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National Grid Electricity Distribution – the local electric revolution

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Thanks John, good afternoon and a warm welcome everyone!

I want you to leave here today with 3 key takeaways:

- First, this is a fantastic business outperforming all its metrics.
- Second, we have confidence in our ability to outperform RIIO-ED2.
- Third, we are preparing for the network of tomorrow, today and that translates into long-term waves of investment for decades to come.

It is great to be with you today as the new president of National Grid Electricity Distribution alongside Darren Pettifer, our CFO, as we move the Distribution Business forward through ED2. Together, Darren and I have a collective experience of 26 years in National Grid businesses and 42 years in the energy industry.

But I can tell you there’s never been a more exciting time to be leading the UK’s largest electricity distribution business than right now.

We've got a full agenda for today with some interactive breakouts after this plenary session.

Darren and I will share;

- An overview of the business,
- An explanation of the ED2 price control and how it differs from ED1, and
- Our priorities and financial outlook.

After coffee you'll meet more of the team as we break into groups focussing on three themes:

1. The Future Electricity System – how we assess the demand growth on our network and, through our Distribution System Operator, facilitate the speed of connections and identifies the need for strategic reinforcement.
2. Innovating for Growth – how we are preparing for growth in utilisation of the network. You'll hear about some of the exciting, scalable projects that we're delivering to build capacity for high growth areas, such as EVs and heat pumps.
3. And Transforming Our Region – how we're building and unlocking relationships in support of growth, ensuring we are best placed to align the multi-directional network of the future to local priorities.

We'll have the opportunity for Q&A after this plenary and informally in the breakouts.

As I've said already, this is a fantastic business! We have a proven track record of delivering great performance across the five key metrics for any distribution network;

Safety, Customer, Reliability, Environment and Financial performance.

Across all five metrics we outperformed in ED1 and last year we delivered top quartile performance in each area.

- In Safety, industry leading performance with a Lost Time Injury Frequency Rate of 0.076 compared to a world class level of 0.1.
- Customer satisfaction was 8.99 out of 10 last year. That reflects the excellent service we provide across everything we do – from dealing with planned and unplanned faults, to our responses via agents or text message, in the way we issue quotations and how we respond to general enquiries.
- World class network reliability of 99.995%. When we measure that through Customer Minutes Lost and Customer Interruptions metrics, we have made significant progress – improving almost 30% since 2015. Meaning our customers now on average experience an outage once every 2 and a half years for just 28 minutes.
- In environment, we have reduced the business carbon footprint of our operations by over 40% since the start of ED1
- And our Financials are strong. We delivered excellent ROE outperformance throughout ED1.

It is with these great foundations that we move into the RIIO-ED2 period with confidence.

Let's take a moment to get a sense of the scale of the business.

We are the largest electricity distribution business in the UK, with a regulated asset value approaching £11 billion as at March this year. Every day, we are responsible for powering the lives of 25 million customers via 8 million connections and meters.

We operate across 55,500km² in the South-West, South Wales, East Midlands and West Midlands, in other words, more than a quarter of the UK.

Our service area stretches from the Isles of Scilly off Cornwall to the west coast of Wales, all the way east to Lincolnshire. We serve some of the largest urban areas outside London covering, amongst others, Birmingham, Bristol and Cardiff.

We have 6,700 employees, around 70% of whom are field-based. Our network of overhead lines, underground cables and substations transforms power from the 400,000 volts supplied by National Grid Electricity Transmission right the way down to the 230 volts in our homes and businesses.

We work with regional government and councils, the devolved Welsh government and local communities to understand and deliver their energy priorities. Last month I shared a platform with Andy Street, Mayor of the West Midlands, talking about his net zero ambitions and targets:

- Enabling Midlands-based companies like Jaguar Land Rover to drive the electrification of the automotive sector;
- Establishing Coventry as the UK's first all-electric bus city by 2025, and
- Establishing an entirely net zero neighbourhood in Dudley, through a combination of retrofits and new builds.

Both Andy and I are clear, these priorities can only be delivered in collaboration with National Grid as their distribution network and system operator.

You'll hear more about how we are deepening our local stakeholder relationships to facilitate growth in our breakout later.

Turning to the work we undertake for customers. It's fair to say that customer service is in our DNA. We respond to their needs today as we prepare for the future because their needs are changing.

The fact is, greater electrification of transport and heat will create even more demand for our network. Customers will depend on us more than ever to deliver clean, fair and affordable energy to their homes.

This is going to require greater levels of investment in our network to;

- connect low carbon technologies
- reinforce our network
- maintain asset health, and
- digitally enable the grid.

Here are four facts that get me excited about what we are already doing now and what we will be doing.

- In the last two years we've energised more than double the amount of new Electric Vehicle connections than in all previous years combined, going from a cumulative of 29,500 in the years up to 2021 compared to 66,000 in 2022 and 2023.

