National Grid
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Transcript

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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. Please join via the conference call to ask a question. All of today's materials are available on our website. And of course, for any further queries after the call, please 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.

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 respective presentations, we'll be very happy to take your questions.

It's been a busy six months for National Grid with solid progress, both in terms of financial performance and delivering against our strategic priorities. The energy transition remains a fundamental priority for governments around the world and at the core of National Grid's strategy.

But you only need to look at the recent headlines to see a growing awareness of the practical challenges associated with delivering it. The way that decarbonisation goals are met could have real implications on the affordability, reliability, and security of energy. So we've continued to proactively engage with governments and regulators to push for faster progress on the reforms needed to provide a stable, predictable, and investible environment to deliver net zero. And I'm pleased with the significant progress we've made in the first half.

Six months ago, we set out five priority areas for policy reform in the UK and we've seen positive progress for each. In our Electricity Transmission, we're stepping up our investment with the 17 major projects awarded to us as part of the Accelerated Strategic Transmission Investment or ASTI framework now included in our licence.

And in September, the Prime Minister's speech on the government's approach to net zero, whilst delaying near term bans on combustion engines and gas boilers actually endorsed many of the policies we've been advocating for. Including a strategic spatial energy plan that gives certainty to what needs to be built, where and when, fast track planning processes for nationally significant projects and a new connect or move approach to grid connections.

We've also seen significant progress in the US where we've submitted proposals in Massachusetts for the investments needed to support the stage 2050 decarbonisation goals. We've received approval to take forward our Propel New York Energy transmission project with New York Transco, which will support offshore wind coming into the state. And there's been a step forward with the Twin States Clean Energy Link project, which will connect Canadian Hydropower to New England, with it being selected by the Department of Energy for federal funding. And last month our community offshore wind joint venture was successful with the most recent New York offshore wind solicitation with a provisional off-take award of 1.3GW.

So clearly, the last six months show that we're now firmly in a new phase of capital delivery for the energy transition. And as a result, today we've updated our five-year financial frame. Between April 2021 and March 2026, we now expect to invest around £42 billion, up from our previous guidance of £40 billion, increasing our investment in the decarbonisation of energy systems. This will modestly enhance both our asset growth and underlying earnings per share growth within the existing ranges. And as we enter this exciting new phase of strong capital delivery, we'll continue to play our part in mitigating the affordability challenge across our customer base, having now exceeded our £400 million cost efficiency target six months early.

So, turning to our financial performance. On an underlying basis that is excluding the impact of timing and exceptional items, operating profit from continuing operations was £1.8 billion in the first half, down 14% compared to the prior year at constant currency. The underlying business has performed well in the first half, with the prior year helped by a number of one-offs as we completed transactions.

Underlying earnings per share was broadly in line with expectations at 23.8 pence. With no change to our full year guidance. Our regulated businesses delivered a record £3.5 billion of investment up 10% year-on-year at constant currency, while capital investment for our continuing operations was £3.9 billion. And in line with our policy, the board has declared an interim dividend of 19.4 pence per share, reflecting 35% of last year's full year dividend.

Turning next to our reliability and safety performance. Firstly on reliability, which has remained strong across our UK and US networks. In the UK many of you will have seen the Winter Outlook report published by the Electricity System Operator at the end of September. This year, the ESO forecasts an electricity capacity margin of 7.4%, slightly higher than last year's, and broadly in line with recent winters.

However, the ESO expects there will be some days when we'll need to utilise tools such as system notices. And following its successful pilot last year, the demand flexibility service, which incentivises customers reduced consumption during periods when margins are tight. We're confident in delivering our usual high standard reliability across our networks in the months ahead and remain vigilant as we move through winter in both the UK and the US.

Moving to safety, our lost time injury frequency rate was 0.09, compared to 0.11 last year, and against a group target of 0.1. But tragically, one of our UK Electricity Distribution colleagues lost his life when he fell from height at a site in Ludlow in August. As you'd expect, this has been deeply felt right across the group and we're focused as a leadership team on making sure that the lessons learned from this tragedy are shared across the organisation.

Moving now to our operating performance across the Group and starting with UK Electricity Distribution. We've had a good start to the new ED2 price control with capital investment in the first half reaching £608 million, up 4% on the prior period. Primarily reflecting high spend on new customer connections, including the Hinkley Point nuclear connection.

In July, we hosted our first investor event since acquiring WPD where we set out: our plans to deliver the RIIO-ED2 price control, including a 30% step up in annual investment from ED1 to ED2; how we intend to deliver our target, 100 to 125 basis points of outperformance with a focus on totex efficiency; and our progress in integrating Electricity Distribution into the Group, including identifying £100 million in synergies to be delivered over the next three years.

In the first half, we also enabled more than 40,000 domestic connections of low carbon technologies such as solar panels, EV charge points, batteries, and heat pumps. And in the face of the huge surge in demand for connections to our network, in September we announced a plan of action, which will release 10GW of incremental grid capacity to accelerate the connection of renewable generation assets.

Moving to our UK Electricity Transmission business. Capital investment was a record £800 million in the first half, a 27% increase versus the prior year. This increased investment, including nearly 3GW of new connections in the

period, including the world's largest offshore wind farm, Dogger Bank in Yorkshire. And the Lark Green Solar Project near Bristol, the first of its kind be connected directly to the UK transmission network.

We've also achieved two important milestones in the first half with the completion of tunnel boring at our London Power Tunnels. The project which will future-proof the network for growing electricity demand in the capital remains on track for completion in 2026. And the completion of all 116 T-pylons on our Hinkley Connection project, which will provide low carbon energy to 6 million homes and businesses.

We've also made significant progress in standing up our new Strategic Infrastructure organisation, the business unit that will deliver our ASTI projects, with 320 people now working within the division. As the map shows, we are continuing the detailed engineering work for the 12 onshore and five offshore projects that we've agreed to progress so far with Ofgem and which are now in our Electricity Transmission licence.

In particular in the period, we've selected the preferred suppliers for HVDC cable and converter stations on the Eastern Green Links 1 and 2 projects and received all planning consents on the English side of the links. We've launched our engagement with the global supply chain to select Enterprise Partners for 9 of the 12 onshore projects within ASTI. And we've made good progress in consenting the Yorkshire Green and Bramford to Twinstead lines.

As we continue to progress engineering works, the profile of ASTI investment will become clearer. With our expectation of around £3 billion of capex on these projects as part of our financial frame to 2026 and including inflation, our current capex estimate is mid to high teens across the 17 projects.

In New York, capital investment of £1.3 billion was 5% higher at constant currency. This was driven by continued work on the FERC regulated Smart Path Connect project, where we're rebuilding 110 miles of transmission lines in upstate New York to enable larger scale renewable generation to connect. And higher levels of leak prone pipe replacement with 148 miles replaced in the first half, continuing to reduce methane emissions from our network. We've also continued to progress work on new transmission projects approved last year under the Climate Leadership and Community Protection Act. In total, we'll invest around $2.9 billion in projects that will enable incremental renewable generation capacity in the state.

And we've also seen strong regulatory progress. At the beginning of September, the Public Services Commission staff responded to our rate filing for our downstate gas businesses, KEDNY and KEDLI. We're pleased to see broad support from the staff and our submission, including the need for

increased investment and anticipate reaching a joint proposal early next year, for new rates effective from April.

