NATIONAL GRID

Half Year Results 2022/23

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Transcript

Speakers

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Q&A participants

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Introduction

Nick Ashworth:

Good morning and welcome to National Grid's half year results presentation. I'm Nick Ashworth, Head of Investor Relations, and it's great to have so many of you on the call today. Firstly, please, can I draw your attention to the cautionary statement at the front of the pack.

As usual, a Q&A with John and Andy will follow the presentation. So please join via the conference call to ask a question.

All of today's materials are available on our website. And for any further queries after the call, do feel free to reach out to me or one of the IR team. So with that, I'd now like to hand you over to our CEO, John Pettigrew. John.

Highlights & Operational Performance

John Pettigrew:

Thank you, Nick. Good morning everyone and welcome to the call. As usual, I'm here with Andy Agg, our CFO. And following our presentations, we'll be very happy to take your questions.

The strong results we've announced today, alongside our upgraded five-year financial frame, reflect the resilience of our business during some of the most turbulent and challenging economic conditions we've seen in years. Between April 2021 and March 2026, we now expect to invest up to £40 billion, up from the £30 to £35 billion we originally expected. Of this, £29 billion will support the decarbonisation of our energy systems. This will deliver asset growth of 8-10% per annum, drive average underlying earnings per share growth of 6-8% per annum, whilst maintaining our strong balance sheet and attractive dividend.

Our investment in critical infrastructure is fundamental to the successful delivery of decarbonisation, greater security supply, and improved affordability for customers. And our focus on these areas is creating significant opportunities for us today and will drive our growth long into the future.

In the near term, as we head into the winter, affordability is understandably front of mind. We continue to progress our three-year cost efficiency program delivering a further £85 million of savings in the first half, on top of the £140 million last year. This is helping us keep our part of the bill as low as possible, whilst delivering asset growth over the three years of around 30%. At the same time, we've taken steps to help our most vulnerable customers, who need additional support right now. We've announced that we'll provide £65 million to families most in need of support in the UK and the US, to help them with their higher energy bills over the coming two winters. This is in addition to the accelerated return of £200 million of interconnector revenues, that we announced back in May.

Despite this backdrop, we've continued to make excellent progress to deliver on our key strategic priorities during the first half. In May, we completed the sale of our Rhode Island business. We're also on track to complete the sale of a 60% stake in our UK Gas Transmission business, to a Macquarie led consortium by the end of this calendar year. As part of this regulatory clearance, the CMA is expected to complete its review by the end of November. The consortium also has an option in the remaining 40% on broadly similar terms.

Following the acquisition of Western Power Distribution in June of last year, we've made good progress in integrating it into the wider group and have renamed the business National Grid Electricity Distribution. The conclusion of our strategic pivot repositions our portfolio towards electricity and gives even greater visibility to our growth trajectory over the long term.

So turning to our financial performance, whilst reported results are elevated in the first half, given structural changes to our portfolio, I'm really pleased with the performance of the business.

On an underlying basis, that is excluding the impact of timing, exceptional items, and the contribution from Gas Transmission and Metering, which is classified as a discontinued business, operating profit in the first half was £2.1 billion. This reflects a full six months of contribution from both UK Electricity Distribution and our NSL interconnector to Norway. The planned property sales to Berkeley Group, which formed part of the sale of our St William Joint Venture in March, as well as improved operational performance across all of our regulated networks.

Excluding the timing impact of owning UK Electricity Distribution for longer, and the property sales, underlying operating profit is up 8%, compared to the first half of the prior year at constant currency.

Underlying earnings per share was 32.4 pence, and we now expect full year underlying EPS to be in the middle of our new 6-8% growth range.

Capital expenditure for our continued operations was £3.9 billion, 26% above the prior year, reflecting a full six months of UK Electricity Distribution, higher investment across both New York and New England, and in National Grid Ventures, higher investment on the Sellindge converter station rebuild, our Viking interconnector, and our Isle of Grain expansion project.

And in line with our policy, the board has proposed an interim dividend of 17.84 pence per share, reflecting 35% of last year's full year dividend.

Turning next to our safety and reliability performance. Safety, as always, remains a critical focus across the business. In the first six months, we saw a slight improvement in our Injury Frequency Rate to 0.12, but still behind our target of 0.1. Following a tragic event in Massachusetts in May, where a US employee lost his life, we've redoubled our efforts to reduce safety incidents, and implemented further learnings through an updated safety strategy rolled out across the group.

Moving to reliability, which has remained excellent across our UK and US networks. In the US, we've seen fewer storms than last year. The few we've had only impacted a small number of customers with everyone reconnected within 25 hours. In the UK, we've managed well through the summer, despite the volatility of energy markets. This demonstrates the effectiveness of new tools the Electricity System Operator is using, which support both the energy transition and the reliability of our networks today.

And I'm sure many of you would've seen the Winter Outlooks published last month. Given the uncertain outlook for gas this winter across Europe, both the Electricity and Gas System Operators have set out, not only the base scenarios, but also provided additional downside cases.

With regards to the Electricity System Operator, its base scenario forecasts an electricity capacity margin of 6.3%, a similar level to recent winters, and within the required Reliability Standards. The

Gas System Operator is forecasting available peak capacity of over 600 million cubic meters per day, compared to a one in 20 years peak demand of 480. We're confident of delivering our usual high standard reliability across our energy networks in the months ahead and remain vigilant as we move through winter in both the UK and the US.

Moving now to the operating performance across the business, starting with UK Electricity Distribution. I'm really pleased with the performance of the business since we acquired it in June last year. I've seen first-hand the passion and knowledge the team brings to delivering for its customers, which I'm convinced will help to drive further improvements to performance across all our businesses. Capital investment reached £584 million in the half, following a 10% increase in new customer connections, driven by low carbon technologies. And as we approach the end of ED1, our key priority is to reach a settlement on the ED2 price control.

At the end of June, we received the Draft Determination, and we're working with Ofgem on four key areas. First, streamlining the number of uncertainty mechanisms, to reduce complexity and allow for efficient investment. Second, to agree more symmetrical incentives, having seen the significant customer service benefits of these in ED1. Third, narrowing the gap on Ofgem's proposed 19% reduction to our expenditure, so we can deliver the outcomes our customers have asked us for. And last, given the macroeconomic situation and critical need for investment, we must reach a sensible outcome on the financing package, in particular, a fair allowed cost of capital, that reflects the higher cost of equity and debt we are now seeing in the market.

Moving on to our UK Electricity Transmission business, we've made good progress with our capital program, investing £629 million in the first half. This increased investment was principally due to higher spend on our £1 billion London Power Tunnels project, as we undertake our first full year of tunnel boring work. And our initial overhead line projects as part of our East Coast Reinforcement program, starting with the Bramford to Norwich circuit. We've also continued to make good progress on our Hinkley C Connection project, which is now over 75% complete and on track for full completion by December 2024.

