# National Grid plc: Transcript for Half year results 2021/22

**Speakers:**

Nick Ashworth, Director of IR, National Grid
John Pettigrew, CEO, National Grid
Andy Agg, CFO, National Grid

**Q&A**

Dominic Nash, Barclays
Penny Ping, Citi
John Musk, RBC
Mark Freshney, Credit Suisse
Deepa Venkateswaran, Bernstein
Martin Young, Investec
Bartek Kubicki, Societe Generale
Chris Laybutt, Morgan Stanley

**Nick Ashworth**: Good morning and welcome to National Grid's half year results presentation. Thank you for joining us this morning. I'm Nick Ashworth, Director of Investor Relations, and I'm joined this morning by our CEO, John Pettigrew, and CFO, Andy Agg. As usual, there'll be time for questions after the presentation, but given the Investor Day later, please focus your questions on the first six months performance. So with that, I'd just like to draw your attention to the cautionary statement that you'll find at the front of the presentation, and I'll now hand over to John to begin.

**John Pettigrew:** Thank you Nick. Good morning and welcome to the call. As usual, I'm joined by Andy Agg, our CFO, and after the call we'll both be happy to take your questions.

Looking across the group, I'm delighted with the progress we've made over the past six months. So, let me start with the key takeaways. Following the transactions we announced in March, we were pleased to complete the purchase of WPD in June, a little ahead of expectations, as we advance our strategic pivot that places National Grid at the heart of delivering that zero. The sale of our Rhode Island business continues to be on track, with completion expected by the end of the financial year. We've recently launched the sale of the majority stake in our UK Gas Transmission business, and expect to complete sometime next summer.

Alongside these transactions, we've now moved to a new operating model with seven business units across the group, as we look to deliver the financial, customer and regulatory outcomes that will be required on the journey to net zero. This has led to the creation of US business units for New York and

New England, and UK business units for Transmission and Distribution. Management layers have been removed, with each unit having P&L accountability and clear responsibility for delivering the innovation and efficiency specific to their area. As we've announced this morning, it will help us deliver a new £400 million cost efficiency program, maintaining a flat controllable cost space, even whilst assets grow by over 20%.

This focus on our cost base will in turn help us to deliver at least 95% of our allowed returns across our US businesses as we achieve these efficiencies, and support our ability to reach our targeted 100 basis points of our annual outperformance through RIIO-T2 period, alongside our continued focus on efficient capital delivery. I'm really excited to be able to talk about all of these areas and more at our investor event this afternoon, where I hope to see many of you in person.

Alongside these key takeaways, I've also been really pleased with the strong financial and operational performance that we've delivered in the first half. On an underlying basis, that is excluding the impact of timing, exceptional items and the contribution from Gas Transmission and metering, which are now classified as discontinued businesses, operating profit of £1.4 billion was 52% above last year at constant currency. This was held by first time contribution from WPD. But, even excluding this, operating profit increased by 24% compared to the prior year, as we saw a first time contribution from the new IFA2 interconnector to France, part of our £2 billion investment program to deliver four new interconnectors by 2024, and an incremental £250 million of EBITDA, and higher revenue contribution from UK Electricity Transmission as we start the new RIIO-T2 period, where we'll be investing on average over 50% more per than in RIIO-T1, to accelerate the energy transition.

Consequently, underlying earnings per share was up 66% compared with the first half of last year. Given this strong start, we now expect to deliver full year underlying EPS significantly above the top end of our 5-7% percent range. This is primarily driven by early commissioning of our new NSL interconnector, coupled with higher auction prices across our interconnector portfolio, which is expected to deliver around £100 million higher operating profit. Andy will, as usual, cover the performance of each of our segments in more detail shortly.

Moving now to our investment in critical infrastructure. Capital expenditure for our continuing operations was in line with guidance at £2.8 billion, 22% above the prior year, reflecting our investment in enabling the energy transition across our markets, including higher UK Electricity Transmission investment large projects, such as the connection of the new Hinkley power station at Hinkley Point in the Southwest, the investment of £315 million by WPD, and increased US network investments in reducing emissions from our gas pipelines and storm hardening for our electricity distribution network. And, in line with our policy, the board has proposed an interim dividend of 17.21p per share, reflecting 35% of last year's full year dividend.

Turning next to our safety and reliability performance. Safety is at the heart of delivery across our businesses. I'm pleased to say that in the first half of FY22, we saw our lost time injury frequency rate maintained at the level of 0.11, the same as last year. Turning to reliability, which has also remained excellent across our UK and US networks, in the US we responded well to a number of storms, including tropical storms Elsa and Henri, where we saw significant disruption across our Massachusetts jurisdiction. However, despite this disruption, I'm proud to say that we were able to restore over 90% of our customers within 19 hours. In the UK, we've managed well through the summer despite low levels of wind generation, demonstrating the effectiveness of the new tools the Electricity System Operator is using as the energy transition progresses. Looking forward, the Electricity System Operator has published its winter outlook, forecasting an electric capacity margin of 6.6%, slightly lower than last year, although well within the required reliability standards.

With regard to the UK gas network, while there have been heightened awareness of gas prices in the past few months, like electricity, we're forecasting sufficient capacity this coming winter with available peak capacity of over 600 million cubic meters per day, compared to a cold day demand forecast of around 500. In the US, following the northeaster seen at the end of last month, and given the ever-present possibility of further storms, we've again reviewed our procedures and are well prepared for the coming period. In our National Grid Ventures business, the fire at our Sellinge interconnector station has led to the loss of half the capacity of IFA1. Following our internal investigation, we now expect 500 megawatts to be back online by next October. And, I'm pleased we were recently able to announce that the remaining 500 megawatts will be back in service earlier than we anticipated, by December 2022.

So, moving now to the operating performance across the business in the first half. Starting with our new business, WPD where following our purchase on the 14th of June, we're now reporting its contribution as our UK electricity distribution business. As I've said before, I'm incredibly excited about the opportunities WPD adds to the group, its long term, highly visible growth, and the transmission it brings to National Grid's shape and positioning at a time of significant change across the energy sector. The first few months tells me there are lots of opportunities for National Grid, learning from WPD's low cost, customer centric business model, and for WPD to learn from our track record of engineering excellence. You'll hear more about this from Phil Swift, the WPD President, later this afternoon.