Moving to our New England business where we've also had a busy regulatory period. In September, we submitted our Electric Sector Modernisation Plan, which sets out a roadmap for our network to help achieve the State's 2050 net zero goal. Within it, we've outlined the critical investments needed across our network over the coming decades, including proposing investment of around $2 billion over the next five years.

In September, the regulator also approved annual rate adjustments for Massachusetts Electric of $67 million and for Massachusetts Gas of $57 million. These new rates became effective at the beginning of October. Capital investment in the first half was £789 million. This was 9% higher than the prior period at constant currency and excluding the Rhode Island business, which we sold last year. This was driven by increased spend in Electric Distribution with higher customer connection requests and further investment in grid modernisation.

In the first half, we completed upgrades to the Tewksbury substation under the competitively awarded FERC 1000 process. These upgrades are a cost-effective solution to ensure grid reliability when an expected 2GW of fossil fuel generation in the Greater Boston area is retired next year.

Finally moving to National Grid Ventures where capital investment totalled £326 million and included continued investment on the phase four expansion of our Isle of Grain LNG facility, and our Viking link interconnector with the final sections of cable now laid and joined. Investment in the first half was £205 million lower than the prior at constant currency follow the completion of the Sellindge converter station rebuild last year.

With construction activity on our Viking link to Denmark now nearing completion, the project is moving into commissioning. We expect the 1.4GW interconnector to be online by the end of December, bringing the operating capacity of our interconnector portfolio to 7.8GW.

In October, National Grid Renewables started operations of the 274MW Yellowbud solar project in Ohio. This takes the total renewable operating capacity to 1.3GW with a further 800MW under construction. So, with that overview of operational performance in the first half, let me now hand over to Andy to take you through the financials before I come back and talk about our priorities for the rest of the year. Andy.

Andy Agg: Thank you, John. And good morning, everyone. I'd like to highlight that as usual, we are presenting our underlying results, excluding timing and

exceptional items, and that all results are provided at constant exchange rates unless specified. We continue to report our 40% remaining stake within UK Gas Transmission, now 'National Gas', as a discontinued operation following the agreement to sell a further 20% interest to the Macquarie led consortium, and the option allowing them to acquire the remaining interest. As such, all earnings from this business have been excluded from the underlying earnings of the continuing Group.

So, turning to our half year performance. We're pleased with the operating and financial results achieved with underlying operating profits on a continuing basis at £1.8 billion, in line with expectations. The prior period was helped by certain one-off items, namely St. William property sales, two months contribution from NECO, our Rhode Island business that was sold to PPL, and insurance proceeds received at our IFA 1 interconnector following the fire in September 2021. In aggregate, these three items totalled over £320 million and were the main reasons for the lower year-over-year performance.

Key contributors to operating profit for this were: higher revenues across our regulated businesses as a result of indexation in the UK and increases in rates across our US businesses; our NSL interconnectors to Norway, receiving an upward cap adjustment following its post-construction review; as well as a non-repeat of the prior year Western Link settlement.

In addition, we achieved a further £53 million of efficiency savings in the half, taking our total to £426 million, ahead of our £400 million target, six months early. We will continue to drive efficiencies and expect a similar performance in the second half as we complete this programme.

With net interest charges remaining broadly flat, underlying earnings per share therefore followed operating profit. And at 23.8 pence per share, was 27% lower than the prior year. Whilst underlying EPS was more weighted to the first half in the prior year than historically, we see this year reverting back to our long-term trend, where broadly just under two thirds of earnings are delivered in the second half.

Turning now to our capital programme, where we continue to make strong progress. Capital investment across our regulated networks at £3.5 billion was another record level at up 10% year over year. Overall capital investment from continuing operations was £3.9 billion. This increase has been driven by higher connection spend and early investment relating to our new ASTI projects in our UK Electricity Transmission business, grid modernisation work in Massachusetts, and a step up in our investment in the Smart Path Connect transmission project in upstate New York.

In line with our policy, the board has declared an interim dividend of 19.4 pence per share, representing 35% of last year's total. Script uptake in the summer on the full year dividend was 4% and will again be offering the script option at the half year. Now let me take you through the performance of each of our business segments.

Starting with UK Electricity Distribution. Underlying operating profit was £563 million, down £16 million versus the prior year. Revenues benefited from indexation of the RAV. However, this was more than offset by lower incentive revenues as expected at the start of the new ED2 period, and profit from the sale of its smart metering business in the prior period.

As we set out at our Investor Event in July, we expect to deliver operational outperformance of 100-125bps across the ED2 price control. This will largely be driven through totex efficiencies, strengthened by synergies following the acquisition.

To date, we've delivered £18 million of our £100 million 3-year Group synergy target, so far mainly procurement enabled, for example through the adoption of lower cost cabling designs taken from transmission.

Capital investment increased to £608 million for the half year, an increase of £24 million compared to the prior period, primarily driven by higher spend on asset replacements and connections. This includes the £65 million Hinkley Point electricity distribution connection link, which remains on track to complete in 2024.

Moving to UK Electricity Transmission where underlying operating profit was £656 million, up £92 million compared with a prior period. Strong first half performance was driven by higher allowed revenues given indexation, as well as non-recurrence of the £69 million returned in the prior period relating to Western Link.

Capital investment was £800 million, 27% higher than the prior period. This is partly driven by work in RIIO-T2 projects, including system resilience, asset health, and new connections work, as well as significant progress on our major capital projects. We've also seen a step up in investment on our ASTI projects in the half, notably driven by our offshore projects, Eastern Green Links one and two, where we've signed joint venture agreements with Scottish Power and SSE and selected the preferred suppliers for HVDC cable and converter stations.

For our onshore ASTI projects, we've launched our Great Grid Upgrade Partnership tender, to source enterprise delivery partners and secured the supply chain that will help deliver these projects. We plan to award contracts

in 2024. However, given the need for pace with our Yorkshire Green project, we have already signed contracts for overhead lines and substation work.

Finally, in the UK, the Electricity System Operator saw underlying operating profit down £18 million in the period to £34 million. Following the passing of the Energy Act 2023, at the end of October, the business has been classified as Held for Sale.

Moving now to the US where underlying operating profit for New York was £119 million, £76 million lower than the prior year. Higher net revenue driven by increases in rates and continued delivery of its cost efficiency programme were more than offset by; high depreciation given increasing investment levels, higher recoverable bad debts, given the cessation of the state's bill relief program and a pension buyout gain occurring in the prior capital.

Capital investment was £1.3 billion. This was £62 million higher than the prior year, helped by a step-up in investments in the $550 million Smart Path Connect transmission project in upstate New York and increased investments in our gas distribution networks as we continue progress on our leak prone pipe replacement program.

However, the prior period included non-cash lease additions, including the Volney-Marcy transmission line lease. Excluding this impact, capital investment was up nearly £200 million.

Turning to New England, underlying operating profit was £218 million, £33 million lower than the prior period, excluding the impact of Rhode Island. Higher rates in Massachusetts Gas driven by its capital tracker, and in Massachusetts Electric, driven through its annual Performance Based Rates mechanism, were offset by, higher recoverable storm costs, and higher recoverable bad debts following an increase in commodity prices. Capital investment was £789 million, £64 million higher than prior year, again, excluding the impact of Rhode Island. This was driven by Grid Modernisation investment in our electricity distribution networks, and increased asset condition work across our New England Power Transmission assets.

