

National Grid

Full Year Results Presentation 21/22

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National Grid:

Nick Ashworth, Director of Investor Relations

John Pettigrew, Chief Executive Officer

Andy Agg, Chief Financial Officer

Questions

John Musk, RBC

Mark Freshney, Credit Suisse

Jenny Ping, Citi

Chris Laybutt, Morgan Stanley

Deepa Venkateswaran, Bernstein

Dominic Nash, Barclays

Verity Mitchell, HSBC

Sam Arie, UBS

James Brand, Deutsche Bank

Martin Young, Investec

Bartek Kubicki, Societe Generale

Introduction

Nick Ashworth, Director of Investor Relations

Good morning everyone and welcome to the National Grid full year results presentation.

I'm Nick Ashworth, Director of Investor Relations, and I'm thrilled to see so many people live in the Stock Exchange for the first time since November 2019. It's been quite a long time, so thanks a lot for attending. And a warm welcome to everyone who's listening online as well.

So as always, we'll start with safety. We are not expecting a fire alarm this morning, but if one goes off then we'll have to go out into the square.

The second important thing to draw your attention to is the Cautionary Statement which is at the front of the presentation.

So as usual today's materials are all on the website and there will be a Q&A with John and Andy after the presentation. Any further queries, please feel free to reach out to me or any of the IR team later today. We are around to take your questions.

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

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Key Highlights

John Pettigrew, Chief Executive Officer

Thank you Nick. And good morning everyone and welcome back to the London Stock Exchange.

As usual I'm joined by Andy Agg, our CFO, and following the presentation, we'll both be happy to take your questions.

The results we've announced today reflect both the underlying strength of our business and the positive impact of the strategic and operational changes we've made during the year.

Last May we laid out our five-year framework, where we showed National Grid is uniquely positioned as the Energy Transition company. Today we're announcing that £24bn, or more than 70% of our five-year framework is investment in the decarbonisation of energy systems, as aligned to the EU Taxonomy principles. So by my reckoning that makes us one of the FTSE's biggest investors in the delivery of net zero.

But clearly over the last year the world in which we operate has seen major changes, with Russia's devastating war on Ukraine, a global economic slowdown and rapidly rising

inflation. Despite this, our growth objectives are unchanged and remain just as ambitious. Between 2022 and 2026 we still expect to invest £30bn to £35bn in critical infrastructure, deliver asset growth of 6 to 8% per annum, drive average underlying earnings per share growth of 5 to 7% per annum, whilst maintaining a strong balance sheet.

Our strategy to enable the Energy Transition for all, whilst delivering for customers efficiently could not be more important.

The need for action to decarbonise was clearly under-scored at COP26, where we used our role as a principal partner to push for continued action in the fight against climate change. Since COP26, our strategy has been further underpinned by the UK Government's Energy Security Strategy and the Infrastructure Investment and Jobs Act in the US. They both provide further impetus to our growth over the longer term.

The overall cost of living is clearly a major focus, and we are working hard to provide financial and practical assistance to our customers and communities. For example, in Massachusetts we've implemented more than \$1.3bn in energy efficiency measures over the last three years. In the UK we're returning £200m from our interconnector business to customers early, rather than waiting for the end of the five-year assessment period. And our £400m cost efficiency programme benefits consumers today and long into the future.

These initiatives align with our vision, which is to be at the heart of a clean, fair, and affordable energy future, a vision that has never been more critical than it is today.

So let me now turn to some of the significant changes we've made in our portfolio over the last 12 months.

In June we completed our acquisition of WPD, and the integration process is well underway.

In March, I was pleased to announce our agreement to sell a 60% stake in our UK Gas Transmission and Metering business to a consortium led by Macquarie. This followed a competitive process through which we received an attractive price, and we expect completion in the third quarter of this financial year. The consortium also has an option on the remaining 40%, on broadly similar terms, which can be exercised through the first half of 2023.

The last part of our strategic repositioning we announced last year is the sale of our Rhode Island business. We have obtained all regulatory clearances and are awaiting conclusion on the legal process. We remain confident that the transaction will complete this quarter.

Together these transactions pivot our portfolio towards electricity and bring even greater visibility and certainty of long-term growth.

We also announced the sale of our 50% interest in the St William joint venture to our partner, the Berkeley Group. With substantially all of the development properties identified for transfer, this was a natural time to exit this very successful JV.

And finally last month, BEIS and Ofgem made the decision to create an independent Future System Operator. The Electricity System Operator is already legally separated from National Grid Plc and a process to agree a full separation and sale has begun. We'll work closely with all parties to ensure an orderly transition, which is expected to be completed by the end of 2024.

So turning now to our financial performance. To help you better understand the Group's underlying performance, we've presented our prior year numbers on a pro forma basis.

Operating profit of £4bn was 11% above last year, reflecting:

A good performance in our UK Electricity Transmission business in its first year of RIIO-T2.

The early commissioning of the North Sea Link interconnector to Norway, as well as the first full year of operation of IFA2

Higher revenues following the agreement of a new rate case in Massachusetts Gas and gains on investments by National Grid Partners.

Consequently underlying earnings per share was up 10% compared to the prior year.

Capital investment from our continuing operations was in line with guidance at £6.7bn, 19% above the prior year, reflecting our critical role at the heart of the energy transition.

And in accordance with our updated policy the Board has proposed a final dividend of 33.76 pence per share. This takes the total dividend for the year to 50.97 pence, an increase of 3.7% in line with average CPIH inflation.

So turning next to our safety and reliability performance. Last year was another year of good safety performance. However, we did see a small uptick in our lost time injury frequency rates from 0.1 to 0.13. Primarily due to an increase in minor incidents. This continues to be an area of close attention to ensure that we improve our performance further.

Turning to our reliability, we had another excellent year, with over 99.9% availability across all of our regulated networks. This is a particularly good outcome with both the US and the UK seeing several challenging storms during the year.

So let me now turn to our operational performance and I'll start in New York where we achieved a return on equity of 8.8%, 99% of the allowed level and in line with our target of at least 95%.

During the year we delivered capital investment of \$2.6bn, around \$300m higher than last year. This resulted in a strong rate based growth of 7.6%. The largest element of this was a gas pipeline replacement programme, where we delivered 237 miles, further reducing methane emissions across our networks.

On regulation I'm pleased with the good progress that we've made on rate filings, reaching a settlement on a three-year rate plan for KEDNY and KEDLI. The settlement, as you know, was delayed by COVID, and backdated to April 2020. Because of this we've chosen to extend the rate plan for an additional year and expect to file for new rates in March 2023.

In Upstate New York, a new three-year rate settlement for NIMO was approved in January. It includes an allowed return on equity of 9%, with capex of \$3.3bn over the three years.

And we have also been working hard to progress clean energy policy. We have published a joint report with the New York Mayor's office and Con Edison, recognising low carbon gas as part of the long-term energy transition. And in August, Governor Hochul was sworn in with an ambitious agenda. I'm pleased with how closely aligned our aims are with the Governor, having had the opportunity to meet with her recently at our Brooklyn office.

So moving now to New England where we've made good regulatory progress with a new five-year rate plan for our Massachusetts Gas business. This includes an allowed return on equity of 9.7% and a formula which factors inflation into our revenues along the same lines as our electric business.

Our achieved return on equity was 8.3%, 85% of the allowed level. And while this was 80 basis points above last year it's short of our target to reach at least 95%. However, this performance only reflects six months of the new rate case and the initial benefit to our cost efficiency programme, both of which will have a fuller impact this year, helping to improve returns.

