

Restructuring & US efficiency programme



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Yesterday's announcement

- Increased focus of management responsibility
 - Executive Director & President US
 - Responsible for delivering US improvement
 - Executive Director UK

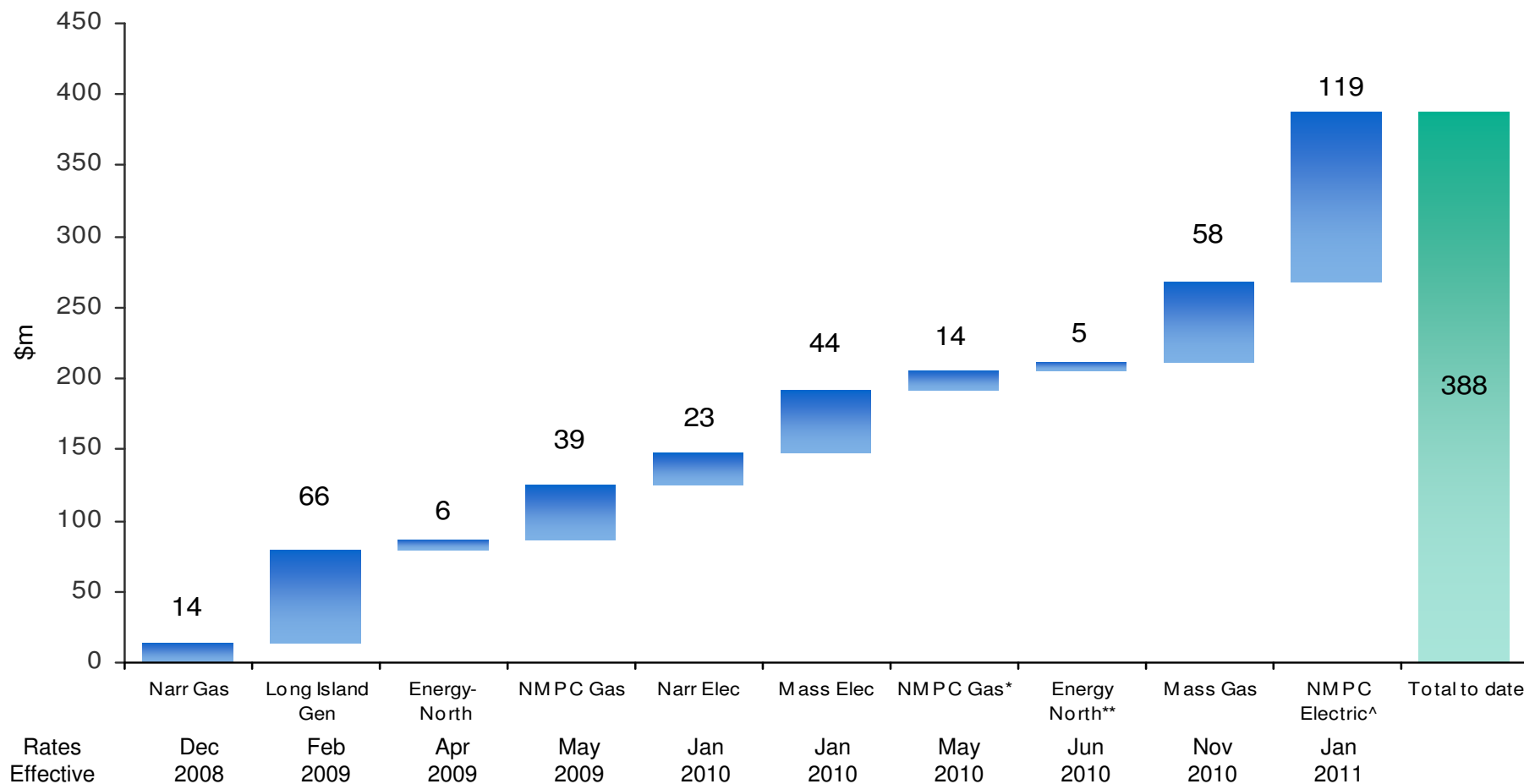
- Improve US efficiency
 - US \$200m per annum cost reduction target

- Improve US jurisdictional regulatory focus
 - Retain ability to exploit global scale

Background: US returns

- Historically RoE outperformed across the US businesses
- Costs of service allowances now out of date
 - Employee costs
 - Pensions & healthcare
 - Bad debts
- Currently, bulk of gap is due to NiMo and Rhode Island