Moving to National Grid Ventures, we continued to see good performance delivering underlying operating profit of £278 million, including joint ventures. This was helped by solid interconnecter performance, notably on our NSL interconnector, and good performance at the Isle of Grain LNG facility. The decrease compared to the prior year, of £51 million, can primarily be attributed to receipt of IFA1 insurance proceeds in the prior year, as well as a change in the phasing of our onshore renewables projects, where we now expect a higher proportion of sales into our joint venture in the second half. Capital investment across National Grid Ventures was £326

million, driven by continued progress on the Viking Link to Denmark, as we near completion of our 6th interconnector, and investment in our Grain LNG expansion project, with the new tank's construction work nearing completion. Investment was lower by £205 million, as the prior year included the majority of the IFA 1 converter station rebuild spend, as well as peak investment at Viking and The Isle of Grain.

Our other activities reported an operating loss of £13 million, versus a £145 million profit in the prior period. This is principally driven by property sales completing last year, predominantly as part of the St. William transaction. Capital investments was £13 million.

Turning to finance costs and tax. Net finance costs were £711 million, down £10 million. Lower inflation on index linked debt and lower bridge financing costs, were partially offset by the impact of higher interest rates. The underlying effective tax rate before joint ventures was 24.7%, 500 basis points higher than the prior year due to the increase in the UK corporate tax rate from 19 to 25%, and the change in profit mix given higher property sales in 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 26%. Underlying earnings were £875 million with EPS at 23.8p.

Moving now to cashflow. Cash generated from continuing operations was £3.1 billion, up 30% compared to the prior year. This increase is principally driven by favourable UK timing at the Electricity System Operator, partially offset by lower underlying operating profit compared to the prior year. Net cash outflow in the period amounted to £2.6 billion, a reduction on the prior year, as high cash flows from operations were only partially offset by higher levels of cash dividend given a lower script uptake. As such, net debt increased by £2.9 billion to £43.9 billion compared to the prior year end. For the full year, we expect net debt to increase by just over half a billion pounds from the September level at a 1.2 US dollar exchange rate, including the £700 million expected receipt of proceeds from the sale of 20% in National Gas to the Macquarie led consortium.

As we announced this morning, we have updated our five-year financial frame, with group capital investment for the 2021 to 2026 period now expected to be around £42 billion, up from our previous guidance of up to £40 billion. We expect this increased investment to be modestly enhancing to asset and EPS growth.

We are committed to our strong investment grade credit rating, and expect to deliver this growth whilst maintaining our group gearing guidance with regulatory gearing to remain in the low 70% range for the period. This increase in investment is being driven by our ASTI projects where we now expect to spend around £3 billion, up from our prior £1 billion guidance,

which now leads to investment across Electricity Transmission of around £11 billion, up from £9 billion previously.

The ASTI increase is driven primarily by progress we have made on four projects, Eastern Green Links 1 and 2, Yorkshire Green, and Bramford to Twinstead. With 17 ASTI projects now in our licence and as we progress detailed engineering work, this is improving clarity around the scope of these investments. Reflecting this, our current best estimate for total investment in these projects is in the mid-to-high teens, billions of pounds range.

Finally, and as usual, alongside updating our five-year financial framework to 2026, we have also updated our more detailed forward guidance for this full year, which now includes the Electricity System Operator being Held for Sale. Excluding the accounting benefit of ceasing depreciation for the ESO, our overall guidance for underlying EPS for FY24 remains the same as we set out in May. With that, I'll hand you back to John.

John Pettigrew: Thank you, Andy. I want to finish by spending a few minutes on our priorities for the second half of this year. Starting with the UK. As I mentioned earlier, I'm encouraged by the progress we're seeing from government and Ofgem in response to our call for a greater urgency, both in terms of action and mindset. The Energy Act has now become law and will establish a new Future System Operator, introduce onshore competition for networks, and implement a net zero duty for Ofgem. We've also seen consultations on National Policy Statements, on community benefits, on the nationally significant infrastructure projects process; and on market reform. And Nick Winser, the Electricity Networks Commissioner, has set out his recommendations for fundamental reforms to the planning system and the creation of a Strategic Spatial Energy Plan, endorsed by the prime minister in his net zero speech.

We've got an exciting few months ahead. We've seen good progress in the first half, and will continue to push for more in the coming months as we look to see consultations and announcements from government translated into real decisions and policy reform. Nowhere is the need for change more apparent than in the connections process, and the forthcoming connections action plan from government and Ofgem is a critical opportunity to move from the current first come, first serve approach, to a "connect or move" model and stop so-called "zombie" projects from blocking the queue. In the meantime, we're creating new solutions in Electricity Transmission, to address this challenge. This includes evolving the way we coordinate with DNOs and how we treat storage. These changes will deliver 40GW of network capacity for projects that are ready to connect. We'll delve into the topic of connections in our next "Grid Guide to" series for investors in early 2024.

Alongside connections, another key area where we're working with stakeholders, is moving forward with planning reforms. Over the coming months we expect refreshed National Policy Statements from government to provide greater clarity and authority on the need and urgency of infrastructure projects to support their timely delivery. As part of this, we're continuing to support the development of a Strategic Spatial Energy Plan together with a Centralised Strategic Network Plan, which will set up what needs to be built and where, to support a more efficient system in the long term.

In our UK Electricity Transmission business, our focus is on driving forward the 17 ASTI projects, whilst we continue to work with government and Ofgem on the policy changes needed to deliver them. Last month, Ofgem published its Future of System Network Regulation Framework decision, which sets out how they see the framework evolving. We'll continue to engage with Ofgem as they move towards publishing their Sector Specific Methodology consultation at the end of this calendar year. This will be used as the basis for developing our RIIO-T3 business plans for submission during 2024. Together, these will give us further confidence and clarity on the profile of investment of the second half of the decade.

Moving away from regulation, another key priority for us in the second half, is to deliver our new contractual model for working with the supply chain. We've now launched the procurement process for our Enterprise partnership model, and over the coming months, we'll be selecting our strategic partners to ensure we have the supply chain in place to deliver these projects in the timeframes required. And in Electricity Distribution, we're focused on closing out a strong first year of delivery under RIIO-ED2 as we step up our investment. Whilst the UK government has recently delayed the ban on the sale of combustion engine cars and gas boilers to 2035, our expected asset growth is not impacted, as over 95% of our investment is already agreed within our baseline allowances.

Moving next to our key priorities in the US. We'll continue to build regulatory momentum across our jurisdictions. In New York, alongside finalising settlement negotiations on KEDNY-KEDLI, we also remain on track to file a new rate case for our Niagara Mohawk electric and gas business next summer. We've also got a busy regulatory agenda in Massachusetts where we filed our Electric Sector Modernisation Plans. Within it, we outlined the investment required to help the State meet its targets under the 2050 Clean Energy and Climate Plan. Our proposal includes upgrades to improve the resilience of network infrastructure; increase digitisation of the grid, and new customer programs to encourage energy efficiency and the adoption of clean energy solutions. We're now engaging with stakeholders before making a formal filing in January next year. We're also finalising the next rate filing for our Massachusetts Electric business, which we'll submit later this month.

