Proposed Acquisition of Western Power Distribution and Strategic Portfolio Repositioning

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National Grid

Nick Ashworth, Director of Investor Relations

John Pettigrew, Chief Executive Officer

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Questions

Dominic Nash, Barclays

John Musk, RBC

Chris Laybutt, Morgan Stanley

Deepa Venkateswaran, Bernstein

Jenny Ping, Citi

Mark Freshney, Credit Suisse

Martin Young, Investec

James Brand, Deutsche Bank

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Javier Garrido, JP Morgan

Nick Ashworth, Director of Investor Relations
Good morning, everyone, and welcome to our call to discuss our announcement of the proposed acquisition of Western Power Distribution and the strategic portfolio repositioning.

I'm Nick Ashworth, and I'm Head of Investor Relations here at National Grid. Thank you for joining us remotely, and I hope everyone is safe and well.

As always, I'd like to draw your attention to the cautionary statement that you'll find at the front of our presentation. And, after the presentation, as usual, the IR Team will be available, by phone, to help if you have any further questions.

As so, with that, I'd like to hand over our CEO, John Pettigrew. John.

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John Pettigrew, Chief Executive Officer
Thank you, Nick. And good morning, everyone. And thanks for joining this call at such short notice.

As usual, I'm joined by our CFO, Andy Agg, and, as you'll have seen from our press release, there's a lot to talk about this morning.

We've announced three significant and connected transactions; the proposed acquisition of Western Power Distribution, or WPD, here in the UK, the sale of our Rhode Island business in the US, and the intention to initiate a sale of a majority stake in our UK Gas Transmission business later this year.

As I've said on many occasions, our vision at National Grid is to be at the heart of a clean, fair and affordable energy future. We'll do this through the execution of our strategic priorities, which are to deliver for our customers efficiently, to grow our organisational capabilities, to empower our people for great performance, and to enable the energy transition for all.

It's with this vision in mind that I'm hugely excited about what the combination of these transactions will bring. They will significantly improve National Grid's strategic positioning whilst enhancing our long-term growth prospects. They will put National Grid at the heart of delivering net zero across the UK electricity sector, and they will deliver attractive financial returns for our shareholders.

Over the next 20 minutes or so, we'll discuss the strategic and financial rationale for these transactions and how they strengthen our future growth outlook. Andy and I will be happy to take your questions at the end of this.

Starting with the detail - we've agreed to acquire WPD, the UK's largest electricity distribution business, from the US utility, PPL, for an equity value of £7.8bn. At the same time, as part of this transaction, we've agreed to sell to PPL our Rhode Island business for an equity value of $3.8bn, or £2.7bn.

In addition, we're announcing our intention to initiate the sale of a majority stake in our UK Gas Transmission business.

We'll be ready to launch a sales process sometime in the second half of this year, and we'd expect the process to completion to take about a year.

We intend to fund the equity element of the WPD consideration with bridge financing, with proceeds from the sale of Rhode Island as well as proceeds from the sale of UK Gas Transmission being used to pay this down in time.

We currently expect that we'll complete the acquisition of WPD within the next four months, with Rhode Island completing in Q1 2022.

As I mentioned at the outset, I'm very excited about how these transactions will transform National Grid's shape, increasing our exposure to electricity and enhancing the long-term growth profile of the Group. Furthermore, they strengthen our core ambition, which is to enable the energy transition for all.

For those of you who have followed our story over the years, you'll know that we've a great track record of delivering shareholder value through portfolio repositioning, both large and small. This has taken the form of largescale acquisitions, with our purchase of the KeySpan business in 2006, and also crystallising shareholder value from existing assets, with the more recent sale of our UK Gas Distribution business.

The transactions we're announcing today represent the next stage of our journey.

The WPD acquisition allows National Grid to bring together two complementary businesses. WPD offers low-cost and local operational strengths which, in combination with our engineering excellence and significant experience of owning and modernising electricity distribution networks in the US, offers a compelling combination.

It will also allow a greater focus on the customer, given WPD's leading industry performance, with a great opportunity to drive improvements across our existing UK and US businesses.

The pivot from gas to high-growth electricity in the UK will underpin the long-term growth outlook for the Group and enhance our role in the UK's energy transition.

And, despite our agreement to sell our Rhode Island business, we'll continue to benefit from regulatory diversification with around 40% of Group assets continuing to be in the US.

These transactions will also deliver attractive financial returns for our shareholders. We believe the fair price that we paid for WPD reflects the exciting growth opportunity and potential for continued outperformance in the future, WPD's strong cash flow and returns that will be above our cost of capital, our conservative assumptions around future regulatory returns, and the benefits we can derive and share with our customers.

In addition, we've achieved an attractive valuation for our Rhode Island business, and are confident in being able to generate a premium valuation for UK Gas Transmission, given its attractive cash flow profile and growth optionality.

On completion of these three transactions, the growth expectations for our electricity distribution will enable us to grow at our 5-7% range for longer, which, in turn, translates to superior earnings growth and stronger dividend cover, which will further underpin the recently announced updated dividend policy.

The transactions are expected to be significantly earnings accretive from Year 1 and continue to be earnings accretive post the UK Gas Transmission sale in the longer term.

We expect to deliver all three transactions whilst retaining our current credit rating.

I'd now like to spend a few minutes focusing on the main transaction we've announced of our acquisition of WPD. This is a one-off opportunity to gain a scale position in UK electricity distribution, which is expected to see a high level of asset growth as a result of the ongoing energy transition.

WPD is the UK's largest electricity distribution network operator, or DNO, with a forecasted March 2022 regulated asset base of £8.8bn, having grown by around 5% per annum over the past six years.

It's responsible for four networks across the East and West Midlands, South Wales, and South West England. Altogether, it has more than 6,500 employees, and serves nearly eight million customers.

And, in addition to its size, WPD is also one of the best-performing operators in the UK, with a fantastic track record of delivery.

Firstly, it's demonstrated a great track record of stakeholder engagement, and was the only DNO to be fast-tracked by Ofgem in the RIIO-ED1 price control.

Secondly, it's delivered very strong operational performance, with customer engagement ranked towards the top of its peers throughout the current regulatory period.

Thirdly, its financial performance is strong, consistently delivering best in class returns. And, finally, it's led by a strong and highly experienced management team.

I've known Phil Swift, WPD's CEO for many years, and look forward to working closely with him and his team to continue to deliver the great performance WPD's employees and customers have come to expect.

The integration of WPD into National Grid will bring complementary strengths to the Group as we move along the energy transition pathway.

There are four strategic benefits of the transaction for us that I particularly want to highlight. Firstly, the increasing growth of electricity, and our key role as the UK's largest transmission and distribution owner. Secondly, the improved growth outlook for the Group. Thirdly, our enhanced role in the energy transition. And then, finally, the continued benefit of geographic and regulatory diversity.

Starting with our increased electricity footprint, on completion of the transactions, nearly 70% of Group assets will be focused on electricity, up from around 60% today. That’s very significant at a time when electricity demand is expected to rise substantially in the years ahead.

Across both our UK and US footprints, the coming decades will see the acceleration of renewable generation, in particular offshore wind, greater levels of decentralised generation and battery storage. We'll see enormous growth in electric vehicle

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penetration, and a significant change in the way we heat our homes, with electric heating solutions growing to complement the acceleration of clean gas alternatives.