On the regulatory front, in August, the ESO published the first Holistic Network Design, which lays out a plan for a coordinated onshore and offshore network to efficiently meet the government's ambitious targets for 50GW of offshore wind. I'll come back later and talk about the key decisions needed in the next six months to allow us to support the government in its aims.

Finally, in the UK, Gas Transmission continued to be reported as a Discontinued Operation, following the announced sale. The business has continued to perform well with capital investment of £174 million, up 33%, reflecting higher spend on asset health and in line with our RIIO-T2 regulatory allowances.

Now, before moving on to the performance by US business in the first half, I want to spend a moment on the Clean Energy Vision we launched earlier this year. As those of you who attended our investor event in Brooklyn know, we envisage a fossil free future for our networks by 2050. We're targeting a hybrid, electric, and clean gas approach, that will utilize the gas networks, provide continued security of supply, allow customers to have a choice, all whilst keeping customer bills lower than an all electric alternative. I'm pleased that we've had such a positive response from policy makers, regulators, and local communities to this vision.

So focusing, first, on New York, our capital investment program at over £1.2 billion during the half was 27% higher at constant currency. This was largely driven by increased resilience and storm hardening spend, as well as large scale renewable connection projects, such as the Smart Path Connect project, where we're upgrading 110 miles of transmission lines in upstate New York. Our Leak Prone Pipe replacement programme continued on track with 123 miles of pipeline replaced.

On the regulatory front, in July, we received approval to proceed with the Phase 1 projects under the state's Climate Leadership and Community Protection Act, or CLCPA. This represents around $600 million of investment before 2030, including projects such as the 129 miles of circuit rebuild in our Niagara Mohawk service area, to support incremental renewable generation capacity. And by the end of this year, we also anticipate a response on the CLCPA Phase 2 order, which includes a further $2 billion of investment to enable over 2GW of renewable generation in upstate New York.

Moving across to New England, it's been a busy regulatory period for us. In September, the Massachusetts regulator approved our annual rate adjustments for Electric of $44 million and for Gas of $64 million. These rates became effective at the beginning of October. Also, in September, the DPU approved our five-year demonstration programme for community ground source heat pumps, and we aim to select a first site by the end of the year. And in October, the DPU approved just over $300 million of investments, as part of our Grid Modernization plan.

In the period, capital investment grew by 7% of constant currency, to £862 million, due to increased asset condition work in electricity distribution and transmission, and continued leak prone pipe replacement with 71 miles delivered in Massachusetts in the half. This growth was partially offset by lower investment in Rhode Island, as we completed the sale to PPL at the end of May.

And finally, moving to National Grid Ventures, where capital investment reached £478 million, up £181 million on the prior period. This reflects progress on the Sellindge converter station rebuild, expansion work on our Isle of Grain LNG facility, continued construction of the Viking Link, with 558 kilometers or 73% of the cable now laid, and increased investment in renewables with a construction of over 670MW of solar projects in the US. Elsewhere, we continue to make progress on our multipurpose interconnectors and the case for further network integration to European countries through offshore wind farms. And in the US, our offshore wind Joint Venture with RWE has been developing proposals that we expect to submit to New York State in January, as part of its third solicitation for offshore wind.

So with that operational overview of the first half, let me now handover to Andy to take you through the financials, before I come back and talk about our priorities for the rest of this year. Andy.

Financial Performance

Andy Agg:

Thank you, John, and good morning, everyone. I'd like to highlight, as usual, we're presenting our underlying results, excluding timing, exceptional items, and that all results are provided at constant exchange rates. And as a reminder, we continue to report our UK Gas Transmission business, including our legacy Gas Metering business, as a discontinued operation, whilst we complete the 60% stake sale. As such, all earnings from this segment have been excluded from the underlying earnings of the continuing group.

Before turning to our financial results for the half year, I'd like to start by expanding on the comments John has made about our strong and resilient business model. This is partly driven by the regulatory frameworks we have in place, but it goes much further than this to the efficient delivery we drive and the long term financing strategies that we put in place. Together, these enable us to manage the impact of changes in exchange rates, inflation, and interest rates, and it's why we're able to deliver an attractive balance of growth and yield, year after year.

In order to reduce exchange rate volatility from our US businesses and to reduce the exposure of our ratings metrics to changes in FX, we consistently hedge around 70% of our US assets with dollar denominated debt. This means, from an earnings perspective, our general rule of thumb is that, for every 5¢ move in the US dollar sterling exchange rate, we expect to see a plus or minus 1p move in EPS, on an annualized basis.

Moving to inflation, as we said back in May, in the near term, inflation is broadly neutral to our EPS, as higher UK underlying operating profit is offset by higher index-linked debt costs. In due course and assuming inflation moderates, UK operating profit will benefit from real returns on a higher regulated asset base. This should then translate into improved earnings, as the level of index-linked interest costs reduce.

Finally, with interest rates moving higher, we do expect our funding costs to rise, as we look forward. Our regulated operating businesses broadly match leverage to our regulatory frameworks, which enables us to recover efficient debt costs. We also have just under £12 billion of debt at the hold co level, with maturities out to the early 2030s. The higher expected interest cost of this refinancing has been factored into our updated five-year financial frame.

And so, pulling all this together, our updated five-year frame demonstrates the strength of our business model. For the period from April 2021 to March 2026, we now see capital investment for the group of up to £40 billion, from our prior guidance of £30 to £35 billion. As we said in May, inflationary impacts were taking our expected Capex to the top end of our prior range. This has now been further increased by a stronger US dollar and incremental confirmed investment for the energy transition.

This higher level of investment will increase our asset growth CAGR to 8-10% over the period and drive a higher EPS CAGR of 6-8% from the FY21 baseline. And we continue to aim to grow the dividend in line with average CPIH. Importantly, these high levels of investments and growth can be delivered, whilst credit metrics remain within the bands required to maintain our strong investment grade credit rating. Indeed, once the transactions are complete, even with higher levels of investment, we expect Net Debt to RAV of around 70%.

Nearer term, as well as updating our five-year financial frame, we're also upgrading our FY23 EPS guidance. We now see underlying EPS for this year growing in the middle of our new 6-8% CAGR range, based on our assumption of an average US dollar exchange rate of 1.2 for the year, and after taking into account the new winter support package, that John talked about earlier. As well as the move in FX, we are also seeing an improvement from higher capitalised interest as rates have increased, as well as some improvement across our interconnecter portfolio and from higher fuel gas income at the Isle of Grain, across our National Grid Ventures division.

