National Grid

Half Year Results 2024/25

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Transcript

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Angela Broad: Good morning and welcome to National Grid's half year results presentation. I'm Angela Broad, 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 and use “star one” to ask a question or use the tab at the bottom of the webcast to submit a written question.

All of today's materials are available on our website, and of course, for any further queries after the call, please 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: Many thanks, Angela, and good morning, everyone. Thank you for joining us today. As ever, I'm here with Andy Agg and once we've been through our respective presentations, we'll of course be very happy to answer your questions.

As you know, in May we updated our strategy and announced the actions we'd be taking to make National Grid the preeminent pure play networks business. This marked the beginning of an exciting new era of growth with unmatched visibility on around £60 billion of capital investment in our networks over the next five years, and clarity on financing well beyond that.

Over the last six months, the pace of change in our industry has continued, as has the exciting momentum within National Grid. We successfully completed the £7 billion rights issue, positioning our balance sheet to deliver this growth at pace. We're delivering on our major capital projects, increasing investment to a record £4.6 billion in the first half.

In the UK, construction is already underway on five of our ASTI projects and in the US, regulated CAPEX increased 20% year-on-year as we've continued our $4 billion Upstate Upgrade programme. Our policy agenda has continued to move forwards as well.

We're encouraged by the start the new UK Government has made against their energy priorities. As you would've seen, the National Energy System

Operator, or NESO, was established on the 1st of October following our sale of the Electricity System Operator for £630 million.

They've also formed Mission Control to help accelerate progress on energy projects needed for 2030, and at the end of the year, they'll set out their action plan to achieve this, taking into account the advice set out this week by the NESO. The NESO's report is a welcome milestone towards clarity on the steps needed to deliver against this goal and we'll continue to play our part alongside the government regulator and industry.

The Government has also commissioned NESO to develop a Strategic Spatial Energy Plan, setting out where energy assets need to be built, and when, to meet the country's 2050 net-zero goals. We're pleased that the King's speech in July included expected legislation to reform the planning system. This will help to accelerate the delivery of critical infrastructure, something that we've long been advocating for.

In the US, Massachusetts and New York policy makers are continuing to progress plans to align economic growth and system reliability needs with their clean energy and climate goals. Both states recognise the need for long-term holistic energy planning and we're encouraged that this is now underway. From a regulatory perspective, we've agreed new rates for our downstate New York gas business and for our Massachusetts Electric business, giving us even greater visibility on our investment plans. And in the UK, Ofgem's publication of the sector-specific methodology decision marked the next step in the RIIO-T3 regulatory process. We've also achieved another important strategic milestone by completing in September, the sale of our final 20% stake in our UK Gas Transmission business for £686 million.

So as I say, exciting momentum and progress in the last six months that underpins our compelling investor proposition of delivering low-risk, high-quality asset growth, strong earnings growth, and an inflation-protected dividend.

Now turning to our financial performance for the first six months. On an underlying basis, that is excluding the impact of timing and exceptional items, operating profit from continuing operations was £2 billion, 15% higher compared to the prior year at constant currency. This reflects good performance across all of our regulated businesses, which drove an increase

in underlying earnings per share of 8% to 28.1 pence. Our business delivered a record £4.6 billion of investment, up 19% year-on-year at constant currency. And in line with our policy, the board has declared an interim dividend of 15.84 pence per share.

Turning next to reliability and safety. Reliability has remained strong across our UK and US networks, despite severe weather in most jurisdictions. Our teams restored outages rapidly and well within regulatory requirements, including in our New York region, where during the most significant storms the average time to restore 95% of customers was just 12 hours. As we look ahead, NESO recently published its winter outlook report for the UK, in which they're forecasting an electricity capacity margin of 8.8%, slightly higher than last year's, and broadly in line with recent winters.

Overall, we're confident in delivering our usual high standard of reliability across our networks in the months ahead and remain vigilant as we move through the winter in both the UK and the US. Safety, as always, remains a critical focus across the business. In the first six months, our lost time injury frequency rate was 0.10, in line with our group target. With our significant increase in capital delivery, we were recruiting new contractors working for National Grid for the first time, and so we've reinforced our protocols to ensure that our high safety standards are maintained.

Now moving to our operating performance across the group, starting the UK electricity distribution. Capital investment increased by 6% to £647 million driven by increased customer connections, asset health workload and network reinforcements. We've also made further progress to improve our customer service, including in May when we launched ClearViewConnect.

This online tool provides visibility of Grid Supply Point capacity, including a view of the generation connections pipeline to help prospective developers identify the quickest and cheapest connection point. And we've made good progress in reforming the connections process. By playing a leading role in the Industry's Technical Limits initiative, we've been able to accelerate the connection offer dates on over 280 megawatts of distribution generation, and as mentioned at our Connections Investor Event in January, by reviewing projects that aren't progressing, we've been able to remove 3.7 gigawatts of capacity from the contracted connections queue.

Looking ahead. Whilst we're still more than three years remaining in ED2, we're already thinking about the next regulatory cycle. Yesterday Ofgem issued its framework consultation, which includes wide-ranging questions to help shape the ED3 price control and we'll respond early in the new year.

Turning to UK electricity transmission, where capex increased by 43% to £1.3 billion, driven by an increase in customer connections with 2.3 gigawatts of new customer connections in the first half. And good progress on our £1 billion London Power Tunnels project, where we successfully energised a 2.5km circuit between Hurst Substation and Crayford.

Looking further ahead, we're seeing an increase in transmission scale connection requests for data centres, that is driving significant investment for new and upgraded substations in the South East.

On regulatory developments, Ofgem published in July, their decision on the sector specific methodology marking the next step in the RIIO-T3 regulatory process that will run through to the final determination at the end of 2025. We were pleased to see that the document included a commitment to streamlining the overall framework to enable faster decision-making on which projects proceed.

Proposals for an Advanced Procurement Mechanism, which enables us to secure supply chain capacity early and the introduction of mechanisms similar to the ASTI approach to allow funding on projects earlier than historically has been the case. As you'd expect, we're engaging constructively with Ofgem as well as wider stakeholders to agree the right regulatory frameworks that delivers a net-zero energy system and a fair return.