The core scenario set out by the Committee on Climate Change sees a 70% increase in UK demand by 2050, and sees demand potentially doubling under the further ambition scenario. These are in line with the scenarios set out by the National Infrastructure Commission and the future energy scenarios work, published by the Electricity System Operator.

The outlook, therefore, for both Electricity Transmission and Distribution, is extremely exciting. As the largest electricity transmission and distribution owner in the UK, we'll play a pivotal role in enabling growing levels of electrification, with investment levels and growth set to remain elevated across our networks as we look ahead through this decade and beyond, which brings me to the growth outlook.

Overall, we see these transactions materially improving the Group's long-term growth outlook given the multi-decade changes we see ahead for the electricity sector. Simply put, we're transitioning from £8bn of regulated asset base in the UK Gas Transmission and Rhode Island, to a similar-sized WPD business, but with a much stronger growth outlook.

WPD's regulated asset base has grown by around 5% per annum over the past six years, and its draft ED2 business plan expects investment levels to rise 20% from ED1 to facilitate the smarter electricity networks that will be required.

With the transactions retaining our current strong investment grade credit rating, there is sufficient headroom to take advantage of these growth opportunities as they emerge, delivering a cleaner energy system and attractive returns for our shareholders.

So, as we transition our UK business to higher growth electricity distribution with the WPD acquisition, we expect Group asset growth to be in our 5-7% range for longer.

This transaction also enhances the pivotal role we'll play in the delivery of net zero, and places National Grid at the heart of the energy transition. It will enable us to deliver a more holistic approach across the entire UK electricity sector, helping the UK's wider net zero ambitions.

An area where combining WPD within National Grid can help deliver customer and shareholder value, whilst delivering the energy transition, is around renewable connections and the development of smarter networks. There have been around 50 gigawatts of renewable generation connected to the UK electricity network to date, with over six gigawatts of renewable connections to our transmission network in RIIO-T1, and WPD already having connected 10 gigawatts of distributed generation and storage.

Together, our high and low voltage engineers will be able to share their knowledge and experience to efficiently deliver increasing levels of renewable connections, both large and small.

Another example is across EV charging infrastructure. In our Transmission business, we've worked with the UK Government on the £950m Rapid Charging Fund which will help to deliver ultrafast charging infrastructure at a national level across motorway service stations.

At the local level, WPD is looking to deliver over 200,000 charging points across its territory by 2023 as part of its roadmap to deliver enough connections by 2030 to allow up to three million EVs. This is a great example of where we'll be able to share best practice across engineering and customer solutions to help drive a more effective EV rollout.

Finally, these transactions keep the attractive geographic and regulatory diversity of the Group intact and allows the Group to capture growth opportunities as they arise across our businesses.

Whilst our sale of Rhode Island, at a very attractive valuation for shareholders, was a key differentiator in helping us to secure the WPD acquisition, it hasn't altered our US business or our strategic aims materially. For context, we still plan to invest capex of more than $4bn per year in the US.

Following closing of the Rhode Island sale, and assuming the sale of a majority stake in our UK Gas Transmission business, we still expect to have around 40% of our assets in US networks versus 50% in UK networks. This diversity brings value to our customers and to our shareholders as work alongside different regulators enables us to share best practice between rate plans.

By increasing our UK regulatory footprint with these transactions show that we continue to believe the UK will remain an attractive place to invest, with the right support to innovate, as the UK moves forward with its ambitious net zero goals. Whilst we're making a technical appeal to the CMA around the cost of equity in outperformance wedge for RIIO-T2, we believe the independence of the CMA shows the resilience of the UK Regulatory Framework.

We'll continue to work with the Government, Ofgem and all stakeholders to promote and evolve the Regulatory Framework which supports innovation, drives fair returns for our shareholders whilst delivering an energy transition for all our customers.

Although the Group will have a larger electricity exposure in future, our US Gas Distribution business leaves us well-positioned to continue to deliver strong growth. This will be driven by the need to maintain system safety and reliability as well as optionality around clean gas investments.

As a core part of the Group portfolio, it continues to underpin the delivery of our investor proposition.

And, staying with the US, I just want to spend a couple of moments talking about Rhode Island.

Today's announcement sadly signals the end of the Group's involvement in Rhode Island. It's a great business, and we'll be handing it over to a great new owner.

I'd like to take this opportunity to put on record a heartfelt thank you from me and the team to all our fantastic colleagues who have worked so hard over the years to deliver the energy needs for our customers across the state. We wish them continued success for the future when the time comes for them to transition across to PPL.

So, with that, I'll now hand over to Andy to talk through the financial details of the transactions before coming back for your questions.

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Financial Update

Andy Agg, Chief Financial Officer
Thanks, John, and good morning, everyone.

So, moving to the transaction details - in relation to WPD, the cash consideration will be £7.8bn and net debt, as at 28th February, was £6.4bn.

WPD generated profit before tax of £750m in the full year to March 2020 and has invested around £1bn of capex per annum on average throughout RIIO-ED1.

The cash contribution we'll pay for WPD will be partly funded through the sale of our Rhode Island business. PPL will pay $3.8bn for the acquisition of this business, which generated operating profit of $206m, a net income of $122m to March 2020 under US GAAP.

The sale of our Rhode Island business is conditional on the completion of the WPD acquisition, with the purchase of WPD expected to be completed ahead of the sale of Rhode Island.

The third transaction is the announcement of our intention to initiate a sale of the majority stake in our UK Gas Transmission business, including our metering business, later this year. UK Gas Transmission delivered profit before tax of £356m in the full year to March 2020. We expect to launch this process in the second half of this year.

Confirmed debt funding is in place today to fully cover the WPD purchase price. We intend to use the proceeds from Rhode Island and the eventual sale of the majority stake in UK Gas Transmission to repay the bridge facility, with any remainder being refinanced through new debt issued in the capital markets.

Post these transactions, and assuming a sale of a majority stake of our UK Gas Transmission business, we expect our credit metrics to be little changed, well within the 7-9% RCF to net debt band for our current Moody's Baa2 rating, and the 10-13% FFO to net debt band for our BBB flat S&P rating.

Overall, we expect to retain a strong balance sheet with sufficient headroom at the current rating to support the higher level of growth John has already described.

The transactions are expected to be significantly earnings accretive from Year 1, and, taken together with the UK Gas Transmission sale, are expected to continue to be earnings accretive in the longer term. This will improve dividend cover, further supporting our recently announced updated dividend policy to grow the dividend in line with CPIH from our next financial year.

As John has mentioned, whilst this was a competitive process, we believe we've paid a fair price for WPD. Our valuation of the business focused on the cash flow generation we believe the assets can generate, taking into account conservative assumptions around baseline returns as well as our view on the financial benefits the transactions will bring, which will be shared with our customers, and also considering the opportunities we see to drive outperformance on totex, in particular given the strong track record of delivery that we bring and the opportunities around incentives where WPD has a strong track record of performance.

In addition, the transaction presents a great opportunity to share best practice and drive performance improvement across our businesses, delivering benefits for our customers. As an example, in the UK, both National Grid and WPD are developing new digital platforms that will help customers connect new forms of generation to our networks more efficiently by giving them access to the right data, standardising connection design and providing a smoother, easier customer journey.