So turning into our half year performance, underlying operating profits on a continuing basis increased by £647 million to £2.1 billion. This increase in operating profit was mainly driven by a full six months of earnings in the period, from UK Electricity Distribution, following its acquisition in June 2021, the completion of property sales, following the sale of our stake in the St William Joint Venture to Berkeley Group, a higher interconnector contribution, following the commissioning of our Norwegian interconnector NSL, in October 2021, as well as good underlying performance across our regulated businesses.

Higher operating profit, partially offset by a rise in interest costs, has resulted in underlying earnings per share increasing by 42% to 32.4 pence. Capital investment from continuing operations was markedly up to £3.9 billion, 26% higher than the prior year. This reflects the full six months inclusion of UK Electricity Distribution capital investment this period, as well as higher non cash lease additions in New York and New England. In line with our policy, the Board has proposed an interim dividend of 17.84 pence per share, representing 35% of last year's total. Script uptake in the Summer on the full year dividend was 9%, and we'll again be offering the script option at the half year mark.

Now let me take you through the performance of each of our business segments. Starting with UK Electricity Distribution, underlying operating profit was £579 million, up £322 million from the prior year. This was largely driven by the additional two and a half months of earnings this year, alongside higher indexed revenues, and a small gain on disposal of its Smart Metering business. Capital investment increased to £584 million for the half year, an increase of £269 million compared to the prior period. We've achieved network reliability of 99.995% and have the industry leading Broad Measure Customer Satisfaction Score of 9.01 out of 10 across our 8 million customers.

Moving to Electricity Transmission where underlying operating profit was £564 million, up £12 million compared with the last half year. Whilst we've seen a good first half performance, as we announced back in May, we returned £69 million related to the Western Link settlement in the period. Capital investment was £629 million in the period, delivering system resilience, asset health and new connections, and we're making good progress in our significant capital projects with tunnel breakthroughs at London Power Tunnels 2, and the installation of new T-pylons at our Hinkley Connection project. Finally, in the UK, the Electricity System Operator saw underlying operating profit up £3 million in the period to £52 million.

Moving now to the US where underlying operating profit for New York was £202 million, £40 million higher than the prior year. This reflects higher revenues for our rate case settlements and our successful efforts to recover COVID costs from prior periods, partially offset by higher environmental provisions. Capital investment was £1.2 billion, £264 million higher than prior year at constant currency. £150 million of this increase was driven by non-cash lease editions, which are not expected to be repeated in the second half.

Turning to New England, underlying operating profit was £316 million, £32 million higher than the prior period. This reflects higher rates in our Massachusetts gas business under its new rate settlement and the annual Performance-Based Regulatory reset in our Massachusetts Electric business, partly offset by the disposal of Rhode Island in May, resulting in four months or about a £60 million lower contribution. Capital investment was £862 million, £58 million higher than prior year at constant currency. This was driven by around £150 million of additional investment in Massachusetts, offset by lower levels in Rhode Island, given its sale in the period.

National Grid Ventures continued to perform well with underlying operating profit, including Joint Ventures, up £133 million to £331 million in the half year. This primarily reflects the contribution from our Norwegian interconnector, which commissioned in the second half last year, increased profit at the Isle of Grain, driven by higher fuel shrinkage income, and insurance proceeds received following the 2021 fire at our converter station in Sellindge. The rebuild of the IFA asset is on track with 500MW of the 1GW offline due back this month, and the remaining 500MW expected to return to service in December 2022. This results in 2GW of expected available capacity going into this winter. Capital investment across National Grid Ventures increased £181 million to £478 million in the period.

Operating profit for Other activities for the half year was £145 million, £130 million higher than last year. This is principally driven by property sales completing in the first half as part of the St William transaction, partially offset by fair value losses at National Grid Partners, given adverse market conditions. Capital investment was £46 million, broadly flat on the prior year.

As John said, we expect to complete the sale of a 60% stake in our Gas Transmission and Metering business by the end of the calendar year. We therefore continue to report this segment as discontinued. For the period, operating profit, excluding timing, was £381 million. This was 49 million higher than the prior year, largely driven by the cessation of depreciation as the business is treated as held for sale. Capital investment was £174 million, £43 million higher than the prior year.

Net finance costs were £732 million, up £221 million, primarily driven by index linked debt given higher levels of inflation in the period. This period also included an additional two and a half months of UK Electricity Distribution and bridge facility financing costs. The underlying effective tax rate before Joint Ventures was 19.7%, 70 basis points higher than the prior year. For the full year, the underlying effective tax rate, excluding the share of Joint Venture post-tax profits is expected to be around 22%. Underlying earnings were £1.2 billion, with EPS at 32.4 pence, up 42% on the prior year.

Moving now to cash flow. Cash generated from continuing operations was £2.4 billion, up 16% compared to the prior year. This reflects the full six months contribution from UK Electricity Distribution and the sale of property sites to The Berkeley Group in the half year. Net cash outflow in the period amounted to £3.1 billion, given higher levels of capital investment and high levels of cash dividend, given the lower script uptake. Net debt increased by £3.7 billion to £46.5 billion, with a stronger US dollar accounting for £3.4 billion of this. The remaining net cash outflow was broadly offset by proceeds from the sale of Rhode Island. For the full year, net debt is expected to reduce by £5 billion from this September level, assuming a 1.2 USD exchange rate, driven by the expected receipt of sales proceeds from Gas Transmission and Metering, as well as the sale of our interest in the Millennium pipeline.

Finally, I want to touch on our debt structure. As of September, our split of net debt is 71% fixed, 19% floating, and 10% index linked. As we close the sale of Gas Transmission and continue to pay down and refinance the bridge loan that we've had in place since the acquisition of Western Power, we would expect the level of floating rate debt to be more in line with levels pre-transaction at around 10%. We remain comfortable with our funding requirements, which are on average between £5-£6 billion per annum, and in the first half we've already completed £4 billion of bond financing.

So to summarise the first half, we've shown that we have a strong and resilient business model and performed well against a volatile economic environment. Demonstrating this, we're upgrading our five-year financial framework, as well as upgrading our earnings outlook for FY23. With that, I'll hand you back to John.

Outlook and Priorities

John Pettigrew:

Thank you, Andy. The next six months is shaping up to be a defining period where decisions will be made which could have lasting repercussions around the speed and the cost of delivering clean, secure, and affordable energy, and with it, whether ambitious climate goals are met over the next decade. As one of the biggest investors in delivering net zero, we're vital to the continued safety and resilience of our networks today, whilst enabling the clean energy of tomorrow. Our foremost priority for Electricity Distribution is to agree a settlement for ED2 that will come into effect in April 2023.

