National Grid

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National Grid

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Introduction

Aarti Singhal, Director of Investor Relations
Good morning everyone and welcome to our Half Year Results presentation. Welcome also to those of you who are watching this on the web.

As always, we begin with safety. No planned fire alarm tests this morning so if you hear an alarm then you do need to leave the building.

I also your attention to the cautionary statement, which is there right behind me now. And obviously, the team is around if you've got questions later. And with that I'd like to hand you over to John.

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Highlights

John Pettigrew, Chief Executive Officer
So thank you, Aarti and good morning everyone. I'm joined this morning by Andy Agg, our CFO and as usual, Nicola Shaw's here to assist with any questions at the end.

Unfortunately, Badar Khan, who was appointed Interim President of the US business following our announcement that Dean Seavers is stepping down, can't be here today. Badar is in the US managing the current situation, which I'll talk more about later.

I'm very grateful for all that Dean has done for the Group and I'd like to take this opportunity to wish him well for the future.

Before I review our first half performance, I want to begin with today's announcement that we've set a new target of achieving net zero for our own emissions by 2050. The decarbonisation of the energy system is one of the biggest challenges facing our planet today. And National Grid has a critical role to play in helping to accelerate towards a cleaner future.

In 2008 we set ourselves the target of reducing our emissions by 80% by 2050 and strong progress has been made since then.

By the end of March this year we'd already reduced our emissions by 68% exceeding our interim target of 45% by 2020. We've achieved this by focusing on a range of activities that include a significant pipeline replacement programme which minimises gas losses through leakages, reducing a high emission greenhouse gas called SF6 from our Electricity networks. And reducing carbon emissions in our supply chain through low carbon construction.

In order to achieve our new ambitious target of net zero we're accelerating plans to further reduce our own emissions. We're also increasing our influence in other areas to support the overall industry wide transition to a low carbon future.

And to this end, I'll continue to focus on driving forward a number of key initiatives. So these include supporting our UK Electricity System Operator to operate a zero carbon system by 2025. Pushing forwards our proposals to ramp up the electrification of transport in the UK through our EV flash charging solution at motorway service stations.

In the US we continue to work on Energy Efficiency programmes for customers, oil to gas conversions for heating, proposals for renewable gas programmes and hydrogen blending.

And finally, progressing our interconnector projects, which provide a solution for all of the energy trilemma issues of security, supply, affordability and tackling climate change.

What's exciting about all of these projects is that they combine our strong engineering and operational skills whilst also addressing decarbonisation. So I'd like to show a brief video to bring all of this to life.

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Video Played

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John Pettigrew, Chief Executive Officer
So with our new commitment to decarbonisation underpinning a lot of what we're doing, let me now review our financial and operational performance in the first half of the year.

Overall, we've delivered a solid performance in the first half with continued progress across the grid.

On an underlying basis operating profit at £1.3bn was up 1%. This mainly reflects higher US operating profit, which was driven by new rate case revenues. This was partly offset by lower profitability in our UK gas transmission which was more heavily weighted in the second half than usual and no repeat of the one-off legal settlement last year.

Underlying earnings per share was up 2% to 20 pence boosted by the impact of a positive tax settlement in the US. And in line with our policy we propose an interim dividend of 16.57 pence representing 35% of last year's total dividend.

We invested a record £2.7bn in the period towards the safety, reliability and modernisation of our networks. This reflects continued strong investment in our US regulated businesses as well as an increased investment in our interconnectors and completion of the Geronimo acquisition

This level of investment supports our strong asset growth which we continue to expect to be at the top end of our 5% to 7% range in the near term.

We've made good regulatory progress with our new rates for Massachusetts Electric. And as you would have seen we're in live discussions in New York on the gas moratorium which I'll cover in detail later.

In the UK we welcomed Ofgem's minded to position on not proceeding with a competition proxy model for the Hinkley-Seabank project.

And on RIIO-T2 we continued to engaged stakeholders who provided helpful feedback last month on our draft business plans.

And finally, our Cost Efficiency programmes remain on track. So as you can see, it's been a solid six months of progress.

Turning to Safety, we've continued to focus on critical safety campaigns to reduce injuries. Both the UK and National Grid Ventures have maintained our injury frequency rate of less than 0.1 which is comparable to world class safety performance.

In the US, tragically in August one of our US employees was hit by a car whilst carrying out work on the side of the road and lost his life. We're conducting a comprehensive review to ensure we learn the lessons for what was a terrible incident.

Since the start of the year we've also implemented an Employee Engagement programme to further reinforce positive safety behaviours across the Group. This includes guidance on effective coaching and the critical safety behaviours required at all levels across the organisation.

So I'll now turn to reliability where despite a power outage on 9th August in the UK the Group's overall performance remains excellent.

The power-cut in the UK was a rare and exceptional event. We were able to restore power in seven minutes. However, I don't underestimate the significant disruption and inconvenience that it caused.

We believe that both the Electricity System Operator and transmission network operated as designed and in accordance with our licence obligations. But of course it was critical to understand what happened and how things can be done differently in the future, and we've worked tirelessly to this end.

We published a full technical report in September that provides recommendations for where we believe a wider review of the policy may be appropriate and we'll continue to work closely with Ofgem and government on their investigations.

Looking ahead to the winter in the UK the Electricity System Operator published its outlook last month and forecasted an electricity capacity margin of 12.9%, up from last year's 11.7%.

In terms of UK Gas, demand is expected to be a little higher than last winter with expected cold day demand of 412 million cubic metres with supply sources sufficient to meet that demand.

Turning to the US and given the ever-present possibility of storms and potential for colder than expected weather, we have reviewed our procedures and are well prepared for the coming period.

So let's now look at some of the key achievements and developments across the Group in more detail. I'll start with the US.

So far, we've invested £1.6bn in our networks, a step up from the £1.2bn in the first six months of last year. As those of you who came to our Investor Event in September will have heard around 80% of this capex is driven by the need to maintain the safety and the reliability of our networks.

One of our flagship projects includes the $300m Metropolitan Reliability Infrastructure project, which will reinforce the backbone of the Brooklyn Gas system. Final phase construction is beginning with completion expected in December 2020.

On the Electricity side we've invested $110m in the Gardenville substation rebuild in Upstate New York. This substation is critical to the local region, providing residents and businesses with affordable sources of renewable power and is vital to system reliability.

The growing levels of investment in the US have been enabled by our work over the past few years to bring new rate plans across our businesses. These results show the improved revenue and profitability being delivered because of this.

We're also delivering new frameworks that are creating opportunity to maximise performance. These frameworks give us three important things; longer term visibility for our investment, greater protection against cost pressures and more incentives to innovate and create value for our customers. And this can be seen in the new rates agreed for our Massachusetts Electric business. This is a new forward-looking framework. It allows a revenue and investment increase above inflation for a five-year period and is a great example of our frameworks and how they're evolving to be forward-looking, multi-year and incentive based.