Whilst we're encouraged by Ofgem's inclusion of a cost of equity range of 4.6% to 6.4%, the allowed return needs to be at the top end of the range in order to continue to attract sufficient capital to the sector. Ofgem also concluded on its inflation consultation with the introduction of a nominal return on fixed rate debt, which will allow better matching of allowances to actual debt costs and faster recovery of cash.

On the policy front, we've seen progress on connections reform and I'm pleased that we now have consensus with Government, Ofgem and NESO on the steps that need to be taken. In the second half of 2025, NESO is

expected to implement reforms where projects must move through a two-stage process based on a combination of project readiness and alignment with the Clean Power Plan.

Turning next to our Strategic Infrastructure business created last year to deliver the 17 ASTI projects. We're managing these projects in distinct waves. Wave one comprises the six most advanced projects and wave two comprises the remaining 11, which are at earlier stages of development.

We're well progressed with obtaining the required consents for the first wave of projects, and we expect to have all of the key equipment and material contracts in place by early next year.

As I mentioned earlier, construction has started on five of the first wave, including the offshore Eastern Green Links 1 and 2, Yorkshire Green, North London Reinforcement and Bramford to Twinstead. With construction due to start shortly on the Grain to Tilbury project, by the end of this fiscal year, we'll have broken ground on all six of our wave one projects.

Turning to our Wave two projects, we had a number of public consultations running over the summer and with further consultations planned in 2025, we're progressing well through the consenting process. We're making good progress on procurement and are well advanced in securing the supply chain, and we've submitted early construction funding requests to Ofgem on Eastern Green Links 3 & 4 and our SEALink project to allow these projects to move forward at pace.

Coming to the US and starting with New York. Capex has continued to be strong, increasing 29% to £1.6 billion in the first half. This reflects strong progress with our $4 billion Upstate Upgrade, including our Smart Path Connect project, which has reached the halfway point in construction well ahead of schedule. And the work approved under the Climate Leadership and Community Protection Act where construction on phase one of the project is progressing well and we've just issued the procurement tenders for phase two.

We've also increased investment in our gas network, replacing a further 161 miles of leak-prone pipe as we continue to reduce our methane emissions. On the regulatory front, in August, our three year rate case settlement for our KEDNY / KEDLI gas distribution businesses was approved by the

Commission. We expect to invest $5 billion over the next three years with an improved ROE of 9.35% and we've filed for new rates in our Niagara Mohawk business in upstate New York. The filing proposes transmission investment to integrate renewables, line and substation upgrades, and further investment in our leak-prone pipe replacement programme.

At the end of September, as usual, the PSC staff provided rebuttal testimony including a 9.5% cost of equity against our current allowed return of 9% and smaller increases to our proposed capital investment. The filing will now continue to progress as we enter settlement negotiations and we're confident we can reach a constructive outcome by the spring.

Turning to policy, where, in July, a draft report from the New York PSC acknowledged for the first time that New York state is likely to miss its target of 70% renewable generation by 2030. In response to the report, Governor Hochul's administration has taken several actions, including reconvening, the State Energy Planning Board to draft a roadmap for the state to build a clean energy system for New York, taking into account resource adequacy and affordability. As a result, a more pragmatic dialogue has opened up and as you'd expect, we're engaged in supporting the process, which provides an opportunity to shape a more balanced approach to the energy transition.

In New England, capital investment increased by 7% to £814 million. This largely reflects the continued steady growth delivered through investment in grid modernisation and asset health work and leak-prone pipe replacement activity.

From a regulatory perspective, in September, the DPU issued its rate case order for our Massachusetts Electric business approving a five-year plan with a revenue increase of around $100 million. The order includes a new regulatory recovery mechanism that provides timely funding for growing capital investment, an updated performance-based rate mechanism providing inflation protection for operating and maintenance costs, and increased allowances to cover the increasing cost of storms. Taken together, these enhanced recovery mechanisms will enable us to earn closer to the allowed return of 9.35%.

The DPU has also approved our electric sector modernisation plan as a strategic roadmap to support decarbonisation investments. As part of this, we filed for $2 billion of investment, including upgraded power lines, transformers, substations, and technology platforms over the next five years. We expect the proposed costs and recovery mechanisms will be agreed ahead of the programme starting next summer. And over the past summer, Governor Healey's administration has been working to pass comprehensive energy and climate legislation. The proposed bill addresses critical issues we've been advocating for, including setting an accelerated timeframe for siting and permitting of clean energy infrastructure projects, and we're hopeful it will progress before the end of the year.

And finally, in National Grid Ventures, capital investment was 11% lower at £279 million, following completion of the Viking Link to Denmark last year, partially offset by increased investment in National Grid Renewables and the Isle of Grain.

We've made good progress on the Propel transmission project through our New York Transco joint venture, which will help to deliver offshore wind power from Long Island to The Bronx in New York City and Westchester County.

We've made further progress on the fourth phase of expansion at our Isle of Grain LNG facility, which remains on track for completion next summer, and we've also commenced the sale process for National Grid Renewables. So as I said at the start, we've achieved significant progress across all areas of the business in the first half as we continue to invest in support of the energy transition. Let me stop there and hand over to Andy to walk through the numbers before I come back to talk about priorities for the second half. Andy.

Andy Agg: Thank you, John, and good morning, everyone. I'd like to highlight that as usual, we're presenting our underlying results excluding timing, UK deferred tax and exceptional items, and that all results are provided at constant exchange rates unless specified.

Our final 20% stake in National Gas is reported as a discontinued operation up until 26th of September when it was sold. As such, all earnings from this

business have been excluded from the underlying earnings of the continuing Group. So, starting with our overall performance in the first half.

We've delivered strong results with underlying operating profit on a continuing basis at £2 billion, a 15% increase on the prior year, primarily driven by higher revenues across our UK and US regulated businesses, and the non-repeat of a prior year environmental charge in our New York business, partially offset by a lower profit in National Grid Ventures.

Underlying earnings per share at 28.1 pence was 8% higher than the prior year restated figure. This reflects the improved performance from across our regulated businesses and a slight decline in finance costs, which more than offset the increased share count following the rights issue.

As John said, we've made excellent progress with our capital programme with investment from continuing operations at £4.6 billion, another record level, and up 19% year over year. This has been driven by more connections in our electricity transmission business, accelerated delivery of our ASTI projects, increased pipe replacement across our US gas businesses, and a step-up in our Smart Path Connect and CLCPA transmission projects in upstate New York. In line with our policy, the Board has declared an interim dividend of 15.84 pence per share, representing 35% of last year's rebased full year dividend.