So in our first three and a half months of ownership, WPDs capital program delivered £315 million of investment, mainly resulting from demand related reinforcement, asset replacement, network faults and IT upgrade. Our focus is now on finalising the business plan for the up and coming RIIO-ED2 regulatory review, which will be submitted in early December. As with the RIIO-T2 process, we've taken on board significant amounts of stakeholder and customer feedback and reflected this in the plans, whilst also taking into account the lessons learned from the recent RIIO-T2 review. These plans will address the investment opportunity to deliver a step up in the capacity to support wider rollout of electric vehicles, greater adoption of electric home heating, and more renewable generation connecting to the distribution network.

Moving on to our UK Electricity Transmission business. The first six months of RIIO-T2 marked a successful start to the new regulatory period. We continued our capital program with £587 million of investment, 17% higher than the first half of last year. This investment was driven by a further step up in our asset maintenance activity, such as network refurbishment and substation replacement. Continued progress on the Hinkley C connection, where we're utilising the new T-pylon for the first time, and higher spend on the tunnel boring phase of our £1 billion London Power Tunnels project. The last half has also seen our technical appeal reviewed by the CMA. Its final determination was published at the end of October, where it confirmed the removal of the performance wedge.

Having spent time recently at COP26, listening to and engaging with politicians and policymakers to encourage acceleration of green investment, it has never been a more critical time to have a regulatory framework that can enable its delivery at pace, if we are to meet the challenges and opportunities of net zero. You'll hear more about this from me this afternoon. Finally, in the UK with the sale process now launched, Gas Transmission is reported as a discontinued operation. However, I'm really pleased with the performance in the first half of the year. As it begins this new RIIO-T2 period, capital investment of £131 million was up 38%, reflecting high spend on asset health. Unlike Electricity Transmission, it's targeting a hundred basis points of outperformance through this price control period.

Moving now to our US jurisdictional businesses, starting with New York. In the period, we invested £851 million, up 10% at constant currency, mainly driven by code restrictions in the prior period. Our biggest program of work is the replacement of leak-prone pipes, where we've delivered 171 miles in the first half, which is an increase of 80 miles in the prior period as we further reduce methane emissions across our network. On the electric side, you'll hear later about the progress we're making with transmission opportunities in upstate New York, such as the 2GW New York Energy Solutions project, which will help bring more renewable energy into the state. This project will replace 80-year-old transmission lines, and it's due for completion by FY23.

Turning to regulation, I'm pleased with the significant progress we've made, where we're targeting returns of at least 95% of the allowed level each year. We've reached a joint proposal with a New York Public Service Commission's staff for NIMO in upstate New York. The three year settlement, which includes an allowable RoE of 9%, will see us invest $3.3 billion in electric and gas infrastructure; fund over 300 new positions supporting measures such as new gas safety initiatives and energy efficiency program, and adopt innovative new features such as performance based incentives, giving us the ability to earn incremental returns up to an additional 86 basis points in our electric business. Moving across to New England. In the period, we invested £700 million flat on the prior year. Whilst we saw higher levels of investment in Massachusetts, lower spend in Rhode Island due to COVID offset this increase. Like New York, we made strong progress with leak prone pipe replacement and have delivered 85 miles of new pipe in the first half. On the electric side, we've continued investing to strengthen our networks against increased storm activity and to respond to customer requests, primarily in new urban residential areas.

Turning to regulation, we've agreed a new rate case for Massachusetts Gas effective from October. This follows the same formula, as our performance base rates were agreed for Massachusetts Electric last year. The rate case will further allow an RoE of 9.7%, incremental operating expenses of $65 million, and over 130 new positions to support capex of around $3.5 billion over five years. These Massachusetts rate cases, combined with the inflation forecast we incorporate in our New York rate plans, means we have businesses that are in a strong position to mitigate our inflation exposure.

Looking now at National Grid Ventures, where we now include US generation following our reorganisation. Investment of £282 million was marginally up on the prior period. It was primarily focused on delivery of our interconnectors, and we are pleased that the North Sea Link, our subsea connection with Norway, came online ahead of schedule in October this year. Our Viking link with Denmark remains on track to be operational in 2024. Moving to the US, our onshore renewables business has completed the 200 megawatt Prairie Wolf Solar project in Illinois, which will be commissioned by year end and will bring our capacity under operation to just over 600 megawatts. So, let me now hand over to Andy to take you through the detailed financials before I come back and briefly summarise our first half year achievements. Andy.

**Andy Agg:** Thank you, John, and good morning everyone. I'd like to highlight that as usual, we're presenting our underlying results excluding timing, and that all results are provided at constant exchange rates. The changes to our portfolio provide a bit of complexity this year, and I'll shortly talk through the moving parts before turning to the group's half year performance. However, the overall changes to our reporting lines, as John mentioned earlier, should enable a clearer understanding of our business performance going forward.

With the acquisition of the UK's largest electricity distribution network, Western Power Distribution, completed on the 4th June 2021, its contribution is now included from that date. Our UK Gas Transmission business, including our legacy gas metering business, is now held as a discontinued operation following the launch of the process for a majority stake sale in this business. As such, all earnings from this segment have been excluded from the underlying earnings of the continuing group. Rhode Island was classified as held for sale on the 31st of March this year, and so depreciation ceased. However, since it does not meet the size criteria of discontinued operations under IFRS, we continue to include its operating profit contribution within underlying earnings until the sale to PPL is complete. This remains on track for the end of our financial year.

**Andy Agg:** Finally, as we move to business unit reporting, our US regulated operations will be separately reported under New England and New York. Consequently, our US generation business will now report through the National Grid Ventures portfolio. We are now reporting the UK electricity system operator separately from Electricity Transmission. For comparability, prior numbers are shown adjusted for these changes. Before I turn to our half year performance, I just want to say a few words on the new £400 million cost efficiency program that we've announced this morning.

The program builds on the UK and US efficiency initiatives that we've run over the last two years that have already delivered over £150 million of savings. The move to a new organizational structure along business unit lines, as John mentioned earlier, has provided the opportunity for us to identify further efficiency savings both in the core businesses and across the shared corporate functions. In total, we are targeting over £400 million of savings across the group over three years, with the aim to keep controllable operating costs flat whilst growing our asset base around 20%. Across our US businesses, we expect the efficiencies to be over £300 million. And in the UK, Electricity Transmission together with National Grid Ventures are targeting around £100 million of savings.