In Electricity Transmission, we've presented Ofgem and Government with clear plans through to the end of the decade on the network reinforcements needed to deliver offshore wind, and we expect decisions on this over the coming months. As you know, the Government has set a target to deliver 50GW of offshore wind capacity by 2030, and a fully decarbonised electricity system by 2035. The scale of the challenge is enormous. It requires the industry to deliver over five times the amount of electricity transmission infrastructure in the next seven years than has been built in the last 30. The Holistic Network Design I referred to earlier lays out plans to connect this 50GW. It's identified 19 major onshore transmission projects in our service territory. Delivering all of these projects would mean a potential investment of £14 billion.

Alongside this, Ofgem recently published an open letter as part of its initial engagement process ahead of the next RIIO price control period. We agree that now is the right time to test whether the current regulatory framework is appropriate to meet the strategic challenges facing our energy systems, but it's clear that to have any hope of hitting the UK's ambitious targets, we need ever greater collaboration between industry, the UK Government and Ofgem, with a relentless focus on delivery.

We've been clear with Ofgem and BEIS that urgent progress is needed in five areas. First, industry requires commitment on the infrastructure needed to be delivered so that the supply chain has the certainty it needs to scale up and deliver at pace. Second, we need a regulatory framework that allows for anticipatory investment. Without this, industry will continue to face long connection queues and significant constraint costs. Third, urgent planning reform is needed to reflect the scale of the UK's net zero ambition and the urgency in which investment is needed. Fourth, clear long-term economic benefit is needed for communities where new infrastructure is built. And finally, an agreement on key parameters of a financial framework that fairly represents the proportionate risk and reward of the work required. We're actively engaged in discussions with Government and Ofgem as the regulator looks to make final decisions on the East Coast projects by the end of the calendar year, and as we think about the regulatory framework for RIIO-T3, now is the time for action. Any delay in decision making or failure by Ofgem to put appropriate regulatory frameworks in place here or with ED2 two will increase the risk of the UK missing its targets and could ultimately increase the cost of the energy transition in the long run.

So moving now to our US priorities. We've developed a very collaborative and constructive relationship with Governor Hochul in New York. We look forward to continuing to work with her, following her re-election earlier this week. Our priority will be to develop a similar relationship with Governor Healey following her election in Massachusetts. And as we look to the coming winter and beyond, our focus remains on delivering safe, affordable, and reliable energy for our customers, whilst also working to develop the pathways and regulatory frameworks that are going to be needed for a clean energy future in the US Northeast.

From a regulatory perspective, there's a lot to achieve as we look to the second half of this year. In Massachusetts, the approval for up to $400 million of Advanced Metering Infrastructure funding will deliver a full scale rollout of smart meters across our customer base. In addition, the DPU approval of our Massachusetts Phase 3 Electric Vehicle filing, which is a $275 million four-year proposal to deliver up to 32,000 public workplace and residential EV ports. And we're actively engaging with the DPU for approval of these filings by the end of 2022.

In New York, we're already working on our 2024 KEDNY and KEDLI cases, which we expect to file next spring.

And across the US northeast, we're advocating working with all stakeholders in progressing our Clean Energy Vision. In December, the New York State Climate Action Council is expecting to make its policy recommendations on the role of gas networks in meeting the State's net zero targets. These recommendations will be followed by consultations, regulatory processes and legislation, and we're closely engaged in the debate. And in Massachusetts, by the end of the year, the DPU is expected to issue an Order on the role of gas distribution companies in achieving 2050 targets. We've been vocal in our views around the customer benefits of a hybrid solution, and are actively working with all stakeholders to make this a reality.

At the federal level, the Infrastructure Investment and Jobs Act and the more recently announced Inflation Reduction Act are supporting the energy transition in the US. The latter includes the largest funding package targeted at energy in US history. The Act will see investment of $369 billion, incentivizing over $1 trillion investment in domestic energy production, electrification and clean energy manufacturing over the next decade. By lowering the cost of technologies like hydrogen and renewable natural gas, the Act lends support to our Clean Energy Vision for a fossil-free future by increasing affordability of decarbonisation goals. The Act also supports our priorities in National Grid Ventures, where we're working with others on a Northeast Hydrogen Hub centered around our assets on Long Island.

Now before I finish, I just want to touch on our Responsible Business Charter, which we launched two years ago. Delivering as a responsible business is incredibly important to me as the CEO of National Grid. Since it's released, we've updated you on our progress via the publication of two Responsible Business Reports. Whilst I'm pleased with the progress that we've made, we want to go further. In 2023, we'll be launching the next iteration of our charter, revising a number of our targets and strengthening our ambitions where appropriate. I look forward to sharing this with you in the first quarter.

So in summary, this has been a period of significant progress alongside strong financial performance. Our underlying resilience in challenging economic conditions is demonstrated by the upgrades we've made today to both our near term earnings outlook and our five-year financial framework.

As we've heard from world leaders at COP27 this week, investment in the clean energy transition is the way out of this current crisis. Connecting clean energy at scale and at pace will bring consumer bills down, increase resilience and energy security, and of course will be key to achieving the net zero goals. That's why the opportunities in front of National Grid are so exciting and reinforce the vital role that we have in making the energy transition happen. The next six months will be pivotal to determining the speed and scale of network investment over the next decade, and as we gain clarity, we'll update you on the long-term plans in the first half of next year. So with that, Andy and I will be happy to take your questions.

Q&A

Martin Young (Investec):

Good morning to everybody, and a couple of questions. The first one is to pick up on what you've been alluding to by way of a long term picture. You've put a number on what those onshore projects might entail in terms of Capex if they all come to fruition, but obviously there's the offshore network transmission review that's ongoing. You talked a bit about the US. If I were to try and stitch that all together... And I know it's early days, could we be looking at a ballpark number of about £8 billion of investments per year from 2027 onwards? And given that it's not just about wires, it's about the whole value chain, what else do we need from the politicians, given that some of the things that are being talked about could actually be an impediment to the speed at which renewables are brought on if the investment landscape is somewhat muddied by revenue caps and/or windfall taxes?

And then the second question really gets to the situation that we could be facing this winter. Now, I hear what you say about the ESO putting out a range of scenarios. They obviously have a number of tools at their disposal to make sure that the lights stay on, but I'm conscious of reciprocity with our neighbors in Europe. What happens in terms of the redistribution or the recharging of balancing market costs to our friends on the continent if we pull levers to help them out over winter? It seems possibly a little bit unfair that British consumers could face higher charges if we're helping somebody else out. So any sort of high level comments that you might have on that please. Thanks.

John Pettigrew:

Okay. Thank you, Martin. Two big questions. Let me deal with both of those. So first in terms of just the longer term view on investment, well, let me just start by just reiterating today, the first thing we've done is to set our expected investment until 2026, which is an increase from the £30 to £35 to £40 billion. So that's a substantial increase in investment that we're making.

