the Licensee's Opex reported in the PCFM against the Opex reported in the Licensee's statutory accounts.

Regulated Opex costs for 24/25 were £0.8m, whereas Opex reported in the statutory accounts was £1.8m. The main difference is that the statutory accounts include expenditure outside the approved activity in the APDP, specifically CS025, which is therefore not included within the regulated Opex.



Opex spend during the construction and commissioning period is expected to be minimal, as the majority of costs incurred are classified as Capex and recorded on the balance sheet under Asset Under Construction.



5.5 Incentives and Other Revenue

This section details the performance of the Licensee's output incentives and expenditure incentives. Incentive values are directly sourced from the RRP and PCFM submitted to Ofgem.

For 24/25, the Licensee has earned no incentive with the project only 4 months into execute and most incentives during the construction and commissioning phase being calculated against a total allowance for the period.

The Licensee is currently forecasting a small negative SRAV Capex and Opex Incentive of £31m (e.g. overspend on SRAV Capex and Opex allowance). This is associated with additional expenditure which, if incurred, is expected to be added to the allowance via an uncertain cost event reopener, which is not yet reflected in the cost allowance.

5.6 Financing and Net Debt Position

This section outlines the information provided in the "R5- Financing" and "R6-Net Debt" tabs of the RFPR template.

In accordance with the capital structure pre-agreed with the Licensee's lenders and the Department for Energy Security and Net Zero (DESNZ), the initial stages of the construction phase of the project are entirely financed by debt, which will be later supplemented by committed equity finance. The Licensee's actual gearing will materialise at COD.

The Licensee has hedged the majority of its SONIA linked debt at fixed nominal rate.

The purpose of tab "R5 – Financing" is to report annual actual and forecasted Net Interest, and to reconcile the Net Interest calculated under the statutory accounting methodology with the Net Interest defined under the regulatory definition. The Licensee's statutory accounts reported Net Interest (P&L expense plus Capitalised interest) of -£70.2m, whereas regulated Net Interest was £14.8m. The difference arises because the Licensee's statutory accounts include the unrealised gain on interest rate swaps which are excluded from the regulated value.

The table then compares this charge with the Cost of Debt allowance as set out in the latest PCFM. It is important to note that the methodology of this reporting does not reflect the cash cost of interest. Instead, the nominal finance cost is adjusted to a real finance

cost (using actual / forecast CPIH) in order to facilitate the comparison with the Cost of Debt defined in the License, at both notional and actual gearing levels.

The RoRE uses a Regulatory Gearing Ratio to calculate the Licensee's financing and net debt Position. This calculation does not reflect the Licensee's actual gearing, as it derives Equity RAV from the delta between average RAV and average Net Debt. Where Average RAV exceeds Net Debt, the difference is assumed to be Equity RAV. However, costs are accrued to the RAV largely on an accruals basis but debt is drawn down on a cash basis. The calculated Actual Regulatory Gearing was 53.2%, indicating a gearing ratio below the notional level. There are two main reasons for this: firstly, the lag between cash payments and the timing of when completed work is accrued; and secondly, the calculation is based on averages. 72% of NEP's debt was drawn down on 17 December and this is not recognised in the calculation, the closing Actual Regulatory Gearing for this reporting period is 83%.

The RFPR model calculates a debt underperformance of [REDACTED] million for the reporting period at notional gearing. However, this is an artefact of the Regulatory Gearing Ratio being applied. In reality, NEP's actual gearing was higher than the notional level, resulting in a debt outperformance of [REDACTED]

As the Licensee has hedged a large proportion of debt at a fixed nominal interest rate, debt performance vs a fixed real Cost of Debt is subject to fluctuations in actual inflation. For the Reporting Period, debt outperformance at actual gearing was [REDACTED] due to increased inflation. We are forecasting an underperformance in subsequent years due to NEP's gearing being greater than the 60% notional level applied to the RAV Cost of Debt recovery.

The purpose of "R6 - Net Debt" tab is to report annual actual and forecasted Net Debt as per the Regulatory definition. The worksheet also reconciles the actual Net Debt with statutory accounts. For 24/25, there are no differences in NEP's regulatory and statutory Net Debt, with both equating to £415m.