And across National Grid's US Electricity Distribution business, and WPD's UK business, we're utilising satellite imagery, data science and artificial intelligence to improve reliability and also improve customer satisfaction.

There are many examples like these of ways the businesses can continue to deliver best in class customer satisfaction levels, as WPD, in particular, has shown through ED1, as well as strong operational performance and financial returns, as both companies have delivered through RIIO-1, and this will benefit all our stakeholders.

We're comfortable that all this will drive returns above our cost of capital, leaving us well-placed to capture the growth opportunities, that John has outlined, across electricity distribution in the years ahead.

This next slide sets out the timeline for the transactions. We'll shortly be sending out the circular with the shareholder vote to be scheduled by the end of April. Alongside a required shareholder approval vote for the WPD acquisition, there are technical filings required with the FCA and its Guernsey equivalent.

The WPD transaction is not conditional on CMA approval, however we will submit a voluntary merger notification to the CMA as soon as possible. We do not anticipate competition issues and are aiming to achieve clearance at the end of Phase 1, most likely before the end of September.

We'd expect the process to take a little longer for completion of the sale of our Rhode Island business as it will require approvals from relevant US regulators. We, therefore, expect completion of Rhode Island by Q1 2022.

We'll look to launch the process for the sale of a majority stake in our UK Gas Transmission business in the second half of this year. And, as with the sale of our UK Gas Distribution business, we'd expect the process to completion to take about a year.

With that, I'll hand you back to John.

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John Pettigrew, Chief Executive Officer
Many thanks, Andy.

Taken together, these transactions give us the foundation from which to continue delivering shareholder value through both dividend and asset growth.

Together, they transform National Grid's shape and positioning, increasing our focus on electricity at a time of significant change across the sector.

They give us a one-off opportunity to establish a scale position in UK electricity distribution, and offer compelling opportunities for future growth, thereby enhancing our ability to deliver in our 5-7% asset growth range for longer. This will further underpin the dividend for the long term.

Our vision is for National Grid to be at the heart of a clean, fair and affordable energy future.

Following these transactions, National Grid will be the UK's largest electricity transmission and distribution owner, having an even greater role to play in helping the country meet its net zero target.

Thank you for listening. With that, Andy and I will be happy to take any questions you have.

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Questions and Answers

Telephone Operator
Ladies and gentlemen, as a reminder, please press *1 on your telephone keypad to ask a question.

The first question comes from Dominic Nash of Barclays. Dominic, your line is open.

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Dominic Nash, Barclays
Good morning, everyone, and congratulations on this deal, and also congratulations on keeping it under the radar so well as well.

A couple of questions from me, please.

So, first of all, the size of the premium to RAV for WPD, I think, it's around about 60%, if you could just confirm that. And, to justify that, we're going to need to have returns probably significantly above the cost of capital, as you have already said. Have you got a view of what scale of outperformance is needed, or you assume, to justify this valuation? And then, sort of, the second half of the first question this is, is that what do you think the response of Ofgem will be to this acquisition on their sort of Final Determination?

And, secondly, on the Gas Transmission sale, could you give us a clue as to what the range of a definition of a majority sale is? Is this similar to the narrative that we had around the sale of Gas Distribution, which I think also started off as a majority sale and then ended up being a complete sale? And do you think you're going to achieve a similar multiple to that as you have seen for WPD? Thank you.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Dominic.

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Why don't I start by talking about how we thought about valuation. So, we don't think about it in terms of premium to RAV. I think that's overly simplistic. It doesn't really take into account things like growth and outperformance.

So, the way that we've thought about it really, is in four sort of different areas. So, firstly, as Andy said in his remarks, you know, we looked at the fundamentals of the cash flow. So, we've taken a sensible and conservative view around base returns. Given the track record that both National Grid and WPD has around outperformance, you know, we remain confident that there will be opportunities to outperform through innovation.

There will be benefits, of course, through the complementary capabilities that both National Grid and WPD will bring together.

And then, most importantly as well, is that, you know, we believe that electricity distribution - and in my remarks I talked about the growth in demand we expect to see up to 2050 - is going to drive, you know, sustainable, strong growth for many years to come.

So, all of that is fed into our sort of fundamentals of the cash flow, Dominic.

And then the second area, of course, is just the strategic opportunities. As I said in my remarks, it's going to allow us to strategically pivot to better align, I think, with the energy transition. So, we'll ultimately be 70% electricity, 30% gas. It is a unique opportunity to enter in the market at scale.

And it also maintains the balance that we like, both geographic and regulatory between the UK and the US. So, the US will be 40% networks, the UK 50%, and then the remaining 10% National Grid ventures. So, those two things are important, I think, in considering valuation.

The third area I would just emphasise is that WPD has a fantastic management team, and a great track record of operational performance, and that's an important element to consider.

And then, finally, you know, what we've announced today is three transactions, and I think you need to think about them together. So, we've also announced a significant premium and value for our shareholders in the sale of Rhode Island, and we'd expect to crystallise significant value through the sale of Gas Transmission, which remains an attractive business.

So, when we put all of that together, we felt that, you know, what we paid is a very fair price for the opportunity that it presents going forward.

In terms of the level of outperformance, I wasn't going to get into the specifics today, Dominic. As I've said, you know, given the track record of WPD and National Grid in both outperforming on short-term incentives as well as totex, you know, we would be confident that we will continue to be able to find ways to deliver for our customers sufficiently and, with that, be able to deliver outperformance.

The second part of your question, I think, was around the response from Ofgem.

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So, we're not anticipating any concerns from Ofgem with regard to this acquisition. Ofgem, as you know, have always been very supportive, in the industry, of businesses adapting to the changing environment. They've also been very consistent in their views that utilities should be thinking about whole system solutions. And, of course, what we're proposing today is going to help massively as we bring those complementary capabilities together.

And then, finally, in terms of Gas Transmission, so what we are announcing today is the sale of the majority stake. So, at least 51% is what we mean by that, Dominic. And, you know, you'll be very familiar with the process that we ran for Gas Distribution, and our intention will be to run a very similar sale. 51% will be, you know, the minimum, so it allows us to deconsolidate off the balance sheet, but specifically what that number will be, you know, time will tell as we run the process.

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Dominic Nash, Barclays
Thank you.

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John Pettigrew, Chief Executive Officer
Okay. I can see that John from Royal Bank of Canada's got his hand up. So, John, do you want to ask your question?

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John Musk, RBC
Yes. Morning, everyone. Two questions from me as well.

I guess, with the Gas Transmission sale, just coming back to that, you're obviously having to sell that partly to fund WPD, obviously, partly for strategic reasons, but do you see, you know, yourselves as a forced seller on that asset? And do you think that could impact the price you may be able to achieve?

And then, secondly, in the US, again, I know it's part of the asset swap in terms of getting out of Rhode Island, but I think you've achieved a two times rate base multiple on that sale. We could argue about where your current businesses are valued in the share price, but does that not signal that perhaps you should be selling more of your US activities to create value for shareholders?

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John Pettigrew, Chief Executive Officer
John, you broke up a little bit. I think I got the gist of the questions which I'm going to ask Andy just to pick up on.

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Andy Agg, Chief Financial Officer
Yeah. Thanks, John.

So, I think your first one was around Gas Transmission, and I think you used the phrase 'forced seller'. So, no, that's not at all how we see it.