On the policy front, we're continuing to advocate for reforms to support the Clean Energy Vision. This includes progressing a new clean heat standard with lawmakers in Massachusetts, which enables more renewable natural gas to be blended into our distribution networks. We hope to see similar legislation introduced in New York early next year. And across our US operations we're focused on officially delivering our capital programme. We'll continue to progress our large-scale transmission projects.

In New York, in addition to the $550 million Smart Path Connect project I mentioned earlier, we've begun work on our $800 million CLCPA Phase 1 projects. This includes rebuilding 170 miles of transmission lines; upgrading 16 existing substations and building 2 new ones; and the installation of new technologies including Dynamic Line Ratings. We're also continuing to develop our CLCPA Phase 2 projects, which includes a further 400 miles of transmission line rebuilds; and 5 new substations and 11 substation upgrades. These projects will help New York to meet the goal of achieving 70% renewable electricity by 2030 whilst enhancing reliability and resilience of the transmission network.

As I mentioned earlier, in October, the Twin States Energy Link project was selected to move to the next stage. Over the coming months, we'll work with the Department of Energy to progress the 1.2GW capacity project, which, if built, will deliver clean power from Canada into the region and has the potential to create significant savings for customers. And in National Grid Ventures we'll progress negotiations with NYSERDA on the provisional offtake award of 1.3GW for our community offshore wind joint venture with RWE. We also expect to progress our bid into the New Jersey offtake solicitations in the first half of the next calendar year.

So, we've a busy time ahead of us, but before I finish, I want to spend a moment in our role as a responsible business. As I've said before, at National Grid, we understand the important role we play in enabling both net zero and ensuring the benefits of the energy transition are shared with everyone, and that nobody is left behind. That responsibility is integral to our core strategy and underpins everything that we do. In 2020, we articulated this with our first Responsible Business Charter. Since then, our business has evolved significantly with the repositioning of our portfolio, and so in September we published a refreshed Charter. One of the areas I'm most proud of in the update is that as a Group, our near-term emissions reduction targets are now aligned to the 1.5 degree pathway as verified by the Science Based Targets initiative, SBTi. With this, our aim is to reduce scope 1 and 2 emissions by 60% by 2030 from a 2018/'19 baseline whilst reducing scope 3 emissions by 37.5% by 2034. Further detail on our updated Responsible Business Charter and a replay of our recent ESG investor webcasts are available on our website.

So in summary, it's been a busy first half with solid financial and operational performance. For me it's clear, the opportunity ahead of us is huge. We've made significant progress and have a clear understanding not just of the scale of the challenges ahead, but also how to overcome them. The momentum around policy reform we've seen on both sides of the Atlantic makes me optimistic, but we now need to see announcements and consultations translated into decisions and actions. At National Grid, we're entering an exciting new phase of strong capital delivery. We're delivering the energy transition today and we're ready to meet the opportunities of tomorrow. So let me stop there and Andy and I will be happy to take your questions.

Operator: Thank you, sir. Ladies and gentlemen, just as a reminder, *1 if you wish to ask a question. That's *1 if you want to ask a question. Thank you.

John Pettigrew: Okay, so if we could start the Q&A session. Pavan from J.P. Morgan, why don't you take the first question and then, Dominic from Barclays, why don't you take the second? So Pavan, why don't you open with a question?

Pavan Mahbubani: Hey guys, good morning. Thank you for the presentation and for taking my questions. I have three please. Firstly, you've upgraded your capex guidance by £2 billion and you talk about modest enhancements to asset growth and EPS CAGR within existing ranges. Could you give us a bit more of a steer, particularly around EPS? I recall back in May you were talking about towards the lower end of the range due to changes in capital allowances. Is it fair to assume that a decent base case now is toward the middle of the range for EPS?

Second question, following on from that is, if we were to then adjust for the capital allowance impact on your EPS, again, is it a fair assessment that today's announcement should actually be seen as on a like-for-like basis coming on top of the 6 to 8% EPS range or above the top of that range as you set it out before the capital allowance position changed?

And then my final question is on New York rate filings. I note in your statement this morning that the New York PSC has responded to your rate filing with a 9.1% allowed ROE versus your 9.8% request. Do you expect an improvement on this front or should 9.1% be our base case going forward? Thank you.

John Pettigrew: Thanks, Pavan. Why don't I take the first and third and Andy take the second?

I mean, in terms of the upgrade to our forecast in capex, you're right. Previously we talked about £40 billion between 2021 and 2026 and we've

upgraded that to £42 billion today. I mean the reason for that, just to give you some context is over the last six months we've done a huge amount of work on the early projects associated with ASTI and in particular four of them, a lot of engineering work, a lot of clarity around the scope, also engaged with the supply chain and it's on the back of that that we have a clearer view and we always want to be as transparent as we possibly can that we've upgraded to the 42. And as you said, in the statement, we've said that that will modestly enhance both the asset growth and the EPS. In May, Andy talked about the fact with the capital allowance change that we'd be in the lower part of the 6 to 8% range. So, yes, on the basis that it's a modest increase, it's going to head us towards the middle of that.

In terms of the New York rate filing, I have to say I'm really pleased actually. The team did a huge amount of work engaging with the PSC before we made the rate filing. So there were no surprises when we actually made it. When we saw the initial response, there was strong recognition of the need for investment and also strong recognition for some of the programmes we were suggesting to put in place for vulnerable customers. We initially went in with a 9.8% and the PSC staff have come back initially with a 9.1%. We're now in that sort of process of looking to see if we can do a settlement and negotiation that will run for the next several months. I would hope that we'll find some middle ground between us, but we'll see where we get to with that. But their starting point is 9.1% and our rate case filing was 9.8%, so we'll see where we get to in the next few months. Andy, do you want to take the second one?

Andy Agg: Yeah, sure. Thanks. Thanks, Pavan. So just building on John's point around with the updated guidance this morning, putting us closer back towards the middle of the range, you're absolutely right. If it weren't for the capital allowance's impact to the 6-7p, we would now be looking at EPS CAGR as above the top of the 6-8%. Absolutely.

John Pettigrew: Okay. Thanks, Pavan.

Pavan Mahbubani: Very clear. Thank you, team.

John Pettigrew: Thanks, Pavan. Should we take Dominic and then Deepa from Bernstein?

Dominic Nash: Hi, can you hear me okay?

John Pettigrew: Yep.

Dominic Nash: Hi there. Thank you very much for your presentation. I've got two questions. My first one's probably got two parts to it. First of all, you've increased your investment to £42 billion out to the end of 2026, and that basically means

that your run rate, I think, goes from £8 billion this year to £10 billion for the following two years. But you spent quite a lot of time on this presentation talking about the fact that ASTI is only £3 billion, perhaps 2026, and we've got what, another, probably around about another £15 billion to go, but there's another ASTI framework potentially coming at the beginning of 2024 that the US is clearly looking like its capex is going to go up.

So the first question I've got on that is what do you actually think the potential for the run rate for the ASTI spend and beyond the 17 projects are going to get to, and what sort of timeframes is that £15 billion going to be spent? Secondly, 2026 is going to be there in the bat of an eyelid, I think. We're only looking, what, two years out. When do you think you'd be in a position to come back to us with a view of what your investment and balance sheet management will look like? How soon do you think you're going to have clarity so that we can sort of see out to 2030 and beyond? And then the third question is on the ESO. I see it's now an asset Held for Sale. Could you provide us some sort of guidance on the timeline and how the price is going to be set? And what happens if it gets set at a level that's not satisfactory for you?

