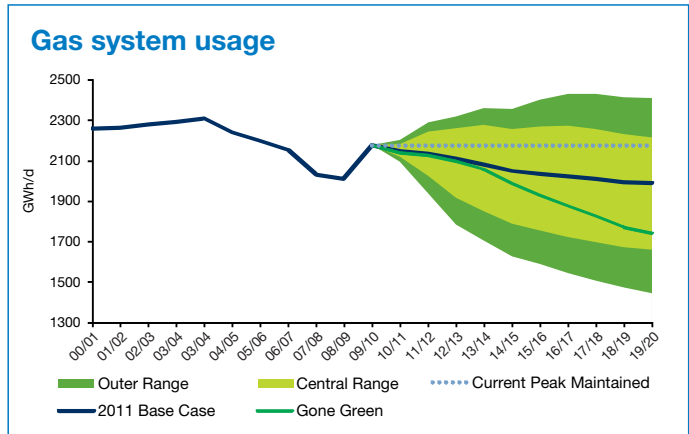


*“Our gas networks will play an important part in the move towards a low carbon future, continuing to provide energy to around 11 million customers. These plans cover an eight year period, over which time the usage of our system and our work on that system is expected to be subject to considerable change.”*

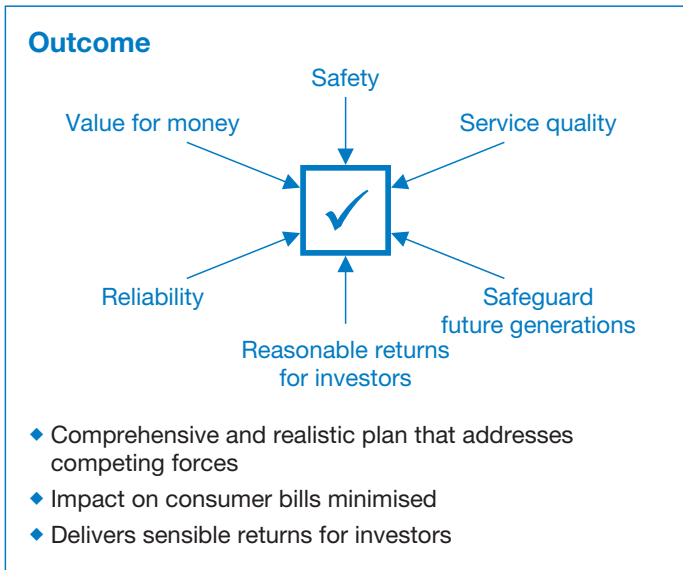
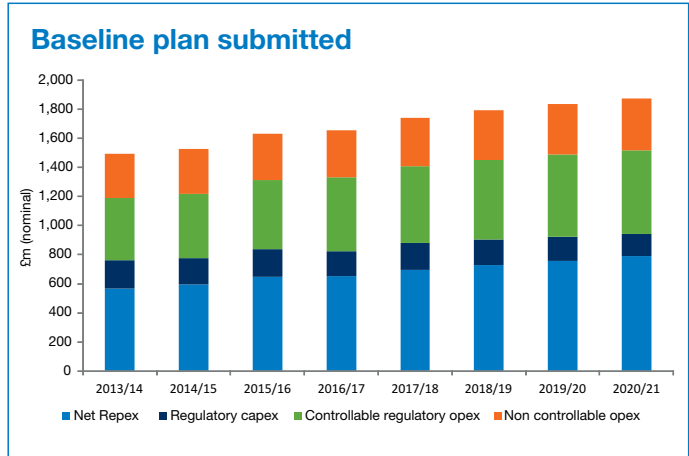
# RIIO Revenue = Incentives + Innovation + Outputs

*Delivering a reliable, safe, sustainable network at good value for money for current and future consumers*

- ### Introduction to business plans
- ◆ Extensive stakeholder consultation
  - ◆ Key priorities identified
  - ◆ Flexibility mechanisms
    - number of entry connections
    - updated Streetworks legislation
    - security and resilience expenditure
    - multi-occupancy buildings
    - taxation



- ### Drivers for change
- ◆ HSE review of mains replacement
  - ◆ Ageing assets
  - ◆ Smart metering and emergency workforce planning
  - ◆ Upward cost pressure
  - ◆ Recruitment and training
  - ◆ Challenging efficiency frontier