Turning now to our business segments, starting with UK Electricity Distribution. Underlying operating profit was £573 million, up £10 million versus the prior year. Increased revenues were partially offset by higher controllable costs, which were £21 million higher as we prioritised activities to strengthen the business for the remainder of RIIO-ED2.

This included spend on field, customer and asset management teams and costs to implement new Distribution System Operator functionality. We expect the full year controllable cost performance to be broadly in line with the prior year. We're also on track to deliver our target of £100 million of synergy benefits by FY26, having delivered £58 million to date through leveraging our increased buying power, working more efficiently at the 48 joint Transmission and Distribution sites across the UK, and delivering savings from combining support functions.

Capital investment was £647 million for the half year, an increase of £39 million compared to the prior period, primarily driven by higher spend on reinforcement work and asset replacement. In our UK Electricity Transmission business underlying operating profit was £724 million, up £68 million compared with the prior period.

A strong first half performance was driven by higher allowed revenues and lower controllable costs, as we deliver further cost efficiencies. Capital investment was £1.3 billion, 43% higher than the prior period. This reflects work on our RIIO-T2 projects, including customer connections as well as the step up in investment on our ASTI projects, notably Eastern Green Link 1, Yorkshire Green, and our North London reinforcement projects. Finally, in the UK, the Electricity System Operator delivered an underlying operating profit of £115 million.

Moving now to the US, where underlying operating profit for New York was £288 million, £173 million higher than the prior year, reflecting higher net revenue, driven by an increase in rates and the non-repeat of an environmental charge in the prior period.

This was partially offset by an increase in depreciation reflecting the new rate case in our downstate gas businesses, KEDNY and KEDLI. Capital investment was £1.6 billion. This was £352 million higher than the prior year, helped by a further step up in investment in the Smart Path Connect and CLCPA transmission projects in upstate New York, and increased investments in our gas distribution networks, reflecting the additional workload approved in our downstate gas rate case.

In New England, underlying operating profit was £237 million, £26 million higher than the prior period. This reflects higher rates in our Massachusetts electric and gas businesses, driven by the annual performance-based rates mechanism and higher rates from the capital tracker in the gas business, partly offset by higher depreciation and controllable costs. Capital investment was £814 million, £50 million higher than the prior year. This was driven by increased asset condition work in our electricity distribution business and higher gas spend, including leak-prone pipe replacement.

Moving to National Grid Ventures, where the underlying contribution was £207 million, including joint ventures. The decrease of £70 million compared

to the prior year was primarily due to the one-off post-construction review adjustment on the North Sea Link interconnector in the prior period and lower profitability across the US Ventures businesses.

Investment across national grid Ventures was £279 million, £33 million lower than the prior period, largely reflecting the completion of the Viking interconnector and partially offset by higher investment at our Grain LNG facility, as we move closer to completing the fourth phase of capacity expansion. Following the announced intention to sell Grain LNG and National Grid renewables, these assets will be treated as held for sale for accounting purposes from the 30th of September.

Our other activities reported an operating loss of £38 million, £25 million higher than the prior period. This was principally driven by changes in the value of National Grid Partners investments, which are held at fair value, partially offset by a greater number of property sales in the first half, compared with the prior period.

Turning to financing costs and tax. Net finance costs were £670 million, down 4% compared with the prior year. The benefits of lower average net debt following the rights issue and lower inflation on indexed linked debt were partially offset by the impact of higher refinancing costs, where we have issued £1.8 billion over the first half. The underlying effective tax rate before joint ventures was 11.9%, 180 basis points higher than the prior year, principally due to a change in profit mitts reflecting the one-off charges impacting the US business last year. Underlying earnings were £1.27 billion, with EPS at 28.1 pence.

On cash flow, cash generated from continuing operations was £2.7 billion, down 12% compared to the prior year. This decrease is driven by timing as we returned the prior year balancing charge over recoveries in the system operator. Excluding timing, cash flow from operations is £570 million higher, due to improved cash generation across the UK and US regulated businesses. In total, net debt decreased by £5.1 billion, to £38.5 billion, compared to the prior year end reflecting a net cash inflow from continuing operations of £3.5 billion, including the receipt of the rights issue proceeds, beneficial movements in exchange rates, and other non-cash movements of £1.4 billion and receipt of £686 million from the final 20% sale of National

Gas. For the full year, we expect net debt to decrease by around £1.5 billion from the March level, assuming a 1.3 US dollar exchange rate.

In terms of forward guidance, we've included detailed guidance for the full year in our results statement as usual. Relative to our guidance in May, we expect a slightly stronger operating profit for the full year, reflecting the higher ESO contribution prior to sale and higher net revenues in our New York business, partially offset by a weaker US dollar outlook. Therefore, we continue to expect strong operational performance and year-on-year operating profit growth of around 10%, as well as reduced financing costs due to lower average net debt. We anticipate this improved performance to be largely offset by the additional share count.

Before I hand back to John, I wanted to return to the five-year framework we set out in May, where we anticipate that investment of around £60 billion will drive group asset growth of around 10% per annum, over the next five years, and a strong underlying EPS CAGR of 6-8% from an FY25 baseline. Our framework is underpinned by a supportive regulatory and policy environment, an increasing level of certainty over our multi-year investment programme and a track record of delivery, both operationally and financially.

Alongside this, we set out a comprehensive financing plan, which supports our investment programme and allows us to maintain our strong investment grade credit rating. And looking ahead with an expected asset base of £100 billion by FY29, funding clarity, strong earnings growth and an inflation protected dividend, we've further enhanced what I believe is a compelling investor proposition, delivering value creation through both higher asset growth and an attractive dividend yield. With that, I'll hand you back to John.

John Pettigrew: Many thanks, Andy. Now, before we move to Q&A, I want to spend the final few minutes setting out our priorities for the remainder of this year, as we continue to focus on efficiently delivering our investment programme. Starting with the US where nearly half of the £60 billion of investment will be spent between now and 2029.

Following the result of the US presidential election earlier this week, National Grid is looking forward to working with the new administration. As

a reminder, the vast majority of our investment is determined at the state level, so we'll also continue to focus on working closely with state regulators and policymakers to deliver the infrastructure needed in both our gas and electricity businesses.