Thank you.

John Pettigrew: Okay, Dominic, thanks. Let me take those questions.

So in terms of how we're thinking about the capital investment beyond 2026, it's similar to what I said in May actually. So I think we've had good progress over the last six months. The way I would describe it, and I do describe it to my team actually, is the mist is starting to rise. And you've seen that today in terms of our upgrade in the short term with the projects that we've been developing that took us from the 40 to the 42.

But actually, over the next period actually, we need to get a bit more clarity about exactly what is the capex we're being asked to deliver over the longer period. And there's still some uncertainty around that.

Secondly, and probably most importantly, what's the profile of that capex? So obviously we're waiting to see what the outcome of things like the Nick Winser review are and where the government's going to get to on some of the policy decisions, such as community benefits and so on. And that's going to influence what the profile of that capex looks like.

And then finally, of course we're waiting to see what the regulatory framework will look like in terms of incentives around delivery. Once we've got that transparency and that clarity, we'll be able to share with the market how we see the capex profile looking beyond 2026.

In terms of timing, for the things that we control, then we will absolutely update the market when we have better information. And that's exactly what we've done today with the update for the £42 billion. There are certain elements that aren't in our control, but we've got a broad indication of what we're hoping to see.

So over the next period, we are hoping to see a response from the government in terms of the Nick Winser review around streamlining the planning process and the national policy statements. We've got the sector specific consultation coming up in December, and depending on how much information is in that, that will help us with the regulatory framework. You've got the ESO publishing its next centralised network plan with the investment it sees beyond 2030, now to 2035, hopefully in the first quarter of next year.

So if those things happen in the timeframes that are currently being indicated, the mist will continue to clear and we'll be able to provide some transparency. But those things are not actually in my gift in terms of control. So the answer is as soon as we've got that transparency, we will share it with you.

In terms of the ESO.. So let me just start by saying we're sort of delighted that the Energy Bill has gone through actually. The Energy Bill was required for the government to be able actually to buy the System Operator from National Grid.

As you know, we've always been supportive of the fact that with the role that the ESO has been asked to provide that it's right that it's separated from National Grid. Over the last 12 months, we in the background have been busy preparing for that separation potentially in the summer of next year. We're doing a lot of the IT separation work that you'd expect us to do.

Now that the Energy Bill has gone through, we're now in a position where we can engage with government on the commercial side of it. They've recently appointed their advisors and we're just initiating those conversations now. So we'll keep the market informed as that goes through, but we've literally just started those discussions.

Dominic Nash: Thank you.

John Pettigrew: Okay, so if we could ... We'll take the question from Deepa next and then James from Deutsche Bank.

Deepa Venkateswaran: Thanks, John. I have two questions.

The first one is on the Community Energy Project for offshore wind that you won with RWE. Could you talk about what your return expectations would be for taking FID and this project? I know FID is not till maybe around 2027, but if you could contextualise your return expectation in the context of, say, your 10% FERC allowed returns for transmission projects, that would be helpful.

And then could you, in the same way, also comment on some of the problems that other projects have been having in both New York and New Jersey, and how do you feel comfortable with the East Coast offshore wind at this point?

So that was my first question.

Second one is on the Ofgem debt indexation informal consultation that's expected at the end of this year. What do you expect them to say and how have your engagement with Ofgem been so far, and do you see that they're fairly open to not doing anything or looking at this later?

So those would be my two questions. Thank you so much.

John Pettigrew: Yeah, thanks, Deepa.

So I'll actually answer your first question in reverse order, to talk a little bit about the problems that you referenced in the offshore market in the northeast.

I mean, obviously, we've seen what's been going on in the northeast with a number of projects either withdrawing or looking to renegotiate, and obviously you'd have to talk to those companies about the specifics of that.

What I would say is that given the timing of our response to the solicitation in New York, we were able to reflect in our bid what was actually going on in the supply chain, including things like indexation, which we had the opportunity to provide in our bid. So we're pleased that, provisionally, we've got an agreement for the 1.3GW as part of our joint venture with RWE. We now enter into the negotiation phase with NYSERDA. So ultimately, that's a process that we have to go through over the next few months.

But ultimately, our position hasn't changed in terms of, you know, this is discretionary investment in our National Grid Ventures business. It needs to fit into the overall capital programme for the Group, and it needs to have returns, which we've historically said need to be in excess of what we would see in our regulated businesses given the nature of them. But the negotiation will determine whether that's the case.

I'll also just remind you, I'm sure you're aware, that as part of the joint venture, we've always got the option to withdraw right up to FID if we find that the investment proposition is not something that works for National Grid. So that's an option that we have going forward. But we are hopeful that the negotiations will start relatively soon and are likely to run into the first quarter of next year, I suspect.

In terms of the inflation consultation that Ofgem is doing on debt indexation, I have to say, to be fair to Ofgem, I think they've been very balanced about this. They absolutely recognise the importance of inflation as a foundation stone in regulation in the UK and they also recognise the importance of creating a regulatory framework that encourages investment going forward.

As you know, the consultation set out, I think, five options, from do nothing to a voluntary contribution, and everything in between. National Grid has been working with the ENA and has set out our response, which is, if you take a long-term perspective on this, we don't think there is an issue. But clearly, Ofgem need to look at it given where inflation has been over the last couple of years.

I don't know where they're going to land. I think potentially dealing with it as part of RIIO-2 is maybe the right thing to do. But I do think they are taking a very balanced approach to it in the conversations I've had with them.

Deepa Venkateswaran: All right. Thank you.

John Pettigrew: Okay, so if we could take James from Deutsche Bank next, and then Martin, Martin Young from Investec.

James Brand: Hi, good morning. Thanks for taking my questions. I've got two.

First is on the ... Well, they're both on the balance sheet to some degree. But firstly, within the five-year financial plan, you said in the statements that you expect gearing levels and other credit metrics to sit within your current rating bands. However, there's a bit of perception out there, at least among some investors, that the metrics get a bit tighter over the planned period. So first question is, is that a fair perception or do you think there's still a very comfortable buffer that persists on your rating metrics throughout the period?

And then secondly, long-term, obviously the capex, it looks like it's going to be pretty huge. I'm sure you're not going to set out just now in detail how you're going to fund that, but I was just wondering if there was any preferred way that you were prepared to share for funding that future capex. In the past, you've obviously sold assets when needed in order to fund the big

capex program. Would that be the preference going forward or are all options on the table?

Thank you.

John Pettigrew: Okay, thanks, James.

Andy, do you want to ...

Andy Agg: Yeah, sure. Morning, James. Thank you.

Firstly, on the current five-year frame, I mean, just to reiterate, I think what we've said again this morning, which is very consistent with what we've previously said, is that even with the step-up to the £42 billion pounds driven by ASTI, as John set out, we very much see that continuing to deliver regulatory gearing in the low seventies; very consistent what we said previously and very much in line with maintaining a sensible and appropriate buffer against the credit metrics. And as you know, the two key ones we look at are the Moody's RCF to debt and S&P'S FFO to debt. So absolutely no change. Can't comment on how other people are modelling that, but that's very clear from us and that's unchanged from where we were at year end as well.