As we look longer term to the targets that have been set for 2030 and beyond, as we've said historically, we expect to see continued levels of high investment. I think it's a little bit early to start to determine exactly what that looks like on a year-by-year basis. And you would've seen in my speech that I said that, once we've got a bit more clarity, which I think we'll get over the next six months, we'll be able to update the market. In the US, we've got a pretty big rate filing in KEDNY and KEDLI. So we need to work through that and make sure what we understand what's the capex of that. We've got a number of transmission projects that we're seeing starting to develop in the US as well. In the UK, obviously we've got the outcome of ED2 and making sure that we get a landing on that, and we're currently consulting on the regulatory framework for the onshore transmission related to the 50GW. So we got a lot of information that's going to be a lot clearer in six months time than we have today, but there's no doubt that the investment that we're seeing between now and 2026 is going to continue into the long term.

In terms of impediments, again, I think I set out in my speech, that over the next six months, there are some key decisions that need to be made. One of the key ones is being clear on the regulatory framework for the onshore transmission work that will support the 50GW and, obviously Ofgem our consulting on that at the moment, and have set a target of the end of this calendar year to make a decision. That's important so we know who is doing the work, whether it's ourselves, whether it's going out to competition, or whether it's the Scotts.

On top of that, I've mentioned the fact that anticipatory investment is going to be really important if we're going to accelerate the energy transition. And things like the planning process as well are in that. Again, the UK Government set a target to reduce the planning process by a half. We are very supportive of that. We're responding to the consultation on it. And then finally community benefit is going to be important as well. So many communities are going to be hosting infrastructure on behalf of the UK, and there's a consultation out on that. So there's some key decisions that need to be made in the next six months, which will give us a lot more clarity about exactly what investments we're being asked to do and in what timeframes we're being asked to do them.

In terms of the winter. So let me just reiterate, the opposition hasn't changed from the winter outlook reports that were published by the Electricity System Operator and the Gas System Operator a month or so ago.

So for electricity, our expected view is that there is sufficient generation to meet demand plant margins at 6.3%. Those that are close to this will know that's very similar to what we've seen in previous winters. And on the gas side, there's about 600 million cubic meters a day available against a one in 20 year peak demand of about 480. So again, plenty of gas available. Quite rightly as a prudent system operator as you'd expect with everything that's going on in Europe and with the Russian Ukraine situation, they've set out some downside scenarios, but to be clear, they're not what they're expecting. What they're expecting is there is sufficient generation to meet demand. In terms of the interconnectors, I mean one of the fantastic things about the interconnectors is they do flow both ways and therefore they provide support to Europe when Europe needs support and vice versa. I suspect that will continue this winter as it does in other winters. So the good thing about them is the peaks on the systems are different and therefore the ability and the flexibility they provide to import at parts of the day and export at other parts of the day is really valuable to the system operator. So I think it's just worth remembering that we get benefits when they're exporting to us and they get benefits when exporting to them and that's a really valuable tool I think for us this winter.

Mark Freshney (Credit Suisse):

Hey, I've got two questions. The first question for Andy. Clearly borrowing costs for all regulated utilities are the highest they've been in 15 years. And you're talking about things like yield to first call and some hybrid at 8%. You've given us a lot of comfort on the balance sheet, but can you talk through some of the other measures that you could take if there's another increase in capex guidance? And I'm thinking in terms of asset disposals, or alternative sources of finance that you could take.

And secondly, I've got a question for both of you on returns going into ED2. I mean the cost of equity indexation works in your favor, but we're talking about an 80 or 70 basis point increase in returns on equity when you can see what's happened to bond yield and share prices. So my question is, how confident are you and what message would you give to Ofgem on the cost of equity going into the 30th of November and getting something on top of the standard indexation for equity and indeed debt? Thank you.

John Pettigrew:

Well why don't I take the second question and then let Andy take the first one on the borrowing costs. I mean in terms of ED2, as I've said this morning, and as you'd expect since the Draft Determination, there's been a huge amount of dialogue between National Grid and Ofgem, as there always is in discussing all the key parameters that are important to get to a final decision that's acceptable. So as I said, we're working with Ofgem on the uncertainty mechanisms on the efficiency challenge as well as incentives. Clearly with what's happened in the external market, then part of the conversation we're having at the moment is around what's an appropriate allowed cost of equity and cost of debt. We've seen what's happened in the market with risk-free rates and what the implications might be for total market returns as well. So I couldn't say much more other than we're in ongoing dialogue with Ofgem. We're expecting to see a final determination at the end of November, and we'd expect to see some response from Ofgem from the Draft Determination given what's happened in the market. Andy.

Andy Agg:

Hi Mark. I mean just quickly to remind you, as we set out this morning, the revised five-year frame with the higher levels of capex, now up to £40 billion through to FY26, takes account of our expectations of higher interest rates feeding through. And that's very much aligned with what we see in the forward curves that are out there today. So just to be clear on that.

And again, there's no assumption within that for the further use of hybrid. You referenced a pricing of hybrids at the moment. Clearly we have a couple within our debt book today. Obviously, we will look either to do the right thing with those as they approach first call and so forth, but we have no intention within that five-year frame of further high re-issuance. So that remains available to us.

You'd already have seen this year with the Millennium sale that if the conditions are appropriate, and there is value from a shareholder perspective that we'll potentially crystalize value, where there are non-core assets like that. But to be clear, there's nothing assumed in the five years, and we're very comfortable with the frame that we've set out, and that it is very aligned with the metrics that we need to maintain.

And just two other quick points. One is to remind you also, we are driving £400 million of operating cost efficiency through to FY25 as well. That's the program we announced last year. That remains very much on track. So that is clearly a mitigant to some of the higher interest costs. And then finally, I'd just echo John's point around as we look forward to ED2 and obviously future price controls, we are also working hard with Ofgem around the debt tracker mechanism in the UK to ensure that that tracker appropriately takes account of the higher interest rate environment and the higher levels of capex that are expected going forward. So that'll be a key point as we look forward to final determinations.

Dominic Nash (Barclays):

Good morning everybody and thanks for the presentation. A couple of questions from me, kind of following on from Mark's question that you kind of answered and didn't. But I was quite intrigued by your pension position in the back of your report, and it looks to me that you are putting a discount rate now of 5.35% with inflation of 3.5%, which is a huge change from March to September. And so, sort of two questions around this is, do you think that's kind of reflective of the change that we've seen really since the July Draft Determination on the increase in returns, which is a couple of hundred basis points potentially on risk-free? And secondly, did you have a pension liquidity issue? Because I saw that your assets have fallen quite considerably with the LVI issues in the pension.