These efficiencies will come through a number of areas, such as the increasing use of technology and digital solutions that will deliver greater working practice productivity, as well as standardising our working practices and retaining more of this knowledge within the business. These programs sit alongside the continuing work we are doing on driving capital efficiency across the group, particularly in our large asset delivery programs, such as for RIIO-T2 in our UK Electricity Transmission business. You'll hear about some of the many areas where we are innovating and driving efficiencies across the business units later at our investor event.

Now turning to our half year performance. Underlying operating profits on a continuing basis increased by £483 million to £1.4 billion. As John said, removing the first time contribution from WPD, operating profits still increased 24% year over year, driven by the first time contribution from the IFA2 interconnector as our interconnector program moves from construction into the operational phase, and a higher contribution from UK Electricity Transmission as we move into RIIO-T2 and begin to deliver a capital program that will be over 50% greater per annum than in RIIO-T1. Higher operating profit as well as a lower than anticipated increase in financing costs, given some one-off benefits in other interest, resulted in underlying earnings per share increasing by 66% to 22.8p. Capital investment from continuing operations was £2.8 billion, 22% higher than the prior year. This reflects the first-time inclusion of WPD capital investment this period, the impact of COVID restrictions in the US in the prior period, and progress on major electricity projects, such as London Power Tunnels 2 and Hinkley-Seabank in our UK Electricity Transmission business, all partly offset by lower interconnector spend. In line with our policy, the board has proposed an interim dividend of 17.21 pence per share, representing scrip uptake in the summer on the four-year dividend was 49%, and we'll again be offering the scrip option at the half year. Now, let me take you through the performance of each of our business segments.

Starting with our new business: on the 14th of June 2021, we acquired WPD for a total cash consideration of £7.9 billion. The deal was financed by an £8.2 billion bridge loan, which is expected to be largely repaid using the proceeds of the planned disposal of our Rhode Island business to PPL, and a majority-stake sale of our UK Gas Transmission and metering businesses.

On consolidation, we made a number of accounting adjustments as required by IFRS, which have ultimately had a net-positive impact on the income statement. Firstly, PP&E has been fair-valued, and brought onto the balance sheet at £10 billion below the value in the WPD accounts. With only marginal changes to asset lives, this results in a lower depreciation charge going forward. This has been broadly offset by the removal of customer contributions, previously recognised by WPD on the balance sheet, removing the benefit to operating profit going forward. Net debt has been fair-valued upwards by £1.6 billion to £8.2 billion to reflect credit spreads, interest, and inflation rates at the time of acquisition. This results in a lower annual interest charge. We will recognise an intangible asset of £1.7 billion, representing WPD's regulatory license, as well as goodwill of £4.7 billion. Both of these balances will be subject to annual impairment testing. Consequently, for the half year, we include a contribution of £257 million within underlying operating profit, and capital investment in the period of £315 million.

Underlying operating profit for the UK Electricity Transmission business was £552 million, up £65 million compared with the last half year. This primarily reflects the move to CPIH inflation indexation and higher base revenues as we enter the first year of RIIO-T2. We invested £587 million on system resilience, asset health and new connections. This was £86 million higher, reflecting progress on multiple large projects, such as London Power Tunnels 2 and Hinkley-Seabank, partly offset by lower investment in SmartWires, as these projects near completion.

We've now had time to work through the RIIO-T2 final determinations in more detail since their publication. While the price control will be challenging, we believe we'll be able to find ways to innovate and deliver efficiently for our customers. As we complete projects started in RIIO-T1 and move into RIIO-T2, we are targeting to deliver 100 basis points of operational out performance on average through the five-year period, and given this profile, we also expect to deliver this level of performance in the first full year of this price control. And on the electricity system operator, underlying operating profit was up £12 million in the period to £49 million, with high revenues at the start of the new control more than offsetting higher costs.

Moving now to the US, where underlying operating profit for New York was £141 million, £29 million lower than the prior year. This reflects higher revenues for our rate case settlements, as well as the non-recurrence of COVID costs from the prior period, more than offset by higher storm costs in the period; increased depreciation from higher levels of investment, as well as a reassessment of recoverable environmental reserves mainly due to inflation. Capital investment was £851 million, £76 million higher than prior year at constant currency. Increasing CapEx was driven by the impact of COVID restrictions in the prior year. Overall, we expect full-year RoE to increase to at least 95% of our allowed level, improving on the 2020-21 performance.

Turning to New England, underlying operating profit was £247 million, £67 million higher than the prior year. This reflects higher rates in our Massachusetts electric business under its new rate settlement, lower bad debts due to the resumption of collections, as well as lower COVID costs and the cessation of depreciation following the reclassification of Rhode Island as held for sale. The capital investment was £700 million, £7 million lower than prior year at constant currency. Massachusetts has seen higher levels of investment, primarily driven by the impact of COVID restrictions in the prior year. However, this has been more than offset by permit delays due to COVID in the Rhode Island business. Overall, full-year RoE is expected to increase compared to 2020-21, which was adversely affected by storms, and we expect to achieve over 80% of our allowed level. Looking forward, given the combination of new Massachusetts gas rates, from the 1st of October together with the new efficiency program we have announced this morning, we expect to make significant progress towards our target of at least 95% of our RoE allowances.

National Grid Ventures continue to perform well, with underlying operating profit up £66 million to £147 million in the half year. This primarily affected first-time contributions from the IFA2 interconnector, which commissioned earlier this year, and growth in our US renewables business. Our 50% ownership in the Nemo interconnector to Belgium also benefited from higher auction prices, helping the performance of our joint ventures.

However, performance was partially offset by a fire at the 2 gigawatt IFA1 converter station in Sellindge, Kent in September. The fire caused significant damage to infrastructure on site, with 1 gigawatt of capacity currently offline. We now expect 500 megawatts to be back online by October 2022, with the remaining 500 megawatts to be back in service in December 2022. We are working on ways to bring the asset back online as quickly as possible and will update on the expected cost of repairs when we have more detail. With insurance in place to largely cover business interruption and rebuild costs, we don't anticipate a material financial impact on the group.