During the year we've developed capital investment of \$2.1bn around \$170m higher than last year, with rate-based growth of 6.7%. Similar to New York we made strong progress with our gas pipeline replacement programme, whilst on the electric side, investment was focused on upgrading aging infrastructure.

And our focus on working towards decarbonising our networks also continues. Last month we filed a proposal with the DPU on the Future of Gas. The proposal centred around our recently announced Clean Energy Vision, which sets out a plan for utilising fossil free gas and electric networks to support the state's climate goals.

In the UK, our Electricity Transmission business has had a successful start to RIIO-T2, delivering a return on equity of 7.7%, 140 basis points above the allowed level. The first year of RIIO has also meant a significant step up in investment, with capex increasing by 21% to £1.2bn and this reflects the start of tunnel boring activities on our London Power Tunnels 2 project and construction of the world's first T-Pylons at Hinkley Seabank.

Our investment in the UK will continue to grow. In March we received provisional approval from Ofgem for two subsea interconnectors between Scotland and the North of England. These green links will form part of a £10bn needed over the next decade for the 16 major projects identified in the ESO's recent Network Options Assessment.

Included in the £8bn of capex in our five-year outlook for Electricity Transmission is around £1bn of early investment in these projects, which will deliver the necessary reinforcement along the East Coast.

I'll come on to talk about the Government's Energy Strategy published last month, but it's clear that the outlook for Electricity Transmission remains strong through RIIO-T2 and beyond.

Turning now to UK Electricity Distribution where WPD has continued to perform well under RIIO- ED1 delivering a return on equity of 13.6%.

The integration process is well underway and I'm particularly pleased to see our teams working together. For example, recently we were able to connect a customer faster at our Coventry substation, through our transmission and distribution teams collaborating to redesign the connection.

Capital investment of £899m was driven by asset replacement and reinforcement, alongside connecting new renewable generation and electric vehicle charging infrastructure.

A key focus since acquisition has been the submission of the ED2 business plan. As part of this WPD conducted its largest ever consultation with over 25,000 stakeholders. The plan, which proposes £6.7bn in Totex focuses on readiness to connect an additional 1.5 million EVs and 600,000 heat pumps. And driving decarbonisation through connecting 2.6 gigawatts of renewables, all while continuing to support our most vulnerable customers.

Our plan also includes more than £700m of embedded efficiencies, despite investment increasing by more than 20%. We believe the plan balances continued affordability, alongside the investment required to accelerate the Energy Transition and provide a fair financial return. We expect draft determination from Ofgem in June, with final determination in December.

Moving next to National Grid Ventures where capital expenditure was £452m, similar to the prior year. We are now moving into the operational phase for our new interconnectors with only the Viking Link to Denmark to complete in 2024.

IFA2 had its first full year of operation, and we were pleased to commission the North Sea link to Norway ahead of schedule.

As you know we suffered a serious fire at our Sellindge interconnector station in September, but since then 1GW has been safely brought back online, with the remaining 1GW on track to return to service in December 2022.

At Grain LNG, investment increased as we progressed construction of Phase 4 to expand the site's capacity. This followed the fully contracted sale of capacity for 25 years, enhancing the long-term security of UK gas supply.

And in the US, our community offshore wind joint venture with RWE was successful in winning a seabed lease in New York. Our share of the cost being \$300m. This lease area comprises 125,000 acres with a capacity to host 3,000 MW; enough to power 1.1 million homes and this is expected to be in operation by 2030.

And in our Onshore Renewables business we started commercial operations of our 200 MW solar project in Illinois. This brings our total operating portfolio to 635 MW. And another 700 MW is under construction.

And then finally UK Gas Transmission and Metering delivered a strong start to the new regulatory period, with a return on equity of 7.8%, 120 basis points ahead of the baseline return. Capital investment was £261m, £57m higher than the previous year, driven by spend on asset health, emission reductions and cybersecurity.

So overall we have had a year of strong performance for National Grid, whilst delivering on our strategic pivot. We are now uniquely positioned at the heart of the energy transition, making record levels of investment, and delivering a better and more affordable energy future for all.

Let me know hand over to Andy to take you through the financials in detail before I come back to talk through the priorities and outlook for the year ahead.

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Financial Review

Andy Agg, Chief Financial Officer

Thank you, John, and good morning everyone. To illustrate the underlying performance of our business more clearly this year, we are presenting the comparative underlying results on a pro forma basis. This means we've adjusted FY 2021 to include an estimate for 9.5 months of WPD, together with the associated financing; and to exclude UK Gas Transmission and Metering which is a discontinued business; and depreciation on Rhode Island, which is held for sale.

As usual our underlying performance from continuing operations also excludes the impact of timing, major storms, exceptional items and is presented at constant currency.

So turning to our financial performance. Underlying operating profit on a continuing basis was £4bn, up 11%, driven by: higher UK Electricity Transmission net revenue to fund

higher investment levels; the early commissioning of the North Sea Link interconnector, as well as the first full year of operation of IFA2; the impact of new rates in our Massachusetts Gas business; gains on investments in National Grid Partners; and a reduced year on year impact from COVID.

This helped underlying earnings per share to increase by 10% to 65.3 pence per share.

We have made good progress on our three year £400m cost efficiency programme that we announced in November, with around £140m of savings achieved so far.

And our resilient operational performance was also reflected in the 11.4% Group return on equity, up 80 basis points year over year.

The Board has recommended a final dividend of 33.76 pence, taking the full year dividend to 50.97 pence per share, which is up 3.7%. This reflects our policy to aim to grow the dividend in line with average UK CPIH inflation.

It was another strong year of capital investment from our continuing operations, with the Group investing £6.7bn, 19% higher than the prior year and the highest level of investment that we've ever delivered.

Our investment has increased across all areas, and I'll go into more detail by business unit shortly. Higher investment also led to strong asset growth across each of our businesses, culminating in Group asset growth of 8.7%.

This increasing level of investment is focused on delivering the clean energy networks needed across our UK and US regions to enable net zero. We announced back in November that £13bn of our £30bn to £35bn five-year investment programme was aligned to our green financial framework, where we raise green financing instruments for specific projects.

Today, we are going one step further, announcing that around £24bn of our five-year investment programme, over 70%, is aligned to the principles of the EU Taxonomy. Of this around £14bn is in our UK businesses and around £10bn in the US.

This now covers most of our electricity investment across transmission and distribution, including connecting clean sources of generation such as renewables and nuclear. It also covers investment in our gas networks, where we're reducing emissions and investing for cleaner gas.

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

Starting with our new business. UK Electricity Distribution continues to perform well under RIIO- ED1. Underlying operating profit for the 9.5 months of ownership was £887m, an increase of £34m from the prior period on a pro forma basis.

During the period we have owned the business, capital investment reached £899m, up £45m over the prior period. This was due to greater spend on reinforcement and connections aligned to the government's Green Recovery objectives, as well as more high voltage and electric vehicle connections.

Since acquisition the RAV has grown 9.1% to £9.3bn.

Finally it achieved a return on equity of 13.6%, 400 basis points ahead of the allowed return. Most of this out performance relates to improved customer experience incentives, such as fewer and shorter disruptions, alongside Totex performance incentives.

Moving to UK Electricity Transmission, where we delivered a strong performance under the first year of RIIO-T2. Underlying operating profit was £1.2bn up £100m on the prior year. This primarily reflects higher base revenues in the first year of RIIO-T2 as we embark on greater investment in clean energy infrastructure, partially offset by lower returns.

Capital investment at £1.2bn was 21% above the prior year, primarily driven by: tunnel boring activities on London Power Tunnels 2, construction of T-Pylons at Hinkley Seabank, and increasing activities in our Visual Impact Revision projects in Dorset and the Peak District.