And then secondly, going back to the Ofgem ED2 number, could you just remind us again what you asked for going into the determination? And can you just confirm that it's still a single item CMA referral if it doesn't meet what you think you need? Thank you.

John Pettigrew:

Well why don't I take the second part, Dominic, and let Andy pick up the first part. And in terms of what was in our business plan, I think in terms of return on equity, it was 4.96% I think, if I remember rightly. And then obviously the Draft Determination came back with 4.75%. In terms of the acceptability of a final determination, I'm going to say what I always say because it's what we believe, which is that ultimately, you have to look at the overall package when it comes to a Final Determination. So as well as what the overall allowed cost of equity and debt is, also we need to look at things like the speed of cash, we need to look at the incentives, and we need to look at things like the uncertainty mechanisms as well. So it's the overall package that will determine its acceptability and whether we can deliver what our customers have asked for us.

As you know, in the electricity sector, we do have the ability to go to the CMA on a single item and we did that as part of the Transmission Final Determination. But ultimately, we won't be able to make that decision until we see the final determination and the overall package that Ofgem is proposing. Andy?

Andy Agg:

Hi Dominic. Just on pensions those two points in turn. So in terms of the discount rate, you're absolutely right. So, from March to 3rd of September, we've moved to a discount rate on US and UK actually, which is consistent this time around, 5.35%. That's probably 250 basis points up in the UK. That's from an accounting perspective, just to remind you, that's the IFRS accounting that we're required to adopt. Just to be very clear, from a funding perspective, we've seen no significant impact of the recent volatility, because, although we've seen a reduction in the value of our assets reported as at 30 September, it's been offset by reduction in the liability because of the higher discount rates. So you've seen the numbers this morning; a relatively consistent overall pension asset.

In terms of LDIs, you're right, and again it's reported in the income statement. So pretty much like every defined benefit scheme in the UK, our schemes did have exposure to the LDI issue. It was a relatively manageable amount for us. It was spread across the different schemes. We obviously work closely with the trustees to ensure that it was managed appropriately. We don't expect any significant valuation impact from it. And you'll see that with one scheme, we have extended a short term loan just to manage through cash flow over the next few weeks, and we expect that to be repaid certainly over the next couple of months. So we've supported the trustees but no significant issue for us.

Ahmed Farman (Jefferies):

Hi, good morning everyone and thanks for the presentation. I've got a few questions, first few, a couple on the guidance. I think in one of your earlier comments, I think you were mentioning that the increase in the capex outlook from the top end of the previous guidance to the current number is a combination of FX and some underlying (more investments in projects). Could you just provide some sort of granularity on what's the breakdown between the two?

And then my second question is in terms of FFO to Net Debt and RCF to Net Debt, I see the way you sort of outlined the Net debt to RCV on the margin, there's a sort of slight upgrade in your outlook. And I'm just trying to understand if that's also the case in some of the more casual based credit metrics, because I would've thought that the £5 billion or so increase in capex is there's at least £2 - £3 billion that slows down to the debt, and just not clear on the other side if there's some sort of offset on the cash flow metrics. So those are my two questions and then the final one on policy.

Your presentation clearly sort of outlines the case for accelerated investment and the need to accelerate energy transition. But at the same time, all of this is now coming with arguably a higher cost of capital. The sector also is looking under the current regulation, to be compensated for inflation, which is also running at high numbers right now. And I just wonder how you see that in the context of the current environment where we're in a cost of living crisis. And I appreciate the component of the bill that is really small, but nonetheless it is an environment of intense affordability. And any thoughts on that would be very helpful.

John Pettigrew:

Okay, let me do the first and third, and I'll ask Andy to do this second. I mean in terms of the update in our long term capital program to £40 billion, I think in May, we talked about being at the top end of our £30 to £35 range, and with our latest here, about half of the increase to towards the £40 billion is really macroeconomic events, which is really exchange rates and inflation. And the second half is just increased clarity around the work that we need to do. So we've got more visibility about CLTPA in New York, for example, and the transmission work we're doing there. We've got a bit more clarity on some of the early projects that are supporting the offshore wind in the UK. And the way that we treat connections in WPD, which is a bit of a technical adjustment, is in there as well. So it's about half macroeconomic, half increasing work.

In terms of how we think about the investment in the current climate going forward, I think first and foremost, at a macro level, I'd say that we very much see the resolution of the crisis that we are in to continue to accelerate the investment towards a low carbon future. So obviously, high prices, commodity prices for customers is causing a lot of difficulty. And by investing in the networks, that enables us to be able to connect a lot more of the low carbon generation, which ultimately will reduce builds for customers, will increase energy independence for the UK, but will also continue on the path to a low carbon future. Clearly in terms of how we think about it, we need to make sure we've got the right regulatory framework in place to support that investment, and that is a stable and long-term environment. That's one of the things I said is a key decision that needs to be made over the next six months. And from an affordability perspective, it's always worth just reminding people that for Electricity Transmission in the UK for example, we currently are £20 I think of the £2,500 of the bill. So although it's a major capital investment program, actually relative to the current commodity prices that people are experiencing, we keep a focus on making sure that we're delivering that £20 as efficiently as possible. So, that's how we think about that. Andy?

Andy Agg:

Thanks. Hi Ahmed. On the debt and credit metrics point as you refer to, we updated our view on where we expect leverage to land post the transactions, to around 70%. That's marginally inside what we previously guided to, as you noted. In terms of metrics, credit ratings metrics, the ones we target are unchanged in terms of both the 7% for RCF to debt and also the FFO metric. We report those on an annual basis. So obviously, we'll update the actuals come year end. But broadly, we've got those within the five-year frame. We continue to be comfortable delivering that capex within the metrics that we need to maintain to retain the current credit metrics. It's the number of drivers, it's not just the capex. Obviously there's the impact of FX as well on our underlying performance. So no change to our overall perspective on credit rating metrics.

Verity Mitchell (HSBC):

Morning. Thank you for the presentation. First is, they're all US actually. The first one is just about, that it looks like from your commentary that you're going ahead. Could you talk a bit more about the auction in January, and also your aspirations to actually be a partner in the investment in this project?

And then secondly, just conceptually as you go for more filings, do you think rocketing bond yields will mean that the US RoEs might go up in future filings? We've talked a lot about UK regulation.

And then thirdly, just specifics on the Inflation Reduction Act. What could you see coming out in the short term that you could take advantage of in all this funding? It's all very high level, but anything that you are working on in the medium term on that? Thank you.

John Pettigrew:

Thanks Verity. I'll take the first and third, and let Andy take the second. In terms of our partnership with RWE for offshore wind, New York Bight, then we're busy at the moment in preparing our response to the solicitations. You're right, it is due to be submitted in January, and our folks at the moment are making sure that we make the most competitive, compelling proposition to the State on that.