So turning to the UK. Operationally, both our Electricity and Gas Transmission businesses have continued to deliver good levels of performance. Let me talk you through a few key highlights.

Our Capital Investment programme has continued in line with expectations with a particular milestone being the completion of the tunnelling for Feeder 9 and to the Humber Estuary.

This is a critical reinforcement of the country's gas network, with a pipeline transporting up to 20% of the UK's gas capacity. We're also awarding contracts for our London Power Tunnels 2 project, a 33km £1bn link from Wimbledon to Crayford, which will provide significant resilience across South London when completed in 2028.

Our Cost Efficiency programme has continued on track supporting our ambition to be a more agile organisation. This is being driven by efficiencies across both Electricity and Gas where a range of initiatives such as enhanced IT infrastructure and simplification of back office processes.

And of course, we've had a significant focus on RIIO-T2 with draft business plans submitted in July and in October following helpful stakeholder feedback; we'll continue to update these plans in the coming weeks before submitting our formal business plans to Ofgem on 9th December.

Finally, in October we were pleased that Ofgem were minded to use the existing strategic wider works mechanism for the Hinkley-Seabank project. As you know, we never believed that it was a robust consumer benefit case for the use of a competition proxy model. In addition, we'll continue to work with Ofgem to agree what are the efficient costs needed to complete this project including the use of a T-pylon.

Our project remains on track to be ready for connection in 2025, and these negotiations will not affect that schedule.

Lastly, turning to National Grid Ventures and our other activities. It's been a busy six months with the continued investment in our interconnected projects as well as the completion of the Geronimo acquisition.

Firstly on the interconnector side, the IFA2 project is well under way with the majority of the cabling having been laid over the summer and good progress being made on the converter stations.

The North Sea Link, we've successfully laid our cable as planned. With over 650km now on the seabed the project remains on track with completion for the end of 2021.

On the Viking Link we've awarded EPC contracts and pre-construction work in on track.

In total we're investing around £2bn in new interconnectors that will bring cleaner sources of energy into the UK and create value for our shareholders.

And finally in July, we completed our acquisition of Geronimo with a large pipeline of projects across the Midwest. We see exciting opportunities here in both large-scale solar as well as on-shore wind.

So in summary, I'm pleased to report that we made good progress in the first half of the year and are in a strong position to deliver on the priorities we've set.

More on this shortly, but first let me hand over to Andy to discuss Financial Performance in more detail.

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Financial Review

Andy Agg, Chief Financial Officer
Thank you, John and good morning everyone. Before I start, I'd like to highlight that as usual we're presenting our underlying results excluding timing and that all results are provided at actual exchange rates.

As John mentioned, underlying operating profit increased by £16m to £1.3bn. Operating profit benefitted from new rates in our Massachusetts Gas and Rhode Island businesses and higher revenue from our UK Electricity Transmission businesses.

This was offset by the non-recurrence of last year's legal settlements and by revenue phasing in our UK Gas Transmission business.

Compared to the prior year earnings per share increased by 2% to 20 pence. Capital investment was £2.7bn, 28% higher than the prior year. This reflects the increased investment in our US regulated business, ongoing investment in our interconnector portfolio and over £200m investment for the Geronimo acquisition.

Our balance sheet continues to allow us to fund this growth efficiently and overall we're on track to deliver good returns and value added for the year, and we've increased the interim dividend in line with our policy.

Now, let me take you through the performance of each of our business segments.

Underlying operating for the UK Electricity Transmission business was £583m, up £27m compared to last year. This primarily reflected inflation increases on base revenues partially offset by the true-up of prior year Electricity System Operator incentives.

We invested £471m on reinforcing our networks and on new connections. This was broadly in line with last half year and included higher spend on Hinkley-Seabank, partly offset by the completion of a number of non-load related projects.

For the full year totex out-performance is expected to increase slightly along with additional allowances. Incentive and other performance is expected to be slightly down on last year. Overall return on equity out-performance is expected to be slightly above the 200 to 300 basis points range.

In the UK Gas Transmission, underlying operating profit was £66m. This was £25m lower than the prior year driven by lower underlying net revenues. In September 2018 we set capacity charges to allow for the lower revenue associated with Avonmouth, and this flowed through into the first half of FY'20. With charges increased from October this year, expected full year revenue remains in line with our previous guidance.

Gas Transmission capital investment was £167m, £14m higher than the prior year. This primarily reflects increased compressor expenditure partly offset by reduced spend on the Feeder 9 Humber estuary pipeline project.

Full year totex performance is forecast to be slightly better than 2018/2019 and incentive and other performance is forecast to be broadly in line with last year. As a result the return on equity is forecast to be around the allowed level for the full year.

Finally, for the UK Transmission business as a whole, our Cost Efficiency programme remains on track and we continue to expect cost savings of around £50m in 2019/2020 and £100m in 2020/2021 onwards.

In our US regulated business underlying operating profit was £525m, £94m higher than the prior year. This reflects higher revenues from new rate cases and lower storm costs partly offset by higher depreciation.

Capital investment was £1.6bn, £411m higher than the prior year. This increase is at actual exchange rates, so includes a £59m impact from FX.

Higher capex was driven by a New York mains replacement and investment in our Metropolitan Reliability infrastructure and Newtown Creek project. Capital investment also increased as the prior half year was impacted by the Massachusetts Gas labour dispute.

Our cost efficiency initiative is progressing well, and we continue to streamline operations, simplify our supply chain and rationalise our property portfolio. We expect to deliver around $30m of efficiency savings this year and around $50m from 2020/2021 onwards. Of course, this is in the context of a fast-growing business and asset base.

Overall, we expect returns to increase to at least 95% of the allowed return on equity. This reflects the completion of the refresh of our distribution rates and with a first full year contribution from new rates in Rhode Island and Massachusetts Gas.

Overall, National Grid Ventures continued to perform well delivering similar levels of profitability to last year. Operating profit for the IFA interconnector was £21m pounds. This was £13m lower than the prior year, principally driven by reduced auction revenue due to lower arbitrage.

Capital investment increased to £432m compared to £212m last year. This reflects the investment in the Geronimo acquisition of just over £200m. Excluding Geronimo, Ventures' investment few slightly compared to the prior year, reflecting lower Millennium and NEMO investment partly offset by higher capex of the North Sea Link and IFA2 project.

Other activities include our St William joint venture with the Berkeley Group, our Residential Property business and certain central costs.

The operating loss for other activities for the half year was £1m, compared with the £76m profit last year. This principally reflects the one-off legal settlements received last year.

For our Property business operating profit was £46m, £8m higher than last year driven by land sales including our Poplar site.

Corporate and other costs stood at £47m for the half year, broadly in line with the prior year after accounting for the legal settlements.

The post-tax profit share for our St William joint venture was £11m, £17m higher than last year. This reflects our first year of profits from the joint venture driven by the sale of homes at of Prince of Wales Drive, Battersea, and at Rickmansworth.