From a regulatory perspective, we've three key priorities for the remainder of this year. Firstly, having now filed for new rates in our Niagara Mohawk business and received the staff's rebuttal in September, our aim is to reach a settlement next spring. Secondly, with a new rate plan and enhanced recovery mechanisms in place in our Massachusetts Electric business, our priority is now to work to earn closer to the allowed return. And thirdly, we're focused on agreeing the costs and recovery mechanisms for our recently approved electricity sector modernisation plan in Massachusetts.

Turning to policy, as mentioned earlier, in New York the governor is developing a new state energy plan, which we expect will supplement the CLCPA’s scoping plan and address important issues such as resource adequacy and affordability. We're working closely with our stakeholders to ensure it's a comprehensive roadmap to a clean, resilient and affordable future for our customers.

Alongside this, the New York PSC is now working to identify urgent and long-term infrastructure projects to support transportation and building electrification, ahead of deploying integrated gas and electricity planning processes. We've advocated for this proactive approach and we expect to file our response identifying the near-term infrastructure needs by the end of the month.

And finally, in Massachusetts we’ll file our climate compliance plan next spring. This will set out the investments required in our Massachusetts gas network over the next five years and beyond, to align to state decarbonisation goals, whilst maintaining safe, reliable and cost-effective service for our customers.

Moving to the UK where our priorities are squarely focused on delivery of our suite of major projects. As mentioned earlier, we expect to have construction underway on the first wave of ASTI projects by the end of this year. Our priority for the second wave is to finalise supply chain contracts.

We're already well progressed on this, and I'm confident that by early next year, we'll have secured the tier 1 supply chain contracts for all 17 of the ASTI projects. This includes awarding the HVDC and converter station contracts for Eastern Green Links 3 and 4 and SEALink. We also expect to finalise our £59 billion HVDC framework, which will ensure we have a route to market for procuring materials for offshore projects in the 2030s and beyond.

Outside of the ASTI portfolio, we continue to make good progress on the Hinkley connection. We expect that the majority of works will be completed by the middle of next year and on our London Power Tunnels project, we'll commission the Littlebrook to Crayford section over the winter.

And finally, we're on track to connect a total of 4.5 gigawatts of clean energy this year, including the Sofia offshore wind farm and the Greenlink interconnector.

On the regulatory front, a key priority will be the development of our RIIO-T3 business plan, which we'll submit in December. Our totex submission will comprise two elements, of baseline where we have a high degree of cost certainty, including the first wave of our ASTI projects, and a more extensive pipeline covering the second wave of ASTI projects, as well as further projects aligned to the holistic net zero pathway in the NESO's future energy scenarios.

In submitting this plan, we expect the outputs of the government's clean power plan and changes driven by connection reform to impact our totex submission to a degree. However, we don't anticipate significant change to our £23 billion of expected investment in Electricity Transmission to 2029, given the high degree of clarity we have over the first few years of RIIO-T3.

A second priority will be to continue to engage with Ofgem to ensure they recognise the intense level of international competition for capital, by putting forward evidence to support the requirement for an attractive financial framework, including returns being at the high end of Ofgem's range, appropriate cash characteristics and further opportunities for incentives that will drive value for consumers and National Grid.

When it comes to policy, our priorities to continue to work closely with DESNZ and the newly created mission control as they develop their plan for

clean power by 2030 and beyond. We'll continue to advocate for prioritising a fast-track consenting route for electricity transmission projects as part of a broader set of reforms to the planning regime, bringing forward with urgency, a community benefits framework for electricity transmission, and developing a clean energy skills pipeline, including reforms to apprenticeship funding.

So in summary, a new and exciting era of growth is firmly underway at National Grid. Having set out our strategy for the next five years, we've started to deliver on our £60 billion of network investment on both sides of the Atlantic.

Major capital projects in the UK and the US are well underway and the business is organised and focused to sustain this progress going forwards. This momentum, combined with the unparalleled visibility on our investment plans, underpin our investment proposition of low-risk, high-quality asset growth, strong earnings growth and an inflation-protected dividend.

This is a hugely exciting time for our industry, which will continue to create significant opportunities for national grid today and for many decades to come, a bedrock from which we will deliver long-term value and returns for our shareholders. So let me stop there and give you the opportunity to ask me and Andy, any questions.

Okay, so just looking who we got questions from. Shall we start with Pavan from JP Morgan?

Pavan Mahbubani: Everyone, good morning. Thank you for taking my questions, I've got two, please. Firstly, can you remind us when you'll be submitting your business plan for the RIIO-ET3 period? And is there any early flavour you can give on what we should be expecting, especially when it comes to the mix of CapEx, how you're thinking about baseline versus uncertainty, and how that ties into your five-year frame? And then, my second question is on any comment you have on the outcome of US elections. And do you expect this to change your plans for US investment to 2029? Thank you.

John Pettigrew: Yeah. Thanks, Pavan. Well, in terms of the business plan, the timetable is, we're due to submit the business plan in December this year, at the end of December. Then we'd expect to get a draft determination from Ofgem in the

summer, probably June next year, and then final determination in December 2025.

In terms of the flavour, as I said in my speech, effectively the plan is separated into two halves. The first half is a baseline, which includes all the projects that we've got confidence that they're going to be moving forward, or full confidence that they're going to be moving forward, and also certainty on costs for things like the ASTI wave one projects. The second bit will be a pipeline that will include all the projects that are aligned with the NESO's Future Energy scenarios and we're doing that, because that's the request from Ofgem in terms of how they want to see the business plan submitted.

As I said in my speech, I think different to previous business plans we've had at this stage, because some of the CapEx will be impacted by the connections reform in terms of the location of substations, for example, and also by where the government gets with the clean power plan following the advice from NESO this week. Some of that pipeline will vary. We don't think it'll impact on the £23 billion that we set out as part of the £60 billion that takes the CapEx to 2029.

But we will see some change that in the early months of next year as we see the outcome of the connections reform. So it's slightly different than what we see typically but at the high level, it's split into two levels, a baseline and then a pipeline that will give us the confidence we can deliver what we need right out to the end of RIIO-T3.