In terms of our long-term aspirations, we've always said that we will always be very disciplined in the capital investment that we spend that's outside of the regulated networks, and we'll continue to apply that discipline. So once we see the response to the solicitation, we'll have a much clearer view of what the returns are on those investments. And ultimately, it's at that point that we'll determine whether it's right to make the capital investment going forward. And we do have the option to be able to pass on that issue should we need to.

In terms of the Inflation Reduction Act, it's a huge support mechanism for the energy sector in the US. And I think for us, as I mentioned in our speech, I think it creates a lot of opportunities, particularly in areas like hydrogen and our fossil-free vision. We are now moving out of this advocacy phase of describing what that vision might look like and into the action phase, which will require things like demonstration projects. So the support that it's providing to things like renewable, natural gas and hydrogen, I think can only act as wind in the sails of the proposition that we put forward in our vision. And similarly in National Gird Ventures, we're doing a lot of work at the moment in collaboration with a large number of players in the Northeast on what a hydrogen hub might look like. And again, the support that the act is providing, I think that's going to be very helpful in that context. I'm not sure there's going to be immediate short term benefits, but I think in terms of the long term direction it is certainly very helpful.

Andy Agg:

Verity, Hi. On the US returns. I think actually if you look back over the last few years, despite a long run of reducing interest costs, actually we've seen allowed ROEs sustain at what we think is a sensible level. But you're absolutely right, if you just look at the methodology, which tends to be more prescribed in the US, you would expect that rising bond yields to feed through into those calculations as we go forward. It's obviously too early to say what may or may not happen. I think John mentioned earlier we've got our two rate filings downstate in KEDLI and KEDNY due in the early part of next year, a Mass Electric due in the third or fourth quarter of next year. So that I think will be the first sign we'll get to see whether we are seeing those bond deals feeding through into allowed returns.

Jenny Ping (Citi):

Hi John, Jenny here. So three questions please. Firstly, you talked earlier about the potential disposal of further non-core assets being required such as those of Millennium Pipeline. Can you just outline what or how you define non-core, such as NGGT, I guess minority is part of that, but is it any other parts of the ventures business or how should we think about this?

Secondly, can you just give us an update on where we are in your discussion about inflation with Ofgem? They obviously hinted at the Draft Determination stage that they are thinking about the various different aspects of it, but we've yet to see a consultation paper from them. So what is the latest dialogue there?

And then just following on from Verity's question about the US RoE, Andy, to your point, we didn't really see any RoE declines as rates have fallen. So what arguments will you be putting forward to see the reverse of that and actually getting the higher rates to feed through the ROEs. Thank you.

John Pettigrew:

Okay, well I'll let Andy pick up the first and then I'll pick up the second two. So let me start with the inflation with Ofgem. So you're right Jenny, obviously we saw that Ofgem as part of the Draft Determination raised some relatively technical questions I think around inflation and interaction between expected inflation, actual inflation and the real cost of debt. My understanding is that they're not intending on addressing that as part of ED2 Final Determination and they've yet to make the decision on whether to do a consultation. From our perspective, as you can imagine in the dialogue, we've made it very clear that actually when you look on the fundamental regulatory perspective in the UK, inflation is incredibly important and well understood and is massively important in terms of encouraging the infrastructure investment that's needed. Also, it's really important not to knee jerk react to sort of high inflation in one or two years.

If you look over a 10-year period, actually there have been long periods in the regulatory cycle where actual inflation's been lower than expected and therefore actually I suspect there isn't actually a material issue there to be dealt with. So we will be feeding that back to Ofgem over a period of time, but at the moment there is no consultation and we'll be reiterating the importance of that stable regulatory framework going forward. In terms of US RoEs, it varies by state, so in the New York it's relatively mechanistic in terms of how they look at US RoEs. So any changes to the macro environment are ultimately going to feed into the submissions that we make as part of KEDNY and KEDLI and is the way that the PSC will look at it. What that means ultimately I guess will be determined when we ultimately make the filing itself.

In Massachusetts, they do different approaches. So obviously we'll be feeding in what we're seeing in the macro environment and what that means for returns, but ultimately we can only deal with it as we do each of our rate cases and that's exactly how we'll approach it. Andy.

Andy Agg:

Jenny, hi. I think you're referring to the comment to answer one of the earlier questions around generic tools. Just to be clear, as you've seen over the last 12 months with the St William sale process to Berkely group and obviously the more recent Millennium pipeline, if there are attractive opportunities, it's absolutely right that we consider those if we think that it's likely to crystallize value appropriately. Just to be clear post the pivot that John talked about in his presentation, we're very happy about the portfolio we have and that's the portfolio that we're planning to take forward and can deliver our investment plans.

Pavan Mahbubani (JP Morgan):

Good morning. Thank you for your presentation and I just had one quick follow up to Jenny please, the question on Ofgem and looking at actual risks on expected inflation. So do you make any assumption in your guidance about any potential inflation sharing or should we not assume that given there's no consultation in place?

Andy Agg:

Pavan thanks. Yeah, I mean without going through the details, John's just covered it. No, just to be clear, the five-year frame is based on the regulatory frameworks that we have in place today and obviously we take account of the inflation curves as we put that guidance together, but no change from what we have and what we're working with under the current price controls.

Sam Arie (UBS):

Okay, thank you John. Thanks for a very nice update today. Great results and a nice surprise upgrade on the guidance. And I think that everyone's been through most of the questions that we wanted to cover. So I'm scraping the barrel a little bit now, but maybe I could just ask you something about your FX assumptions because that's been an important part of our day to day. I just apologise in advance that this is all written out in your materials, but you probably know we've got a ton of companies reporting today and we haven't read all the detail yet, but I think you said you're using 1.2 for the dollar effects for the rest of this year. And I suppose I just wanted to check do you then assume that's stable at the same level through the five-year guidance? So I guess if the pound were to jump back up somehow, would that become maybe a bit of a headwind in future?

And I guess that's the P&L side. I was going to ask, is there a mark to market on the US dollar part of the debt that goes in the other direction for you? And I think last time I looked the US dollar debt was about half of the net debt, something like that. Or is the US dollar debt valuation hedged somehow for FX? I wasn't sure exactly what you do there. And then I suppose the last bit of this is, like I said, I'm really scraping the barrel, but is it still fair to assume that with the new overall capex guidance that the US capex plan is kind of indefinitely self-funding? So for example, you won't be needing to fund US dollar capex commitments in future in pounds. Does that all make sense? Kind of minor questions I think it was a great update today, but thanks for your help on these points.

John Pettigrew:

Thanks Sam. I'll ask Andy just cover those off.