Capital investment was £64m, £62m lower than last year. This was principally driven by lower IT expenditure in this segment.

Finance costs were £553m, up 12% on the prior year. This primarily reflects US long term debt issuances along with the hybrid buyback costs and foreign exchange partly offset by lower RPI rates.

Our effective interest rate was unchanged in the prior year at 4.4%. At constant currency second half net interest costs are expected to be slightly higher than the first half.

The underlying effective tax rate before joint ventures was 13.2%, significantly lower than the prior year. This change reflects the impact of a tax settlement in the US relating to prior periods of £48m. It is important to note that the half year effective tax rate also reflects the seasonality of our US profits, which are weighted to the second half of the year.

For the full year the underlying effective tax rate excluding the share of joint venture post-tax profits is now expected to be around 20%.

Finally, underlying earnings were £685m with EPS at 20 pence, up 2% on the prior year.

Cash generated from Operations was £2.1bn, up by £164m compared to the prior year. This reflects favourable working capital movements and the absence of exceptional cash spend on the Massachusetts labour dispute, partially offset by timing.

Net debt increased by £1.3bn to £27.8bn. Net cash inflow in the period amounted to £0.5bn, more than offset by £1.3bn of exchange rate and other non-cash movements and also a £0.5bn impact from IFRS 16 lease accounting.

For the full year we expect ongoing business requirements to increase net debt by around a further £1bn excluding the impact of exchange rates and this is consistent with the guidance we provided in May.

In line with our policy we will pay an interim dividend of 16.57 pence per share, representing 35% of last year's total. Scrip uptake on the full year dividend was 48% and we will again be offering the scrip option at the half year.

With another period of record investment for the Group, I want to take a moment to review how capex has increased in the last few years, what the drivers for this have been and the outlook for the future.

In the last five years we've seen a step changed in the level of capex spend across the Group. Since 2015 total Group capital investment has risen from around £3.3bn at constant currency to around £5bn today, and 9% compound annual average growth rate across that period. This has principally been driven by growth in our US capex as renegotiated rate plans across our businesses support this investment as well as by our interconnector programme, whereas you know we are investing around £2bn.

As we mentioned at our Investor Seminar, around 80% of investment in the US is to modernise our networks with over 85% of capex already agreed in rate plans in the medium term. With the exception of the KEDNY/KEDLI rate filing where we're still in discussion with the Public Service Commission we have good visibility of these plans and we expect US asset growth of around 8% per annum in the medium term.

For our UK Transmission businesses around two thirds of capex in RIIO-T1 has been on asset health. We propose a slightly higher level of capex as part of our draft business plans for RIIO-2. Our baseline plans for UK Transmission include an average capex spend of £1.5bn per annum in 2018/2019 prices. We expect to hear Ofgem's feedback on our proposals in the first half of 2020.

For National Grid Ventures and other interconnected capex will continue out to 2023 when the Viking Link will be commissioned. FY'20 represents the peak year for interconnector capex reaching around £400m as the North Sea Link and IFA2 project progress.

After that as interconnector capex winds down the acquisition of Geronimo Energy will provide us with the flexibility of extra investment in US renewable projects.

Pulling this all together in FY'20 we expect capital investment across the Group to increase to around £5bn. Subject to the finalisation of the regulatory processes currently underway in the US and the UK, we could expect to see investment remain at this level and with a similar segmental split in the medium term.

We're funding this strong growth through a mix of debt, internally generated cash flows and by utilising the scrip option. In addition we're reinvesting the £2bn proceeds from the Cadent sale to support the organic growth in our US business.

In September we took advantage of market conditions to fully refinance a €1.25bn hybrid bond which was callable next June, achieving the lowest ever hybrid coupon for any UK corporate. And today, in line with our commitment to our role in tackling climate change we've published a Green Financing Framework, which will support sustainable financing across the Group.

Our balance sheet remains robust with strong investment grade credit ratings from Moody's, Standard and Poor's and Fitch. This has enabled us to raise debt cost effectively with access to a wide range of debt sources.

With our strong capex visibility and following the receipt of the Cadent proceeds we expect gearing to reduce slightly this year and remain around the 65% level through 2020/2021.

In summary, our performance remains on track and our full year technical guidance remains largely unchanged. Our capital investment has increased supporting asset growth at the top end of our 5% to 7% range in the near term. And we're continuing to efficiently fund our growth with our financial position remaining strong.

With that I'll hand you back to John.

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Priorities and Outlook

John Pettigrew, Chief Executive Officer
So thank you, Andy. So let me now turn to our longer term objectives and priorities for the remainder of this year.

As I outlined at our US Investor event in September, we're implementing initiatives in five areas across the Group that I believe will deliver long term value for our customers, our communities and shareholders.

These are improving the affordability for customers and enhancing their experience and efficiently delivering on capital plans, innovating and adopting new technologies to deliver smarter networks, taking action to enable decarbonisation and finally, investing in talent.

Now, I'll give you some examples of these as I go through each area of our business.

Starting with US, where alongside our continued focus on enhancing customer experience, we have two major near term priorities. First, addressing the gas moratorium in Downstate New York. Second, delivering fair and progressive regulatory settlements.

So let me start with the gas constraints we see in Downstate New York. You'll have seen the Governor's letter and we're working hard to address all the issues raised by him. I'm confident that we'll be able to deliver firm proposals within the expected timescales.

But to set the context I'd like to spend some time updating you on where we currently are regarding moratorium and the history behind it.

A decade ago National Grid identified the need for incremental gas supplies to serve low growth in the Downstate region. Since then we've been executing a long term and comprehensive supply plan and delivering a number of upgrades and new projects. The pipeline being developed by Williams, called the Northeast Supply Enhancement project, otherwise known the NESE pipeline, is the final piece of this series of projects.

In May this year following further delays to permits for this project and therefore the potential lack of incremental supply to serve that load, we took the difficult decision to stop processing applications for new or expanded gas services in our service territory. This was to ensure the safety and integrity of the system and to enable us to continue to serve our existing 1.8 million customers in New York City and Long Island.

Following an order issued by the New York PSC requiring us to connect approximately 1,100 accounts we implemented an innovative plan to expand demand response and Energy Efficiency programmes alongside sourcing incremental compressed natural gas, and this will enable us to safely connect these accounts.

We recognise the hardship the moratorium has caused, and we continue to work with all parties to find a long term solution.

We also recognise the importance of re-establishing a trusting relationship with all our key stakeholders.

As I said, I'm confident that we'll be able to address the issues raised by the Governor in his recent letter within the expected timescales.

Turning now to our second key priority, regulatory filings. We now have all of our distribution companies under refreshed rates and this is enabling the strong organic growth we're seeing in our US business.

Safety, reliability and modernisation of our networks represents around 80% of the future investment in our Gas and Electric businesses.

In the second half we'll continue to focus on progressing KEDNY and KEDLI, grid modernisation, electric vehicle and advanced metering infrastructure programmes.