Capital investment across National Grid Ventures increased from £272 million to £282 million in the period. This reflects investments in additional capacity at our LNG terminal along the Isle of Grain and renewable generation in the US, largely offset by lower CapEx on the interconnector program following last month's successful commissioning of the NSL interconnector to Norway.

The operating profit for other activities for the half year was £14 million, £45 million higher than last year. This principally reflects fair-value gains on investments held by National Grid partners, our portfolio of start-up companies, innovating and investing in new technologies that will drive a smarter energy future, including Dragos, a cyber-security company for critical infrastructure. Capital investment was £40 million, £15 million higher than last year.

With the launch of the sales process, we are now reporting our UK Gas Transmission business, including the legacy gas metering business, as discontinued. For the period, operating profit excluding timing was £332 million. This was £144 million higher than the prior year following a change in revenue charging methodology, which has removed volume linkage and will lead to lower levels of seasonality going forward. Capital investment was £131 million, £36 million higher than the prior year. This primarily reflects higher spend on asset health and emissions work.

Having now assessed the final determination for RIIO-T2, Gas Transmission is targeting to deliver 100 basis points of operational out-performance on average through the five-year period.

Net finance costs were £475 million, up £73 million, reflecting higher financing costs following first-time inclusion of WPD debt and funding of the acquisition of the bridge facility, partly offset by lower pension interest costs as well as interest on favourable property-tax settlements. Our effective interest rate was around 20 basis points lower than the prior year at 3.1%. Our constant currency net finance costs are now expected to be around £200 million higher for the full year, as a result of higher inflation, higher average net debt following the acquisition of WPD, and our ongoing capital investment program, partly offset by one-off benefits in other interest.

The underlying effective tax rate before joint ventures was 19%, 330 basis points higher than the prior year, due to a change in the profit mix and the reduced impact of prior-year adjustments. For the full year, the underlying effective tax rate excluding the share of joint venture post-tax profit, is expected to be around 21%. Underlying earnings were £812 million, with EPS of £22.8, up 6% on our prior year. Finally, given the strong start to the year, we now expect a full-year underlying EPS significantly above the top end of our 5-7% range. This is primarily driven by early commissioning and by a new SSL interconnector, coupled with higher auction prices across our interconnected portfolio, which we expect to deliver around £100 million higher operating profit.

Moving now to cash flow. Cash generated from continuing operations was £2 billion, up 27% compared to the prior year. This reflects first-time contribution of WPD. Net cash outflow in the period amounted to £1.6 billion, down 24% on our prior period, with higher capital investment partly offset by a lower cash dividend given the scrip uptake. Net debt increased £12.9 million to £41.5 million, reflecting consideration of paying for WPD, and its existing debt, partly offset by the reclassification of debt in National Grid Gas as held for sale. For full year, net debt is expected to remain consistent with the level at 30th September at around £41.5 billion, excluding the impact of FX. This includes expected benefit of the Rhode Island disposal proceeds. I've said previously that our net debt to RAV is expected to remain stable above 70% once we have completed our announced portfolio repositioning, and at this level, is comfortably within the ranges required by our credit rating agencies to maintain our existing ratings. As a reminder, our target range is above 7% for Moody's RCF to debt, and above 10% for S&P's FFO to debt ratio.

Before I hand it back to John and given expectations around higher levels of inflation and interest address rates, I just wanted to touch on the potential impacts we see across our businesses. Looking across the group and the regulation settlements we have in place, moderately higher regulation is a positive over the long term, with the protection of real returns across a good proportion of our regulatory assets, whilst moderately higher interest costs should be broadly neutral over time.

As an example, on inflation, in the UK, higher inflation is a positive, up £23 million regulated asset base given indexation. This is partly offset by £4 billion of inflation debt. So, one basis point and one year inflation represents around £190 million pounds of incremental and economic value. Across our income statement, whilst our higher inflation would lead to higher interest costs in terms of inflation debt, our regulatory frameworks mean having good inflation protection in the longer term, our revenues catch up.

In our UK regulation businesses, revenues are linked to CPIH, and we also get revenue protection for specific movements in labour and materials costs under the real price expected mechanisms. In the US, our Massachusetts and FERC regulated businesses have annual increases and in New York we're able to include forward-looking prices in our rate plans.

Moving to interest, the cost debt allowed to the UK is up 80% annually, and assuming the efficient funding of debt, higher interest cost should be neutral in the P&L, as we will receive revenue allowance for a time. In the US, regulators take into account the cost of debt and provide for passing of these costs to customers, which is why most of this is debt is fixed rate and long-term in nature.

So, to summarise our half year, we've delivered a strong financial performance and now see full year underlying EPS significantly ahead of our 5-7% growth rate. We now include our UK Electricity Distribution business, WPD, for the first time following our strategic pivot to electricity, and are seeing our interconnector program move into its operational phase with a first-time inclusion of IFA2 and commissioning of our NSL link. Capital investment levels are up, driven by new regulatory settlements with a greater focus on energy transition, whilst our balance sheet remains strong, allowing us to fund our investments efficiently. We have moved to a new operating model and announced a new £400 million cost efficiency program as we continue to focus on delivering a fair and affordable clean energy future for all. With that, I'll hand you back to John.

**John Pettigrew**:Thank you, Andy. So, to finish, we've had a strong start against our five-year financial framework of annual asset and EPS growth. This is enabling us to upgrade our four-year EPS guidance to be significantly ahead of our 5-7% range. We're delighted to have completed the acquisition of WPD a little earlier than anticipated, having hit the ground running as we start to integrate and share best practice. We're confident our new operating model structure will deliver the most efficient outcomes for all our stakeholders as we progress the journey to net zero, and on the back of this, we've announced a new £400 million cost-efficiency program to be delivered over the next three years.

We've made a strong start to the new RIIO-T2 price control in our UK Electricity Transmission business and have line of sight on operational and capital efficiencies to deliver out-performance through the period. We've successfully completed a full refresh of rates across our New York and New England businesses, giving us fantastic visibility and regulatory certainty. I'm also really pleased to see our interconnector program heading from construction into operation, with a first-time contribution from IFA2 in the period, as well as the commissioning of our Norwegian interconnector last month. That just leaves the Viking link to come on in FY24.