Andy Agg:

Thanks Sam. Good morning. Just be clear. The assumption that we've used throughout the five-year frame is a dollar exchange rate of 1.2 times. We'll see, as you said, that's slightly above where we are today, but we wanted to be clear and consistent throughout the five-year frame and that was also the number that we've used in terms of our guiding around where we expect net debt to move to in the second half. Back to your question of how significant can the swings be, I'll give you an example. So we've moved from around 1.35 to around 1.2 average this year versus last year. That's had a relatively small earnings impact in the first half. But the rule of thumb I mentioned in my presentation is 5 cents is about a penny obviously plus or minus in either direction on an annualized basis.

So that's the sort of rule of thumb. And, finally in terms of net debt, the reported increase from March to September includes about 3.4 billion of FX impact from the strengthening dollar with the closing rate at 30 September being 1.12. So to give you a sense how that feeds through.

But just a quick reminder, obviously yes, while debt does mark up with the dollar, obviously our US dollar assets also significantly strengthen and that's the whole purpose of the dollar hedge that we keep in place on a long-term basis.

Sam Arie (UBS):

Sorry, just quickly, John, can I just on the point about is the US self-financing?

Andy Agg:

Oh sorry, the second part of your question. As a reminder, our US opcos, we raise debt within them very much in line with regulatory gearing, which is the funding that then predominantly funds that the US capex and that is pretty much all dollar denominated debt. That's what is very much in line with the regulators' expectations across our US opcos. I see no expectation of that changing. Obviously at a hold co level we issue in a range of currencies as you'll have seen over the years, but we tend to swap that money into either sterling or dollars depending on where it's needed. So I see access to a wide range of markets as a sensible part of our funding strategy and we'll look to optimize which markets we access based on rates at the current time.

Bartek Kubicki (Societe Generale):

Hey, good morning. Thank you. Thank you very much. Couple of things I would like to get clarification on. Firstly on the US, I'm wondering whether in the short term, let's say the next one, two years until you do the next rate filings, you can see a pressure on earnings coming from the fact that your cost of debt may be increasing much faster or maybe above what has been approved by the regulator or the inflation protection doesn't work with the like, or you see some bad debt provisioning increase. I wonder whether there is a potential or likelihood for the actual RoE's in the US to decline. That would my first question.

Secondly, on your FY23 underlying EPS guidance, just to clarify whether this winter support you mentioned, £65 million, whether this is included in the underlying earnings or not.

And thirdly, you said you have rising cost of debt included in your five-year guidance. If you can maybe tell us what increase are you assuming over the next five-years in terms of the cause of that? Thank you very much.

John Pettigrew:

I'll send them all to you Andy.

Andy Agg:

That's fine. Hi Bartek. Thanks for that. Let me take those in turn. Economically, the main thing for us when we're financing our US opcos is that we always get regulatory agreement to the issuance plans we issue with inside those arrangements and therefore we're entitled to the pass through treatment. There is of course potentially timing lags when we do go to market versus when those rates get trued up. But the key thing for us economically is that we're we then held whole over time and obviously there might be a few months of phasing, but obviously we've considered that in the five-year frame and certainly the guidance that we've given out for this year.

You asked about bad debts as well. Again, we obviously work very hard supporting our customers, working with our regulators across the states that we operate in. We'll have to see obviously as the winters out turns, but again, as you've seen through the years, we have a number of mechanisms to make sure that as long as we manage the position efficiently, we would expect to recover customer bad debt costs in the years ahead.

In terms of the winter to support packages, just to confirm, yes, the £65 million is included in the FY23 guidance. And then in terms of the five-year frame, I think as I said in my presentation, we've assumed the forward curves feeding through the refinancing of the debt book and obviously the increased financing. I mentioned £5-6 billion of financing a year. We mentioned just shy of £12 billion at hold co level, with maturities out to the early 2030s. So that's all assumed in terms of the refinancing of that book as we go through the five-years.

Nick Ashworth:

We've got one from Deepa at Bernstein.

So I know we talked a little bit about credit metrics under the five-year frame and where they're going. Her question is, can you explain why on the margin credit metrics are better under the higher capex program? Is it the benefit of inflation and FX on existing assets? And then the second part is what are your expectations on ED2 WACC, particularly if any changes to cost of debt methodology changes. What increase the cost of equity do you expect?

John Pettigrew:

Okay, so let me take the second and let Andy take the first. As I said earlier, one of the key things that we're in discussions of at the moment is what is the appropriate allowed cost of equity and cost of debt. I mean, just to give a rule of thumb for a hundred basis points increase in the risk free rates, you'd expect to see around about 20 to 25 bps on the cost of equity and about 10 bps on the WACC. So all that sort of information is feeding into our views of what's an appropriate low cost of equity. But as I said earlier, that will form part of the decision making process as we look at the overall package. In terms of credit metrics, Andy?

Andy Agg:

Morning Deepa. Just to be clear, what I mentioned in my comments earlier was the marginal improvement in the leverage that we expect when the transactions close to be around 70%. But from a credit ratings metrics perspective, in terms of RCF, FFO, we haven't moved our expectations from what we've previously guided on, but we continue to expect our overall metrics to be aligned with what we need to maintain our strong investment grade credit rating.

Nick Ashworth:

It's from James Brand at Deutsche bank. So you're now targeting 70% Net Debt to RAB over the medium term. Does this include an assumption that you sell the remaining stake in UK gas transmission? And if you could lower leverage further to the high sixties, would this be preferable?

Andy Agg:

Morning, James, just to be clear, we've said that the 70% is where we expect to land post transaction. We haven't given medium or long term guidance in terms of leverage, but we would expect leverage along with the ratings metrics to stay aligned with the credit ratings. That will largely be impacted obviously by capex, by things like FX and other performance aspects over the next few years. The question is, if you look overall a few basis points, the WACC curve is relatively flat. So I think the question implies would I like lower leverage? No, I'm very happy with the level of leverage that we will get to once the transactions close.

Nick Ashworth:

(James Brand, Deutsche Bank) Does the 70% include the remaining portion of GT?

Andy Agg:

Oh, sorry, I missed the first part in terms of Gas Transmission. Just to be clear, no, our assumption is that we close the 60%. Obviously as you'll be aware, the consortium has an option on the remaining 40% that will be entirely within their decision to call. We haven't assumed that, so we assume there will be continued ownership.

John Pettigrew:

Thank you everybody for joining us today. We really do appreciate you joining us this morning. As I said in my summary, a very strong set of results and I think demonstrating the resilience, during what has been a fairly turbulent economic time. As you know our focus is now on delivering a significant capex programme going forward. But there's some key decisions that we are looking to make and looking for others to make over the next six months. But thank you for joining us and we'll see you all very, very soon.