This investment helped increase our year end regulated asset value by 8.1% to £15.5bn.

And we've achieved a 7.7% return on equity, 140 basis points ahead of the baseline allowance. This is primarily from Totex incentives, including projects started under RIIO-T1. And we remain on track to achieve 100 basis points of average annual outperformance throughout RIIO-T2.

Turning to the Electricity System Operator, underlying operating profit was down £16m in the period to £54m. With higher baseline revenues under RIIO-T2 more than offset by higher costs and depreciation.

Moving now to the US where New York achieved 8.8% return on equity, 99% of our allowed baseline return. Underlying operating profit of £706m was £12m lower than the prior year, primarily due to: a £130m increase in environmental reserves given higher inflation, which will ultimately be recoverable in future years; as well as increased depreciation from higher levels of investment.

This was partially offset by rate case increases in KEDNY, KEDLI and NIMO, and a reduction in bad debt charges given the resumption of collection activities post COVID. In both New York and Massachusetts we're making good progress working with our state regulators on recovery mechanisms for our COVID related bad debt expense. And remain confident that the majority of these costs will be recovered through these mechanisms.

Capital investment was £2bn, £231m higher than the prior year at constant currency, driven by greater Leak Prone Pipe replacement activity, and our investment in the Upstate New York Smart Path Connect transmission project. This led to a 7.6% increase across our New York rate bases, increasing to \$17bn.

In New England we achieved an 8.3% return on equity, 85% of our allowance, slightly ahead of our forecast at the half year. Underlying operating profit was £886m, £96m higher than the prior year on a pro forma basis. This reflects higher rates in our Massachusetts Gas business under the new rate settlement and resumed collection activities for outstanding receivables.

Capital investment was £1.6bn, £132m higher than prior year, this was driven by high levels of gas pipeline replacement and upgrading of aging infrastructure. Our closing New England rate base of \$12.2bn was up 6.7% or \$763m year over year.

National Grid Ventures continued to perform well with underlying operating profit including Joint Ventures up £167m to £408m for the full year. This primarily reflects the North Sea Link interconnector coming online, and the first full year contribution from IFA2. Together with higher revenues from interconnector arbitrage across the portfolio, and higher development income in our US Onshore Renewables division.

IFA2, North Sea Link and our Nemo interconnectors have each delivered performance above the regulatory cap this year. As John mentioned, we've agreed a mechanism with Ofgem to accelerate the repayment of our revenues above the cap to customers. Equating to around £200m over two years. Our underlying operating profit therefore includes revenue only up to the cap for these interconnectors.

Capital investment across National Grid Ventures reached £913m, a 72% increase on the prior year, principally driven by: higher investment on Viking Link, and on Sellindge refurbishments; Our success in the New York Bight offshore lease auction; and higher spend at our Grain LNG facility for the Capacity 25 project.

Full year operating profit including the share of joint ventures for our other activities was £47m, £105m higher than last year, reflecting fair value gains in National Grid Partners, as well as the release of an aged liability related to historical balances for unclaimed dividends. The latter has allowed us to inject funds through the year to support additional community and environmental causes.

Finally turning to UK Gas Transmission which will be treated as a discontinued operation until the sale of the 60% stake completes, expected in the third quarter of this financial year.

It's had a good start to the RIIO-T2 period, delivering a return on equity of 7.8%, 120 basis points ahead of allowance.

Underlying operating profit was £734m, £139m above the prior year following higher revenues in the first year of RIIO-T2. Capital investment was £261m, £57m higher, driven primarily by gas compressor projects at Peterborough and Huntingdon.

Our net finance costs were £1.1bn, up £37m on a pro forma basis, reflecting £145m of higher RPI-linked debt costs, partly offset by one off benefits relating to favourable pension interest and a property tax refund.

For the year, treasury managed interest costs also include: £130m of interest costs for the existing WPD debt book; As well as £100m of financing for the WPD bridge loan, which we expect to refinance later this year as we receive the proceeds from the sales of Rhode Island, and the stake in National Grid Gas.

Our underlying effective tax rate before Joint Ventures was 24.3%, 260 basis points higher than the prior year. Reflecting the in year deferred tax impacts of the UK corporation tax change, and US state deferred tax re-measurement due to the upcoming sale of our Rhode Island business.

Underlying profit after tax was £2.4bn, with EPS at 65.3 pence. Up 10% on the prior year on a pro forma basis.

Moving to cash flow, cash generated from continuing operations was £1.8bn higher at £5.8bn, driven by the first-time contribution from WPD, as well as higher NGV cash flows and working capital movements.

Net cash outflow in the period was 45% lower at £1.6bn, further helped by proceeds from the disposal of our interest in St William joint venture and a lower cash dividend given scrip uptake in the year, partially offset by higher capital investment.

Net debt increased by £13.4bn to £42.8bn at constant currency driven by the acquisition and financing of WPD, partly offset by £4.1bn of debt which has been reclassified as held for sale associated with the disposal of National Grid Gas. As we complete both Rhode Island and National Grid Gas sales this year, we expect net debt to reduce to just under £40bn by March 2023.

Once the transactions have completed, we expect our net debt to RAV to settle slightly above 70%. This is consistent with delivering credit metrics within the ranges required by our credit rating agencies to maintain our strong investment grade ratings.

Now turning to inflation. As expected with high levels of inflation last year, we saw the impact on IFRS operating profit in our UK regulated businesses from inflation-linked revenues broadly offset by higher RPI-linked debt costs. And at the same time, we've worked hard to deliver flat controllable costs as part of our cost efficiency programme.

In the year ahead we expect a similar outcome. With the impact from inflation on our UK regulated businesses, again largely offset by inflation-linked debt costs. In due course assuming inflation moderates, UK operating profit will be driven by higher revenues, given the real return on a higher regulated asset base. Coupled with mitigation of controllable costs through our ongoing efficiency programme. This should then translate into improved earnings, as the current high level of index-linked interest cost moderates.

Within our supply chain we're seeing some higher costs, as well as lead times lengthening for certain parts. To date, this isn't having a material impact on the business. In the US we're seeing above inflation cost increases for certain products. We're managing this by finding alternative suppliers or changing the pace of discretionary spend. Any additional spend would ultimately be picked up in the following rate case.

Finally, and before turning back to John, I want to touch on our five-year financial framework, and outlook for the year ahead. We set out our financial frame last May assuming long term macroeconomic and energy market assumptions at that time. At the start of the year, we guided that underlying EPS would be above our 5 to 7% growth range in the near term as we work through the transaction. Whilst our strong in year performance has been better than our initial view, assuming inflation moderates in the next couple of years, we still expect to remain within our five-year framework. And specifically for the year ahead, our forward guidance this morning sets our underlying operating profit growth across our businesses.

However, alongside higher RPI-linked interest costs, we will be returning nearly £150m to customers, reflecting a previously announced Western Link construction delay in UK Electricity Transmission. Therefore we expect to see a broadly flat EPS profile for the year ahead.

In summary we've had a strong year with: record Group investment as we accelerate our spends to deliver the Energy Transition; a good start to our £400m cost efficiency programme; and a strong financial performance delivering 10% underlying EPS growth year over year on a pro forma basis.

With that I'll hand you back to John.

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Priorities and Outlook

John Pettigrew, Chief Executive Officer

Thank you Andy. Let me now finish by summarising our priorities and outlook for the coming year.

Our vision is to be at the heart of a clean, fair and affordable energy future. And we're delivering on that vision by leading the way in pioneering smart, low carbon energy networks with resilient and efficient transmission distribution grids at our core.