With the KEDNY and KEDLI rate case as you know, we provided data to support a four year settlement with a proposed base return on equity of 9.65%. We also requested annual capex allowances of $1.5bn, the majority of which goes towards improving the safety and the reliability of our networks.

The next stage in the process is for hearings to be held later this winter. For now, settlement discussions for this rate case are on hold. This means we may need to progress with an alternative route which is to litigate the case.

If we go down this route it will result in a one year settlement. Now litigated rate cases are a common feature in US regulation. For example, all of our Massachusetts rate filings are litigated. And of course, we'll update the market as this case progresses.

So let me now talk you through other regulatory priorities.

In Massachusetts we prepared our three year grid modernisation plan for submission in mid 2020. This will include investment of up to $50m in energy storage and proposals for advanced metering as well as additional investment in our electric vehicle charging infrastructure.

In New York we await final comments from stakeholders on the $650m advanced metering proposals we submitted last November and are expecting the PSC to issue an order later this year.

And in Rhode Island we expect to follow up an updated grid modernisation vision with an advanced metering proposal in early 2020.

These discussions represent opportunities to grow by via new investments and provide the infrastructure needed for a cost effective and thoughtful clean energy transition.

I'll now update you on our plans for the UK where we have two major priorities. Advancing RIIO-T2 discussions and driving customer benefits through delivering on our digital ambition.

So let me start with RIIO-T2. Over the course of the summer we submitted two drafts our business plans setting out how we see our role in the five years from 2021. The overall financial package remains key and we continue to believe the evidence provided is that RIIO return should be 6.5%.

The latest plan forecasts average annual totex across both Transmission businesses of £1.9m with significant focus on ensuring that the networks deliver what our customers want, that the networks remain resilient and importantly, that we also deliver environmentally sustainable solutions.

Given the speed and the scale of the challenge and the uncertainty of the routes to decarbonisation we know our business plans need to be flexible.

To address this we're including reopening mechanisms that allow us to agree funding to certain projects if they're delivered. Examples of these include bringing multiple offshore windfarms to land using one transmission link as well as proposals for promoting electrification of transport.

Following the submission of the final business plans in December there will be a call for evidence that will last from December through early February, and open hearings will take place in March and April.

Ofgem will publish its draft determinations in July 2020 before final determinations are published this time next year. Throughout this period we'll continue to work constructively with Ofgem to seek a framework that puts consumers at the centre of the price control, enables engine networks for the future and that allows a fair return for our investors.

Another key priority for the next six months in the UK is to drive customer benefits through delivering on our digital ambitions. One example of this if our ConnectNow project that will improve the customer experience of connecting to the network. ConnectNow will focus on customers who require small scale connections such as solar, storage, electric vehicle charging and data centres.

This digital platform assists customers through the application process, it provides transparency as they progress through the connection journey and it facilitates easy communications with National Grid.

Finally National Grid Ventures, where the key focus will be the European interconnectors' development and our Geronimo activities. We'll be completing the construction of IFA2 in the first half 2020 and starting commissioning in the summer.

Once in service, IFA2 will be the fourth operational interconnector and will take our total interconnector capacity to 5GW.

On Viking, we expect construction to start in early 2020 with completion of the works expected for the end of 2023.

And finally for Geronimo, I'm excited to see the talented team we've brought into the National Grid Group. They'll be completing the construction of the Crocker Wind Farm in South Dakota. This is a 200MW wind farm with a long term PPA and will also advance other renewable projects along the development pipeline.

So to summarise, Power and Gas networks are at the heart of the energy system and we create value by delivering world class networks and driving decarbonisation.

I'm therefore very proud of our new commitment to net zero greenhouse gas emissions target by 2050.

We're working hard in New York and I'm confident we'll shortly be able to deliver firm proposals in response to the Governor's letter. We absolutely want to be in a position to connect customers to the Gas network.

In the first half we've delivered a solid financial performance and continue to deliver strong organic growth in an efficient way. We've also made good progress on our strategic priorities and we're continuing to take a disciplined approach for the many attractive growth opportunities we see across the Group.

I believe it's this disciplined approach coupled with efficient delivery that will enable us to continue to create long term value for our customers and our shareholders.

Thank you for listening, ladies and gentleman. Now Andy and I will be happy to take any questions.

Yes Sir?

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Questions and Answers

Chris Laybutt, JP Morgan
Good morning. A couple of questions on New York, I think it's best to start there.

You're confident that you'll be able to meet the Governor's demands. I guess the question is what power does the Governor have?

And secondly, what grounds could the PSC move against you if they were to choose to as well? So I guess, where are you now and how confident are you that you'll be able to see this out?

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John Pettigrew, Chief Executive Officer
So let me just provide some context and then go over to New York in a bit more detail. So as I said, it's a difficult situation but one that actually we've been very aware of for the last decade. And it's important to say I think that our interests are very much aligned with the Governor and with the PSC in that we want to connect customers.

And also in terms of the net zero target that New York has we're looking to support the Governor and the PSC with regards to that.

So as you heard in the speech, we've spent the last ten years looking at the constraints associated with the New York state. And actually it's not just a National Grid issue actually. This is a regional issue all the other utilities have been grappling with. And we've undertaken a number of investments of which the final piece of the jigsaw was the investment that Williams were making in the new pipeline called NESE.

In March we found ourselves in a position where when we looked at the demand going forward in our particular territories in Downstate New York against the supply that was available there was a mismatch. And it's probably worth saying in Downstate New York in our territories we're seeing strong growth and demand, so there's a huge amount of economic development going on in downstate New York which means that over the next decade we're going to see a 10% plus increase in demand.

That's also been added to by the fact that people are moving from oil heating to gas heating as well, so that's supplementing that growth.

So we found ourselves in a challenging position. We did all the analysis to assess the situation and we shared that with the PSC and took the very difficult decision to actually introduce the moratorium. Since then we've been working tirelessly to find non-pipeline solutions to what is this challenge.

A couple of months ago you would have seen the PSC put an order on us to actually connect about 1,100 accounts. These were accounts where they'd previously taken gas from National Grid more than two years ago and the PSC took the view that they were different to new customers and therefore should not have been captured by the moratorium. And since then we've been doing innovative things around Energy Efficiency and demand management to create the capacity to allow those accounts to be connected and we have done so.

As I said, since May we've been looking for non-pipeline solutions and I'm confident that as I sit here today that we'll be able to address the issues that the Governor's raised in his letter in the timescales.

In terms of the reference to the Revocation of Certificate to Operate, technically that's an issue for the PSC. And actually with regards to the moratorium, we don't think the actions that we take would lead down that particular route and that's because if you look at the issues associated with the Revocation of Certificate to Operate, it is for circumstances where there have been multiple violations of regulation or rules of which this isn't applicable, or there's been sustainable issues around safety and reliability. Which again, this isn't an issue. So we don't think that that is the route.