### Total expenditure (nominal)

	Repex	Capex	Opex	Totex
North West*	£1.2bn	+ £0.3bn	+ £1.7bn	= £3.2bn
East of England*	£1.3bn	+ £0.5bn	+ £2.3bn	= £4.1bn
London*	£2.0bn	+ £0.4bn	+ £1.5bn	= £3.9bn
West Midlands*	£0.9bn	+ £0.2bn	+ £1.2bn	= £2.3bn
<b>Total</b>	<b>£5.4bn</b>	<b>+ £1.4bn</b>	<b>+ £6.7bn</b>	<b>= £13.5bn</b>

\* Networks are notional regulated entities

*“We look forward to receiving Ofgem’s response in February and to discussing these proposals further with them as we work towards an appropriate outcome for all stakeholders.”*

John Pettigrew, COO, UK Gas Distribution and Metering

**Important notice**  
 This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid’s financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘targets’, ‘may’, ‘will’, ‘continue’, ‘project’ and similar expressions, as well as statements in the future tense, identify forward-looking statements. Furthermore, this document, which is provided for information only, does not constitute summary financial statements and does not contain sufficient information to allow for as full an understanding of the results and state of affairs of National Grid, including the principal risks and uncertainties facing National Grid, as would be provided by the full Annual Report and Accounts, including in particular the ‘Risk Factors’ and ‘Operating and Financial Review’ sections thereof, as updated by National Grid’s unaudited half year report from the six months ended 30 September 2011 published on 17 November 2011. Copies of the most recent Annual Report and Accounts are available online at www.nationalgrid.com or from Capita Registrars. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

## Financing proposals

### Targets<sup>1</sup>

- ◆ Credit rating metrics
- ◆ Dividend yield, and cover
- ◆ Appropriate risk/reward balance
- ◆ Appropriate RAV growth
- ◆ Customer bills
- ◆ Long term customer value

### Levers

- ◆ Cost of equity and cost of debt
- ◆ Notional gearing
- ◆ Catch up depreciation on post 2002 assets
- ◆ 'Fast' v 'slow' replacement expenditure

## Financing assumptions

	West Midlands	London	East of England	North West
Cost of equity	7.2% post tax real across all networks			
Cost of debt	Tracker: assumes 3.2% pre tax real per Ofgem guidance			
Notional gearing	53% assumed across all networks			
Transitional measures	'Catch up' depreciation on post-2002 assets			
Depreciation	87.5%	75%	100%	87.5%
Repex capitalisation				
Notional resulting WACC	5.08% vanilla WACC across all networks			

## Customer impact

- ◆ Distribution represents around 18% of a typical domestic consumer's gas bill today
- ◆ RIIO-GD1 proposals increase this by, on average, 1% by 2021<sup>2</sup>
- ◆ Average bill increase £8 by the end of the period<sup>2</sup>

## Other assumptions

Our baseline plan assumes:

- ◆ Total costs include challenging assumptions around underlying efficiency improvements on both capital spend and operating costs
- ◆ 3% average RPI inflation over the 8 year price control

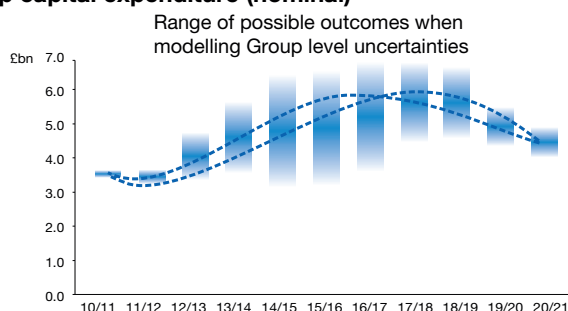
RAV*	RAV growth c 4% p.a.	West Midlands	London	East of England	North West	Total
March 2011		£1.4bn	£1.7bn	£2.7bn	£1.8bn	<b>£7.5bn</b>
March 2013		£1.5bn	£1.9bn	£2.9bn	£2.0bn	<b>£8.4bn</b>
March 2021		£2.2bn	£3.3bn	£4.2bn	£3.0bn	<b>£12.7bn</b>

\* Nominal

## Group context

- ◆ Capex and RAV growth in line with previous guidance
- ◆ Rights issue in 2010 raised £3.2bn
- ◆ Position unchanged: well funded through to at least 2015

### Group capital expenditure (nominal)



## Next steps

### RIIO Regulatory Timetable

	Gas Distribution	Transmission
Feb 2012	Ofgem publish initial review	
Mar 2012		Business plan re-submitted
Apr 2012	Additional data submitted	
July 2012		Initial proposals
Nov/Dec 2012		Final proposals

### Notes

- <sup>1</sup> Targets for notional regulated entities financed under an assumed capital structure and assumed cost of debt. These do not represent outturn results, targets or financial impacts at National Grid plc.  
<sup>2</sup> In real terms, assuming non-distribution elements remain constant

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