Our vision is supported by new policies and increased clean energy targets that have been developed on both sides of the Atlantic. These increased targets coupled with our strategic transactions, and our pivot to electricity give us even greater certainty of growth in the medium term than we envisaged last November.

In the UK, the government is being bold with energy policy. With an ambition to deliver greater levels of clean energy sooner. For example, the recent British Energy Security Strategy sets up the ambition to produce 95% of the UK's electricity from low carbon sources by 2030.

And the energy transition also has significant focus in the US, where we were pleased to see the Infrastructure Investment and Jobs Act signed into law during the year. This legislation creates the opportunity to accelerate the energy transition, whilst mitigating the impact to customer bills. So this is shaping up to be a critical period across both the US and UK for energy policy. And our priorities for the year ahead will be to progress the opportunities these policy developments will bring.

Starting with the UK. With the heightened awareness around security of energy supply, our focus on delivering world class reliability across both our transmission and distribution networks has never been greater. Both the Gas and Electricity System Operators forecast that despite events in Ukraine, we currently have sufficient supply to meet demand in both the gas and electricity networks. Although as you'd expect, this will need to be closely monitored as we move towards the winter.

In the year ahead, we'll finalise our portfolio repositioning and expect to complete the sale of 60% of our UK Gas Transmission and Metering business in the third quarter of this financial year. We'll continue our integration of WPD and maintain our focus on agreeing a settlement for ED2 that provides the flexibility to deliver the investment required.

Looking further ahead, we know that our networks will become even more important, presenting us with significant growth opportunities.

Last November we talked about the 16 major projects and £10bn of grid investment needed to support 40 GW of offshore wind by 2030. The Government now aims to deliver up to 50 GW of offshore wind capacity, alongside a push to more nuclear generation, solar and hydrogen. Needless to say this will require more electricity infrastructure to meet these ambitions.

And as you'd expect we're already developing plans to turn the Government's new clean energy ambitions into reality, including the transmission projects needed on the East Coast to bring offshore supply to major population centres.

We're also supporting the development of the Holistic Network Design which will lay out a coordinated onshore and offshore network to officially meet the Government's offshore wind objectives.

And finally, I'm pleased that the Energy Security Strategy also recognises the need for: updating national policy statements, clarity on the scope of network competition, and anticipatory network investment. This will therefore be an important year as we work with others to create the right regulatory and climate framework to enable the investment that is needed.

Moving now to the US priorities. We'll continue to work with the Biden administration and stakeholders on the Infrastructure Investment and Jobs Act to progress a number of projects. Including grid modernisation and resilience, deploying electric transportation infrastructure along highway corridors, and securing a regional hydrogen hub in the North East.

In Massachusetts we expect decisions in the second half of the year on our regulatory filings for Electric Grid Modernisation, Advanced Meter Infrastructure, and our Phase 3 Electric Vehicle proposal. We also expect an order from the DPU on the Future of Gas proceedings, which could include the decision on the proposed regulatory framework, and a broader policy on the role of gas distribution networks in delivering state climate targets.

In New York we're preparing for our next KEDNY and KEDLI rate filings for April 2023. And we expect an outcome this year on National Grid Ventures' bid to install increased transmission capacity to Long Island to support up to 6 GWs of offshore wind generation expected over the next decade.

We'll also continue to work with our states in developing net zero pathways. Last month we announced our Clean Energy Vision, setting out our plans to reduce reliance on fossil fuels and increase the use of fossil free gas, enabling homes and businesses to meet their heating needs without the use of fossil fuels by 2050.

The plan set out four pillars: to continue to increase energy efficiency and reduce energy usage; to eliminate fossil fuels from our gas networks no later than 2050; to give customers tools to maximise benefits of pairing electric and clean gas solutions; and to support targeted electrification of heating where it's cost effective to do so.

Through our hybrid approach, we estimate that home heating costs could be 15% to 20% lower than under a full electrification approach. And in the next 12 months we'll channel this work into the public proceedings that are ongoing in both Massachusetts and in New York to help formulate pragmatic, long-term policy. And we'll be building several demonstration projects that support the delivery of this vision. For example, we're building a green hydrogen project in Hempstead, New York. This is one of the largest projects of its kind, and will aid in the decarbonising of networks by blending hydrogen into the existing distribution system. We'll also be hosting an event in New York in July where we'll showcase the work that we're doing to deliver clean, energy networks.

And finally, I wanted to mention that we'll be publishing our second Responsible Business report alongside our Annual Report next month. This will highlight our progress against the commitments we set out in last year's Responsible Business Charter. I'll be hosting another event later in June to talk through the key messages as well as the priorities for the year ahead.

So in summary National Grid's made significant progress over the last year, and we've got another busy and exciting 12 months ahead. Our strategic pivot to electricity announced last year is nearly complete as we look to finalise the transactions. Our focus on

regulatory settlements continues, with particular focus in Massachusetts and the UK Electricity Distribution businesses. And our ongoing work with regulators and politicians will remain the focus as we help to define clean energy roadmaps to 2050.

Over our five-year framework around £24bn or more than 70% of our investment is in decarbonising energy systems, and this makes us *the* Energy Transition company. Critically we'll be doing it in the most efficient and affordable way for all of our customers to help ensure that nobody is left behind.

So thank you for listening, and with that Andy and I will be happy to take your questions.

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Questions and Answers

John Pettigrew, Chief Executive Officer

Okay. So, what I'm going to do, I'm going to take questions in the room first. But we've also got people who have called in, so we'll take the questions online second. So, who's first? John?

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John Musk, RBC

Thank you. Good morning. Just a couple of linked questions on the five-year plan. On capex, which was running just under £7bn this year, that's obviously at the top end of the £30bn to £35bn average over 5 years, so, is there not upward pressure to that number, both coming through from inflation and then, obviously, better asset growth and opportunities for you to invest? I'm just surprised that that isn't increased.

And I guess linked to that, on the 6% to 8% asset growth target, also I would expect upward pressure there. Can you just remind us of what exactly you're assuming in terms of inflation within that 6% to 8%?

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John Pettigrew, Chief Executive Officer

I'll let Andy take the second one and let me just deal with the first one. So, I think we feel that the framework that we set out last year is one that we remain comfortable with. So, the £30bn to £35bn, when we look at the projects that we've got going on over the course of the next 5 years gives us comfort that that range is the right range. You know, typically, when you go down a level, we see some of the big projects that are finishing, such as in the investment we made in interconnectors, like the Danish interconnector, which will finish in 2024. But, at the same time, we are seeing increased investment in areas like Electricity Transmission.

So, at the moment, John, we feel very comfortable that the £30bn to £35bn is a sensible range for the 5-year period.

Obviously, when we look beyond that, we're going to be very interested to see how much of some of the proposed changes that the UK Government is setting out in the strategy document come to fruition and what that means for the investment beyond the 2026 period. But, for the period that we're in, we remain comfortable with the £35bn number that we've set out.

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Andy Agg, Chief Financial Officer

John, on the inflation point, you'll have seen the 8.7% asset growth this year, and that, obviously, has had some benefits from RAV indexation feeding through in the UK.

As we said, if you look forward, and based on what the forward curves are telling me, this isn't my assumption, you know, you see that inflation moderating again. I think that's why we see the 6% to 8%. Remember, it's a 5-year CAGR out to '26 still being good. Potentially, you know, we're obviously towards the higher end of that frame now than we were previously, but we still think that remains a good frame for now.

