

“We are at a crucial stage in the development of the UK energy industry and the eight years from 2013 onwards are critical to achieving the UK Government’s climate change targets. These plans represent a well developed and realistic solution to these challenges as the industry invests to deliver a reliable and safe energy infrastructure in an affordable way, while providing adequate returns to secure the capital necessary to fund this investment.”

# RIIO Revenue = Incentives + Innovation + Outputs

Delivering a reliable, safe, sustainable network at good value for money for current and future consumers

### Introduction to business plans

- ◆ Fully thought through package
- ◆ Backed by shareholder consultation
- ◆ Flexibility mechanisms to enable us to adapt to uncertainty

### Assumptions

Our baseline plan assumes:

- ◆ A ‘Gone Green’ scenario\*, which has received wide energy industry support as a credible scenario to meet the UK’s Climate Change targets by 2020
- ◆ Full recovery of all proposed investments in 2012/13 – the TPCR4 roll over year
- ◆ Total costs include challenging assumptions around underlying efficiency improvements on both capital spend and operating costs
- ◆ 3% average RPI inflation over the 8 year price control

\* Business plans also stress tested against alternatives, including different rate of investment for wind and nuclear

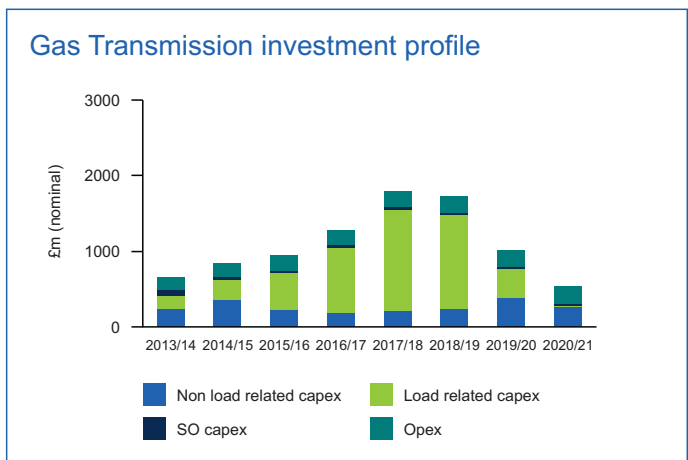
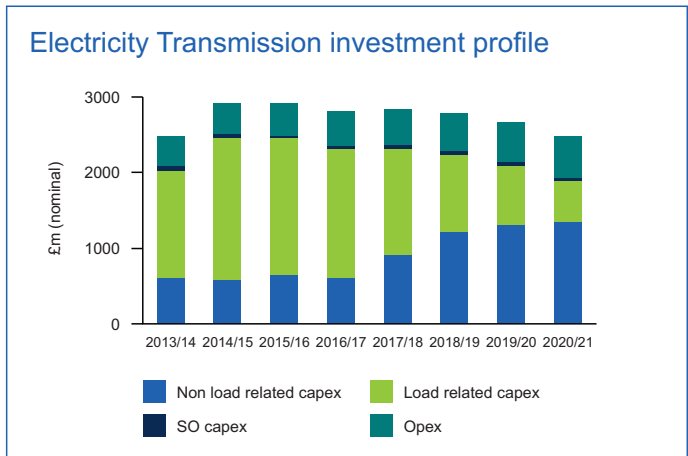
### Drivers

- ◆ Comprehensive and realistic plan that addresses competing forces
- ◆ Impact on consumer bills minimised
- ◆ Delivers sensible returns for investors

### Total expenditure (nominal)

2013/14 – 2020/21	Capex	Opex	Totex
NGET*	£18.2bn	+ £3.7bn	= £21.9bn
NGGT*	£7.2bn	+ £1.6bn	= £8.8bn
Transmission	£25.4bn	+ £5.3bn	= £30.7bn

\* National Grid Electricity Transmission (NGET) and National Grid Gas Transmission (NGGT) are notional regulated entities



“We look forward to receiving Ofgem’s response in October and to discussing these proposals further with them as we work towards an appropriate outcome which will allow investors to support the work that is so vital to the UK’s energy future.”