In terms of the longer term, as John set out already, I think there's a lot of work still to do in terms of the cadence of the spend, the timing, the regulatory frameworks that we're just starting to engage with Ofgem on in terms of the future, looking out to T3 and the ASTI framework. And of course, we will want to work through all that, and then absolutely we would look at what's the appropriate funding strategy.

But it's fair to say that if you look at the approach we have today, we continue to have access to a wide range of tools. You know, we continue to use today obviously senior debt; we utilise the script on an ongoing basis. We have existing and future potential access to the hybrid market where we have considerable headroom that we haven't tapped previously. We've demonstrated that we can utilise asset moves as well. You've seen that over the last few years. And of course, we have a complete toolkit up to utilising things like partnerships, as we've done across interconnectors and things, and of course wider access to the capital market's debt and equity.

So all of that is available to us, but as we've said a couple of times, we will come back to the appropriate tools when we're clear on the cadence and timing of the capex.

John Pettigrew: Okay, thanks, Andy.

James Brand: Thank you very much.

John Pettigrew: Okay, so we take Martin next and then Harry Wyburd.

Martin Young: Yeah. Good morning to everybody.

My question is one that sort of follows on in a bit of the same vein from what James was asking and comments that John had made earlier around offshore wind in the US.

It strikes me that you've got a significant opportunity to do a lot of things well into the next decade. Not all of those are going to be mandatory. You've mentioned partnerships as one potential route to doing things, but maybe you could just give us a sort of high level overview as to how you will approach whether or not you want to do something that potentially lands at your door. Because at the end of the day, that does link back to James's question about how it all can be financed.

Thank you.

John Pettigrew: Yeah, thanks, Martin.

I mean, I think the answer I and Andy have just given sort of reflects that, which is, you know, I've always said for National Grid Venture investments, it's right that we're in adjacent markets because we're able to take the capabilities we have across grid and identify opportunities that would potentially give us incremental returns above what we see in our regulated businesses. But we will only do that in a very disciplined way where the returns are in excess of our hurdle rates on a risk adjusted basis and where it fits into the overall Group capital investment plan. And that approach hasn't changed whether it's looking at onshore wind, offshore wind, or any of the investments we make in National Grid Ventures, including things like interconnectors and NPIs. So that will be the discipline approach that we continue to apply.

As I said in my previous answer with regards to the offshore wind, we're now in the negotiations phase. We will see what it looks like financially, but we also have the option, should we choose, to exit that without any loss of income to National Grid going forward as well.

Martin Young: Okay, thanks.

John Pettigrew: So I was going to take Harry Wyburd next, and ... Just looking down the list.

And then we'll take Sam Arie's.

Harry Wyburd: Thanks. Morning, everyone. It's Harry Weyburn from Exane. So two from me, please.

So first one's on politics, and specifically on Great British Energy, which popped up a few times again at the Labour Conference. I just wondered whether you had any more thoughts on how you think Great British Energy might interact with what you are doing. Specifically, would it ... And thanks, Andy, for the list, I guess, of tools on the balance sheet. But is there a possibility that Great British Energy could be another tool that you might have on the balance sheet? So for instance, would the government perhaps be willing to co-invest with you in some projects, or might this be a way of accessing actually very cheap government-backed capital for your projects?

And then the second one's on debt.

So I think since you last had your full year results, gilt yields in your secondary market traded bond yields have gone up by about 50 to a 100 basis points. And I just wondered whether that factored into what you've mentioned this morning on your EPS CAGR.

So have you adjusted up slightly your new issue costs on debt, and how are you feeling about the interaction of that with the obviously indexation on your cost of debt allowances, which acts a bit more slowly than the changes in rates that we've been seeing over the last few months?

Thank you.

John Pettigrew: Okay. Thanks, Harry. Why don't I take the first question, and I'll ask Andy to take the second?

With regards to GB, and more broadly it's sort of policy with the Labour Party, I mean, as you'd expect, given the position National Grid plays in the UK, we always engage both with the government and with the Labour Party opposition, and I have to say, they recognise, as does the government actually, about how important networks are in the energy transition. And a lot of things that we put in our spring policy documents around policy reform and community benefits and a spatial energy plan, they're very much aligned with us.

With regards to Great British Energy, we've had some really good conversations with them about that and we do see potential benefit in some of the things that they talk about that GB Energy could do. For example, using the convening powers of government to coordinate potentially the supply chain at the UK level so that we can capture some of the capacity

that's going to be needed worldwide is certainly an area that it potentially could be beneficial in.

Similarly, they've talked about investing in technologies that perhaps are not yet ready for private capital, and that seems a very sensible thing.

They did reference at the conference potentially investing in competitive transmission where necessary. I mean, I think our personal view is if we get the right regulatory framework and we get the right stable policies, that actually there's plenty of access to capital in the private market, and that's probably not best where public funds should be spent. But they're at very early stages of thinking on this as well and we continue to engage with them.

Andy?

Andy Agg: Yeah. Thanks, Harry, for that.

In terms of debt yields, I think, firstly, you'll have seen actually in the results that we announced this morning, overall interest costs and treasury costs were flat, slightly down, but within that, yes, we are absolutely seeing higher interest rates, both in terms of refinancing existing debt and of course financing growth as well, offset by other factors this first half.

In terms of future guidance, yeah, to be clear, I don't second guess the forward curves. We very much use the curves that we see in different markets. And your point on spreads: absolutely cognisant of that today. Again, we tend to make sensible assumptions around forward spreads, and again, I don't assume anything heroic in our forward guidance. So I am comfortable that the updated guidance we've given out to '26 very much takes account of macro factors that we're seeing.

In terms of the link through to the debt mechanisms in regulation, as you know, in the US, obviously we continue to have a right of pass through treatment as long as we continue to issue efficiently, which of course, we always look to do. And in the UK, with the way the index works and the true-up mechanism, I think absolutely we still believe, particularly with the adjustment that Ofgem made to the ED2 mechanism late on, that that gives us opportunity to continue to perform well against that.

What I think I would say though is as we look ahead to T3 in particular, I do think that the cost of debt mechanism will be something that we would work with Ofgem on. Recognising a growing capex book in a growing interest rate environment is something that I think we will have to look again at the existing cost of debt mechanism. And I think that's something Ofgem recognised today as well.

John Pettigrew: Okay. Thank you, Andy.

Martin Young: That was very clear. Thank you.

John Pettigrew: Thank you.

Sam, why don't we take your question, and then we'll go to Rob from Morgan Stanley? But Sam first.

Sam Arie: Okay. Thank you very much, and good morning, everybody.

I'm going to come back to the topic that I think everyone is kind of scratching away at, which is this kind of capex outlook sustainability financing formula.

I recognise that you are not wanting to lay all your cards out at the minute, but perhaps I could just nudge you into sharing a bit more thinking on how this is all going to add up.

And perhaps correct me if I'm understanding anything wrong here, but I think my first observation is that your, what you might call, business as usual capex is probably going up in the next period. We hear a lot about the importance of de-bottlenecking the network side of the energy transition, and clearly, there's demand and so on. So you're probably going to need to spend at least as much as you currently are doing, plus a bit. Then you have the ASTI projects on top, then you maybe have some other things in the US. It seems like quite a big bump to the capex outlook.

On the ASTI project, second point, I think we were previously hoping that Ofgem might have some kind of special help for you on the ASTI projects, but it seems like in October they seem to have said no to that, that it'll all just be dealt with within the wider price control. So I'm wondering if that was a disappointment from your point of view. I heard your comment earlier that you continue to work with Ofgem. I wonder if that's what you were referring to.