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Mark Freshney, Credit Suisse

Hi. I have two questions. Firstly, on the agreement with RWE on the New York Bight. Could you give us some colour as to the expected timeline it would take to lead to investment there, and what indicative investment costs could be etc?

And, secondly, sorry to pick you up on the 5-year plan again, but with inflation running at 11% RPI, which is a real benefit for you having bought WPD at just the right time, I'm surprised that your net debt to asset base, you still seem comfortable with it settling at the low 70s. Surely with this big inflation spurge and the exit of the property business, you know, potentially, it comes to high 60s on my numbers. So, I was just looking to understand why we're so different.

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John Pettigrew, Chief Executive Officer

Okay. So, again, let me take the first question and I'll ask Andy to talk about inflation.

So, in terms of our joint venture with RWE, I mean, first thing to say is that we were really pleased that we were successful in winning the auction. It is actually the largest of the seabed leases, but actually the lowest cost in a megawatt hour basis. Our share of it is just under 30%. So, as I said in my remarks this morning, the investment for the seabed lease is around \$300m.

The next phase is actually the solicitation for the procurement of energy that that offshore wind would support. New York are running a solicitation. That will run through the course of this year.

But, in terms of Capex for actually doing the development, that's likely to be at the back end of this decade, so certainly not in the five-year framework that we've set out, but probably in the sort of, '27, '28, '29 period.

In terms of how much of the 3,000 MW of capacity we will do, well, that will be a function of the solicitation. And, as I've said many times, you know, our approach to these things is very disciplined in terms of taking these projects forward only where there are sensible returns relative to what we see in our regulated businesses.

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Andy Agg, Chief Financial Officer

I think on the net debt point, Mark, just to say a couple of things. One is that obviously within our net debt, there's also RPI-linked, around £4.5bn of that. There'll be an accretion piece of that which feeds through into your leverage calculation.

I think the other thing is point in time. You may be doing the maths on where we are today, maybe on a pro forma basis post-transaction, and, you know, you've seen from the numbers this morning that the cash performance has been strong this year. We're not trying to give forward guidance as to where we expect to settle. I'm looking out to the medium term given the higher investment, and that's what gets me to slightly above 70.

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John Pettigrew, Chief Executive Officer

Shall we move forward a row? Go here first. Thank you.

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Jenny Ping, Citi

Thanks. Two questions from me, please. Firstly, you touched on supply chain and inflationary pressures. I was more specifically thinking about the US, especially where we've seen meaningful wage increases and labour shortages. And you obviously talked about the delay of discretionary Capex. I presume that's temporary. So, can you just touch on a little bit in terms of, as we look forward, how you expect things to develop? And you also then go on to say rate cases apply to claw some of that back. What is the political appetite as we stand today in some of your jurisdictions on, you know, further utility bill increases, effectively?

And then, secondly, just going back onto the New York Bight investment, you will have seen Eversource is looking to exit the US, and I think it's interesting that they point out some of their returns on the offshore wind space is very similar to those of networks. So, this makes me wonder whether, you know, you should really be focusing on the networks part of the business and some of the growth coming through given it's a much lower risk investment opportunity and, yeah, any thoughts around that would be great? Thanks.

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John Pettigrew, Chief Executive Officer

So, in terms of supply chain and inflation, I mean, so what we're seeing is relatively modest at the moment at the group level. We are seeing some cost pressures in the US, and in the UK, a small uptick in terms of direct labour in terms of union negotiations. The most recent one we settled was just above 4%, I think.

But we've been able to take some mitigating actions as well. We've got a lot of long-term contracts in place for a lot of the Capex in both the US and the UK and we've been able to extend some of them. We've been able to change some of our suppliers too. So, we've got some mitigating actions which means we are seeing modest inflationary pressure in

terms of the cost base in the US and the UK, but not something that's material at this stage, and we continue to look for opportunities to mitigate that.

In terms of the regulatory environment, well, as you know, in Massachusetts, we've got five-year rate cases, and we've just entered into a new one for Massachusetts Gas. So, that has indexation in it in terms of revenues. So, on the electricity side, it's RPI plus 1.7%. On the gas side, it's inflation plus 1.3%. So, that drives through over the next five years on the Massachusetts side, and we've agreed that with the regulator most recently.

In New York, as I said earlier, we've just extended on the KEDLI and KEDNY rate case. Actually, for the extension year, I think we see an increase of around about 5% on the revenues, and Capex is about \$1.3bn for that incremental year. We'll now enter into discussions with the regulator for KEDLI and KEDNY for the longer-term rate cases, but that's a year-long process. So actually, new filings won't be implemented until April 2024.

In terms of the second question, Jenny, well, I can't speak for Eversource, I can only talk for National Grid. You know, as I've said previously, our approach to developments outside of the regulated networks business is to use the capabilities we've got in adjacent markets where we think there's an opportunity to earn returns that are better than what we would see in our core business.

We did see the RWE joint venture as an opportunity. It allows us to develop transmission offshore, working with, I think, the second largest developer in the world on offshore wind. You know, that's not a skillset that we have, but we are one of the biggest offshore developers of transmission, so we bring a lot of capability to that.

But we apply a disciplined approach, and the decision as to whether we take that project forward will be determined in a disciplined way based on the returns that we see. We'll have a better view on that once we get through the solicitation in terms of what the state are willing to pay for the energy associated with those windfarms. But we'll take it step by step. And we have the ability to exit should we need to without any loss to National Grid.

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Chris Laybutt, Morgan Stanley

Good morning. A couple of questions. First, looking at the big picture, looking forward, you've just provided us with a new slide today which has your strategic priorities and, included in that is a shift from gas to electricity. Do we assume that this means you'll continue that process? And are you really flagging an ongoing shift, or beyond Gas Transmission, are you happy with the portfolio as it currently stands?

And then in terms of your Electricity Transmission guidance, I'm just wondering whether you can unpack the impacts this year Andy, or in fiscal '23. Previously, where you're expecting revenue to increase and so, therefore, if we're going to treat this as a one-off, which we will, what sort of number should we be looking at when we think about our revenue for the following year? So, how much rebound can we expect and what's the extent of the one-off impact? Thank you very much.

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John Pettigrew, Chief Executive Officer

Again, I'll take the first and I'll let Andy take the second. So, in terms of the first, our position hasn't changed to what I set out last year, Chris. We took the decision last year to do the strategic pivot. We're nearly through that in terms of the transactions. Where that leaves National Grid is 70% electric, 30% gas, broadly 50/50 US/UK, which is a portfolio shift we're very comfortable with because I think it reflects my sense of how the energy transition is going to play out.

Gas is going to have an incredibly important role to play, and we see that playing out massively in the US. You would have seen a few weeks ago that we launched the vision for our Gas business. I think a lot of people have even been thinking around what's the roadmap for gas as part of the energy transition and how it supports the targets that have been set by the states. National Grid did a huge amount of work looking at what that roadmap might look like and how we can deliver a proposal and a solution that's actually affordable to customers.

As I've set out this morning, what we've set out is a hybrid solution, a mixture of energy efficiency, fossil-free gas and electrification of heat pumps. That, we believe, will deliver a solution that meets the targets set in New York and in Massachusetts but does so at a cost of between \$800 and \$1000 per year lower for customers. It is a vision. It will require work with the regulators and with key stakeholders to turn that vision into reality, but that's the next task for us. It was launched, and launched very well, I think, and received very well as a think piece.

And, as I also said this morning, we'll now start to do some demonstration projects, both in terms of how you inject hydrogen into the network and the role that that can play, but also renewable natural gas. And there's a huge source of renewable natural gas in the US – I think there's 19,000 water treatment plants and 17,000 farms, all of which have access to renewable natural gas which, if you can capture, is fantastic because it avoids methane going directly into the atmosphere, and we can then use the existing pipeline to provide that to customers.