Obviously, you know, while it's a clear part of the intent that we've announced this morning, we believe it remains a very attractive asset, well-performing business, and with strong growth optionality, you know, that we've talked about at present times around, sort of, the hydrogen opportunities and other things that, you know, obviously, will bring attractive, you know, options for that business going forward.

So, no, we'll be very disciplined as we go through that process. We're confident though that it will attract, you know, a number of potential owners, and we will run through that process as you'd expect us to.

In terms of the Rhode Island question, you know, a couple of things there. Obviously, the numbers that we've reported today, as you know, with our guidance for the full year, they do represent numbers that have got sort of some COVID impacts going through them, but the rate base multiple that you mentioned is, you know, that's what the numbers demonstrate.

We were very pleased with the valuation on our Rhode Island business as well, as you said, but, no, absolutely, we remain fully committed to the US business remaining a core part of our Group, as John said earlier. The networks in the US remain around 40% today. We'll be continuing to invest, you know, over $4bn as we go forward in the remaining business. So, absolutely remains a core part of driving growth and performance for National Grid.

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John Pettigrew, Chief Executive Officer
Thanks, John.

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John Musk, RBC
Thank you.

John Pettigrew, Chief Executive Officer
I can see Chris from Morgan Stanley's got a question. Chris.

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Chris Laybutt, Morgan Stanley
Good morning, Andy. Thank you very much.

My questions would be just in terms of the net debt. The figures that you've stated, are they book value figures or have been they mark to market for the transaction? Just to give an understanding of how those figures should be treated by us.

And then I guess the real question for us is one of the arguments that the CMA has put forward for the 25 basis points of aiming up additional return, relates to attracting investment. Paying such a premium today, does this put that 25 basis points at risk, do you think?

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Chris. Why don't I ask Andy to do the first question and I'll take the second?

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Andy Agg, Chief Financial Officer
Yeah, again, I think you're asking about the WPD debt value, the £6.4bn, that's booked, absolutely. And, as you can imagine, as we go through, there will be some fair value adjustment flowing through because some of the rates on a number of those bonds, but that's the book value, yeah.

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John Pettigrew, Chief Executive Officer
Chris, in terms of the CMA, so, you know, obviously, everybody's aware that, you know, a couple of weeks ago we accepted a vast majority of the Final Determination of RIIO-T2, but we did refer to the CMA ourselves, as did the other networks, on a technical basis, the return on the cost of equity and the outperformance wedge.

You know, one of the strengths, I think, of UK regulation is that we do have an independent regulator who can look at these technical matters. And, obviously, you will have seen the decision for PR19 yesterday on the water companies.

I think I take confidence from the fact that the CMA will look at the fundamentals and will look at it in terms of long-term need for investment across these networks.

You know, we have set out our views, whether it's evidence that demonstrates that the cost of equity should be higher, if Ofgem would consider that evidence. Based on what I've read yesterday, I remain confident that it was right to make that technical appeal and that the CMA will come to the right answer as they look at RIIO-T2. And, of course, that will influence the returns that we will see in ED2 and going forward as well.

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Chris Laybutt, Morgan Stanley
Okay. Thank you. Thank you very much.

Could I just ask one follow-up, just in relation to that process that you just mentioned? Was today's transaction timed to be announced today, this week, after the CMA, deliberately, or was that just a coincidence?

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John Pettigrew, Chief Executive Officer
It's pure coincidence, Chris. I mean, you're probably aware that the CMA have changed their decision date a couple of times over the last few months, actually, so we weren't actually very clear exactly when it was going to be launched, so it is pure coincidence.

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Chris Laybutt, Morgan Stanley
Thank you. I'm sure we're going to get asked, so thank you. That's very useful.

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John Pettigrew, Chief Executive Officer
Okay. I can see there's a question from Deepa from Bernstein, so why don't we take Deepa's question?

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Deepa Venkateswaran, Bernstein
Thanks, John. I have several questions, actually.

So, firstly, for Andy, just running through some maths, I mean, firstly, do you have any expectations for the valuation of the Gas Transmission asset? Obviously, it'll be lower premium because it's gas, lower growth, etc, so one question is I wanted to try and understand how much new debt do you need to then finally raise after you -

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Andy Agg, Chief Financial Officer
So, Deepa, I think the question was to do with the expectations around Gas Transmission values. Is that right?

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Deepa Venkateswaran, Bernstein
And therefore the new net debt that you need to raise, and do you need to raise any equity hybrids? Like, could you be a bit specific on that?

And then the second question was I read that there was a lock box situation for the WPD asset. Is it similar also for Rhode Island? And, therefore, should we really be looking at the RAV as of today because, you know, you've effectively just already concluded the deal now?

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Andy Agg, Chief Financial Officer
So, I think, on the Gas Transmission, I think, as I said in answer to an earlier question, Deepa, obviously, today, we're announcing that the intent to sell, you know, obviously we believe the Gas Transmission business is an attractive asset, and, you know, we're confident that it will attract a good valuation, but I'm not going to try and speculate on what that might be. We'll obviously, you know, update on that as we go through the process.

Obviously, just be clear though, while we're intent on going through that process, I think your question then said, you know, is there any remaining debt or other issuances? And, just to be clear, as I said this morning, you know, by the time we've succeeded in completing on the Rhode Island transaction, and the majority stake in Gas Transmission, there may be a small portion of bridge that any remainder will be refinanced through either senior debt or hybrid activity in the debt markets, as I mentioned.

So, absolutely no need or intent to issue equity irrespective of the outcome of the Gas Transmission transaction.

And then the final point, I think on the lock box mechanism, yeah - So, I'm sure you're aware, so lock boxes, in the UK, are very consistent, so a well-trod route. The lock box mechanism is in place, and that runs from 1st January. But you'll see in the detail in the RNS, that there's a ticker fee to allow for the time through to completion.

In terms of the Rhode Island transaction, again, because it's in the US, it's slightly different, but there's a standard working capital mechanism in place to ensure there's a true-up for any working capital movements between now and completion as well.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Andy. Thanks, Deepa.

I can see we've got a question from Jenny from Citi. So, shall we take Jenny's question?

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Jenny Ping, Citi
Hi. Morning. Thanks very much. A couple of things.

Can I just press on trying to quantify a little bit in terms of the earnings accretion? From the wording you use, there sounds like there's a single digit, maybe even a low double-digit step up initially, but then, obviously, we've got the disposal coming through from NGG, so we may be back to where we are now, and then earnings accretion thereafter, is that sort of the right profile to think about?

Secondly, just going back to Dominic's questions initially, I'm not asking for a forecast in terms of the RORE outperformance expectation, but what has WPD actually delivered in terms of RORE outperformance? You talk about excellent management etc. What has been the run rate in terms of RORE outperformance?

And then, lastly, just on your other gas assets, clearly, you've said that you're very committed to US as a geographic area, but obviously there are still other gas assets out there. Can you just give us a bit of a feeling in terms of the direction of travel on those? Thanks.

. . . .

John Pettigrew, Chief Executive Officer
Yeah. Thanks, Jenny. Why don't I pick up the last one and I'll ask Andy to pick up on the earnings and the RORE?

So, as I said in my remarks, Jenny, so, you know, the US business remains absolutely central to our strategy, and, within that, our Gas Distribution business. So, you know, we continue to see strong organic growth in both Massachusetts and Rhode Island, which is contributing to our investor proposition.