Nonetheless, this is a difficult and serious issues and we're working as hard as we can to find non-pipeline solutions. And as I said, I'm confident I'll be able to respond to the Governor's letter.

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Chris Laybutt, JP Morgan
Could I just start with a quick follow-up just on the same topic and relating to the rate case you're currently going through?

If you go through a one year process through the judicial route would the intention then be to go back quite soon after to follow up with a rate case with the multi-year plan as you currently intend. How does that playout in your mind as you move through the next year or two?

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John Pettigrew, Chief Executive Officer
Yeah, so I mean in terms of the KEDNY and KEDLI negotiations, so we're running through the normal process. I am still hopeful we'll be able to get to a resumption of discussions on settlement. If we don't, we're very familiar with the other route. In terms of whether we go back in immediately after a year will depend on where we land, I think, Chris. I mean, it's early days. But we always have that option both in New York and in other states, so we'll consider it when we see where we get to. But I'm still hopeful that we'll be able to resume those settlement discussions.

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Ahmed Farman, Jefferies
Yes, hi. You mentioned earlier the mismatch of demand and supply in New York. I was wondering if you could just give us a bit of a sense of how significant that is and how many for example, outstanding applicants are there as a result of the moratorium in New York? And then how quickly you can address those issues through the short term non-pipeline solutions you have in mind?

And then secondly, could you maybe talk a little bit about - we saw yesterday in the press that the New York Attorney General may be also looking into this issue. Maybe just talk a little bit about that and what are your thoughts on that? Thank you.

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John Pettigrew, Chief Executive Officer
Yeah, so in terms of the number of people that are being caught by the moratorium, I think it's around about 2,500/2,600 accounts. As I've said, we've already addressed and are addressing 1,100 of those accounts as we speak.

Obviously, we're looking at what the options are both in terms of short term solutions and long term solutions.

It's probably worth saying the PSC, the Governor's office and all the utilities in Downstate New York have all recognised that there is a long term challenge here that needs to be resolved. Therefore, our focus at the moment is looking to make sure that we can resolve the short term issues, which is what the Governor's asked in his letter, and that's what we're focusing on.

In terms of the Attorney General, the Attorney General has issued an inquiry quite a well. Yes, the AG, he's raised that into an investigation and really, he's asking for customers to provide their thoughts on the moratorium. So we will obviously work with AG on that particular issue going forward.

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Martin Young, Investec
Hi, I have two questions if I may. The first on the RIIO-2 business planning process. Hitherto, you've stuck to your guns around a 6.5% ROE in CPI real terms and can I ask is that something that could be moderated in the final business plan to be submitted in less than a month? And how do you square the circle if Ofwat were to stick with its 4.5% cost of equity that potentially puts Ofgem in a difficult position in terms of where it may land?

And the second question, if I heard correctly you were suggesting landing points for offshore wind connections. Is that you thinking about the possibility of having meshed offshore grids out in the North Sea to deal with the offshore wind build out? And if so, is that something that you as the National Grid would be interested in getting involved in?

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John Pettigrew, Chief Executive Officer
So thank you. Let me split that, I think there's three elements for that.

So first of all in terms of just where we are with RIIO-T2 in the business plan. So as I referenced in my speech, we've done two drafts of the business plan so far. One in the early summer and one in October. And actually it's been a very helpful process that we've had great feedback from the stakeholders and we're very confident actually that the business plan we submit in December will really reflect what customers and key stakeholders are asking of us in terms of delivery in RIIO-T2.

Ultimately one of the key issues is the financial package. And we continue to engage with Ofgem, with our stakeholders and with a challenge committee actually around that. We remain of the view that a 6.5% CPI real return is appropriate. Ofgem quite rightly have said in order for them to shift, we need to demonstrate through evidence that that's the right return, and we will continue to do that.

But it's not just the rate of return from a financial package perspective. Obviously, the performance wedge is something that we have challenged Ofgem on as well as making sure that you've got the right incentives, the speed of cash is important and that the sharing factors around incentives are also right.

Critically for us, I think it's about getting a regulatory framework that encourages investment, drives us to be efficient, but also supports the need for investment particularly as we now move to a net zero which is going to require an acceleration, I think.

In terms of Ofwat, clearly that informs. Ofgem have been quite clear actually that they will make their own decision based on their own information. So clearly, other regulators' decisions inform that. But the conversations we've had is about the onus is on us to demonstrate why we believe the returns are appropriate for an Electricity and Gas Transmissions business. So that will be our focus and we'll continue to do that.

In terms of the reference to single offshore points the point I was making really was around as we think about net zero, then it's clear that if we're going to achieve that then potentially the regulatory framework is going to need to evolve as well.

You will have seen the Committee on Climate Change talk about 75 gigawatts of offshore wind is going to be needed if you're going to achieve net zero. At the moment offshore wind generally connects point to point, so if you take that concept to its extreme you're going to have multiple points coming in on the east coast, which is going to be really challenging from an engineering perspective, not necessarily the most economic solution. But also from a community perspective that's going to have a big impact in terms of permitting and the impact on people that live in that part of the country.

So really what we've been talking about, and it's actually in our draft business plan, is to really start to think in a net zero world about anticipatory investment and how that might need to evolve with the regulatory framework.

With regards to offshore you can build an offshore network that supports 75 gigawatts but has a minimal number of interconnections into the mainland UK. If you believe that's actually what's going to happen and that's what's needed. So really we're just exploring that it's part of our business plan to say this needs to be thought about if we're going to achieve net zero.

I'll go along the line and then I'll come back.

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Mark Freshney, Credit Suisse
Two questions. First on coming back to the NESE pipeline. What would the costs be if you would have to tanker in all of the gas or potentially buy some interruptible contracts? What would be the total cost of complying with what Governor Cuomo wants?

Secondly, on the interconnectors, I understand you've got caps and collars on them, and spreads are actually quite good at the moment given differentials in carbon pricing across Europe. But can you remind us what the bare case might be or what the downside might be, the minimum level of profitability you would expect from them?

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John Pettigrew, Chief Executive Officer
I'll let Andy do the second, let me just pick up on the first. So in terms of the Downstate New York issue, we're currently working through all the different engineering solutions that can be a non-pipeline solution. So for example we're looking at things like energy efficiency, demand side management. We're looking at things like

compressed natural gas, vaporisation and capacity on our LNG facilities. So there are a whole host of engineering solutions that we need to work through.

Ultimately our objective is to be able to serve the customers, those costs would be an alternative to the capacity that we would normally buy from Williams through the NESE pipeline. What exactly that might look like it's a little bit early to tell at this stage.

Ultimately those costs are recovered through our rate filings and through our customers but we're doing that engineering work now. And as I said, I'm confident I'll be able to respond to the Governor's letter in the timescale set out but that's exactly the analysis that we're doing at the moment.

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Andy Agg, Chief Financial Officer
And in terms of the interconnectors question. As you say they all operate out of the older French interconnector under a cap and floor regime. Traditionally we've targeted and our belief is we look forward against all the different scenarios that we would expect to be pushing as hard as we can within that range.