Therefore, although NEP's actual gearing for the 2024/25 reporting period was 100%, the calculated Actual Regulatory Gearing was 53.2%, indicating a gearing ratio below the notional level and an Equity RAV of £53m.

We have added a Regulated Asset Ratio to show the Regulatory Gearing Ratio consistent with the Licence and NEP's financing agreement. This reflects the fact that NEP's shareholders have committed equity to the company, which is provided by a parent company guarantee.

5.7 RAV

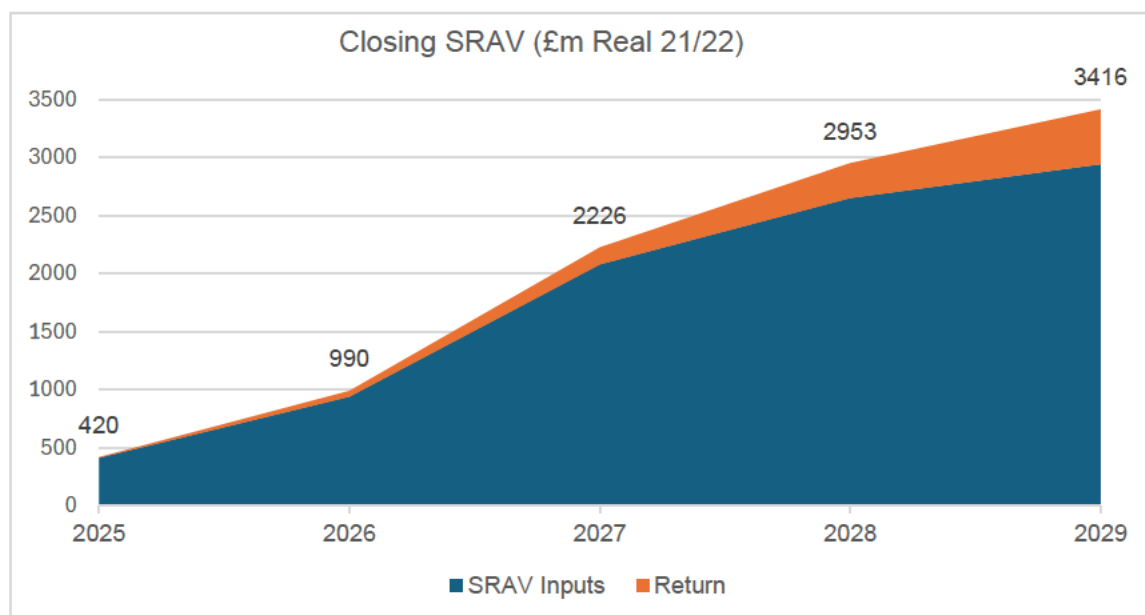
This section provides a summary of the annual (S)RAV position as published in the latest PCFM.

The RAV is a key building block of the price control performance, representing the value upon which the licensee earns a return in accordance with the regulatory Weighted Average Cost of Capital ("WACC") and receives a depreciation allowance. It serves as the mechanism through which shareholders' recover their investment over time.

As the Licensee has not yet reached COD, expected in February 2029, the company is currently accruing additions to its SRAV, which will be transferred to the RAV at COD.

SRAV at the end of the Reporting Period is £420m, with significant growth to the SRAV anticipated over the coming years as the Licensee continues to invest in-line with the Approved Project Development Plan.

The total SRAV expected to be transferred to RAV at COD is £3,416m.



5.8 Taxation and Tax Reconciliation

This section summaries the differences between the Licensee's actual corporation tax liability, as reported in the CT600 and the calculated tax allowance in the latest PCFM.

Due to the timing of CT600 submission, this reconciliation is to be submitted with a one year lag, with the Licensee's first CT600 submission due in March 2026. As a result, "R8a-Tax Reconciliation" and the accompanying commentary is not included within the RFPR template and this document.

As per the PCFM handbook, where gearing is greater than the Notional Gearing of 60% the resulting tax benefit from the higher deductible interest may be returned to users and therefore results in a Regulated tax under performance.