Addressing the US performance gap... rate filing revenue increases



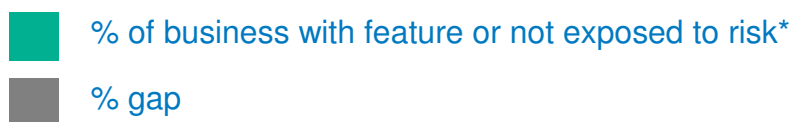
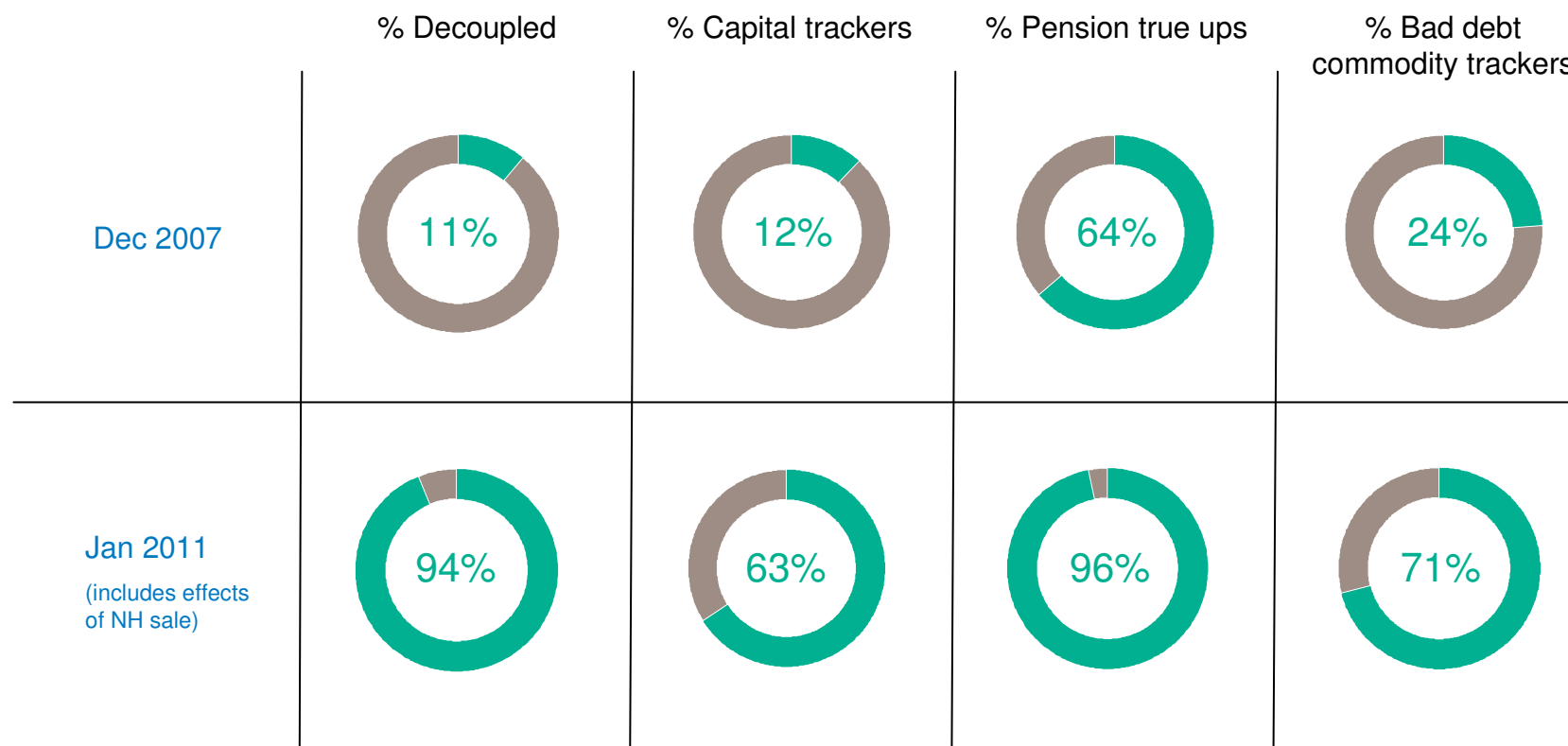
* Year 2 re-opener of existing rate case to update recovery of pension/OPEB, property tax and environmental expenses