So, it's a clear vision that we've set out in terms of how we see gas going forward, but I'm very comfortable with the overall shape of the portfolio.

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Andy Agg, Chief Financial Officer

Chris, in terms of the Electricity Transmission question, obviously, you'd have seen, I mentioned the one-off impact of the Western Link revenue return, which is going through next year's numbers. That's up to around £150m - the fast money elevation of that.

So, other than that, as you would normally expect, you'd anticipate that, over the five years of the price control, the underlying performance of ET would then reflect the ongoing investment and the growth of the RAV and all the other factors which have

adjusted into this year. So, it's really just Western Link as the one-off into next year, and then you'd expect a return to the normal profile.

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John Pettigrew, Chief Executive Officer

Shall we go over there and then we'll do Dominic after that if that's okay?

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Deepa Venkateswaran, Bernstein

Thank you. I have three questions. So, starting with the Western Link, just a clarification. So, the £150m that you're returning, is that just your fast money disallowance from the past or is there also a RAV impact that we need to consider? So, I think it used to be 85/15 Totex in the previous period, so, retrospectively, should we also adjust the outperformance that we may have counted?

Secondly, on inflation, Andy, could you just maybe tell us what you're assuming for inflation for the asset base and the inflation link debt for this year? I know you've guided to £300m more finance expenses, so maybe if you can just calibrate that?

And the last question on New York Bight, obviously, you'll bring the transmission construction abilities to bear, but I presume you will end up owning 30% of the entire offshore wind project or is there a plan to further restructure with RWE such that they just own the generation and you own transmission, or will you be owning, essentially, 30% of a large offshore windfarm? Thank you.

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John Pettigrew, Chief Executive Officer

Okay. I'm going to answer one and a half of those, and I'll give one and a half to Andy. So, let me start with the last one in terms of New York Bight. So, it is a joint venture for the whole project, so, effectively, we would end up being a just under 30% holder of the windfarms, including the transmission.

One of things, I would say is that, as we see the aspirations have been set over the Biden Administration and our states, I think the opportunity for offshore grids in the US is similar to what we're seeing in the discussions on the North Sea in the UK, and therefore there may be an opportunity in the longer term to do transmission only offshore investment. That's not there today but, clearly, it's something you could see happening. In the meantime, the opportunity for us to bring our expertise offshore is through joint ventures, like the one we've got with RWE. But there's no suggestion that we're going to change the shape of that joint venture.

In terms of Western Link, I'll just say, at the highest level, this is the return of the outperformance. The Western Link was a unique project using new technology. Ultimately, like often with these new technologies, you get periods where the

commissioning goes through a sort of, bumpy start, and we certainly saw that with Western Link. As a result, against our licence obligations, it was slightly later than anticipated. As I remind Ofgem on a frequent basis, actually that technology is saving customers hundreds of millions because the alternative would be another cable.

Nonetheless, what we agreed with Ofgem, which I think was sensible, was, even though it was late, it was actually delivered significantly lower than the allowance that was set, and it's that allowance that, effectively, will be returning to customers so that there isn't an outperformance for Western Link for both ourselves and for Scottish Power.

In terms of the split between the fast and slow money, I'll hand that to Andy.

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Andy Agg, Chief Financial Officer

Deepa, just to be clear and to build on John's answer there, we didn't recognise any of that outperformance over prior years. So, effectively, none of that has been reported through our previous years' ROEs or earnings. So there is no downward adjustment either to the RAV or to ROE as a result of that giveback, but it's a one-off catch-up, if you like, for all of the revenue that we've previously started to collect.

And then I think the other question was your inflation one around what we are assuming for next year. Obviously, inflation's been repriced yesterday. I think, you know, the key thing for us is actually we've assumed, in our modelling, ahead of yesterday, around 9% headline RPI. But the reality is, as I explained this morning, because of the RPI debt book that we carry, there is a relatively broad offset between how it flows through an operating profit level and what eventually turns up in earnings because of the accretion. So, if you get, increments up or down from that 9%, there will be a relatively broad offset as well.

We haven't guided in terms of expectations around what RAV indexation may do next year. That's actually based on closing spot at 31st March, and I'm not going to try and second guess what closing spot might be in 12 months' time.

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John Pettigrew, Chief Executive Officer

I think Dominic was next.

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Dominic Nash, Barclays

Hi. A couple of questions from me, please. Firstly, could you just give us, sort of, a summary of the timeframe and what the major milestones are for this offshore wind grid and the MPI policy? When are we going to hear decisions from the Government and who's going to be owning it and when, realistically, are we are going to see start construction on that?

And sort of, flipping onto your Capex numbers and the baseline in RIIO-T2, are you lining up for an uncertainty mechanism yet for increased capex? I don't believe anything's been put through the system yet, but can you just give us an update on how that works?

I know it's a cheeky one because I did say two, but I'm going to throw another one in. Going back to the dreaded inflation numbers, the ROREs that you reported in the UK on the numbers just up there, have got a long run inflation number embedded in that, which I don't believe is a spot number. It's a long run assumption number. Can you just give us, sort of, a detail of what number you use for that? And what financing outperformance do you think that you would have made in the last year's number, please?

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John Pettigrew, Chief Executive Officer

Okay. So, let me take the first and second, and I'll let Andy take the third.

So, in terms of MPIs specifically as opposed to any offshore regime for transmission, I'll separate out the two because, there's two debates going on at the moment. In terms of MPIs, as you know, National Grid has been advocating for the next evolution of interconnectors. Its multipurpose interconnectors, which, for those who are not close to it, is basically a traditional country-to-country interconnector that also allows windfarms to connect into it, which gives them access to the European market and the UK market.

We've been in discussions with BEIS and Ofgem around creating the right business model to encourage that type of investment and have been really advocating for them to take one forward in, sort of, a pilot phase where we actually put a business model in place, test it and then create a regime around it going forward. That discussion is going on. We're very hopefully that over the next few months we'll try and land a decision on that. That may or may not create an opportunity then to take some developments and investment forward, but we're working with a number of partners in Europe on those types of developments.

More broadly, there is a consolation that is due to land any day now on how Ofgem see the offshore regime for transmission, on whether that's the evolution of the OFTO model. But also, with the Holistic Network Design, we're expecting there to be potentially links between one offshore windfarm and another, and having transmission links between it and then what's the regime around that? It's not an OFTO, it's not an onshore transmission investment, so what is it and what's the regime look like around that? I'm pretty sure it's imminent, and, in fact, I think we're expecting it this month, but whether it's going to land this month, I'm not sure. But it's definitely soon.

In terms of the Capex numbers and uncertainty mechanisms, actually, we've got lots of them. So, you know, of the £8bn of ETs investment, about £5bn of it was in the baseline and quite a lot of it is through uncertainty mechanisms.

I think the team have already done something like 16 submissions for uncertainty mechanisms which are at different phases. Some of them are relatively modest in terms of size and Capex. Some of them are rather larger.

The two East Coast links, the one with Scottish Power and the one with SE, are going through the process of agreeing with Ofgem what the allowances will be for them. They sit in that, sort of, process of uncertainty mechanisms as well. We've got a whole host of them around cyber investments and smaller types of investments as well.

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Andy Agg, Chief Financial Officer

There was two parts of the question, I think. In terms of our normal long-run assumptions that we use for the metrics that we report, we've tended to use 3% as a long-run RPI assumption and 2% as a long-run CPIH assumption, and that's historically been roughly the wedge between the two, and that's what we've used, certainly since we introduced those metrics.