In terms of the US elections, first of all to say we're looking forward to working with the new administration. As you know, energy in the US, it's important at both the federal and at the state level. We've heard from the new administration how important it's to keep energy prices low, and how important security of supply is. From our perspective, the vast majority of our capital investment programme is determined at the state level, with state policymakers and state regulators. We're not expecting it to have a significant impact on the £60 billion that we set out in May that we'll deliver between now and 2029.

Okay. Shall I go to Deepa at Bernstein next?

Deepa Venkateswaran: Thank you for taking my questions. I had three questions. A couple of them are on ET3 and then one on ED. First on ET3, you mentioned you want the ROE to be at the upper end of the range. Do you have any expectations on how much operational incentive the package needs to deliver? The reason I'm asking is clearly on the ASTI you want to limit your downside. Presumably the upside on totex might be lower, so if you could just characterise how you think beyond the allowed return, where else you might be able to get some extra returns.

The second question is on the nominal debt allowance in ET3 that clearly helps from a cash flow perspective. How is National Grid thinking about fast money versus slow money in the business plan? Any sort of early hints on that would be helpful.

And the last one is a clarification on ED. I think you've generally talked about 100 to 125 bps of operational out-performance in that business but I see in your latest regulatory financial performance reporting, you forecasted 70 bps for ED2. Was just wondering what's the divergence? Presumably given you're saying the synergies, etc, are on track. Thank you.

John Pettigrew: Okay. Thanks, Deepa. I'll take the first, and then I'll ask Andy to cover the second two. I mean first of all, in terms of ROE, as we said in May, we were pleased to see as part of the sector specific methodology decision document that Ofgem had recognised the importance of the regulatory framework being one that is attractive to investors. And in the words that they used within the document itself, the range that they set out, which is 4.6 to 6.4, they talked about the fact that there are reasons where potentially could be at the top end of that range. And obviously, one of our focal points going forward, is to have that conversation and dialogue with Ofgem about why that's so important.

Outside of the rate of return, in terms of the incentives, we think and continue to have dialogue with Ofgem on, that there are a number of incentives, Deepa, that would be beneficial to consumers and would be obviously if we perform well, beneficial to National Grid shareholders as well. Which is in areas like delivering projects early. Obviously with the size and scale of the capital programme we've got, clearly being incentivised to

deliver those projects as early as possible makes a lot of sense and will create value for customers.

And secondly, things like constraint management. As you've seen over the last few years, the cost of balancing the system has increased. There are potentially actions that we can take as a constructor and maintainer of the assets that potentially could reduce those constraint costs. We think there's an opportunity for incentives in those areas as well. Those are the types of things that we're discussing with Ofgem at the moment. Andy.

Andy Agg: Yeah, thanks. On the ED3 or the ED2 question around the 100 to 125, yes, I think we would always anticipate some differences between our overall forecast for the five years of the rate case or the price control versus what's reported on an annual basis within the RRP. There're several reasons for that. There are some differences between Rori and how it's calculated.

But also, as we think about our efficiency plans and how we look to deliver that over the life, we would record those improvements through the reported return as we crystallise those efficiencies in the outer year. Not all of it will be in the early years of the RRP. And as I say, will get reported as we move through the outer years.

John Pettigrew: Did you want to pick up on the nominal debt?

Andy Agg: The nominal debt point as well. Apologies. Yes. As you said, the SSMD was very clear from Ofgem that they've chosen that particular approach in terms of the cost of debt allowance going forward. I think in terms of your broader point then around fast versus slow, I think if you take a step back, we've always said that we are focused on both the allowed return coming out in T3, but also the overall cash characteristics.

I think nominal debt is a good step in the right direction in terms of it will accelerate cash, but I think as we will continue to work with Ofgem to make the case that whether it's through changes in asset lives, the fast-slow mix, they're all different elements. As you know, in T2 we were around 15%. A natural rate may be somewhat lower than that, but it would always be something that we'd be looking to have as part of the overall package that we work through with Ofgem.

John Pettigrew: Thanks, Deepa. I'll go to Dominic next and then after Dominic I'll go to Jenny from Citi. Dominic from Barclays.

Dominic Nash: Hi, there. Good morning and thank you for your presentation. Just a couple of questions from me following on from earlier ones I guess.

Firstly on your earnings expectation of this 6 to 8% out in your business plan. I mean clearly you are using an exchange rate and a CPIH that may or may not be looking a little bit at high end, but coming back to the ET3 review, how much wriggle room do you have to manage your own earnings going forward in light of a nominal return on debt and then your capitalisation ratios moving from the natural rate? And how will you be looking at putting that thing through in order to manage your earnings? And subsequent on that one there, do you expect ED3 to also have a nominal cost of that?

My second question is on the US election. Could you just remind me again how much of your capital spend in the US is from imported goods and what impact and what mitigation strategies could you put in case there was a material increase in import tariffs? Thank you.

John Pettigrew: Okay. Well, why didn't I let Andy take the first and I'll take the second. I'll do the second first, Andy.

I mean in terms of our CapEx in the US, to be honest, Dominic, the vast majority of it is sourced domestically. Historically, when I look back, a relatively small proportion of it has been imported on things like steel, but the vast majority of the equipment comes from domestic equipment manufacturers like GE. It doesn't impact us hugely if there are any changes to trade tariffs. Andy.

Andy Agg: Yeah. Thanks, Dominic, for the questions.

I think in terms of the overall impact of T3 on earnings, if you go back to what we said in May when we set out the 6 to 8%, I think we were clear that we made what we believe to be sensible and prudent assumptions across the five years. And obviously that would've taken into account what we expected in terms of some of the initial steps that we were seeing through the SSMC, the consultation at that point.

The question specifically about nominal debt, you shouldn't automatically assume that that will be additive. I think as always, what will be important

with the T3 plan, going back to the points John made around the scale of CapEx in there, is that we will be looking for an overall outcome that delivers what Ofgem have said around both financeable and importantly investable. And that will of course include the right cash characteristics, whether that comes through the nominal debt impact or other things like fast-slow or capitalisation rate. We will continue to work on that, but as much from ensuring it's the right framework as in terms of the impact on earnings.

And then secondly on your question around will nominal debt flow through to ED3? Absolutely, I think it's been implemented now that approach by Ofgem for the sector as a whole so I'd see no reason why it shouldn't read across into ED3.

John Pettigrew: Thanks, Dominic. I'll go to Jenny, and then after Jenny I'll go to Mark Freshney at UBS. Jenny.