And, if you look, you know, below the sort of headline, we're continuing to invest significantly in gas distribution in the US, both from leak-prone pipe, which, of course, is helping to reduce leakage, for oil to gas conversions as well as - we're starting, as part of the rate filings, to look at opportunities around hydrogen, hydrogen blending and renewable natural gas as well.

So, you know, we see gas as having an important role as part of the energy transition, and we remain committed to it.

Within the UK, you know, the announcement today is to sell a majority stake, so we will continue to be investing in UK gas as well. And, of course, we also have other gas assets, as you said. So, our Grain asset is an important asset to us, and we announced, recently, Phase 4 to expand the capacity of that, and we see that as having an important role.

And we're also involved, as you know, in the net zero cluster, up in Humberside where we're looking to see the role that carbon capture and storage can have to deliver hydrogen up there as well. So, that remains a core part of our strategy going forward.

Andy.

. . . .

Andy Agg, Chief Financial Officer
Yeah, thanks.

So, going back to the first one - on earnings accretion, so, yes, as we said, you know, significantly earnings accretive. I'm not going to give a sort of, specific range on that. There's a lot of detail to work through, as you can imagine, but, as you said, while we've got the remaining years of ED1, combined with, as you say, you know, through the transaction on the National Grid Gas sale, significantly earnings accretion up front.

And then, as you say, we continue to deliver earnings accretion over the long-term as that higher growth that we've talked about, you know, many times this morning, starts to drive, you know, improved earnings as we look forward as well. So, you've got the short-term benefit and then the longer-term drive coming through from growth.

In terms of outperformance to date, as we said, I think WPD, over the life of ED1, has delivered around 9.9% RORE, so significant outperformance, predominately coming from its really strong incentive performance in terms of, you know, customer satisfaction outage response and so forth. So that's its track record.

. . . .

John Pettigrew, Chief Executive Officer
Thanks, Jenny.

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Jenny Ping, Citi
Thanks.

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John Pettigrew, Chief Executive Officer

Mark Freshney, I can see you've got your hand up. Mark.

. . . .

Mark Freshney, Credit Suisse
Hi, thank you for taking my questions. Firstly, just a question for Andy. Are there any you know, debt buyback costs? I mean presumably There's a bit of cleaning-up of the WPD debt portfolio that might need to be done. So can we expect any additional costs there?

Just secondly, picking up some of the earlier points on RORE and WPD, if I remember correctly this was the standout outperformer 2010 to 2015. When they bought the E.ON grids they did a fantastic job turning them around. But then when I looked to the RIIO-2 Annual Report, I mean they're underperforming on finance and tax and I think UK Power Networks has pulled ahead.

So what do you see - and of course the cost of debt index that they're stuck on is a big problem for the next couple of years, how do you view all of that?

And thirdly a question for you, John. I mean eight years ago after RIIO-1, you personally hosted some big events where you spoke about the opportunity to outperform, and you did. Can we expect another day once CMAs over, but once the WPD bill has completed where you can send up and layout some sort of RORE targets and practically show us what you think you can do across the UK businesses, or a combination of you and Nicola, I guess?

. . . .

John Pettigrew, Chief Executive Officer
Thanks, Mark. Why don't I let Andy pick up the first question?

. . . .

Andy Agg, Chief Financial Officer
Yeah, so Mark, thanks. Sort of on your first question, I think around are there any associated debt buyback costs or other things? The short answer to that is no, we don't expect anything significant.

Clearly, WPD as you'd expect has a varied debt book associated with it with a variety of maturity dates, and we'll look to run that through as you'd expect. And that, I'm sure, links into your second point around the go-forward cost to debt indexing that we might expect in ED2. But remember that's still at an early stage but obviously the sector specific guidance has come out.

And clearly, we would hope that as we go forward, you know, bringing our balance sheet and sort of issuance experience together with WPDs that we continue to drive some improved performance there too.

So yes, obviously we're aware of where the cost of debt index is today, but I think we'll continue to look for opportunities going forward. But no specific one-off costs that we're expecting upfront.

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John Pettigrew, Chief Executive Officer
Yeah, in terms of your other comments, Mark, one if the things I'd quite like to emphasise is that when you look at National Grid and WPD what you'll see is a really nice set of complimentary capability. So if you look at our track record in terms of delivery then National Grid's got a world class reputation for engineering and asset management, and we've been able to deliver outperformance through innovation both in our UK price controls and in our US rate filings.

Similarly when you look to WPD you'll see that their customer satisfaction and customer service has been you know, a frontier performance in the UK. And also their operational performance in terms of reliability and lost minutes has been first class.

When you put those things together and you look at the challenges that we have in the energy transition going forward where there's going to be some fundamental investment needed in both the transmission and distribution networks. I think we're very confident that bringing those capabilities together will enable us to find innovative ways to driving performance for the benefit of customers and for our shareholders.

In terms of your request, Mark, you're quite right. So, I think it was 2013 that we did that event. It is our intention actually to provide some more detail to yourselves and to the market around how we see RIIO-T2, and indeed how we'll see RIIO-ED2 as well as we go forward.

We haven't exactly decided exactly what that format will be, but it would be our intention to share some of the plans and ideas that we've as we look forward over the next five years.

. . . .

Mark Freshney, Credit Suisse
Thank you. Thank you very much.

. . . .

John Pettigrew, Chief Executive Officer
Okay. Thanks, Mark.

I'm going to move to Martin, who's got his hand up.

. . . .

Martin Young, Investec
Yeah. Good morning to everybody. Hopefully three very quick questions.

On the Gas sale when do you anticipate reclassifying the accounting treatment of this being an asset held for sale?

And then also the Gas sale, given your comments around effectively swapping out the NECO and Gas RAVs and rate basis for what you're purchasing with WPD, does that not actually suggest that over time you will fully exit the Gas business in the UK, and that the majority stake here is merely the first step?

And then getting back roughly to the beginning of the questions where Dominic asked around the premium to the RAVs, yeah, I like the way that you explained that with almost sort of building blocks. But what would be very helpful, if you could give some sort of indication of how you see the step up from RAV to 60% splitting out in value terms across the building blocks that you outlined? Thanks.

. . . .

John Pettigrew, Chief Executive Officer
Okay. Thanks, Martin. Let me take the second one first and I'll ask Andy to pick up on the first and the third.

So as I said in my remarks actually, the only decision that we've taken today is to sell a majority stake in our Gas Transmission business. We've taken no other decisions, as I said, we've got important Gas business in Isle of Grain and we're considering to explore opportunities in other areas, and we intend to hold a minority stake in Gas Transmission.

You know, we do very strongly feel that Gas has got an important role to play in the energy transition over many decades to come, both supporting electricity generation as well as supporting Heat both domestically and businesswise. And we are continuing to explore optionality for Gas Transmission in areas like hydrogen and renewable natural gas.

You would have seen in The Times this morning quite a big article about our thoughts about the repurposing of Gas Transmission for hydrogen, which we think is an interesting optionality opportunity for us.

So the decision today is to sell a majority stake. As I said, it allows us to shift the overall portfolio to one that I think better aligns with the overall energy transition with 70% being Electric and 30% Gas, and at the same time it maintains the geographic and regulatory diversity that we enjoy with 40% our network assets being in the US and 50% of our network assets being in the UK.