In terms of last year, as ever, there's not an easy answer to actual financing performance. If you remember, T2 now is on a CPIH basis. Average CPIH last year was around 3.7, as you'll have seen, for example, by the dividend increase.

Within our debt book, we also have a fair amount of RPI debt still within the Electricity Transmission business, which acts as a bit of an offset to some of that increased inflation going through the debt allowance as well.

So, actually, in terms of the current year, we haven't seen a significant uptick in overall debt performance. We've seen some upside, but, as I say, if you take the 3.7 CPIH, offset by the fact that there's an RPI tranche in the debt book, that tends to act as a drag on it.

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John Pettigrew, Chief Executive Officer

So we go there and then come back to you, if that's okay? I'm trying to do it on a fair basis, whoever gets their hand up first.

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Verity Mitchell, HSBC

Morning. I've just got two questions. One is about the share of investment in NGV. I mean, you've almost got a quarter of your investment this year coming from NGV and, with Bight, which you've won since the Capital Markets Day. Should we see that share of NGV growing in terms of the business, both investment and size of the business?

And, secondly, on, I suppose, ED2. You're making 400 basis points of outperformance in UK ED2. Do you see pressure on the upcoming review in terms of efficiencies given that

risk-free rates are going up? There's got to be a squeeze somewhere. How do you see that panning out?

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John Pettigrew, Chief Executive Officer

Yes, in terms of National Grid Ventures, I mean, the numbers are slightly distorted this year for the reason you said, which is, you know, \$300m of it is for a single payment for the seabed lease. Actually, our view on National Grid Ventures hasn't changed in terms of the £30bn to £35bn. I think we set out, in November last year, that we expect £2bn to £3bn of it be to be in National Grid Ventures and that remains our view.

As I said, as new opportunities come on, we see others completing. As I said, we completed IFA2, we completed NSL, the Norwegian interconnector, and we're just about at the tail end of the Danish interconnector. So, they will start to tail off as other investments come through. But £2bn to £3bn still remains the guidance with regard to that.

And, with regards to Electricity Distribution and WPD, we're really pleased with the performance of the business. If you look at the underlying performance of the business, a lot of that 400 basis points above base is coming through the incentives, in particular, through customer satisfaction, reliability and great response times to outages. I think that's driving about 300 basis points of it. That aligns very much with what customers are asking of us and what customers want. And they are getting the benefits of that.

As we look to the discussions with Ofgem for ED2, one of the things we do want to emphasis is just the benefits of incentives and how those incentives can drive great performance and give customers real benefits as well.

In terms of efficiency, hopefully you picked up in my remarks this morning, we've set out a plan that's got a huge amount of support from our customers and from our stakeholders. It sets out an investment plan which I think is 25% higher in the next 5 years than in the last 5 years, but, on a CPIH basis, broadly holds the customer bills flat, which, effectively, embeds around £700m of efficiency savings over that 5-year period.

So, I think we've deliberately put in place a plan that has got that balance right between meeting customer needs, doing the investments needed for the energy transition, but recognising affordability is really important.

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Sam Arie, UBS

Hi. Thanks very much for the presentation today. Obviously, a good full year result, but if there was anything to be disappointed about today, which we're touching on in some of the questions, it's the fact that the five-year framework hasn't moved upwards. I think Mark asked a good question about this on the asset side and we've had a few, kind of,

goes at the inflation sensitivity. But I think, from the outside, a lot of people would have thought you must be long inflation, all things considered, across the different businesses.

And I think what we're hearing from you in the Q&A and what you're saying by keeping the five-year earnings guidance where it was before, is you're not long inflation fundamentally. I just wanted to check, is that right? Is that what you're saying?

And then how does that map with the fact that then you've got an EPS which is not moving within inflation, but you've got a DPS which is? And are you happy putting through DPS increases with inflation if EPS isn't sensitive to inflation in any way? I think this feels to me like the big question for today and I'm struggling to follow why you're not a little bit longer inflation overall. Thanks.

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John Pettigrew, Chief Executive Officer

Okay. Well, again, I'll let Andy talk about inflation and the various metrics. I mean, from a Capex perspective, I don't think you should be disappointed. I think £30bn to £35bn is a massive investment programme. As I said this morning, £6.7bn this year is 19% up on last year, so it's a significant capital programme.

You know, our objective is to manage costs with our supply chain to deliver the volumes of work that we set out in November, and I've given you some examples of the things that we're doing. So, to the extent that we can mitigate cost pressures and deliver that volume, we remain comfortable at the £30bn to £35bn is the right target.

As Andy said, when he looks at the forward curve, we think inflation is going to come off and, therefore, we don't think it's a sort of, continuous increase in cost pressure. We think it will come off. So, that's an underlying assumption in this. But, you know, £30bn to £35bn over a 5-year period is not to be sniffed at.

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Andy Agg, Chief Financial Officer

I mean, on the broader point about the five-year frame, I think, clearly our strategy for many years has been to hedge a portion of our exposure to inflation. Post the transactions, we'll probably be around just over 10% hedge. So, we'll have about a £4.5bn level of index-linked debt within a debt that, we said this morning, will be just under £40bn overall.

And we think, in terms of the overall capital allocation, that's the appropriate strategy to continue to hedge a portion of our index-linked exposure, and that means that we will see some benefits. Then the second point I'd make is, when we announced the five-year frame, we said we deliberately wanted to put a frame out there that was robust to many different scenarios.

And, as John's just said, if I look at the curves today, they're not indicating this is a sustained multi-year inflation. Therefore, when we think about that frame, as I said to an earlier question, we may well be closer to the higher end of the frame than we were previously. But at the moment we think the five-year frame stays good.

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John Pettigrew, Chief Executive Officer

There's a question at the back there.

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James Brand, Deutsche Bank

Thanks. Two questions, please. Firstly, on the US, you're obviously in a very good position in terms of the cost-cutting and keeping your controllable costs flat there and adding an attractive return on equity. But if we think back a bit about your inflation exposure there and your ability to pass through inflation and cost pressures, it seems like you've also made some progress there. You mentioned Massachusetts and having some inflation uplifts coming through in the revenue allowances there for gas as well as power. You've got trackers in New York. Where are we now in terms of the proportion of your cost base, where there's some kind of automatic passthrough if there are cost pressures or inflation, if it's possible to characterise it in that way?

And then, secondly, on the UK and the Government's target, or maybe it's Boris's target for more nuclear. I think that fell into the category of things around energy policy that were after 2026, but I was just wondering whether is that remotely on you radar at the moment? If you're actually having discussions with either the Government or with Rolls-Royce or with companies around what might be required for transmission connections for new nuclear sites above and beyond, obviously, Hinkley Point C? Thank you.

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John Pettigrew, Chief Executive Officer

So in terms of US exposure to inflation, you're right. We're in a reasonably good place given what we've done over the last few years with the various rate cases. In Massachusetts, both electricity and gas, now have what's called performance-based rates, which means that it's a 5-year rate plan that increases revenues by inflation, actually plus 1.7% in electricity and 1.2% in gas to reflect the increased investment over that 5-year period. So that gives us a degree of, sort of, protection against inflation in that jurisdiction.

In our electricity transmission investments we do in the US, under FERC regulation. As you spend the money, it goes on to the regulated asset base and, therefore, effectively, is that cost. So, you've got protection there.

So, the exposure really is in New York. To the extent that we get the forecast wrong when we do a multi-year settlement in the New York, then you have an exposure for the period

of a rate case. You can, if you get it substantially wrong, go back in and try and reopen it. Obviously, we would rather not do that.