Finally, we're on track to deliver our five-year financial framework of 6-8% asset growth, 5-7% EPS growth, and most importantly, to continue to deliver a sustainable CPIH-linked dividend. At our investor event later today, we're looking forward to giving you a lot more information on the medium to long-term drivers of growth, and how we're working with all our stakeholders to deliver a clean, fair and affordable energy future. Hopefully we'll see many of you there in person. Thank you for listening. Andy and I will now be happy to take questions on the first-half performance.

**John Pettigrew:**Right. Excellent. Okay. Let's make a start. Dominic, I can hear you. Do you hear me?

**Dominic Nash:** Yes, I can hear you. Yes, go ahead.

**John Pettigrew:** Excellent.

**Dominic Nash:** Thank you for that. The questions I've got are two actually, although saying that, I think Deepa has printed it up on the screen, which is about the £400 million of cost savings and how much of that is in the U.S. in order for you to meet the regulatory targets, and how much of that can go up. The second one is on your offshore wind JV with RWE. I was hoping that you could probably give us some colour as to what you think is going to happen to the BOEM later this year, beginning of next year, and your scope for ambitions for expansion into the offshore wind industry, please.

**John Pettigrew:** Okay, thanks Dominic. Let's start with cost savings. As you said this morning, we've announced a target of £400 million of cost savings that's broadly made up of three quarters of those savings in the U.S. business, so £300 million, and another £100 million in the UK. Effectively, what we're trying to do here is that as we look forward over the next few years, we've got significant growth in our investment. We're looking to keep our cost base broadly flat whilst we're delivering that. It's really a cost avoidance program. We think through looking at things like digital innovation, technology, and driving productivity and performance, we can deliver those cost savings. Those cost savings will then help to deliver the RoE that we've set out previously, in terms of getting above 95% in our US businesses, and delivering, as you heard today, 100 basis points of our performance in our UK businesses.

In terms of the offshore wind joint venture, as you know, we entered into a joint venture with RWE last year to look at the opportunities off the northeast coast. I mean, given National Grid's experience and world-class capability in offshore cabling, together with our knowledge of the northeast from a regulatory perspective, it seemed like a natural evolution for us, given the capabilities we've built up over the last few years. We're looking at the opportunity that's in front of us, so in terms of bidding for the seabed access, which is likely to be at the turn of the year-I think it's forecast to be around by January time. Our approach as always with investments that we do in National Grid Ventures, is to take a very disciplined approach. So we will look at the opportunity, and if we think it's right for our shareholders, then we will progress that. But time will tell in terms of exactly what that looks like as we move forward. So, thanks for that, Dominic. I can see Jenny; you've got your hand up. Why don't we go to Jenny? Jenny, come in.

**Jenny Ping:** Hi. Thanks very much. Two questions. Just following on the £400 million cost savings, obviously £300 million you said is in the US-can you just confirm there are no expectations as part of the rate settlement any cost savings to be returned or shared to consumers? Basically, that £300 million is falling through to the shareholders bottom line.

Then, I note there is no mention of WPD in the UK part within that £100 million. Should we read that as there isn't any? Or is this to come, I guess, after the regulatory review?

Then secondly, just on net debt, at least my numbers, my net debt is much lower than the £41.5 billion that you have indicated for year end. I was just wondering, maybe Andy, if you can walk us through the building blocks of how we get from what it was last year and the various parts to get to that £41.5 billion? Thanks.

**John Pettigrew:** Thanks, Jenny. Let me take the first two and then I'll hand over the third to Andy. In terms of the efficiency targets that we're setting today, they're fundamentally about delivering on the returns that we set out. So, getting to above 95%. There are some sharing mechanisms within our rate files in the US, but they tend to be when you're significantly above the allowed return. You can start to share that with customers, this cost efficiency program. First and foremost, it's about getting to above 95%.

In terms of WPD, as you'd expect, our focus at the moment is very much on making sure that we put the very best business plan that we can into Ofgem. Since WPD became part of National Grid in the middle of June, I've been hugely impressed just with the level of detail that's in their business plan. I think they're the only DNO that have published three versions. I think they've had more than 17,000 stakeholders comment on it. I think I'm very confident that they've got a plan that is really going to deliver what their customers and stakeholders need. That has been the focus, as I said when we did the acquisition back at the beginning of the year. I remain hugely excited with the opportunity to bring together the capabilities and track record that WPD has in terms of delivering on reliability and short-term incentives and customer service, together with National Grid's engineering and asset management capabilities. I see that as a real opportunity going forward. But the focus to date has been very much on that business plan. Andy.

**Andy Agg**: Thanks, Jenny, for the question. Hopefully, you'll have seen in the presentation this morning, the main move is to get to our half year, 41 and a half. Obviously, that excludes the health of sale elements relating to both Gas Transmission in the UK, and also register just over a billion related to the Rhode Island business. In terms of what our guidance to that being flat net by the end of the year, that assumes that we will complete the Rhode Island transaction. It means that the disposal proceeds will have come in. But as we've guided to, and we've reaffirmed again this morning, we'd expect to complete the gas transaction in the summer of 2022. Therefore, there's no expected proceeds and that health of sale amount will still be in the balance sheet as of 31st of March. Broadly therefore, the Rhode Island proceeds net offset other normal working capital and cash movements that we expect through the second half.

**John Pettigrew:** Thanks, Jenny. John Musk, I think you do have your hand up, sir. Let's go back to John.

**John Musk:** Yes. Morning. Hopefully you can hear me now.

**John Pettigrew:** I can.

**John Musk**: Good. Thank you. Part of the dips, let's say, in the first half has been in the interconnectors as you highlighted. Can you outline where you sit on those versus the regulatory caps that are in place on those interconnectors? Also, I think the mechanism is a five-year average in terms of clawing back any beat. Can you just confirm that?

Then secondly, hopefully this is really an HY and not a sort of CMD question, but with the strong guidance that you're giving today of mid-T, or sorry, low teens EPS, and sticking to the five to seven on average, does that mean the backend is coming down a bit or am I reading too much into that?

**John Pettigrew:** Thanks, John. Let me take the first and then I'll ask Andy to take the second. In terms of the interconnectors, just so everybody's got the sort of picture. With the interconnectors, we drive our revenues through the arbitrage in terms of the difference in energy prices in the capacity that we sell. Then, there are regulatory wrappers around that. So, we got slightly different regulatory wrappers and approaches to each individual interconnector. What you saw on the results today was as we look forward, we are expecting to see strong interconnector performance in the second half, partly because we've got the new I42 interconnector and issues results. We've also brought on the Norwegian interconnector early, and we are expecting the arbitrage to remain attractive going forward.

