We’re often asked about US regulation and why we are happy to accept a 9% allowed return in the US when returns in the UK are in the low teens. So I want to take a few minutes to explain the differences in the cash and economic returns that we earn from our UK and US businesses.

Let me start by looking at the regulatory frameworks on each side of the Atlantic. In both the UK and the US there is a need for significant investment in ageing infrastructure to repair, replace and modernise the networks. Our regulators understand this and in both geographies the objectives of regulation are aligned:
First, to act in the consumer interest; and
Second, to balance the regulatory risk and reward framework to encourage investment.
However, the UK and US methods for delivering these objectives are different. Nominal regulation in the US benefits cash flow and real regulation in the UK benefits growth, both of which are important to value creation.

This can be illustrated by looking at a simple example.
This slide compares both the economic return and the cash return, earned on a notional one thousand pounds of investment in our regulated UK businesses to the returns proposed in the new rate plans for KEDNY and KEDLI.

You can see that 48% equity in the US helps provide a greater cash return than the 38% equity ratio in the UK. In this example, we would receive £43 pounds cash return in the US compared to £35 pounds in the UK.

When added to post tax debt allowances, in total, the US yields £13 pounds more cash than the UK. This difference is important for us as we need to maintain strong cash flow metrics to fund growth in our business.
Obviously in the US, we do not have the benefit of inflation protection which is a key feature of UK regulation. In the UK, inflation is recovered through an uplift to the RAV and returned over the life of the assets, which keeps the company whole. For reporting purposes, we use a long term average 3% RPI even though actual inflation rates have been below this for the past few years. By adding UK inflation to the total, you can see that this tips the total return on an economic basis in favour of the UK, as shareholders are compensated for accepting less cash from customers today.

As a reminder, many of the UK incentives benefit the customer through sharing mechanisms. These have helped us to generate £330 million pounds of savings for customers in the first 3 years of RIIO.

Again, this is a very high level example of the economic impact of the key differences of our UK and US regulatory frameworks. Of course, the key is to make sure we deliver against these downstate New York rate plans and we are confident we can do this. I also appreciate there are other differences, for example deferrals in the US and fast / slow money in the UK which I’ve ignored in this example.
However, the fundamentals remain:
The mix of cash and growth within each geography enables us to deliver both
growth and yield which are important for delivering shareholder value.
UK customers defer some of the bill payments through indexation
In the US, nominal regulation is attractive because it provides National Grid with a
faster cash return.

In summary, you can see that the current economics support the balance in the
portfolio between the UK and US.