So, for KEDLI and KEDNY, we were comfortable to extend, based on the cost pressures we're seeing and the revenues that we've got for an additional year. But we are now going to start negotiations with the regulator over the next 12 months for a new rate filing. Similarly, in NIMO, it's a multi-year settlement and, therefore, you're exposed to the difference, but, at this point, you know, we're comfortable with that. So, that's the inflation question.

In terms of energy policy, it's early days. We were really pleased to see some of the things that were set out in the Energy Strategy document. Obviously, an increased focus on energy independence, but using the energy transition and clean energy as the solution to that, including nuclear.

And the other point I'd make, we were really pleased to see recognition that some things need to change in order to make those investments. So, things like anticipatory investment and changes to the planning process, which are going to be quite important if we're going to meet the targets. So, we're pleased to see that. We've been advocating for them.

In terms of nuclear, it's also early days. Obviously, we've got a lot of experience around nuclear connections. To the extent that they're likely to be at the sites that have been indicated, then we've done a huge amount of work in the past. So, obviously, the Anglesey nuclear connection which we spent about five years working potentially could come back, similarly the one in the North West, and Sizewell.

So, we're not yet sitting down with Government in terms of specific connections but, we understand where these connections are, we understand the infrastructure investment that would be needed to connect them depending on what the timescales are.

I'm going to take a question we've got online. I think Martin Young from Investec is online. So, I don't know if you can hear me, Martin, I hope you can, and the technology is working.

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Martin Young, Investec

Thanks. A couple of questions, if I can, please. The first relates to the suggestion that we might in the future move to locational pricing in the UK, and that comes with a further suggestion that it could have implications for transmission investments and perhaps reduce the need for transmission investment. So, I just wondered what your thoughts around that are in the context of the long-term outlook for NGET?

And then the second question relates to the paper that you put out for a fossil-free future in the US. It's an interesting document that I've been through. But thinking about the UK situation, given that we are struggling to set out a clear view about the decarbonisation of heat in this country, why can't some of the principles that you've outlined for the US be

brought be bear in the UK? Now, I appreciate that you're not really on the gas side in the UK, but, at a high level, you know, why can't we, and why shouldn't we be thinking along those lines for the decarbonisation of heat in the UK? Thanks.

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John Pettigrew, Chief Executive Officer

Okay. Thanks, Martin. They're quite big questions. Let me start with the locational margin pricing. Actually, just to take step back, so one of the things that National Grid's been doing consistently as part of the debate and discussion with Ofgem and BEIS is to say that, in order to deliver the energy transition then there'll need to be regulatory reform, institutional reform and market reform.

I've already mentioned some of the things we've been advocating on a regulatory form, such as anticipatory investment. Re: institutional reform, we were pleased to see the decision in the BEIS document around the future of the system operator. That's something we've been working with BEIS and Ofgem on, so I think that's a good step forward in terms of institutional reform.

In terms of market reform, we also see that there's a need to look at the market, how it operates, and I think, within that, it includes things like how do we incentivise things like long-term storage? The energy market reform that came in about a decade ago has been very successful at encouraging offshore wind through the CFDs and the capacity market, but what's the next wave of that and what does that look like to encourage long-term storage?

Similarly, given the volume of new generation that's going to connect to the network, I think it's right to ask the question, how do you allocate the costs of that? Locational margin pricing is one proposal and one solution. It is a solution that many countries use. We're very familiar with it in the US. If you did the maths today, what it would tell you is you need to build transmission because you've got a load of generation being built in offshore in the North Sea and, therefore, you'll need to build a transmission in order to export that generation. But I think it's the right debate to be had and, obviously, are own ESO, shares its thoughts.

There was a really good report that was published recently by Catapult which was supported by Octopus, which, again, gives their views on it. But the fact is the Government is going to do a consultation on the review of the electricity market and I think locational margin pricing will be one of the issues that they'll consider as part of that broader market reform.

In terms of the fossil fuel future for the UK, I could say that's probably the job of the other distribution companies in the UK. But I think one of the things that I would say about it, and one of the things we've learnt is, it's likely that the solution for gas is going to be different in different jurisdictions.

The North East of the US, for us is, as you know, a key jurisdiction that is very cold in winter and very mild in summer. Therefore, the volumes of gas that we see being used for heating in the winter are massively different to the summer and, therefore, we needed a solution that reflects that.

Also, the geology of the two countries is very different. So, blue hydrogen is not necessarily a very good solution in the North East of the US because there's nowhere to store the carbon, whereas, in the UK, potentially blue hydrogen is a solution because, we've got these massive caverns and gas and oil fields that you can store the carbon dioxide in.

So, I think, you need to define a roadmap and solution that's fit for purpose for the geology, the geography, the climate and the infrastructure that you have. I think it's the same challenge in the UK. Looking at things like blue hydrogen, and, of course, we're involved in that with the carbon capture project in the North East, it looks quite sensible when you could actually store that carbon efficiently in oil caverns in the North Sea.

So, we are thinking about it from a transmission perspective as we still own the transmission business for a few more months, and we are thinking about a backbone for hydrogen to support industry which will be very helpful to CO2 emissions. But, at the distribution level, you have to think about it in the context of what are the challenges for the UK. These are not just the same as the US.

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Nick Ashworth, Director of Investor Relations

I've got another question online which is a written one. It's from Bartek at Societe Generale. There's two parts to it. The first part is: draft determinations have resulted in some disappointments for NGED given low Totex approval and business plan penalties. How do you assess the risk of a similar disappointment to come from the upcoming DDs for electricity distribution? And so, could you assure the market that you have learnt from past mistakes?

Secondly - what could be the potential basis for the valuation of the SO assets when being transferred to the new state-owned entity - premium or no premium to RAV, earning multiples, book value of assets?

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John Pettigrew, Chief Executive Officer

Okay. Well, I'll let Andy talk about the second. In terms of Electricity Distribution, WPD, the first thing I'd say is I'm really proud of the way the team has approached it. I think, compared to any other Electricity Distribution company, they've had more drafts to their business plan and have shared with customers and stakeholders. And, as I said earlier, I've had 25,000 people comment on it. So, we're really comfortable and confident, I think, that we're reflecting what people are asking of us.

Ultimately, we're in the hands of Ofgem as to whether they agree with that view, but in terms of lessons learnt, the team's spent a lot of time with the Electricity Transmission team to make sure that we have learnt the lessons, and they've been reflected in the submission that we made.

So, we're hopeful that the draft determination will be a sensible draft and then, obviously, there'll be a bit of work to do between the draft determination in June and the final in December. In terms of what we submitted, I think we've got the balance right between the capital investment to support the energy transition and affordability, which is massively important as well.

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Andy Agg, Chief Financial Officer

Bartek, just on the System Operator question. Clearly it's very early days. It was obviously included in the strategy. It has been included in the Queen's Speech, so we absolutely expect it to be in the Energy Bill. We're really early days in terms of a dialogue with BEIS and others around both the process for separation as well as any approach to valuation.

For reference, you'll have seen this morning the RAV of the SO is just under £300m, as a reference point, but obviously we'll update further as that dialogue progresses.

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John Pettigrew, Chief Executive Officer

Okay. So, I don't see any more hands, so I'm going to say thank you very much, ladies and gentlemen, for joining us this morning.

As I said, I think, if we look back over the last 12 months, we have had good operational performance and strong financial performance. I think we're really well-placed to deliver on the capital investment programme we've set out for the next five years.

So, thank you. I look forward to seeing you all soon.

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