Andy, why don't you pick up the first and third?

. . . .

Andy Agg, Chief Financial Officer
Yeah, thanks. So on the first one, Martin, I mean it's probably behind your question but you're probably aware the accounting rules around exactly the point at which you trigger a held for sale or discontinued ops are quite complex. It's not just intent, you have to look at ability, readiness, etc. So we'd expect that point to be reached sometime through the back half of 2021 calendar year, but we'll obviously confirm that precisely when we get there.

In terms of the third one, just coming back to your point around the RAV multiple, you know, I don't want to repeat everything John said in terms of how we're thinking about this. But again, I'm not going to try and get granular around how much we attribute to different elements, but I think you do come back to the importance of growth here.

And one of the reasons we wanted to show the RAV multiples or the RAV numbers as you look forward to the years ahead is you would expect absolutely that growth value, accretive growth to effectively erode that multiple over time and relatively quickly because of the size of that growth.

Obviously, the outperformance. Again, we will look to target across these businesses. But I think it's also important that you think about those multiples in the context of the other transactions that we've announced and the very sort of attractive crystallisation of value that we've been able to achieve on Rhode Island and that we'll be looking to achieve on Gas Transmission, and our ability to therefore redeploy that into the new business which will allow us to continue to grow for many years ahead. So that's how we're thinking about it.

. . . .

John Pettigrew, Chief Executive Officer
James from Deutsche, I think you've got question?

. . . .

James Brand, Deutsche Bank
Yes, hello. Congratulations from me on the deal. I have three hopefully quick questions.

The first is just on synergy as you've highlighted the strategic synergies, you haven't talked about financial synergies. I'm assuming because there probably aren't really any but just to confirm that you're going to be keeping the overall size of the business the same, whether there are any financial synergies or not and put two Electricity businesses together in the UK?

The second question, could you tell us the cost of debt for WPDs debt portfolio?

And then thirdly, just on D&A, when you say that you're expecting a deal to be earnings accretive when you're doing your calculations, how are you taking into the account PPA? Because I'd imagine that there might be significant PPA kind of D&A associated with this deal. Are your calculations kind of including anything for that?

And then the second part of that question, so I guess this one isn't a short one, but there have been views in the past that some of the accounting at WPD is quite aggressive in terms of very long depreciation lives. Maybe that's a misperception but I was wondering whether you could comment on whether you're anticipating combining the accounting policies there a bit more with your existing business or not? Thanks.

. . . .

John Pettigrew, Chief Executive Officer
Okay thanks, James. Let me just pick up on synergies and I'll ask Andy to pick up on the cost of debt and the accretion question.

I mean in terms of synergies; we weren't today planning on going through sort of a detailed breakdown of the elements that we believe make up why the announcement today we believe is fair value.

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As I set out earlier, we do believe that there are complementary capabilities between National Grid and that will help us drive outperformance and over time we will continue to work through that.

But today you know, what we're really announcing is that the acquisition of WPD will not only be earnings accretive in Year 1 but going forward, but also will drive stronger longer and more certain growth for many, many decades to come.

So with that, Andy, why don't you pick up on the ...

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Andy Agg, Chief Financial Officer
Yeah, and James, apologies, you broke about - I think your question was around the cost of debt performance for WPD in the period ...

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James Brand, Deutsche Bank
Just the cost of debt. Just the actual current cost of debt for WPD that you've assumed.

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Andy Agg, Chief Financial Officer
Okay, but I think whereas if you look at where they are at the moment, I think they're consistent with where they've been throughout ED1, which is a slight underperformance on their sort of financing and tax against their regulatory allowances.

I think if I go back to the previous question or one of the earlier questions, I think given where the index is coming out, we wouldn't anticipate that changing significantly overnight.

But as I say, as we look forward in bringing the two businesses together, I think we'll continue to seek opportunities to look for opportunity in that space. But I would expect that their level of debt performance will continue pretty much in line with what we've seen previously.

In terms of the PPAs and accounting, so certainly as you'd imagine at this stage of a big public deal with diligence, that's normal. Of course we've looked at a high-level impact of purchase price accounting.

And also the other part of your question around their existing accounting policies, and we've taken that into account in our comments this morning around expectations around accretion.

As you can imagine, as we go through the actual completion of the acquisition a huge amount more work will take. But I think that where we are today, we're comfortable that we've taken those impacts into account, but obviously much more details to come down the track.

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James Brand, Deutsche Bank

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Thank you.

. . . .

John Pettigrew, Chief Executive Officer
Thanks, James. Sam from UBS, I think you've got your hand up.

. . . .

Sam Arie, UBS
Hi. Yes, I have. Good morning everybody. Thanks for this call and your Q&A. I'm kind of down to the end of the line, I think. But I've got a lot of small questions if you don't mind me running through a few.

They're probably very quick answers.

On your Page 16 in the slides, which was very helpful, I just wondered first if you could give us EBITDA of the three pieces as well?

Shall I go one at a time and let you answer?

. . . .

John Pettigrew, Chief Executive Officer
Why don't you run through your questions, Sam? And then we'll pick them up.

. . . .

Sam Arie, UBS
Okay, that's the first one.

Secondly, on the credit rating, I just wanted to check I understood what you said on this because just a couple of weeks ago, you were talking about a sort of warning on a downgrade. And I think I'm hearing saying that you're sort of withdrawing that warning now, but I just wanted to make sure I've properly understood what you said on the Group credit rating.

And I guess also just to check is that based on your view or have the rating agencies been crossed over in some way and been able to do this already and give you any reassurance? And that's the second one.

The third one is can you just, again, I'm sorry if you've said this somehow but I think I missed it. Have you said what is the allowed ROE that you're assuming in the central case on WPD?

And it would also be helpful if you could just remind us what's the latest you know the ROE and the latest Rhode Island rate case as well.

And then the last one is on the growth. You've talked a lot about the growth, and I get that. I understand why the electric side is kind of interesting and exciting for growth. I think you're not changing your 5% to 7% outlook. So then you said you might be able to do 5% to 7% for longer than before. But can you just help us understand, so when

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would that have run out without this transaction? And so when does the benefit of this transaction start to be felt on the growth rate?

Thank you. I think that's the end of my list.

. . . .

John Pettigrew, Chief Executive Officer
Okay, thanks Sam. Let me pick up on the second two and I'll ask Andy to pick up on the first.

So in terms of the assumption of allowed return. So as I said earlier what we've done is taken I think a conservative and sensible view about what the allowed returns will be. Clearly, that's been informed by our experiences in RIIO-T1, the thoughts that we have as part of the CMA referral and the decision that came out yesterday, as well as our understanding of the relative risk between Distribution and Transmission. So we've taken a long term and sensible and prudent view of that base return, and similarly on outperformance.

In terms of Rhode Island the allowed returns are around about 9.3%, so that's the number for that.

In terms of growth it's probably worth me just sort of reiterating the point that I made earlier. So you know, one of the reasons that we do see this is as a strategic pivot is that as we look at the energy transition, and in particular Electricity, whichever scenario study you see, the expectation is we're going to see significant growth in demand.

So I've referenced a few of my remarks in terms of the Climate Change Committee which is potentially between 70% and 100%. I think the National Infrastructure Commission has talked about that doubling of demand by 2050. And at the same time that's going to require significant investment in Electricity Distribution, both to support distributed generation, the roll-out of EVs as well as potentially an increased role for electric in heating as well.