The floor is always set to make sure we recover above our cost to debt in terms of the financing of those interconnectors. Clearly those individual metrics differ by the individual links but that's the floor if you like. But as I say we believe they remain robust as we're looking to the future.

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James Brand, Deutsche Bank
Actually just had a quick follow up there on the New York issue. When you were talking about these solutions around compressed natural gas and demand side response. How near term is this issue you see around supply, are you thinking, you know, connect these customers up and next winter we have an issue and that's why you're resisting connecting them up? Or are you looking at the ten year profile of demand growth as you said and saying, well if we connect these customers up now we're going to have an issue in five years? Because knowing that will maybe help us get an idea of where these extra costs that you might be incurring are something that you're going to have to bear in the near term or more in the medium term.

Then I had a couple of questions on your new net zero targets and the Energy Transition. Particularly in the UK there's been lots and lots of policy papers out and you put policy papers, long term visions out yourself for use of gas in the future. But do you think we're actually getting to the point now where we're starting to firm up a little bit what the 2050 vision for gas is? Or do you think there's still a lot of work that needs to be done over the next few years in terms of commercialising technologies, be it hydrogen production, electrolysis, carbon catch and storage? Do you think you're actually starting to get a clearer view on how things may look?

And if we do go down the hydrogen route for industry, do you think that would involve much capex for you for your gas transportation network? I know for gas distribution we'd probably have to complete the plastics programme, but for gas transportation would it involved much capex? Thanks.

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John Pettigrew, Chief Executive Officer
So in terms of Downstate New York, as I said earlier the projections are that we're going to see demand increasing over the next decade. So the work that we're doing is really to understand what are the options that are non-pipeline options and potentially how far can that stretch out. The costs are recoverable through our rate filings in terms of provision to customers.

But as I said earlier I think everybody recognises in the region that there is a long term challenge as we see this demand continuing to find a resolution. So we're working through that at the moment in terms of how far out you can go. but as I said that's a work in progress.

In terms of net zero and gas so just to reiterate the commitment we're making today is for the emissions that we control as National Grid. We set ourselves a target in 2008 to reduce them by 80% by 2050. Actually when we got to the end of the last fiscal year we'd achieved 68% reduction against 1990 so we thought it was really right to demonstrate a more ambitious target which is why we're announcing that today. Of course we also know that we've got a role to play in enabling net zero more broadly in the economy.

The way I think about it, just to put it in context of our question, is I think it's very clear as we move forward that an acceleration is needed to achieve net zero. I think we've made great progress in terms of decarbonisation and generation and that needs to continue.

We need to now, progress the electrification of vehicles and National Grid has been setting out some of our thoughts about how you create a backbone of infrastructure to enable that to address things like range anxiety.

I think gas is still the one that I don't think there is a clear vision yet. Certainly we're doing a huge amount of work to think through what are the potential options. I think we're coming to the view it's likely to be a mosaic of options rather than a single solution. So there are lots of people who talk about electrification of heating in its entirety but that has huge costs consequences for customers. Similarly a full hydrogen solution has got its challenges. So we are coming to the realisation I think that you're going to end up with a mixture of solutions.

So we've got a number of programmes running at the moment to really explore, which is I think what needs to be the focus over the next five years. So we're looking at things like how much hydrogen can you inject into the network safely, within the safety case without changing appliances. We are looking at what the interaction of hydrogen is at a transmission level to see how it interacts with the metal because the molecules are different, to see whether actually you could repurpose a transmission network, whilst looking at what you can do to encourage more renewable gas.

We're about to commission in the US actually, Newton Creek, a green gas facility that's taking 20% of the waste water from New York to digest it to create network standard gas. So we're exploring what's the volume that you could create through that.

Then hopefully people we've seen in the last couple of weeks, we're part of the group that's looking into the Humber region at potentially a solution for CCUS with hydrogen to industry. And they're piping the CCUS back into the North Sea.

So all of these things I think are things that need to explored over the next few years to ultimately work out what exactly is the role of natural gas. I think gas has got a really important role to play for many decades to come but I don't think it's clear what the vision is.

I'll go here in the middle because he's been really patient.

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Elchin Mammadov, Bloomberg
My question is on Geronimo. You mentioned that you potentially could increase investments once you're interconnected capex starts to go down. Can you tell us a bit more about what projects or what geographies you're going to be investing in and how it fits with the rest of your portfolio, which is focussed pretty much on grids and LNG?

And the second question is on EVs, can you talk a bit more about your current initiatives in that space and whether this will be included and recoverable via your rate base, at least in the US? Thank you.

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John Pettigrew, Chief Executive Officer

So in terms of Geronimo, if I just take us back. So we've said quite frequently that where we see opportunities in adjacent markets which allow us to use the capabilities that we have as National Grid in terms of engineering, asset management, programme management and so on. We would love to take advantage of those opportunities. Most recently that's been in the interconnectors between mainland Europe and the UK. And as Andy said we're investing £2bn between now and 2023 on that.

But we also do see things like large scale renewable generation in the US is an opportunity. We're not looking to invest in generation that's merchant, we would always put it on a long term PPA contract. And Geronimo provides us with an opportunity to do that by taking the skills that National Grid's got, with the skills that Geronimo's brought into the group, we feel confident that there are opportunities, they are value created for our shareholders.

In terms of volume it's relatively small so at the moment I think Andy mentioned we'd expect to spend maybe $150m a year. Typically Geronimo's developed about 400 megawatts of projects per annum so relatively modest against the £5bn capital programme. But we do see it as a useful adjacent market and potentially as we see the interconnector investment fall away then this may create some more flexibility for the group. And because we've entered into a joint venture with Washington State Investment Board, it does gives us that flexibility to decide how much we want to invest.

In terms of EVs, we've effectively got two things going on, one in the UK and one in the US. So in the US I'll just highlight we're talking to regulators about the role that utilities play in facilitating electric vehicle charging. We've currently got a proposal that we've been working up from Massachusetts to effectively install about 17,000 charging points across Massachusetts to allow for public access for people who've got electric vehicles. That will actually be on rate base, it's about $169m in terms of investment.

We talked to the regulator about it as part of the previous filing. They were broadly supportive but wanted to see more evidence from the phase one work that we're doing which is a more modest investment and therefore it will form part of the work that we're doing in 2020.

In the UK we've spent quite a lot of time thinking about how you create a backbone of infrastructure in the UK to address range anxiety. And we put a proposal together about 12 months ago which is if you actually extend the networks, and these are transmission and distribution networks, to 54 service stations across the UK, and create enough capacity for ultra-fast charging, then any driver in England and Wales will never be more than 50 miles away from a ultra-fast charging facility.

The cost of that in terms of extending the network is around between £500m and £1bn so we've spent quite a bit of time in the last 12 months talking to different departments in government on that. Just before the change of prime minister, the previous prime minister, asked OLEV to actually consider it as part of a strategy for EVs going forward. So when we get on to the election it will be interesting to see how they take that forward.