5.9 Financial Resilience

During the reporting period the Financial Resilience of the Licensee was unchanged from that reported at licence award.

5.10 Corporate Governance

The Licensee is a wholly owned subsidiary of the Net Zero North Sea Storage Holdings Limited, whose shareholders are BP CCUS UK NEP Ltd, Equinor Low Carbon UK Limited & TotalEnergies CCS UK Limited ("**Shareholders**").

The corporate ownership structure of the Licensee can be found in **Appendix A**

At the end of the reporting period, the board of the Licensee consisted of five Shareholder nominated Non-Executive Directors, and two Sufficiently Independent Directors. The board has no Executive Directors.

Licensee's board composition as at 31st March 2025:

Name	Director Type	Appointment Date
MCFADZEAN, Dr Peter James	Shareholder appointed non-executive	4/6/2024
LE PARC, Gael	Shareholder appointed non-executive	4/6/2024
KABIR, Theresa Joanne	Shareholder appointed non-executive	28/8/2024
ELDERING, Lambertus Herman	Shareholder appointed non-executive	18/12/2024

NABEEH, Ahmed Alaaeldin Abdelhamid	Shareholder appointed non-executive	23/12/2024
MELLOTT-BATTY, Thomas Grant	Sufficiently Independent Director	12/12/2024
WHITTINGTON, Joanna Sarah	Sufficiently Independent Director	12/12/2024

Board resignations during the reporting period:

Name	Director Type	Appointment Date	Resignation Date
DAYKIN, Christopher Richard Scott	Shareholder appointed Non - Executive	4/6/2024	18/12/2024
HOWE, Jessica	Shareholder appointed Non - Executive	4/6/2024	6/11/2024

During the reporting period the board was supported by two board committees:

Board Committee	Board Directors on Committee
Commercial & Regulatory Committee	<ul style="list-style-type: none"> LE PARC, Gael ELDERING, Lambertus Herman
Technical & Operations Committee	<ul style="list-style-type: none"> NABEEH, Ahmed Alaaeldin Abdelhamid LE PARC, Gael

The following table explains where decision-making responsibilities are reserved for the Licensee's board and where decision-making responsibilities are reserved for Shareholders:

Decision	Board Directors on Committee
Purpose, values, risk, audit and strategy	Purpose, values, risk, audit and strategy are all matters reserved for the Licensee's board.
Board director nominations	<p>The structure, size and composition of the board is defined in the Licensee's Shareholder Agreement.</p> <p>Each Shareholder with an equity shareholding of Net Zero North Sea Storage Holdings Limited of at least 10% (or 6.03% in respect of TotalEnergies CCS UK Limited) is entitled to nominate a Director and an Alternate Director to the board.</p> <p>In addition to the Shareholder appointed non-executive directors, the board appoints two Sufficiently Independent Directors in accordance with the requirements of the Licence.</p>
Board director evaluation	The board evaluation process is a matter reserved for the board
Executive remuneration	Not applicable as the Licensee does not have any executive directors
Dividend policy	<p>The Licensee's Distribution Policy is defined within the Licensee's Shareholder Agreement (see Appendix B)</p> <p>Approval of any dividends or any other distributions which are outside of the Distribution Policy is matter reserved for Shareholders</p>

5.11 Executive Remuneration Policies

Not applicable as the Licensee does not have any executive directors.

5.12 Dividend Policy

A copy of the Licensee's Distribution Policy can be found in Appendix B.

During the reporting period, the Licensee declared a dividend of £133m to return a temporary source of equity financing provided to fund pre-license award appraisal and development activities, in accordance with the capital structure pre-agreed with the Company's lenders and the Department for Energy Security and Net Zero (DESNZ).

The recommendation to make a dividend distribution to NetZero North Sea Storage Holdings Limited was unanimously approved by the directors of the Licensee at a meeting of the board held on the 26th March 2025.