Nick Winsor, Executive Director UK

**Important notice**

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid’s financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘targets’, ‘may’, ‘will’, ‘continue’, ‘project’ and similar expressions, as well as statements in the future tense, identify forward-looking statements. Furthermore, this document, which is provided for information only, does not constitute summary financial statements and does not contain sufficient information to allow for as full an understanding of the results and state of affairs of National Grid, including the principal risks and uncertainties facing National Grid, as would be provided by the full Annual Report and Accounts, including in particular the ‘Risk factors’ and ‘Operating and Financial Review’ sections thereof. Copies of the most recent Annual Report and Accounts are available online at [www.nationalgrid.com](http://www.nationalgrid.com) or from Capita Registrars. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

Financing proposals	Targets <sup>1</sup>	Levers												
	<ul style="list-style-type: none"> <li>◆ Credit rating metrics</li> <li>◆ Dividend yield, and cover</li> <li>◆ Appropriate risk/reward balance</li> <li>◆ Customer bills</li> <li>◆ Long term customer value</li> </ul>	<ul style="list-style-type: none"> <li>◆ Cost of equity and cost of debt</li> <li>◆ Notional gearing</li> <li>◆ Transitional arrangements for asset lives</li> <li>◆ 'Fast' vs 'slow' money</li> </ul>												
Financing assumptions	Electricity Transmission	Gas Transmission												
Cost of equity	7.5%	7.5%												
Cost of debt	Ofgem's proposed debt tracker (assumes 3.2% per Ofgem guidance)	Ofgem's proposed debt tracker (assumes 3.2% per Ofgem guidance)												
Notional gearing	55%	55%												
Notional resulting WACC	5.1%	5.1%												
Notional equity injection	£3.0bn plus retained earnings to maintain gearing	£1.1bn plus retained earnings to maintain gearing												
Transitional and other financeability measures	Transition to 45 year asset lives over 2 regulatory periods (16 years)	Total capitalisation rate of 72% (some of baseline capex treated as opex)												
Policy changes	Efficiency incentive rate capped at 40% (rather than Ofgem's 50%)	Efficiency incentive rate capped at 40% (rather than Ofgem's 50%)												
Revenues	<ul style="list-style-type: none"> <li>◆ Average allowed revenue over 8 year period: £2.2bn p.a. vs £1.6bn today<sup>2</sup></li> <li>◆ Transmission represents around 4% of a typical domestic consumer's electricity bill today</li> <li>◆ RIIO-T1 proposals increase this to on average 6% over the review period<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>◆ Average allowed revenue over 8 year period: £1.2bn p.a. vs £1bn today<sup>2</sup></li> <li>◆ Transmission represents around 3% of a typical domestic consumer's gas bill today</li> <li>◆ RIIO-T1 proposals increase this to on average 4% over the review period<sup>3</sup></li> </ul>												
RAV	<table border="1"> <tr><td>Mar 2011</td><td>£8.4bn</td></tr> <tr><td>Mar 2013</td><td>£10.4bn</td></tr> <tr><td>Mar 2021</td><td>£23.9bn</td></tr> </table>	Mar 2011	£8.4bn	Mar 2013	£10.4bn	Mar 2021	£23.9bn	<table border="1"> <tr><td>Mar 2011</td><td>£4.9bn</td></tr> <tr><td>Mar 2013</td><td>£5.6bn</td></tr> <tr><td>Mar 2021</td><td>£11.5bn</td></tr> </table>	Mar 2011	£4.9bn	Mar 2013	£5.6bn	Mar 2021	£11.5bn
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<b>RAV for NGET and NGGT more than doubles over the period to around £35bn</b>														

### Group context

- ◆ Notional equity injection not equivalent to equity injection in National Grid plc
  - Rights issue in 2010 raised £3.2bn
  - Ratios and capital structure different at Group level
  - Portfolio and performance benefit of other activities
- ◆ Flexible mechanisms built into business plans to manage uncertainty of future UK energy landscape
- ◆ Position unchanged: well funded through to at least 2015

#### Group capital expenditure (nominal)

May 2010: 2010 to 2015 vs RIIO-T1: 2010/11 to 2020/21

#### Modelling uncertainties to the baseline plan

### Next steps

RIIO Regulatory Timetable	
	Transmission      Gas Distribution
July 2011	Business plan submitted
Oct 2011	Ofgem publish initial review
Nov 2011	Business plan submitted
Dec 2011	Fast track route consultation
Feb 2012	Fast track sign-off      Ofgem publish initial review
Mar 2012	Non-fast track route Business plan submitted
Apr 2012	Additional data submitted
July 2012	Initial proposals
Dec 2012	Final proposals

Notes  
<sup>1</sup> Targets for notional regulated entities financed under an assumed capital structure and assumed cost of debt. These do not represent outturn results, targets or financial impacts at National Grid plc.  
<sup>2</sup> In real terms, based on the total expected revenue averaged across RIIO-T1 period compared to 2010/11  
<sup>3</sup> Assuming non-transmission elements remain constant

## Further information

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