In terms of those are the things that are driving the hundred million that we talked about in the results today. In terms of where we sit, it is a five year process, John. Exactly where we are at the moment will be determined by what happens over a rolling five-year period. What I would say is that returns in the interconnectors continue to be in excess of what we see in our onshore transmission business.

**Andy Agg:** Thanks, John. In terms of the guidance, you may remember back in May when we first set out the 5% to 7%, we positioned it as our five-year average CAGR in terms of EPS 3 to FY26. That remains a good guide today. What we've explained this morning is given the performance that we now see with Norway coming online slightly earlier, and with the arbitrage pricing that we are able to contract in, as you described, the hundred million puts us into the low to mid-teens in terms of growth this year. But our 5% to 7% over the five years we'd assume is sort of the long run normalisation of arbitrage rates. Therefore, the guidance is our best view for this year, but that's why over the five years, the 5% to 7% remains our valid guidance range.

**John Pettigrew:** Thanks, John. Mark Freshney. I see, you've got your hand up.

**Mark Freshney:** Hi, yes. Hello. Thanks for taking my question. Andy, a couple of questions for you. First on the acquisition bridges, the 8.2 billion, it seems your strategy is now to just let those run and pay them down with the NGG POC proceeds. Can you confirm that and whether you'd be looking for an earlier, earlier refi?

Secondly, you cut out a little bit and I wasn't able to check quickly enough, but on the 1.6 billion fair value uplift for the WPD debt, presumably a large amount of your net debt is therefore, 1.6 billion of your net debt is non-cash. If you were to undertake a buyback of those bonds, presumably there would not be a write back through the income statement. Is that correct? Finally, a question for you, John. Just on the cost inflation, I take what you say about RAB indexation and BET indexation and so forth. But I guess the risk is that construction inflation and the kind of goods and services that you deal in go up by more than consumer inflation. Can you talk about what you've seen as you've gone to market and what you're seeing from your supply chain on pricing? Thank you.

**John Pettigrew:** Thanks, Mark. Let me take the third and then I'll hand it over to Andy for the first two. In terms of price inflation, you're right. Let me just start to make sure everyone understands the sort of position for National Grid. We have a pretty effective hedge on inflation, obviously we get the indexation of the RAB in the UK on our regulator businesses, and that will continue for WPD as well, of course. Then in the UK, increasingly with the new rate cases we put in place, we've got inflation protection on the revenues in Massachusetts Electric and Gas. In New York, we've always had the ability to be able to put a forecast inflation into any forward multi-year rate case that we've done. So, we feel that we got pretty good hedge. On top of that, of course in the UK, we have the real price effect adjustment for commodities and raw materials from Ofgem as part of the price controls.

What we're seeing in the market, we are seeing some modest pressure, particularly on labour and raw materials. I would say it's modest at the moment. I guess the most significant thing we're seeing and we're managing, is from a supply chain, is just time duration for ordering materials. We've had to adjust the way that we deliver our projects to make sure that we're getting our strategic supplies in earlier, and that we're committing to doing that on an earlier basis than we've done previously. It's not something I'm losing sleep over, but it's definitely something that needs to be managed at the moment. I'd say we're seeing modest price increases at the moment, but we are in a fortunate position that we've got very good hedges through our sort of regulatory agreements. Andy?

**Andy Agg**: Hi, Mark. On the two, in terms of the, the 8.2 bridge loan, I think it's always been our intent to use the proceeds of Rhode Island and Gas Transmission, and through metering, to pay down the majority of that. Then, any remaining balance, depending on how we do with the Gas transaction, that'll just be part of our normal refinancing plans as we go through next year. Remember, that we are continuing to fund the ongoing business on top of that as well. We've obviously been in the market through the first half. We did a green bond at PLC level as well, for example. So, we continue to fund our organic business on top of the plans around the bridge financing.

In terms of the fair value adjustment, your question sort of implies that we might be doing something. I think, as I said back in May, we are inheriting the debt book and at this point we have no plans other than to continue to run that debt book through to its maturity. What will happen is that fair value accretion will effectively return back to the PNL over the remaining life of the bonds associated with the debt book as that acquisition. That's behind my comments in the presentation around. We'll get a small pick in the P&L with that accretion going back through the income statement.

**John Pettigrew:** Thanks, Andy. Deepa, I think you've got your hand up.

**Deepa Venkateswaran:** Thank you. I had a couple of questions just staying on WPD - I didn't fully follow all the things Andy that you said because the audio quality was poor. With reference to the published accounts of WPD, are you able to kind of quantify what are the different moving parts? They had depreciation of £250 million, they had interest of close to £300 million. And so, you said that these would be lower. Can you quantify how much?

You also mentioned something around some customer earnings that goes away. Again, can you explain what that is and just quantify that? Then, on the debt itself, the 1.6 you've shown that in your net, but obviously from a cash flow modelling, you're still going to be paying the coupon. So I presume that's not going to be very different from the 300 million that you inherited. Please just correct me if the cash interest outflow is any different. Then, on the cost cutting program, just wanted to double check that we shouldn't really be modelling all of that 400 million getting into the bottom line if we also assume, for example, that you're hitting 95% RoE. I just wanted to check whether there was anything around, say, any NG Ventures or anything, which would be additive and incremental on top of what we should already consider for the regulated businesses. Thank you.

**John Pettigrew:** Thanks, Deepa. Let me just take the third and give Andy the first two. Yes, you're absolutely right. In terms of the cost efficiency program, that's exactly how we're thinking about it. It's there to help us to contribute to deliver that hundred basis points of our performance operationally that we're committing to in Electricity Transmission, and to get to the 95% of allowed returns in the US. That is absolutely how you should think about it.

**Andy Agg:** Thanks, Deepa. In terms of the fair value adjustments and the impact going forward, there are three main elements that impact the income statement. Firstly, I mentioned the write down to around 10 billion pounds in terms of the fair value of the PP&E, the fixed assets, coming into the balance sheet. That of itself would lead to a slightly lower depreciation charge going forward. I made the comment as well that we have absolutely reviewed asset lives, but have made only marginal changes to align with our own. The point I made earlier was that we'll be offset by de-recognising around 2.7 billion pounds of customer contributions that WPD have previously received, which would otherwise have been returned back through the income statement as well.