** Temporary rates, effective June 1 2010

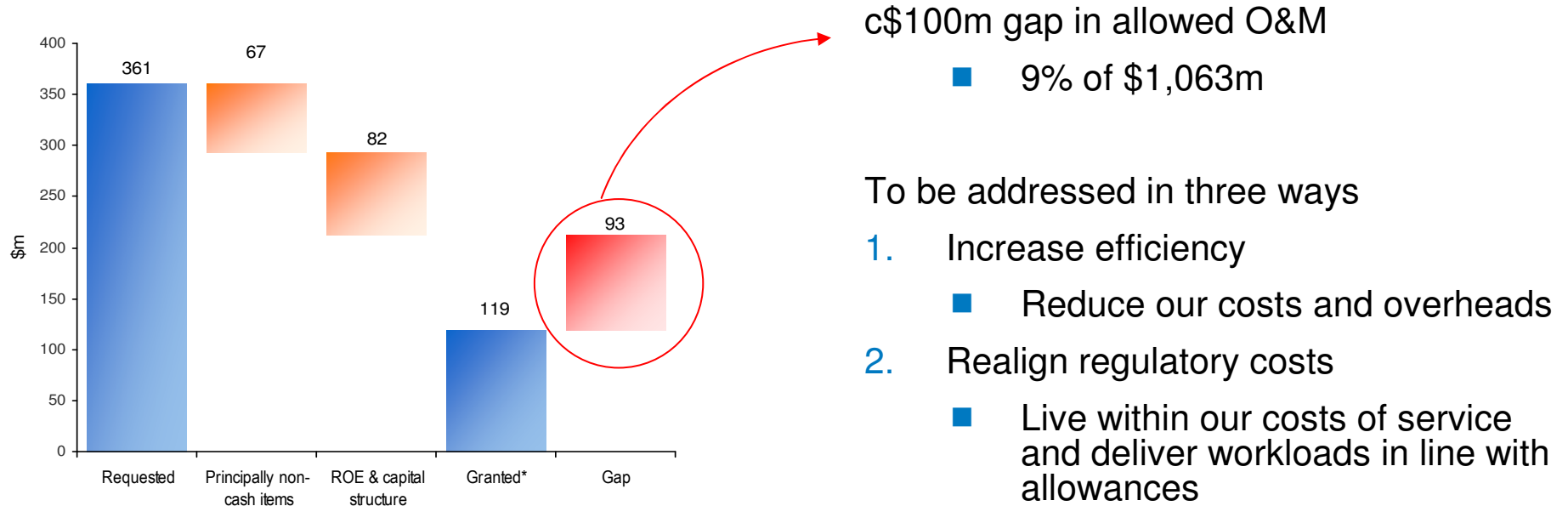
^In order to hold operating revenue flat the NYPSC ordered a reshaping of deferral recoveries. The company will need to file with the Commission to achieve deferral recovery. Up to \$50m of the approved increase is temporary pending the outcome of the NYPSC Service Company investigation

Addressing the US performance gap... **nationalgrid** rate filing structural changes

THE POWER OF ACTION



NiMo outcome



c\$100m gap in allowed O&M

- 9% of \$1,063m

To be addressed in three ways

1. Increase efficiency
 - Reduce our costs and overheads
2. Realign regulatory costs
 - Live within our costs of service and deliver workloads in line with allowances
3. Future rate filings
 - Deferrals
 - RoE