The decision to approve this recommendation, and declare a dividend was subsequently unanimously approved by a written resolution of the Shareholders on the 28th March 2025

In calculating the amount of dividend to be declared, the board considered:

- the amount of temporary financing previously provided by Shareholders to fund pre-license award appraisal and development activities, and subsequently drawn down from the Licensee's commercial loan facility
- the availability of financial resources and financial facilities to deliver the T&S Business Activities economically efficiently and effectively up to the Commercial Operations Date
- the availability of financial resources and financial facilities to pay (or otherwise discharge) all debts as they fall due up until Commercial Operations Date
- the impact of the distribution on the Licensee's financial gearing, to ensure compliance with the requirements of the Licence and Project Financing arrangements.

5.13 Pensions and Other Activities

During the reporting period the Licensee did not participate in any defined benefit pension schemes.

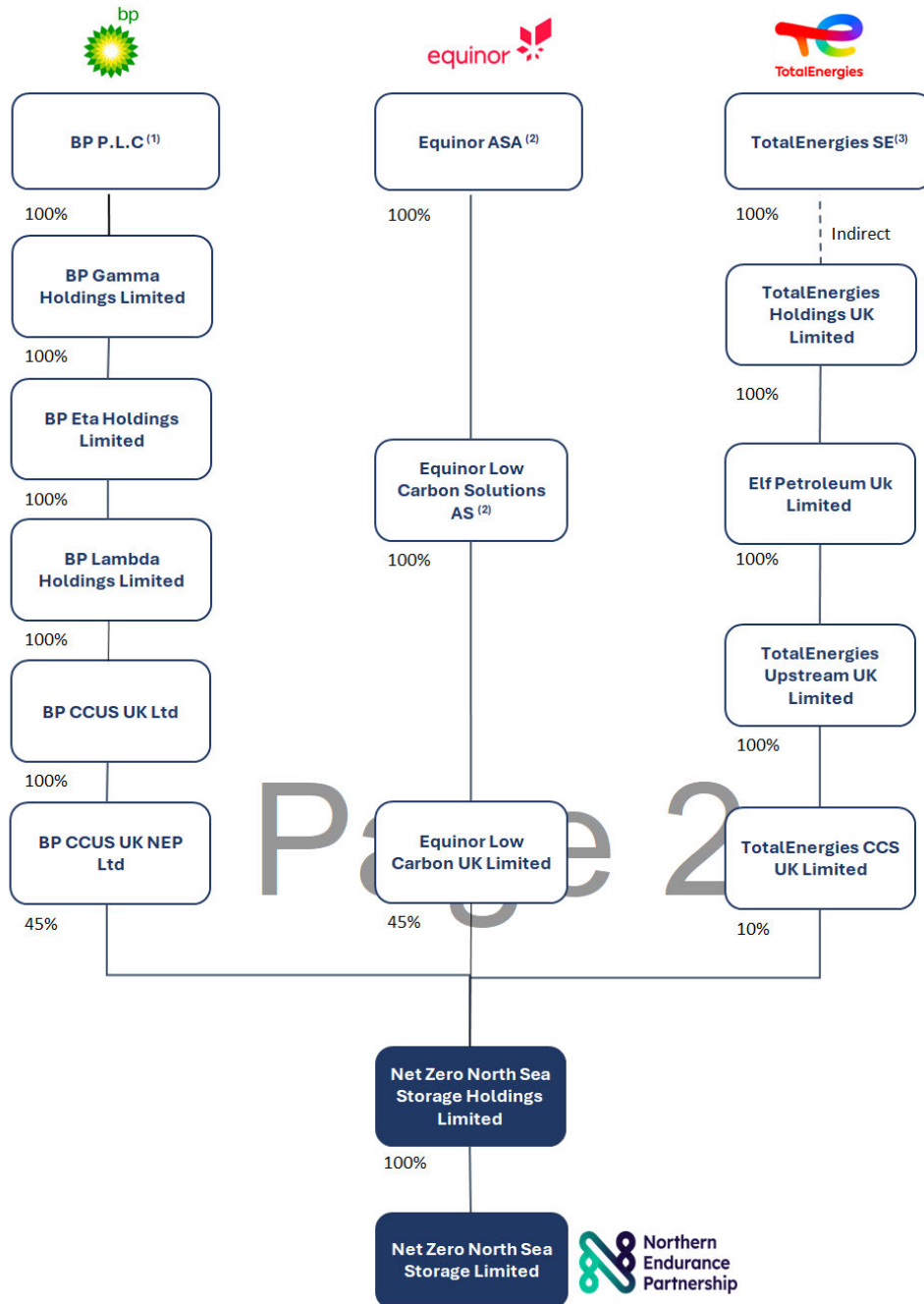
6 Data Assurance Statement

Data assurance was conducted in accordance with the Data Assurance of Reporting for the First Charging Year letter provided by Ofgem, dated the 12th of May 2025. This discharged the Licensee's obligations under standard condition B20 (Data Assurance) for any reporting required by Ofgem covering the First Charging Year, in the absence of published Data Assurance Guidance (DAG) for carbon capture.

In summary, the following assurances were completed:

1. First Level Reviewer
2. Second Level Review and Sign-off by Financial & Commercial Manager
3. Commercial & Regulatory Committee Review and Endorsement
4. Director Sign Off

Appendix A – Corporate Ownership Structure



Appendix B –DISTRIBUTION POLICY

- 18.1 Within twenty (20) Business Days after the end of each half Financial Year following the Commercial Operations Date, the Board shall approve as an Enhanced Majority decision the amount of cash required to be retained by the Company for the next twelve (12) month period (the “Minimum Cash Reserve”) after:
- (a) taking into account cash flow projections and requirements (whether or not specifically detailed in the applicable Work Programme & Budget, including to enable the JV Group to satisfy its obligations and liabilities when they fall due (including in respect of any and all payments which will or are reasonably likely to become due by the JV Group)); and