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Deepa Venkateswaran, Bernstein
Thank you. Sorry to come back to New York. As I read the letter I didn't actually understand what exactly the governor wants from you. Is it stopping the moratorium, is it just these 1,100 customers? So I just wanted to get a sense what do you think he wants you to address in 14 days for which you're working towards?

And longer term, if it means a very expensive solution like trucking LNG or CMG, is that something that the rate payers in the state are ready to pay?

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John Pettigrew, Chief Executive Officer

So in terms of the letter I think the governor like all of us, I think he's just frustrated that we're not able to connect customers, you know, as I said there's a lot of economic development going on in Downstate New York. And therefore we're aligned in terms of the aspiration of wanting to connect customers. So in terms of what he wants, I think he wants our thoughts and ideas about how we can resolve that going forward.

And as I said there's a recognition that there is a long term issue in Downstate New York but at the moment I think the short term issue is feeling quite painful and therefore we'll be looking to resolve that.

In terms of cost, as I said earlier we're working through that at the moment, obviously the NESE pipeline is a major pipeline with a significant cost associated with it. In terms of cost to National Grid, it's probably $200m a year so that would have been fed into our rate filings and therefore there is scope for an alternative that would meet the needs of customers I think.

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Iain Turner, Exane
Thanks. You mentioned a couple of times about interconnector spending sort of tailing off. Does that mean you're sort of done with interconnectors or have you got further projects down the line that you'd like to look at?

And then secondly on your net zero commitment. Obviously SF6 is quite a big part of that and I imagine you're very dependent on it, SF6. Can you just talk about how you see that developing?

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John Pettigrew, Chief Executive Officer
In terms of interconnectors, in terms of the existing projects that we're committed to, it does start to tail off. By 2023 the Viking interconnector will be complete. We remain positive about the interconnectors, all the studies that have been done show that potentially there is capacity for the UK to have up to 16 gigawatts I think of the last study I saw, which makes economic sense to have.

So we will continue to look at options for further interconnection but we'll apply our usual disciplined approach to it. We'll only take those investments forward if we think there is sensible returns for investors. But at the moment the commitment is those that we've already got under construction but we are still positive about interconnectors generally.

In terms of net zero, you're absolutely right SF6 is one of the more challenging items. So from our perspective what we can do, we can continue to replace gas pipes in the US that will reduce leakage. We will continue to encourage decarbonised generation to connect to the transmission system which means you get carbon free losses on the transmission system. We're also improving the conductors so there's less losses there. We can look at our fleet to make sure we electrify our fleets. We can do a lot of things and we can also use our compressor stations as well.

With regards to SF6 it's actually a small component of our total CO_2 emissions but actually it is a very pollutant gas. We've been working actually for the last couple of years with a number of the manufacturers of equipment as alternatives for SF6 which are clean. Solutions have been identified at lower voltages and we're currently trialling a particular clean gas insulator at Sellindge, one of our substations.

So we're optimistic that we can find a solution but it is one of those challenges because it needs to be something that actually you can retrofit into existing substations as well as using future substations.

I could be quite flippant and say there is an obvious answer which is in the 1960s we used air blast circuit breakers. The challenge of them is they're much bigger in terms of room but there is a technology, there's an alternative SF6. But we're looking for something that allows you to have the compactness that it delivers as well as being clean for the environment.

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Dominic Nash, Barclays
Hi, two questions please. Firstly going back to New York, there's a couple of other companies there in a similar position as you, Consolidated Edison and P….. I think is the other one. They've got moratoriums as well, why is Cuomo chasing after you and not those two? And is it only a matter of time before you think he's going to send letters to those two companies as well?

And secondly on your overall Group, where do you think the market values for the UK and the US relative to your peer groups? Do you believe that there's a justifiable discount to your share price, versus to what we see when we compare you to your peers?

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John Pettigrew, Chief Executive Officer
I'll let Andy take the second one. In terms of the first one I think it just comes down to the fact that in the territories that we operate in Downstate New York it is particularly acute because of the economic development that we're seeing in that area. And the options available for non-pipeline are quite challenging.

So Con Ed in a different part of New York and have a different set of circumstances, albeit they've talked about their moratorium as well. So I think it's just more acute for us based on the demand that we're seeing and the constraints that we have which has ultimately meant the customers are frustrated and that's reflected in some of the correspondence we've seen.

So that's why our focus has been since May, how do we find a solution that's a non-pipeline solution, I think that's the reason why there's a difference.

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Andy Agg, Chief Financial Officer
In terms of the question about market value I suspect some of you are as well placed to answer that in terms of how the market proceeded. But my perspective is, and clearly we've done a lot of work as you'll have seen six months ago with our full year results trying to be very clear about the performance of the US business. And I think if we look at the respective valuations today there's certainly consensus out there that says the US businesses should be valued in line with peers. And because of our growth that we've seen and we've talked about again this morning, we believe that there's no reason why it shouldn't attract - the US business shouldn't attract a good valuation.

And again as we've said previously we're aware of some the challenges we've talked through again this morning, some of the regulatory and as we know political debate here in the UK, and it's cognisant and I get a lot of feedback in terms of that's a transient issue on the share price as well. So we're focused on working through all that, addressing those regulatory challenges and progressing the business. But you know I think it will be down to the market to make that assessment of how they value us.

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Verity Mitchell, HSBC
It's a question about your pension which has gone up by nearly a billion your deficit, and you've outlined some of the things you're doing to alleviate that. Perhaps you'd like to talk about that and just remind us when your next triennial valuation is coming up?

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Andy Agg, Chief Financial Officer
Sure, thank you. So the movement that we've reported at the half year is a couple of elements to that and as you - we'll have announced a month or two ago. The trustees of the gas pension scheme undertook what's called a buy-in transaction for a portion of the scheme with a counterparty called Rothesay Life. That actually from a fundamental actuarial valuation perspective was completely value neutral for us, but in terms of an IAS

19 perspective as we're required to account in the financial statements, we had to recognise the difference between the valuation in the accounting books and the underlying actuarial position. That's a fair proportion, that's around 500 million of the difference. The remaining point is just macro movements in terms of discount rates and other drivers. I think as you quite rightly point out the key focus for us is the underlying actuarial valuation rather than the IAS 19 value.

The latest triennials are underway at the moment so they're as of 31st March 2019 and we're clearly working with the trustees on that process as we speak.

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Mark Freshney, Credit Suisse
Coming onto funding the growth, there's an immense amount of growth in the Group. You've highlighted that the scrip option is one way that you can finance that growth. Can you talk about other ways you might finance the growth because it seems you're - and also in relation to that you're talking about being at 65% net debt to assets whereas the range was 60 to 65, can you talk about any options you've got because if more growth comes along you may be in a position of not being able to afford it?