Features

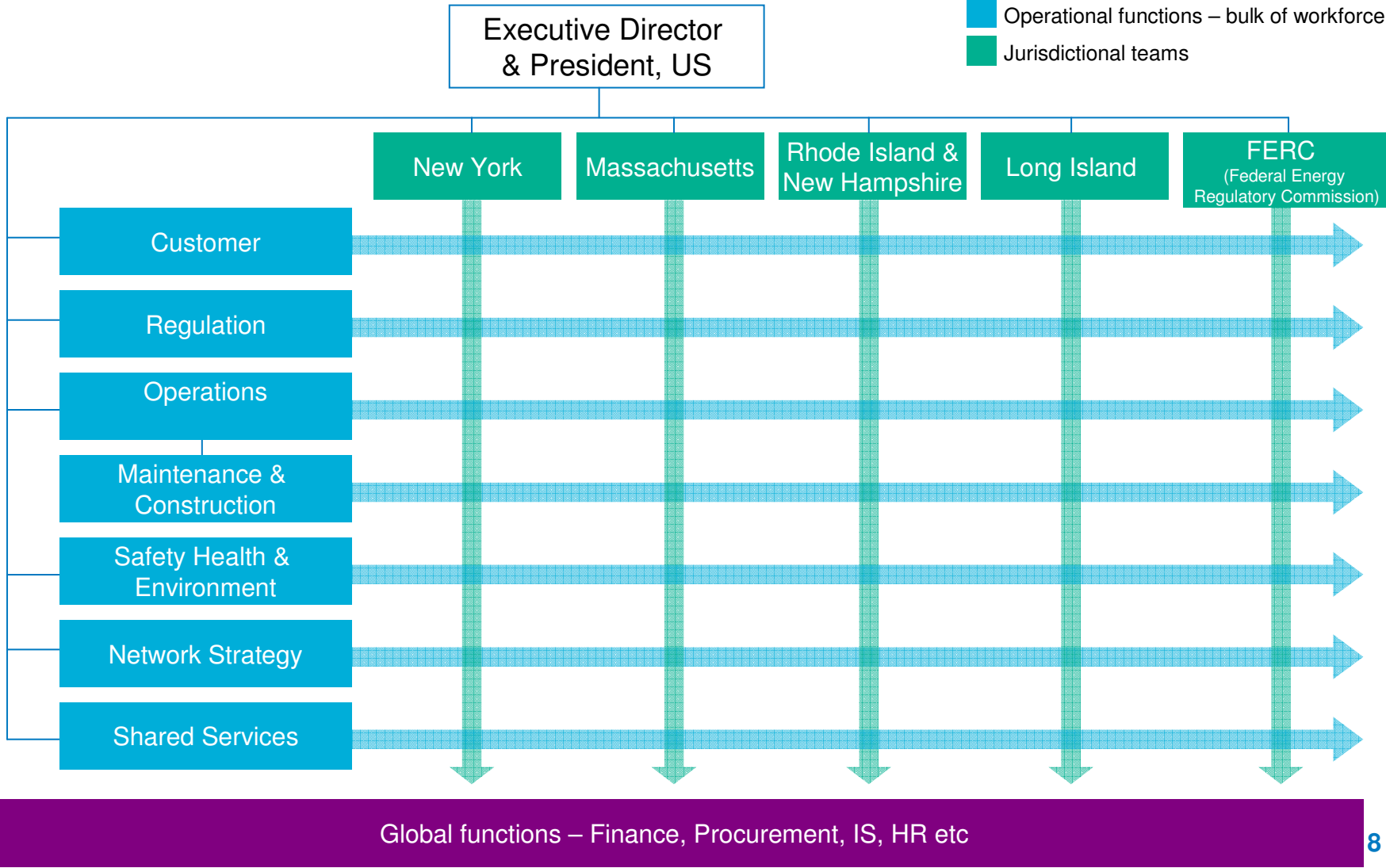
- RoE of 9.3% & common equity ratio of 48%
- Decoupling
- Continued recovery of pension, OPEB and energy supply costs
- Includes \$40m of stranded costs recovery for one year

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US Cost reduction targets

- Targeted reduction of \$200m p.a. of operating costs*
 - Around 80% delivered through reduction of 1200 positions (c.7% of workforce)
 - Management, admin and support roles
 - Remainder delivered through other savings already in business plans such as additional IS savings
 - Workforce reduction targeted by August 2011
 - Targeting run rate of \$200m by March 2012
- Next step on renewed drive to efficiency

US leadership team



Financial Update: 2010/11 earnings

2010/11 earnings

- IMS released yesterday
- Additional guidance on 2010/11 earnings
 - One off timing issues materially enhancing earnings (c£200m)
 - EPS broadly in line with restated 2009/10 level

2010/11 highlights

- Operating profit significantly ahead of last year
- Weather related volumes increased
- Continued cost efficiencies
- Capex expected to be £3.6bn
- US restructuring cost to achieve

Proforma US returns

- 2010 RoE being finalised
- On a proforma basis
 - Future impacts of agreed rate cases would increase the RoE by ~0.9%
 - Cost reduction measures would increase the RoE by ~1.5%
- Upward cost pressures will need to be offset by additional measures

Summary

Announced yesterday:-

- Improve jurisdictional regulatory focus
- Improve US efficiency
- Greater accountability for delivery

Appendix 1

Industry rate filings

Recent awards:

Base RoE and term premia

- Con Ed 9.6% - 3 year
 - Less 0.3% stay out = base of 9.3%