 - (b) making all necessary, reasonable and prudent provisions and reserves for the JV Group’s anticipated liabilities and working capital requirements as are detailed in the Business Plan and the current Budget and otherwise to ensure that the JV Group remains in compliance with the terms of any Finance Documents including any lenders’ required reserve account requirements; and
 - (c) taking into account any requirements of the TRI Licence and the Storage Licence(s); and
 - (d) excluding any amounts relating to capital expenditure that are expected to be the subject of any Cash Calls or Interim Cash Calls.
- 18.2 Subject to Applicable Laws, the terms of any Finance Documents and Clause 26, the dividend and distribution policy of the Company, Holdco and each JV Group Company shall be to apply or distribute all cash available to the Company in excess of the Minimum Cash Reserve (“Distributable Amounts”) as follows (the “Distribution Policy”):
- (a) first, on a semi-annual basis, in and towards repayment of any sums outstanding under any Shortfall Funding Loan (including pursuant to Clause 23.6(b) of this Agreement) and any related Intercompany Loan Notes, and payment of accrued interest, as if payable on demand, with priority being given to the amounts, and accrued interest, which have been outstanding for the longest period, but otherwise pro rata;
 - (b) second, on a semi-annual basis, in and towards repayment of any sums outstanding under any Emergency Funding Loan Notes (and any related Intercompany Loan Notes), and payment of accrued interest, as if payable on demand, with priority being given to the amounts, and accrued interest, which have been outstanding for the longest period, but otherwise pro rata;
 - (c) third, on a semi-annual basis, in and towards payment of any accrued but unpaid interest on any Cash Call Loan Notes (and any related Intercompany Loan Notes) pro rata;
 - (d) fourth, on a semi-annual basis, in respect of any remaining Distributable Amounts, in and towards:
 - (i) repayment of the principal amount outstanding on any Cash Call Loan Notes (and, in each case, any related Intercompany Loan Notes) pro rata; and/or
 - (ii) the declaration and payment of a dividend from the Company to Holdco and from Holdco to the Shareholders (as applicable) pro rata,

in such proportions as may be agreed between the Shareholders with the objective of minimising trapped cash in the JV Group and having regard to the tax deductibility of interest on Shareholder Loans. If the Shareholders are unable to agree the proportions, then the remaining Distributable Amounts shall first be used to declare and pay the maximum dividend possible from the Company to Holdco and from Holdco to the Shareholders (as applicable) and then towards repayment of the principal amount outstanding on any Cash Call Loan Notes (and, in each case, any related Intercompany Loan Notes) pro rata.