The combination of those two items broadly offsets itself in operating profit. The net impact then comes through the fair value of debt point as I mentioned in the previous question. That £1.6 billion of non-cash accretion will effectively be amortised off through the income statement over the life of the bonds, and that will lead to a pickup in terms of the post-acquisition income statement going forward. But your upside- it's non-cash, so the cash coupon will be as per the original debt instruments. No change there.

**John Pettigrew:** Thanks, Deepa. Martin Young. I think you have a question.

**Martin Young**: Can you hear me?

**John Pettigrew:** Yeah, go on Martin.

**Martin Young**: First question is around the £400 million cost reduction program. Just wondered if there are any implementation costs of any significance in that respect? Then, please correct me if I'm wrong, but I think at the time on the WPD debt, I think the number of about 6 billion or 6.1 billion was mentioned. The debt, obviously with the 1.6 uplift that you've talked about today, that would take us into the upper sevens. Am I wrong with that six billion debt acquired number? Did that move? Is that the time between announcement and closing, I guess?

**John Pettigrew:** Thanks, Martin. Again, I'll take the first and I'll ask Andy to take the second on debt. With regards to the £400 million in terms of the target we set today, yes, there are some costs associated with it. There are costs associated actually with the separation of Rhode Island and GT, and then there'll be costs to achieve in terms of delivering those efficiencies. I mean, broadly, it's around about £400 million of cost to achieve across both the separation and those efficiency programs. Andy?

**Andy Agg:** Martin, thanks. In terms of the debt question, I don't have the 6.1 in front of me, but the 6.6 was effectively the book value in terms of WPD's accounts at the completion of the acquisition in June. The 1.6 is the non-cash fair value, which gets you to the 8.2. But those are the numbers as of the 14th of June.

**John Pettigrew:** Just looking, it looks like, Mark, your hand is up, a new hand up, you've got another question?

**Mark Freshney:** It's my other hand, yep, got both hands up. Hey, can you talk about CCUS and, I guess, Project Cavendish is attached to Grain. But the Humber cluster, clearly there's a big consultation going on there. Could you talk about total spend, returns requirements to the extent that you can? And that you would remain committed to CCUS rather than let your Gas Transmission team take it on?

**John Pettigrew**:Yeah. So thanks, Mark. So the work that we're doing around CCUS actually sits within National Grid Ventures, not within our Gas Transmission business, so it will stay there.

First of all, we were delighted that, as you're aware, the UK government selected two projects to take forward between now and 2025- our project with BP, Equinor and others was one of the ones that was selected. So we're now taking it to the next stage, which is really understanding what is the investment that's going to be required, what the cost associated with that.

But probably most importantly at this stage, it's worth just emphasising that, what is the business model on which that investment is going to be done? So, that is still to be consulted on with the UK government.

I very much see it as an opportunity and a business development opportunity, but it's just too early to say, Mark, in terms of exactly what is going to be the cost and what are the returns and what in fact is the business model, and therefore what are the risk adjusted returns that would be appropriate.

What I would say from our perspective, National Grid's role will be very much around the transport of the carbon onshore, that is the expertise that we would bring to this joint venture. Other players in the market will bring their own expertise offshore and in the production of hydrogen.

It's early days, but really pleased that we were selected, and we'll continue to work with our partners on exactly what that opportunity might look like.

Okay, I'm going to go to Bartek, I think, that's got a question.

**Bartek Kubicki:** Yes, good morning.

**John Pettigrew:**Morning.

**Bartek Kubicki:** Three, if I may please. Firstly, on the CMA final decision, and actually the disappointing decision for you, do you think there's anything else you can do in order to improve the returns somehow and still challenge what OFGEM and CMA has decided upon?

Secondly, on this hundred basis points out performance you are expecting for NGET over RIIO-T2, should I understand it as OpEx and incentives out performers or this is something on top of what you usually outperform? I mean, how shall we understand this one?

And thirdly, as interconnectors seem to be good assets, do you have anything else in your pipeline to start construction of in the near future? Thanks.

**John Pettigrew:**Okay. So let me just take those in turn. So with regards to the CMA decision. I guess we were delighted to see that the outperformance words were removed, and really pleased in the final decision from the CMA that not only was it removed, they didn't refer it back to OFGEM, but they absolutely removed it. So I think we are very clear on that.

Yes, we would be disappointed with the cost of equity, that was the reason we made the referral. On a technical basis, we felt there were errors in the calculation, but the CMA have said that effectively it's within the realms of the judgment that OFGEM has.

In terms of short term is there any route to appeal it? There is a route to appeal it, which is judicial review. I think, as I said to you today, I think that is incredibly unlikely that we would go down that route. The team's obviously going through the detail of the judgment, it's well over a thousand pages, but I think it's unlikely that there will be any judicial review from National Grid.

I think more broadly, I've always said that I think there is an opportunity to think around the regulatory framework, the institutional arrangements and the market mechanisms that we have in the UK, as we think about delivering the energy transition over, not just the next five years, but over the next 30 years. And that's certainly something that we'll be looking to discuss with OFGEM and others as we move forward.

In terms of the hundred basis points for RIIO-T2. Well, I'll use this as an opportunity to advertise our investment day this afternoon. So, if you are able to make it, then you'll get the opportunity to spend some time with Chris Bennett and the ET team where they'll talk through in detail how they're approaching RIIO-T2. But at a high level, we'd expect to deliver that hundred base points through operational out performance, both in CapEx and OpEx. About a hundred base points of out performance is operational out performance, it doesn't include any financial out performance that we may be able to deliver.

And then in terms of the interconnectors. As you know, we still have the work to do to complete the Danish interconnector, which should be complete by FY24. We are just in the middle of ratcheting up the Norwegian interconnector, so 700 megawatts is already flowing, and we're aiming to increase that up to 1.4 gigawatts by hopefully the end of the fiscal year.

And then beyond that, there's a lot of work going on as part of the vision for the North Sea. And again, if you're at the investor day this afternoon, you'll get a chance to see how the team is thinking about our vision for the North Sea, both in terms of potential future interconnectors, of which we think there are opportunities. The UK government recently set out that they feel there could be potentially up to 18 gigawatts of interconnection between mainland Europe and the UK, and we're a long way away from that.