But I think more generally, it still seems like there's quite a big question here. And you mentioned of course you can access debt and equity markets, that you could do more asset rotation, but I suppose then those things would be diluted.

So if I turn this all into a question, it might be, am I right in thinking that the longer term earnings growth rate has got to go down, either because you can't keep the capex equation balanced in the same way as you have done in the current plan or because you have to take some fairly dilutive measures to make the financial equation work and then that dilutes the EPS growth?

I mean, I'm just trying to get a sense of ... It seems to me there's a big unanswered question here that it's maybe a bit stressful, but I may be overestimating, and I'd just love to understand how difficult a problem you think this is to solve.

John Pettigrew: Thanks, Sam. Let's break that down. So I'll have a go at the first two questions and then I'll ask Andy if he could pick up the third.

I mean, in terms of the capex outlook, I'm sort of going to reiterate, but I'll try and expand on what I said earlier, which is, from our perspective, we think it's really important that we can provide transparency and clarity to the market when we've got a degree of certainty. We don't need absolute certainty, but we need a degree of certainty, and we're still not yet in a position where we know exactly what we're being asked to deliver in terms of capex. And you quoted some of the things that are uncertain, whether it's the KEDNY/KEDLI rate case in the US, the Massachusetts Electric rate case, which we're filing this month. We've got the Electricity Sector Modernisation Plan in the US and then in the UK we've got the ESO due to do its next transitional network plan in the new year.

So we're working through that at the moment to get clarity on what we're being asked to do and what will be put out to competition and all those sorts of things. Probably most importantly from my perspective, Sam, then is what's the profile of that capex? As you know, without any reform in the UK for planning for example, it takes between seven and 12 years to build a transmission line. If we see some streamlining, which is one of the things that Nick Winser was recommending in his report, then that profile would be very different to if we don't see those reforms.

Similarly, local communities are quite active, particularly in the East Anglia part of the country, about how they feel about investments. So getting the community benefits right is going to influence what our profile looks like as well. So that's what we're working through at the moment. And then ultimately we need to get a good understanding of what the regulatory framework is, which leads into Andy's answer around funding in terms of what is the speed of cash and slow money and fast money, what's the depreciation rates, what's the returns, what's the incentives to deliver it quicker or not? So all of that has to be worked through and once we've got that, we'll be able to articulate very clearly what does the profile of capex look like beyond 2026.

In terms of frameworks and the ASTI framework and separating it out. I'll answer it more broadly. I think the decision document that came out recently from Ofgem, I think it sort of aligned with our expectations and there were many things in it that we were very pleased about. So Ofgem's recognition for the need for change of the regulatory framework I think was

really important. They talked about evolving the RIIO framework. I think the recognition that there will be a separate framework for large projects, I think is in that document, and I think that is important.

They also talked about their desire to streamline and simplify the regulatory framework, but also create a framework that actually is attractive for investors. So all of that I was really pleased about. There was in that document, a statement about dealing with the financial side of ASTI, as part of RIIO T2/T3. That is something we will continue to have dialogue with Ofgem on. I do think there is advantages in separating that out. We can live with it if it's dealt with in T3, but I have a preference to try and deal with it sooner and we'll continue that dialogue with Ofgem over the months to come. Andy?

Andy Agg: Yeah, thanks Sam. In terms of what it may or may not mean for future trends, and to a degree, you're getting very hypothetical here given the previous answers around all the uncertainties and the things we need to work through. But I think what I would say is, as we've seen in previous price controls, actually, it's not just the levels of capex, but it's other levers that will have a big impact on earnings profiles, particularly in the UK businesses.

And I think actually if you go back to the FSNR document, there was positive commentary in there around the need to create an investible framework, recognising that we may need to look at returns and so forth. But I think as we've seen in T2 also recognition that you need to look at the wider set of cash levers, which could involve things like asset lives, it could involve things like the fast slow money mix as well. So all of those things will absolutely play into future profiles. So I think it's way too early to start to speculate on what EPS CAGRs may or may not do in the long term. There's an awful lot of water to flow under the bridge before we can get there.

John Pettigrew: Thanks Andy. Okay, I'm going to take the next question from Rob from Morgan Stanley and then Jenny from Citi. Rob?

Rob Pulleyn: Thanks. Thank you for taking my question. There's only one, this is a different tack on the prior topic, which I think is very much part of investors debate at the moment, and that's the impact of inflation. May we ask what this mid to high teens, so let's assume 15 to 19 billion pounds of ASTI capex you've firmed up today, what was that say a year ago when you looked ahead?

And whilst inflation is obviously passed through in your regulatory regime, it still needs financing in advance. And on that basis, aside from shall we say the quantum of work or the cost of finance, which was the previous question, could the inflation we're seeing in these infrastructure projects lead to difficult decisions on capital allocation between frankly the opportunities you have in ET, ED, US and NGV? And if I can push the

envelope a bit, which of those lines would be the priority for capital allocation? Thank you.

John Pettigrew: Well, let me have a go at answering question one. I'll reference a little bit of question two, but then hand it over to Andy if that's okay. I mean in terms of the mid to high teens for the 17 ASTI projects, what we've done over the last six months is a huge amount of work on the early ASTI projects, I think Andy referenced them. So the Eastern Link projects 1 and 2, Bramford to Twinstead and Yorkshire Green. And in doing that we've got much clearer view of the scope, we've got a much clearer view of the engineering solutions and we've engaged with the supply chain and entered into contracts. So all of that has driven the 40 to 42.

We haven't really talked about ASTI for quite a long time actually in terms of the overall cost of it as we've been sort working through with Ofgem about what's going to be our licence obligation and actually whether we're going to be doing all 17, which we only actually got information on at the beginning of this year.

Actually last time it was referenced, I think Ofgem put in the consultation a number around 12 for the 17 projects. So that was back in 21/22. So with inflation indexation and the latest view of what we're seeing in the supply chain, you quite quickly get to mid to high teens. And that was the logic for it. And as I've already said today as we work through the later projects in ASTI, we'll continue to update the market, but really it was 12 that was in the consultation document 18 months or so ago. If you index it for inflation and then reflect what we've said today, you sort of get to mid to high teens.

In terms of your inflation question, the only point I was going to make, which links to the major projects in the UK, which is the way that the regulatory process does work, is that actually as we develop these projects out from an engineering perspective prior to agreeing the allowances with Ofgem, we actually do get the opportunity to go to the market and see what the cost of those projects are. So to the extent that we're seeing inflationary pressure in the supply chain, we're able to have that compensation with Ofgem prior to setting the allowances for each of those individual projects. And we're just going through that process for these early projects that I've just referenced. So to the extent that we're seeing inflationary pressure, we're able to reflect that and have that conversation with Ofgem upfront. Andy?

Andy Agg: Yeah, thanks Robin. And I think the other part of your question was around how does this feed into potential thinking about capital allocation? And I think a couple of broad thoughts on that. One is of course is, as I'm sure you're aware in terms of sort of the regulated businesses that we operate, we will have absolutely meet our regulatory obligations. So as the owners of those businesses, those capex plans are agreed with, our regulators meet

customer needs and we're obligated to delivering and we will always prioritise and ensure we do that on both sides of the Atlantic.