So, we see it as very much a not just the next few years but a multidecade need for investment to support the energy transition that's going on.

In terms of our current guidance, we talk about 5% to 7% and my key message today is we expect that growth to be stronger, more certain and more sustainable going forward as we move forward with this transaction.

Andy?

. . . .

Andy Agg, Chief Financial Officer
Yeah, thanks. So if I pick up, I think, the first two. So on the EBITDA question, Sam. So the WPD EBITDA is actually shown on Slide 7 of the deck, so it's around £1.2bn for FY20.

I'll get the team to come back to you offline on the other EBITDA numbers for the other businesses involved.

In terms of the credit rating just to be clear, so as you say, so just over two weeks ago when we announced our RIIO decision and the associated financing strategy that we were adopting, I think we said back then we were anticipating action. And we did see that action from all three agencies, effectively moving us down a notch to, so we said this morning, so the Baa2 and BBB flat at a Hold Co.

So what we've said this morning is effectively this series of transactions and planned transactions ensure that the metrics will remain in-line with those new thresholds. So we're not expecting any further change, but just to be clear the agencies have moved since our announcement just a couple of weeks ago.

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John Pettigrew, Chief Executive Officer
Thanks, Sam.

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Sam Arie, UBS
All right, that's very helpful. Thank you.

. . . .

John Pettigrew, Chief Executive Officer
Laura, I can see you've got your hand up.

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Laura, Analyst
Good morning. Thanks for taking the question.

Just with regards to the Gas Transmission asset sale can you give any clarity on whether the debt level travels to the new owner or how will that be treated?

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John Pettigrew, Chief Executive Officer
Thanks, Laura. I'll let Andy pick that on up.

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Andy Agg, Chief Financial Officer
Yeah, thanks. So as we said this morning, the intent would be that we would look to sell our majority stake in the National Grid Gas Plc. business, and the debt is therefore, you know, the operating company debt is held within that entity. So absolutely we'd anticipate that the Op Co debt would be included in that transaction.

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Laura, Analyst
Thank you.

. . . .

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John Pettigrew, Chief Executive Officer
Thanks, Laura. Ahmed from Jefferies, I think you've got your hand up?

. . . .

Ahmed Farman, Jefferies
Yes. Morning. Thank you for taking my questions. A few more from my side.

I just wanted to ask if you could talk a little about the impact of the transaction on the cash, the free cash flow. Do you see the accretion there to be similar to how you sort of highlighted accretion on the EPS side?

And then if that's, if we could take that a little bit further and talk a little bit more specific on what does it mean for the key credit metrics? Any granularity on how accretive or not they are this transaction would be very helpful.

And secondly, just to check, you haven't talked about any sort of capex and cost synergies within the UK as a result of this transaction. How do you see that?

I just also wanted to confirm, I think you made a comment earlier in response to one of the questions that the EV to RAV ratio for the US disposal is two times. I don't know if that was your statement?

. . . .

John Pettigrew, Chief Executive Officer
Okay thanks, Ahmed. Let me just pick on the capex question and I'll let Andy pick up on the accretion and credit metrics.

So in terms of capex if you look at over ED1 then WPD's had significant investment. What we're expecting to see based on their draft business plan, obviously that will evolve a bit over the next 12 months as they go through the process with Ofgem. In their draft business plan they're talking about a 20% increase, so that's around about £1bn per annum of capex.

So from a Group perspective currently we're spending around about £5bn a year, so that would increase to you know, somewhat higher to about £6bn a year depending on where they get to with their business plan and the process with Ofgem. So quite a significant setup.

Andy?

. . . .

Andy Agg, Chief Financial Officer
Yeah, so thanks. I mean on cash flows, in terms of underlying operating cash flow, we would anticipate that that would reflect the earnings accretion that we've talked about.

But as you've said, accompanied with that is potentially higher levels of capex and therefore as we said this morning, we would expect our overall credit metrics, the RCF on the Moody's side and FFO metrics on S&P would draw up two key ones to continue to track in line with the new bands.

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So not a significant movement from where we were expecting to be but stay comfortably within the 7-9% and the 10-13%, which are new bands that we're at.

In terms of the Rhode Island figures yes, and just to be clear, and it's in the statement that we've put out this morning, so the rate base is $2.6bn combined T&D. The $3.8bn of equity value plus around $1.4bn of associated debt gives you the $5.2bn of total EV.

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Ahmed Farman, Jefferies
Thank you.

. . . .

John Pettigrew, Chief Executive Officer
Thank you, Ahmed. Javier from JP Morgan, I think you've got your hand up?

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Javier Garrido, JP Morgan
Yeah, thank you very much. Yes, I have one question. It's on the debt of WPD. And do you expect to keep leverage in terms of net debt to RAV at around 75% or do you plan to get some equity in there to bring the business in-line with a notional gearing over time?

Thank you.

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Andy Agg, Chief Financial Officer
Yeah, so again, I think I heard most of it, Javier. I think you are saying that WPD today is geared slightly higher than the notional gearing.

I think as I said earlier, over time obviously we'll bring that overall debt book into our own. As you know, our approach is to run our operating companies broadly in-line with notional regulated gearing, both UK and US. But obviously then have additional Hold Co debt. So the exact mix of the book going forward we'll work through, but that philosophy, we're not expecting that to change.

But as I said in answer to one of the earlier questions, equally we're not planning sort of any immediate debt management or liability management to bring debt levels down. So that will flow through into our overall leverage on the completion of the acquisition.

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John Pettigrew, Chief Executive Officer
Thanks, Javier. John of Royal Bank of Canada, have you got your hand up?

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John Musk, RBC
Yeah. Just one quick follow-up, very quick.

The bridge financing, can you give some indication on the likely cost of that versus your existing debt?

. . . .

Andy Agg, Chief Financial Officer
Yeah, so as you can imagine, John, bridge financing is always slightly higher than normal sort of existing debt. But given the nature of these transactions with a need to fund-certain effectively ahead of completion, that's why we've taken that route. And effectively the pricing will also take into account the takeout route which in this case as we said this morning is intended to be predominantly through the proceeds from Rhode Island and then from Gas Transmission.

So you would expect it to be slightly higher but obviously, it's the short-term instrument which will be repaid within 12 to 15 months.

. . . .

John Pettigrew, Chief Executive Officer
Thanks, John. Deepa, I think you've got your hand up as well, again.

. . . .

Deepa Venkateswaran, Bernstein
Thanks. John, I had two follow-up questions for you. One is just looking at the valuation. So even if I take into account that you have got a fantastic valuation on the US it still leaves a rather chunky premium and depending on whether you take this year or next year's RAV, but somewhere between 50 to 60 net.

And then when I put that in the context of your current valuation where barely you're getting any premium at all through your UK assets, that seems like a very big disconnect. So is the market undervaluing your UK assets or are the WPD assets so attractive? I mean that was my question one.

And I suppose the other pivot you could have done is go more towards the US. I mean certainly the US 9% ROE looks very attractive in the context of the UKs returns even if the CMA pushes it up.

So it was a bit surprising that you've pivoted back a little bit more towards the UK. So perhaps that UK, US political risk and return balance, maybe you could explain your logic. Thanks.