- Going forward, customers will add more than a second home's worth of demand as we move from mainly lighting their homes to fuelling their EVs and providing heat. This will trigger network reinforcement to ensure sufficient capacity.
- Our work on asset health in ED2 will see us replace or refurbish over 3,000km of cable, both overhead lines and underground – further than it is from here to Istanbul.
- We continue to focus on making things easier for our customers. As an example, we've recently launched our online EV connections portal enabling customers to get a connection offer in 2 seconds where it would previously have taken 2 days.

Given all of this, we're already starting to see an increase in connection requests. Last year we saw a 13% increase in the number of requests. We're not standing still and are taking action to ensure we can continue to meet our customers needs in the future.

Connections reform is a critical area of focus as volumes grow. We are already enacting reforms in our region, aligned with the Energy Networks Association and the other DNOs. We are updating our contractual terms to create better milestone management, working with the Electricity System Operator and Transmission owners to unblock capacity at the Transmission and Distribution boundary as well as looking at new modelling and network monitoring to ease new battery connections.

So turning to ED2. In March this year we accepted the RIIO-ED2 framework for the period April 2023 to March 2028, which sets the stage for the first wave of growth for distribution networks with a more than 30% increase in totex funding compared to ED1 spend.

Today, I'm announcing that we are targeting ROE outperformance of between 100 and 125 basis points across the price control from totex efficiency and incentives. This performance will also be underpinned by synergy benefits, part of the £100 million across the Group.

Focus in ED2 is on totex efficiency, with a move away from the high powered incentives we saw in ED1. This aligns with the regulator's affordability agenda and in prospect of significant investment volume growth. Whilst financial incentives remain, they offer lower reward potential.

Darren will go through the detailed plans we have developed to deliver under ED2 but I want to make some key points here.

The scale and scope of ED2 is markedly different to what NGED has seen before with the focus much more on Asset Management and long-term value growth which is a core National Grid strength.

- The package caters for an increase in scale and scope of capital projects needed by our customers.
- Asset management and CAPEX delivery from an efficient supply chain, contract management and comprehensive asset risk management techniques is needed.

Combine this capability with ED's current strong track record on shorter term incentives and I'm confident that we will outperform this price control. In fact, the new incentives on the Distribution System Operator and Customer Vulnerability play to National Grids strengths.

In terms of the DSO Incentive;

We have a deep history in complex system operation. In my tenure of leading the ESO - running the real time operation of UK electricity networks - we integrated 14GW of new renewable generation, whilst reforming flexibility markets. And I'm really excited to see how this plays out at the distribution level – where we'll be leaders in the creation of the smart, multidirectional networks needed for the future.

We're already underway developing;

- The new Distribution System Operator and associated regional governance,
- Connections reform, and
- Expanded local flexibility markets.

You'll hear more about these in the breakouts.

For the new Vulnerability incentive:

Ensuring a fair transition, which leaves no one behind, sits at the heart of National Grid's vision. Our commitment to vulnerable customers remains. Last year we directed more than 24,000 customers to over £15 million of direct bill savings, equivalent to an average in pocket benefit of £621. We will build on this commitment as we enact further plans for vulnerable customers adding the development of smart energy action plans.

Before I close, I wanted to return to investment and customers changing demand for electricity, this time focussing on the longer-term strategy. As I look past RIIO-ED2 timescales, the target to decarbonise the UK electricity system by 2035 necessitates

continuing the current investment trends. As John highlighted, most UK energy outlooks are forecasting around a doubling of electricity demand to 2050. The investment required to meet this demand will be proportionally higher at the local distribution level because of the growth in demand behind the meter of EVs and heat pumps.

The following three factors will lead to increased flows on our network into the future;

- Firstly, the electrification of transport, including rising numbers of Electric Vehicles,
- Secondly, the growth in the domestic housing stock,
- And thirdly, the decarbonisation of heat, either through electrification and heat pumps or hydrogen.

We will explore these more in the breakouts but in summary, in our regions alone, there is expected to be:

- A 3.9 million increase in the number of EV chargers,
- Over half a million new homes, and
- 1.3 million increase in electricity heat pumps by 2035.

With the capacity load on our transformers from these flows and the reinforcement necessary to keep reliability high, I can see sustained growth through the 2030s and beyond.

So to summarise,

- This is a very exciting time for Electricity Distribution and as the largest business of its kind in the UK, we are in a unique position to take advantage of the accelerating trends we are seeing for future growth in electrification.
- We have a strong ED1 performance to build on with strengths in customer delivery and short-term incentive performance.
- ED2 creates opportunity to outperform both on new incentives delivery but most substantially on TOTEX outperformance and long-term value growth, a key strength of National Grid.
- As a result, we are announcing today that we are targeting 100 to 125 basis points of ROE outperformance across ED2.
- I am hugely confident in our ability to deliver and seize the opportunities in front of us with both hands!

Darren will now take you through the financials in more detail. Thank you.