But also the team are looking at things called multipurpose interconnectors, where not only do you connect point to point between the UK and Europe, but actually you interconnect into that electrical connection offshore wind farms. And we've got a couple of projects running with system operators in mainland Europe on the potential for those types of interconnectors, which we call multipurpose interconnectors.

So there's a lot of activity going on at the moment in that area, really thinking about what is the vision for the North Sea. So, if you are there this afternoon, you get a chance to see some of that.

Dominic, I think you've got your other hand up.

**Dominic Nash:** Hi there. Yes. Sorry about this. Can I have a couple of follow up questions please?

**John Pettigrew:** Of course, sure.

**Dominic Nash:** Firstly, yesterday SSC announced a couple of things that were quite interesting. One that they talked about dis-synergies- I think it was £95 million a year- for splitting their business into two, and a £200 million I think one-off cost. You obviously are doing quite a lot of restructuring at the moment. Are those numbers in line with what you think the synergies/dis-synergies are for WPD integration and Gas Transmission de-merger?

And secondly, would you be interested in buying a 25% stake in networks, or would control be something that's paramount to your investment decision?

And then the final question, just quick one about the WPD, and apologies if you mentioned it, as I said, the sound quality was breaking out, but you had £10 billion of fair value. Could you just quickly tell us, what were the accounting assumptions to get to that £10 billion? And is that essentially based on a RAV number or is it actually done on some form of DCF? How does it work if you could give us some colo ur on that? Thank you.

**John Pettigrew:** Okay. So let me take the first two, Dominic, and I'll let Andy take the third. In terms of the synergies and what SSC said yesterday, I don't think it's for me to comment on SCC's business. I don't know their business well enough to know whether those numbers are the right numbers or not.

What I would say is that undertaking a separation is a complex process and what we've set out in our numbers today, as you saw, is the cost of separation together with the £400 million of efficiencies that we are setting out. We've said we think that's about £400 million. We've rotated our portfolio over the years many times, as you know, and we always aim to try and minimize costs. But it is not a simple process I would say, which is why it takes the time that it does.

In terms of our interest in SSC's announcement on the 25%, I think I'd say, Dominic, given the significant strategic pivot that we announced at the beginning of this year with the acquisition of WPD, the sale of Rhode Island and the sale of a majority stake in Gas Transmission, I think we're going to focus very much on that and making sure that we do that very well. It positions us, as I said back in March, fantastically well- it makes us 70% electric, 30% gas, broadly balanced between the UK and the US. And very well positioned for the energy transition. So, I think that will remain our focus as we move forward.

In terms of the £10 billion fair value, Andy.

**Andy Agg:** Yeah. So, Dominic, so you're right, so the £10 billion is effectively the fair value attached to the existing PP&E of WPD. And while obviously that's recorded at historical cost, we are required to fair value that as at the acquisition date.

And I distinguish that from the value I also mentioned, there's a £1.7 billion license intangible, which relates to part of the future benefits of ownership together with the goodwill balance.

So, the approach, to get technical for a moment, is that you're required to look at the cash flows associated with the existing fixed assets. And then there's lots of precedent, as you can imagine, from other transactions that our advisors look at in terms of comparable fair values. And it ends up back solving to a small multiple of RAV. But you do look at the cash flows. But it's because you're only looking at the historical existing assets, not the future growth of future investments obviously, which is one of the main focuses for us with that acquisition.

**John Pettigrew:**Okay, thanks. Chris, I think you've got your hand up.

**Chris Laybutt:** Oh, good morning, everyone. Just one question from me, John. Earlier, you mentioned in relation to inflation that you'd been adjusting the way that you manage projects, and that you had seen some pressures come through, but they've been modest so far. You also mentioned some hedges through regulatory agreements or a comment like that, which unfortunately I didn't hear it all. I'm wondering whether you could repeat what you said and maybe expand on it just to give us an idea of how that regulatory framework may benefit you through this period?

**John Pettigrew:**Yeah, it's fine, Chris, sorry, the line might not be great today. So, what I was saying was we have a natural hedge to increasing inflation through our regulatory contracts. In the UK, obviously with rear regulation, we get indexation of the RAV. So as inflation increases, the increase in the value of the RAV increases with that. And then that flows through to revenues in the UK.

Over and above that in the UK, we have built into the regulatory framework what's called real price effects. So that effectively adjusts our revenues every year for increases in commodity prices and raw materials that's over and above inflation. So, that's what I meant by the hedge.

And then similarly in the US, as we've evolved the regulatory framework, we now have in Massachusetts five year regulatory agreements, which are performance based regulation, which is I minus X, where I is inflation and the minus X at the moment is a positive number of 1.7 for electricity and 1.3 for gas. So again, our revenues increased by more than inflation in our Massachusetts business.

And then finally, I was saying in New York, we've always been able to include forecast inflation into any multi-year settlement that we've done. To the extent that we get that forecast right, we've got some coverage. We do have some exposure in New York to the extent that we get that forecast wrong. So it's at the revenue line and at the asset baseline that we've got this natural hedge.

Thanks, Chris. Martin, I think you've got the question.

**Martin Young:** Yep. Can you hear me?

**John Pettigrew**:Yep.

Martin: Yeah. It's only a very quick one, following up on the £400 million separation and cost reduction implementation costs. Will they be accounted for as non-underlying? So, at some stage you will take a hit for that £400 million and keep it out of your underlying adjusted definition? Thanks.

**John Pettigrew:**Thanks, Martin, I'll ask Andy to answer that.

**Andy Agg:** Yeah. So Martin, the answer is that's what we expect. Obviously, we have to look at those costs each year, but our current expectation, you'll have seen a small amount going through this year's performance of around £24 million, which is the initial spend on some of that. And yes, so we'd expect to take the remaining portion through exceptional, so outside of underlying as we incur them.

**John Pettigrew**:So, it looks like there are no further questions, so I'll just check to see that I haven't missed any. Okay. In which case, I'll just say, thank you everybody for joining the call this morning.

As you heard, I think our first half has been good operational and financial performance. I think we're very well positioned to deliver on our strategic operational and financial objectives for this year. I'm very hopeful that we'll see some of you in person later this afternoon at our investor event. So, thank you very much everybody, and hopefully see you later today.