. . . .

John Pettigrew, Chief Executive Officer
Yeah thanks, Deepa. I'm going to pick up on the second question and I'll ask Andy to pick up on the first.

So in terms of the announcements that we've made today the strategic pivot that we're making is to increase our exposure to Electricity to move from 60% to 70%.

We did see a unique opportunity with WPD to be able to enter Electricity Distribution at scale and in doing that we believe it will deliver stronger growth, more certain growth for longer going forward given, as I've said, we see very strong demand growth in Electricity.

In terms of the overall shape of the Group it leaves us, I think, in a very nice position in that we're to some extent 70% Electricity, 30% Gas, which I think aligns with how we see the energy transition playing out. And at the same time it also leaves us very nicely balanced in terms of geographic and regulatory diversity, which as you know, we think creates real value.

So we are able to share best practice and learn from regulatory agreements in the UK and in the US. And as a result of these transactions that leaves us in a position where we're 40% US networks, 50% UK.

So overall, I think a strategic pivot that increases our exposure to Electricity, strengthens our underlying growth which underpins the dividend at a time when there is a unique opportunity to enter Electricity Distribution at scale, which doesn't happen very often, is why we've made the announcement on the transactions today.

Andy, do you want to pick up on the -

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Andy Agg, Chief Financial Officer
Yeah. So Deepa, again I think it sort of links back to some of the comments we've made already this morning, which is unfortunately our businesses do get looked at through a RAV multiple lens, but I think sometimes those don't represent the fundamentals of the businesses that we're running. And in this case, we think that's very true of WPD in terms of the fair value that we believe we're paying for it.

Your point about that being reflected in the share price, you've probably heard us say before, it's maybe frustrating that the market isn't recognising those fundamental values at the moment. And I think your own consensus in terms of the sell side would recognise that you know, a slightly higher multiple on UK assets may be appropriate.

So, I think, I acknowledge the point, but we believe the fundamental values particularly with the three transactions taken together mean that we're confident that the value we're paying is an appropriate one.

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Deepa Venkateswaran, Bernstein
Thank you.

. . . .

John Pettigrew, Chief Executive Officer
Thanks, Deepa.

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Deepa Venkateswaran, Bernstein

One follow-up. Can I ask a follow-up just on the percentages that you gave, 50%, 40% etc. Is that RAV rate based, is that earnings growth and what percentage are you assuming that Gas Transmission is sold down?

. . . .

John Pettigrew, Chief Executive Officer
Yeah, so it's on an asset base, a regulated asset base and it's an assumption of 51% sale of Gas Transmission. So just at the minimum of the majority stake, Deepa.

. . . .

Deepa Venkateswaran, Bernstein
Okay, thank you so much.

. . . .

John Pettigrew, Chief Executive Officer
Okay, Dominic, I think you've got your hand up again. So do you want to ask your question?

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Dominic Nash, Barclays
Hi there, yes, thank you. Two quite quick ones.

Firstly the £6.4bn of debt that's coming with WPD, are there any derivative monies in that like interest rate out - the money that you've included or is that an underlying debt number?

And secondly, you've peaked my interest a bit about the restructuring of the RAV businesses when you combine Transmission with Distribution. Do you think that you could end up with a reorganisation of say your high-voltage Electricity Distribution and could that we could see a Transmission RAV via the 132kv lines and have a look at the world in quite a different way? Or do you think there has to be regulatory recompense as we see today in perpetuity?

Thank you.

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John Pettigrew, Chief Executive Officer
Do you want to take the debt point?

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Andy Agg, Chief Financial Officer
Yeah Dominic, on the debt point, yes, they have as you can imagine index linked that within their portfolio as well as that they do take other sort of derivative items involved. And obviously we'll be working through that in terms of the fair value exercise when we work through that. But as I say, there's nothing that we're significantly aware of.

But linking back to the earlier questions as well around their performance of cost, going to cost debt allowance, and I think that we do see more opportunity in the long term as we work through that debt book.

. . . .

Dominic Nash, Barclays
Okay, so the £6.4bn is the £6.4bn, there isn't like £400m of a derivative that you've added to that. That's what I'm just clarity on.

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Andy Agg, Chief Financial Officer
Sorry, so the £6.4bn, no. That's effectively their existing book before any action or involvement that we might have.

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Dominic Nash, Barclays
Great, thanks.

. . . .

John Pettigrew, Chief Executive Officer
Dominic, the line's not great. I think I've picked up the sort of core of your question which was around restructuring.

My expectation is very much like Gas Distribution and Gas Transmission, which is certainly currently in the current regulatory framework, and as I say going forward over the next few years then the WPD business will be operated as a Distribution business distinct from Transmission.

However, as I've said as we think increasingly as an industry about whole system solutions, we do think there are opportunities to actually bring the complementary skills together, to develop propositions for customers which are going to be more effective.

So for example, the opportunity to look at where to connect generation, whether it's large or small. Things like EVs for example, so as you know, National Grid's been spending a lot of time looking at how to build and ultra-fast charging network at the macro-transmission level, but at the same time distribution companies are looking to increase the number of charging points to support the rollout of EVs.

Being able to look at those things more holistically, I think will create opportunities. Whether there'll be more structural changes in the industry as we move forward over the - as part of the energy transition time will tell. But we've not built any of that into our assessment of fair value today.

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Dominic Nash, Barclays
Great. Thank you.

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John Pettigrew, Chief Executive Officer
Mark, I think this is the last question so do you want to ask your question?

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Mark Freshney, Credit Suisse
Yeah, so I guess a couple of things. Firstly, Andy, on Gas Transmission can we expect you to look into putting in a mid-co-structure and potentially doing an opportunistic refinancing in the next year or so to try and maximise proceeds from any sale?

And secondly, sort of like holistically, if I think about the statement you made a couple of weeks ago on laying out a new dividend policy linked to CPIH, is it fair to say that you firmly believe that everything you've announced today works towards making that dividend more sustainable than being able to grow it for a much, much longer period of time?

. . . .

Andy Agg, Chief Financial Officer
Thanks, Mark. On the first, the debt restructuring point, I guess you're referring back to what we did with the Gas Distribution sale a few years ago where effectively as part of that process, we identified that a number of the bidders were interested in that type of structure and it worked for them and we were able to put it in place for the buyers.

It's very early days as we've said this morning. Clearly, those options are available, but again, it'll be - it will emerge as we go through the process and we understand what the process is looking like, what the potential buyers are interested in. But certainly those options are available to us if we go down that route.

In terms of the dividend, I mean you're absolutely right. So we announced the new policy two to three weeks ago in line with the existing business. And the sequence of transactions that we've announced this morning contribute further underpin to that both today in terms of the accretion but also John said a number of times, the more transparent and increasing certainty of the growth that we now see going forward, we believe further underpins the confidence around that dividend policy and for longer as well, as you say. So absolutely.

. . . .

John Pettigrew, Chief Executive Officer
Thank you, Mark. So thank you for the questions. Let me just finish by just summarising.

So today, we strongly believe that we've announced a significant strategic pivot which not only is going to allow us to play a much larger role in the UK energy transition, but as you've just heard from Andy, it's going to support our investor proposition going forward with more sustainable and longer-term growth, which of course will underpin the dividend.

So again, thank you for your questions and I look forward to seeing you all soon.

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