Jenny Ping: Hi, thanks very much. A couple of questions from me please.

Firstly to John, can you just put it into numbers in terms of that tier one supply chain, what it means in terms of the total CapEx that's covered for the 17 ASTI projects?

And then secondly for Andy, two questions please. On the US, if I remember correctly, your earnings guidance is based on a pre-deferred tax for the UK but not for the US. Can you just talk a little bit about what you think a reduction in US tax rate would do to the deferred tax line and therefore your earnings line on a hypothetical basis? If I remember correctly, we had this conversation at Trump 1.0, but if you can just remind us that the direction of travel there.

And then secondly, just on the ESO, obviously there's a lot of cash that's already recognised because of timing. Can you give us a sense of the actual cash that you're going to receive at the closing of the ESO just so that we can get our net debt numbers right? Thank you.

John Pettigrew: Okay. Thanks, Jenny. Well, let me pick up the first and then leave two and three to Andy. Let me give a broader perspective in terms of where we are with the supply chain because I know it's a key issue. I mean I think hopefully people are aware that over the last 18 months or so we've

fundamentally reviewed the way that we engage and contract and procure with the supply chain.

We've made really good progress. We've talked in the past about how we ensure that we've got the contractors we need in terms of the work resource. And I was really pleased that we put in place what we call the great Grid partnership with seven of our supply chain, which is a £9 billion contract that gives them the visibility to the work that we want them to do and gives us access to that work and gives us confidence that we'll have the contractors that we need.

We've also been progressing, as I mentioned in my speech, the HVDC and converter station framework agreement, which is a £59 billion contract. And actually been really pleased with the response that we've had. All the major cable manufacturers and converter station manufacturers have responded to that framework agreement and we're hopeful that will be in place very, very soon.

And then when you get down into the individual projects, we've separated ASTI into the first wave of six projects. Five of them, we have contracts in place already and are already in the process of starting construction. And the sixth, which is the Grain to Tilbury project, we will have planning in place by the end of the calendar year and the contracts in place by the end of the fiscal year. For that first wave, we'd be very confident that we've got the contractors and the equipment that we need.

We're then moving on to the second wave. These are projects like EGL3 and 4, Norwich to Tilbury and those types of projects. And again, we're working through the procurement process. We're looking at opportunities to standardise equipment so that we have more access to the supply chain. We're actually extending the length of contracts that we have. Across the group actually, more than 50% of all the super group transformers that we need have already been procured out to 2030, which puts us in a very strong position.

We'll also have agreement with Ofgem that we can actually make upfront payments to the supply chain to lock in capacity that we need for manufacturing. Again, when we look across all of that, we feel confident for

the tier one contractors that we'll have everything we need in place early next year for all of the 17 ASTI projects. Andy.

Andy Agg: Yeah. Thanks, Jenny. Firstly on US and potential tax changes. I mean clearly it's very early days and there's been lots of things talked about or mooted that may happen. We will of course have to wait and see precisely what does or doesn't happen in the new year, but as a quick reminder, as you said, when the rate was changed a few years ago, it's effectively economically neutral for us because the way US regulation works is effectively tax the net tax charges included with the amounts we're allowed to collect from customers, and therefore, a change in the rate will effectively flow through into rates as well. Net-net, there's no underlying earnings impact. And of course, in terms of cash impacts that will need to be worked through based on what we see, if any rules do change and then how that's reflected in regulation but we wouldn't expect any significant earnings impact from that.

And in terms of the system operator sale, the actual cash received was very close to the £630m. If you look back in the depths of the results statement this morning, we're very clear that the provision for the remaining return of the over-collected recoveries from the previous year is included in the held for sale business, as is the cash that was associated with giving that money back. That was already stripped out of our numbers and therefore, we did receive very close to the £630m and therefore, that's what you should allow for in your net debt projections.

John Pettigrew: Okay. Thanks, Andy. Should we go to Mark Freshney? And after Mark, we'll go to Rob at Morgan Stanley. Mark, if you could have your question please.

Mark Freshney: Hey, no. Thanks for taking my questions. when I listened to your response to earlier questions, the potential change in OFGEM remuneration of debt costs moving to a nominal cost, potential lower deferred tax charge in the US, less netting that off on the asset base, which was the response to the last question, it seems to me that if I add up all of these things within the five year frame, there's certainly a lot of upside pressure on earnings. My question to you is, would you agree with that?

And just secondly, you spoke about being in a strong position on transformers, which I think is one major, major crunch point. But if I had to

really try to pin you down, John, I mean we know that one customer has basically taken up all of one supplier's transformers for two years and has caused a lot of panic with some of your competitors in the US. In one word, are you confident of getting all the transformers you expect to get through to 2030?

John Pettigrew: Thanks, Mark. Let me take the second then I'll ask Andy to take the first. I mean, the simple answer is, Mark, that we've always known or we've known for a couple of years now that there was going to be an elongation in the lead times for super transformers. You would've seen some articles this week that people talked about three to four years. But we've been adjusting for that for quite a while now. And therefore, we do have confidence that we can gain access to the super transformers both in the UK and in the US that we need over the period.

As I said, we've been extending the time frames that we are sharing with the equipment manufacturers so they've got visibility of what's needed. And when we've come to the procurement process, we've found that actually we have been able to get access to and to procure those super grid transformers. And just to add a little bit more flavour to it, one of the things we have done in the last 12 months is built up a stronger relationship with the equipment manufacturers outside of the normal contracting process and separating out quite often the procurement of equipment from the EPC contracts.

And in the US we've also been extending the supplier base for transformers to bring in some new manufacturers, which we started about 18 months ago. We remain confident that we are able to access the equipment, albeit we do recognize that lead times are longer, but we're reflecting that in our planning processes.

Andy Agg: Yeah. Thanks, Mark. I mean to try and pull together the elements of your question, I think again, go back to when we set out the 6 to 8% guidance for our five-year earnings CAGR back in May. Of course, it was deliberately designed to be robust to a range of different outcomes and nothing that we've seen since then has moved outside that range so it remains our very clear guidance today.