I think you've heard us say before that post the pivot, the mix that we've moved to in the electric gas towards 75/25 is one we're very comfortable with. The UK/US overall split of the Group, again relatively close to 50/50, again is something we're very comfortable with. And as John said a couple of times this morning, I think in his opening comments that when we think very carefully about the discretionary opportunities in National Grid Ventures, we will of course be disciplined and it would depend on the return opportunities available and of course whether they fit into the overall capital frame of the group. So that's broadly how we would think about capital allocation going forward.

Rob Pulleyn: Thank you. I'll turn it over.

John Pettigrew: Thanks Rob. Thanks Andy. So I'll go to Jenny from Citi and then Bartek from Société Générale. So Jenny?

Jenny Ping: Thanks very much. Hi. Morning everyone. So just a question for Andy. At the full year results when we talked about the 6-9p, you at the time alluded to that being a temporary change and therefore being reflected in your earnings, but I remember you saying that if it does become an enduring change and if it is going to stick around, then you would certainly look to remove that impact. And as we go into autumn's statement, there is more discussion about fall expensing and therefore the impact from that. I just wondered whether if we did have confirmation of that, you would effectively then add back the 6-7p into your earnings. Thanks.

Andy Agg: Yeah, thanks Jenny. No, I would just reiterate precisely what I said in May which is at the moment it is a temporary phenomenon of three years that has previously been announced. We didn't believe it was the right thing to do, to change our fundamental way of presenting our results. I'd repeat what I said there though, and I've seen exactly the same commentary and speculation in the media around what the Chancellor may or may not say. If it does become enduring, then absolutely we would look again and as I said then if it's material and it's distortive to how we present our economic performance, we would absolutely look at the right way to do that. And that may lead to us to add it back, but we'll wait and see what the Chancellor says first.

John Pettigrew: Thanks Andy. Thanks Jenny. Bartek?

Bartek Kubicki: Good morning and thank you for taking my questions. Still three to come please, but very short ones. Firstly, I mean plenty of discussions on ASTI and

future investments and the potential funding and the regulatory changes. I guess you can indeed speed up a cash generation in the future with for instance, higher share of fast money or shorter depreciation periods. But just hypothetically, would you consider, or do you favour or changing the regulatory framework in the UK to a nominal one where actually the returns will be higher in nominal terms of course, and then cashflow generation will be quicker to fund future growth.

Secondly, in your presentation you mentioned about the first transmission connected solar farm, I just wonder if this is something what could happen more often in the UK and as a result it does pose an upside risk to your investments in the future.

And thirdly, on your FY 24 technical guidance, just two things. When I compare this guidance and the one presented and at FY 23 stage, you have decreased your contribution expectations from JVs claiming that the contribution from interconnections will be lower. So I just wonder if you are already seeing a normalisation of earnings coming from interconnectors or they're still at levels above historical ones.

And on the technical guidance, you're also mentioning about additional 40 BPS of one of ROE creation in New England, and I think it's coming from the property tax return. If you can perhaps describe what is this and whether it will have an actual impact on your earnings and cash flows. Thank you.

John Pettigrew: Thanks, Bartek. Why don't I take the first two and then I'll ask Andy to talk about guidance. I mean in terms of the regulatory framework. So I do think it's important that we get the right regulatory framework for these major projects. And you heard me say already this morning as we think about this, one of the things that's important to us is that clarity on that, whether it's returns, whether it's fast money, slow money, whether it's depreciation periods, all of that is up for the debate and we need to work through that. In terms of regulation, actually one of the things that I think is very beneficial for investors in National Grid is to have that mix of nominal and real regulation between the UK and US. That gives you a slightly different mix between yield and growth as you know, which is beneficial. And I'd add to that as well that a shift to nominal regulation would have quite a significant impact on customer bills, which is something that we need to be mindful as part of the energy transition.

So I'm not really an advocate for nominal regulation in the UK for those reasons, but we do need to get the right regulatory framework. I do agree with you on that.

In terms of the transmission farms, I mean actually it is the first directly connected solar farm to the transmission system. If you look at the

connection queue that currently exists in the UK, there's over 400GW of people looking to connect to the transmission system. And actually of that 400GW, about 80GW of it, I think is solar. So there's an awful lot of people out there that are looking to connect to the transmission system.

So I don't see it much as a risk as they are customers that will look to connect to the transmission system and we will need to reinforce it. Ultimately, as you know, there's a lot of work going on around connection queues and who are the real projects and which ones do we need to remove. But nonetheless, we will need to serve those customers in the same way as we serve other technologies. Andy?

Andy Agg: Yeah, thanks Bartek. In terms of our guidance, I think you raised two points. Firstly on our guidance relations, joint ventures, and as you say, in terms of interconnectors, it's probably too early to say, is this just a reversion to long-term rates? I think what we have seen obviously, as you know over the last year or two is higher levels of arbitrage payments coming through on the capacity auctions. We are absolutely seeing that soften a bit this year. But again, if you look at the curves, you do see them coming down, but I think we'll have to wait and see whether that is actually a long-term normalisation.

It's still healthy returns, just to be clear. It's just slightly lower than we've seen over the last year or two. So we're still very pleased with the performance of those interconnector assets overall.

And then in terms of the one-off item in Massachusetts, what it is, it relates to regulatory agreements that we reached with the DPU earlier this half in relation to property tax costs that we've incurred in prior years that they've now agreed that we should be entitled to recover, which is why we recognise it through the ROE this year now we've got that clarity from the regulatory in Massachusetts.

John Pettigrew: Thank you, Andy. That's all the questions we've had on the telephones, but I think we've got time, Nick, for one question that maybe it's coming online.

Nick Ashworth: Yes. Let's just do one last question then. So this is from Ahmed Farman, at Jefferies, there's a couple of questions. The first one actually Ahmed it is on ASTI capex. I think hopefully we've answered that with some of the other questions that have been asked.

So the other question is, the first half results show a year-on-year decrease in the US regulated business operating profits. Could you please share some thoughts on the performance you're expecting for this business over the second half and what ROEs are you expecting to achieve in New York and New England this year?

Andy Agg: Yeah, sure. Thanks Ahmed. I think firstly, I'd draw your attention to a couple of comments we made in the presentation that we do see the US as always having a very skewed first half, second half split, and therefore we continue to be very positive about the overall performance of the US business for the full year. You'll have seen in our detailed guidance for New York and New England that we do expect significant growth in New York. You'll see that probably around slightly lower because of the update that we gave to the environmental charge in our pre-close. But even allowing for that, we expect significant year-on-year operating profit growth in New York. In terms of ROEs, our guidance is unchanged other than the single item just referred to in Massachusetts. So again, that's unchanged from the guidance that we gave back in May.

John Pettigrew: Okay, in which case, I'd like you to just thank everybody for joining us today and for a fantastic set of questions. I mean, I guess just to finish off our key messages, really with a really solid financial performance in the first six months and reconfirming our full year guidance today, as you just heard from Andy.

Very pleased with the operational performance across the group and the regulatory progress that we're making and also the influence we're having on policy agenda as well.

Very much entering an exciting phase of delivery of the energy transition as you've seen with the capex numbers that we've reported today. But we feel very well positioned both to navigate the challenges, but take advantage of the opportunities that are ahead of us as part of this energy transition. So thank you all for joining us and I'll look forward to seeing you all in the next couple of weeks.