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Andy Agg, Chief Financial Officer
I mean at the start I'd remind everybody - the reason we're focused on this growth is because we see it as very valuable, the returns that we're able to earn from it are very attractive and we think it's absolutely adding value to the Group. As you may remember from a few months ago when we were here in May that we look at a number of ways to make sure we finance that growth efficiently and keep the overall shape of the balance sheet in the right place, and that includes both driving our own performance and you heard again this morning that our cost efficiency programmes remain on track on both sides of the Atlantic. Obviously making sure that we work to the right regulatory frameworks to enable us to finance that growth efficiently. You'll have seen again in the six months the reinvestment of the Cadent proceeds is another measure that we've taken.

Clearly as you've said consistently over the last couple of results announcements we look to utilise a scrip where we are in periods of very high growth and we're in that position today, and we've guided to not buying back the scrip both this year and next as you know.

On the 65%, I think in May I guided then that we see leverage remaining around the 65% level through to the end of 2021. So I think we've guided to 65% for a couple of times now, and we see that as very much in line with these maintaining our strong investment grade credit ratings.

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James Brown, Deutsche Bank
Thank you for answering my earlier questions, I just had one more if that's okay. Just thinking about Hinckley Point C and the connection seeing as that now looks like it's going to be going ahead; do you see any risks around that? I'm just obviously very conscious and everyone is aware of the issues that there's been involved in building new nuclear stations in the Nordics, in Finland and in France, and that projects that were meant to take three or four years have taken 15, 16, 17 years already and none of these new projects in Europe have actually come online. As I understand it you're kind of obliged to build the connection and if the project didn't go ahead you'd be able to recover the investment through the overall RAV but do you see any risks around just going ahead with that connection given that this project could be, based on past precedent, delayed for years and years and years and may not even come online? Thanks.

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John Pettigrew, Chief Executive Officer
I think that's probably a question you should be asking EDF rather than me. From our perspective, our focus is on delivering the transmission investment to connect the station in accordance with the contract that we have with EDF. As you heard me say this morning we're on track just to link the two things. We're very pleased

actually that Ofgem's minus 2 position in terms of how it should be funded should be through strategic wider works rather than through the competition proxy model, but our focus is to deliver to the contract that we have with EDF which is 2025 as I mentioned this morning. So I think that's a question you'd probably have to ask EDF.

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Fraser McLaren, Bank of America Merrill Lynch
I have four very short questions. One, you've asked for expressions of interest for the longer term at the Isle of Grain. Can you speak about the scope for expansion, how much investment would be needed and when that would happen?

Number two, following the August outages do you think there'll eventually need to be higher expenditure on reserve measures? I think you've mentioned some numbers in the press.

Number three, could you update us on the Western Link? Will it be handed over by yearend as planned?

And finally another one on New York, who in National Grid is responsible for the relationship with Mr Cuomo?

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John Pettigrew, Chief Executive Officer
Okay thank you Fraser.

Laughter

I'll take the first and second. I'll ask Nicola actually because she's here to talk about Western Link if that's okay Nicola and then I'll come back to New York.

So in terms of the Isle of Grain, so on a fairly regular basis actually we go out to the market to see whether there is any interest in incremental capacity. The Isle of Grain was designed originally to be able to take another tank which would increase its capacity by 20%, 25%. And therefore I think every other year or so we just go out to the market and see whether there is an interest in buying incremental capacity. So that's the process that we're going though.

In terms of investment it would be a few hundred million pounds because effectively apart from some minor changes to the facility it's about building a new tank. But we would only do that and only consider that as an investment if we got a strong response from the market and the economics of it made sense in terms of our approach to investments. So that's why we're doing that and we do it on a regular basis.

In terms of the August outage on the 9th you may recall that when we set out the technical investigation report that we published in September we set out some short term lessons to be learnt in terms of communication, some sensible areas to review particularly around what demand sits behind the automatic relays, and also ensuring that infrastructure that connects to the electricity system generally can ride through what are potentially normal variations.

But we also pointed to the fact that this was a very rare event. The fact it gets so much news is because actually having these types of outages are so rare. The reliability of the UK system is 99.69 and therefore we ask the question as we're seeing the transformation going on in the energy sector it would be a sensible question to ask what level of resilience does society want. The current security standards deliver effectively that 99.69 reliability and we have had three of the types of event we had on the 9th of August in my career of nearly 30 years, so it's a nearly one in ten year event.

We think that's a question for regulators and government. The E3C report which was the government's investigation into the 9th of August which they issued in their interim reports a month or so ago indicated that they would be picking up that issue actually and exploring it.

So from our perspective we just think it's a sensible question to ask because what level of resilience do you want to have going forward? In terms of the engineering of it we hold enough response on the system to cater for the single largest loss on any particular day. So that could be a sizeable nuclear station or it can be an interconnector. You can hold more response but there is a cost associated with that. I think what you're referencing is the fact that if you had to do it today and double the amount of response you hold it would probably cost about £1bn a year. However that cost would come down very quickly because there are technologies such as storage that are fantastic at providing fast acting response and reserve, and therefore that cost would come down over time but it would be a significant cost in the short term. That is an issue I think that the E3C committee will pick up when they publish their final report which I suspect will be after the election.

Nicola.

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Nicola Shaw, Executive Director UK
Thanks. As John said I think last time we were here we've been frustrated about the Western Link progress but the good news is that I think at the moment it's looking very positive. We've got a few more commissioning tests to do and then I'm hopeful of takeover.

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John Pettigrew, Chief Executive Officer
In terms of relationship I think most people are aware a number of years ago we adapted our operating model in the US to ensure that in each of our states we have a jurisdictional president and the role of the jurisdictional president is to work with the political and regulatory stakeholders. So our jurisdictional president in New York is responsible for that relationship, obviously working with Dean previously and working with Badar going forward.

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John Musk, RBC
Only one question to finish with hopefully but back on New York. We spent the last couple of years in the UK obviously worrying about nationalisation and that risk and I guess we've all become familiar with the protections in place around bilateral treaties and all that stuff. In New York in the worst case of licence revocation have you done the work to understand how that would actually happen and what protections you have, and is there any precedent for this happening in New York or other similar states in the US?

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John Pettigrew, Chief Executive Officer
Thank you John. So first of all in terms of precedent no I'm not aware that there is a precedent. Again I'd reiterate in terms of process in order to revocate our certificate to operate that would be a - the PSC has the ability to challenge that certificate. It's got a set of criteria on which it has to operate against which is the ones I set out earlier in terms of there has to be multiple violations of regulation and rules or persistent issues with reliability and safety which aren't relevant in this issue. Ultimately that leads through to it goes into the judicial system and to the legal system ultimately. So that's the process that would be followed.

Artie is staring at me which says I think we've run out of time. Is there any final questions?

Okay in which case thank you very much everybody for your time this morning. I do appreciate it. I think we've set out very clearly what our priorities are for the second half and we look forward to seeing you all very, very soon.

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END

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