As I said in answer to one of the earlier questions, of course we made sensible assumptions around regulatory outcomes based on what we knew at the time. And so you shouldn't assume that things like nominal debt are automatically additive. And as I said in answer to the earlier question on US tax, over time we would expect that broadly to be neutral from an underlying earnings perspective with albeit the one-off changes in deferred tax flowing through earlier. No, I think we're very clear that the 6 to 8% remains our guidance today. And we will, of course, if it does change, we will update that down the track, but that's very clear in terms of where we stand today.

John Pettigrew: Okay, thanks Andy. So let's go to Rob at Morgan Stanley, and after Rob we'll do Ahmed at Jeffries. So Rob, can we take your question?

Rob Pulleyn: Hi, thanks. Good morning everyone. Just one question and following up on the theme of supply chain, way back at full-year results though when we sat around the table, you indicated there was a £59 billion framework agreement for supply chain, of which HVDC was the topic of the moment.

Correct me if I'm wrong, but I don't think we've seen an update on that. Is that still expected to be closed in terms of signing before the end of calendar 2024? And could you give a bit of comment around the HVDC side given you've already covered the transformers? Thank you.

John Pettigrew: Yeah, thanks Rob. So I did mention in the speech, but just give you a bit more flavour on it, so we launched the procurement process for the framework agreement earlier this year. As I said, it was a major framework agreement that we'll cover not just the CapEx that we need and the supply of HVDC cables between now and 2029, but actually take us well into the '30s as well.

We've been really pleased with the response that we've had from all the major cable manufacturers in the world and we are hopeful that that framework agreement will be in place either by the end of the calendar but certainly by the end of the fiscal year. So we've had really good progress and a very strong response so we feel very confident about it.

In terms of, just again, just going down a level, so in terms of the first wave of ASTI projects, the contracts are in place for EGL1 and 2, which are the major HVDC contracts that we needed as part of wave one. So again, we're

in good shape on that. Those contracts have already been let, as I said earlier, we're already in the construction phase on those. In which case I'm going to go to Ahmed at Jeffries and then I'll go to Marcin at Bank America.

Ahmed Farman: Yes, thank you for taking my questions. Can I just ask, can I go back to ET3? You've clearly discussed and given us quite a lot of colour on your confidence and visibility that you have, and talked a lot about supply chain and procurement, could you also give us some perspective on the consenting and planning visibility, do you have... on ET3 and put some numbers around it? Does the phase one, is it already all consented and do you have all the approvals in place to deliver that? That would be helpful, and maybe tie it into the Spatial Energy Plan, how critical that is to the delivery of the plan and what do you need to see in the timing of that? That would be super helpful.

And just finally, I'll be interested in your perspective on the 2030 Clean Power Plan. Anything particularly notable within that and how does that compare to your CapEx plan that you set out to us earlier in the year? Thank you.

John Pettigrew: Okay, so quite a bit there. Let me work through that. So in terms of planning, I mean first of all, as you know, we've been advocating for planning reform for some time and we've seen that issue being picked up by the new Labour government and our expectation is that there will be planning reform legislated for next year. National Grid has been advocating for a number of things within that. One is a streamlining of the process consistent really with what the network's Commissioner Nick Windsor recommended about a year ago.

We've also been recommending that there should be an accelerated planning process for strategically important infrastructure, such as transmission, and we've been advocating for that but also talking to the government about the need for resourcing planning authorities because there's such a massive increase in the amount of planning applications that resourcing is important as well. But we're hopeful that we'll see positive progress in that through the legislation next year.

In terms of where we are on our specific projects, as I said, we've made excellent progress on the phase one projects of ASTI, all in line with the time

scales that we need to deliver these projects. So we've had DCO applications approved by the Secretary of State for Bramford to Twinstead and Yorkshire Green, and we've had planning consents for all of the other phase one projects, with the exception of Grain to Tilbury, which is due for planning consent at the end of this calendar year. So good progress on that.

Over the summer, I think we've had eight separate consultations running in preparation for phase two. Again, they're all at different stages. Some are at the pre-statutory consultation phase, Norwich to Tilbury, which is one of the major projects in phase two, we've just completed the statutory consultation on.

So again, they're all moving through the process. These are multi-year projects and therefore we only go to the planning authorities at the right time, and we do a huge amount of consultation with local communities to make sure they understand the options in what we call the pre-statutory consultation phase, to make sure we understand the community's concerns and we can try and reflect that in our recommendations to the Secretary of State as well.

In terms of the Spatial Energy Plan, it's probably useful just to link sort of the different elements together. So obviously foundational block has been what's been announced this week by the National Energy System Operator, which is the Clean Power Plan, for 2030. Obviously that advice will now feed into government who are proposing that they'll come forward with what their action plan is at the end of this year.

You may have seen, a couple of weeks ago, that the government also commissioned NESO to do the Spatial Energy Plan and that is due to be complete by the end of 2026. And on the back of that we'll then see the centralised strategic network plan in 2027. So all of these things sort of interconnect, but the foundation block, I guess, is the Clean Power Plan and what comes back from government at the end of this calendar year.

From our perspective, obviously we're working through the detail of it. As NESO said, it's a hugely ambitious plan. I think the words they use, it's at the limits of what is feasible and it'll require everybody to play their part and for everybody to play their parts in executing it and doing it flawlessly.

From our perspective, looking at the networks, reassuringly, what the plan says is the projects that were identified previously, the 17 ASTI projects are the ones that are going to be required for Clean Power 2030. There is a recommendation in that report that two of the projects, which is Norwich to Tilbury and SEALink, there's a request to whether they can be brought forward by one year from 2031 to 2030.

Obviously we'll spend some time now working both with our supply chain, but also with government, the regulator, NESO, about what would be required and whether that's possible. And obviously that will feed in ultimately to the action plan that the government produces at the end of this calendar year.

Okay, I'm going to go to Marcin next and then I'll go to Ingo at Kepler. So Marcin.

Marcin Wojtal: Yes, thank you so much. Good morning. Two questions here. Firstly, on the rate case for Massachusetts Electric, how satisfied you are with the outcome of 9.35? I believe you were actually requesting something closer to 10%. And how confident you are that you will actually achieve a return which is very close to the allowed return in that business?

And my second question relates to potential asset divestment. So US renewables and LNG Grain, I believe both of these have been now reclassified to assets held for sale. So from the accounting perspective, does it imply that you are confident that both of the assets will be sold within the next 12 months? Thank you.

John Pettigrew: Okay, well I'll pick up the first and then I'll ask Andy just to pick up the second.

In terms of the Massachusetts rate case, it was a landmark rate case I think, in my mind, because the key elements which are really important to focus in on is that what we got an agreement from the regulator in Massachusetts is that there can be a revenue adjustment for increasing capital investment.

As you know, we got significant capital investment in our Massachusetts business and the regulator effectively agreed that our revenues could increase year-on-year as our CapEx increases. At the same time, they also

confirmed the performance-based mechanism for indexation of revenues for operational maintenance costs.

So when you put that together, Massachusetts, as a rate case, now looks a lot more similar to what we had in New York. And whereas in the past, Massachusetts has always had higher allowed returns than New York, it's always been on a historical base case for costs and therefore it's always been harder to earn those allowed returns.

I think the new framework that we have in place makes it much more akin to the frameworks we are familiar with in New York, and therefore we're much more confident that we can achieve much closer to the allowed return. And as you know, our objective in the US businesses is always to aim for at least 95% of allowed returns. So we're much more confident around that than we were in the previous regime.

Andy Agg: Yes, and thanks. So on the divestments, I think, as John said earlier, the first one is the National Grid Renewables business in the US where that process is underway. And yes, so we expect that to progress through into the beginning or the early part of next year. And then as we said previously on the Grain LNG sale, we would expect that process to commence when we are through the completion of the construction of the current phase four, the new tank, which is expected around the end of the first quarter of next year.

So yes, your precise question on the accounting, our judgment is that we would expect both to be complete within 12 months from the 30th of September.

John Pettigrew: Thanks, Andy. Ingo, I think this is the last question, so if I can have your question please?

Ingo Becker: Yes, good morning. Thanks very much for taking my questions. I hope you didn't answer them already, I had a brief connection issue. First I would like to ask you on the data centre comment in your slides, you say that in the UK Southeast, the transmission scale data centre connection request, can you comment on how many terawatt hours that is and if that creates any relevant impact on the local system balance in your assessment?

And my second question would be on the general affordability of the expanding network cycle, maybe both in the UK, the US, we have heard in some markets of rising supplier equipment prices, which probably is not a surprise given the rising demand from the network companies coming to the attention of regulators. I'm just wondering if you can share similar experiences here.

And finally, maybe related that the German Conservative Party in the current situation has been talking about actually cutting grid fees quite materially, it's not yet totally clear what they mean. We suspect that it's about transferring some of the network cost to the government budgets, which we don't really expect them to go at the returns. And maybe, if you hear as well, just from an overall affordability perspective, what that cycle will do to bills. Thank you.

John Pettigrew: All right, thanks for the question. I mean, let me just paint a picture in terms of data centres, I think it's an evolving picture and therefore one that we're spending quite a bit of time focusing in at the moment.

At the macro level, when you look forward over the next decade, we are certainly going to see increasing load growth on the networks both in the US and the UK. We've known that's coming because of electrification of transport and electrification of heat, but actually the volumes of electricity being consumed in terms of generative AI and AI is an additive factor to that and we're just continuing to understand what that's going to look like.

What we see today, if I take the UK as an example, is around about five terawatt hours of the load in the UK is taken by data centres. That represents about 1.8% of the total load in the UK. If you actually look at what's been happening over the last three years, historically the data centres in the UK have sort of clustered around the M25 and the M4 corridor.

We've got the good telecoms networks. We've got about one and a half gigawatts there, three years ago, and we've seen about three gigawatts of connection applications on top of that. So it's a tripling of the size of data centres that we've seen in that region, and the vast majority have been in that region and as a result, we continue to invest in particularly expanding the substations and new substations in that area.

More recently, we are seeing more interest for the hyperscalers, so much larger data centres in other parts of the country, including the Northwest. And if you look at the connections queue, there are about 10 gigawatts in terms of data centre demand that are saying they potentially want to connect to the grid over the next sort of 15 years.

As we know that doesn't always happen, but that's an indication of the sort of scale of what we're seeing. And some of these data centres are getting to be very large, so at 200 megawatts type size. And just to put that into context, 200 megawatts is larger than the load for households for every city in the country, apart from Manchester, Birmingham and London. So when these data centres want to connect, it is a significant increase in load.

The final point I'll probably make is that when you see the business plan that we're submitting to Ofgem as part of RIIO-T3, you'll see, actually, that probably the largest driver in terms of additional super transformers over the five years of RIIO-T3 is actually being driven by data centre demand as well in the U.K.

The picture in the US is slightly different because, well, 97% of all data centres are currently not in the Northeast. Generally, good land prices and energy prices are lower than the Northeast, although we are starting to see increasing interest in New York. We've got about one and a half gigawatts of potential data centre demand. About a third of that's in our territory. Massachusetts' a little bit less. I think we've got three live connections at the moment, the largest of which is a 200 megawatt data centre demand request.

So it's an evolving picture and one that we're very much focusing on at the moment. And as I said in T3, you'll see some of the load increases and some of the transformer investment we're doing has been driven by that.

In terms of affordability, it's always worth just reminding people that if I start in the UK, the transmission element of the bill is a relatively modest part. That doesn't mean we don't focus on driving efficiency for our customers, but today transmission represents about £20 of the total annual bill that consumers pay of around £1,700 a year.

So even with our £60 billion capital investment programme, which will increase the cost of infrastructure by a few pounds, ultimately if you believe

that it will have the benefit of reducing the commodity element of the bill, then the affordability for customers should be manageable. The Clean Power Plan for 2030 that NESO has just issued has got some detailed analysis on what costs might look like. We're currently having a look at that as well.

In the US, slightly different because we are the supplier as well as the network provider. We work very closely with our regulators when we do rate filings. You would've seen in the more recent rate cases that we've got significant increases in capital investment. One of the ways we mitigate the affordability issues is by proposing programmes to help vulnerable customers. And that's something that our regulators have really appreciated from National Grid when we work through different programmes to reduce the cost for vulnerable customers during periods when affordability is an issue.

Okay. In which case, I'm going to say I don't see any other questions, so I'm going to say thank you everybody for joining us this morning.

I think my key messages really are good performance right across our regulated businesses in the first six months, good progress in terms of the strategic priorities that we set out in May, and a strong start to the delivery of our £60 billion capital programme that, also, we set out in May.

So thank you for joining us and I'll see you all very soon.