



# US Update



**Investor Seminar**

12 November 2015

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# Steve Holliday



**National Grid**  
Chief Executive



# Dean Seavers



**US**  
Chief Executive Officer

# A significant business

**3**  
states

**\$20bn**  
regulatory  
assets

**14,000**  
employees

**139,000**  
**KM**  
of  
electricity  
cable

**57,000 KM**  
of gas pipeline

**7 million**  
distribution  
customers

Abundance  
of natural  
gas



Cleaner  
energy  
sources



New  
connections



Improving  
infrastructure



Distribution  
investment

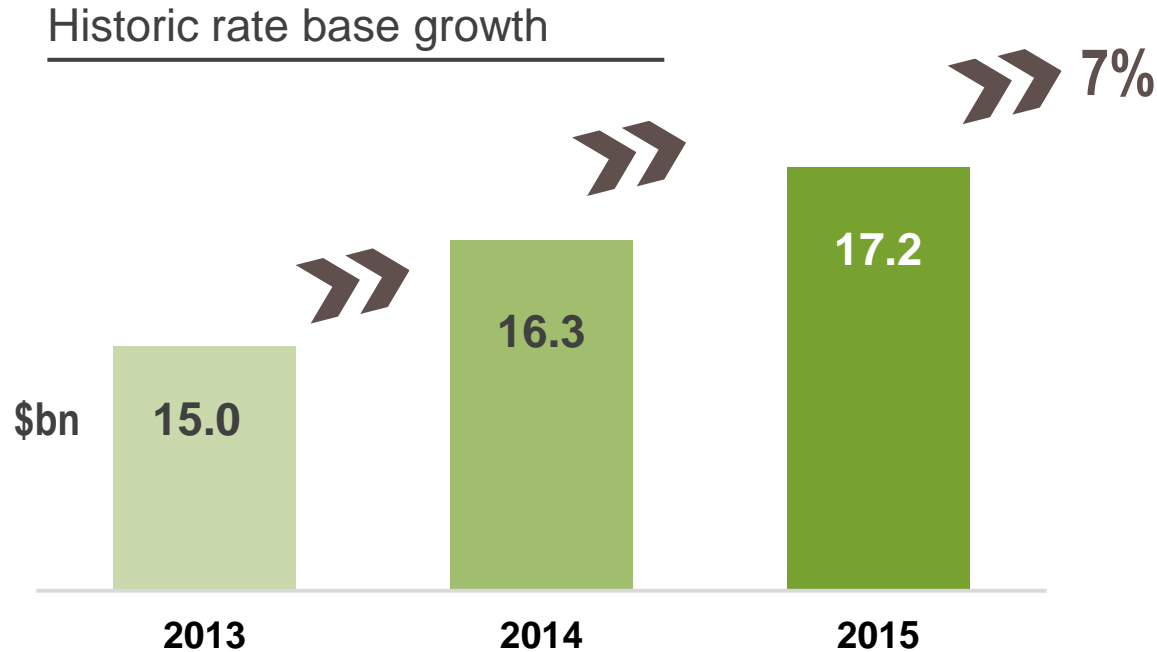


Distributed  
energy  
sources



# Our ambition over the medium term

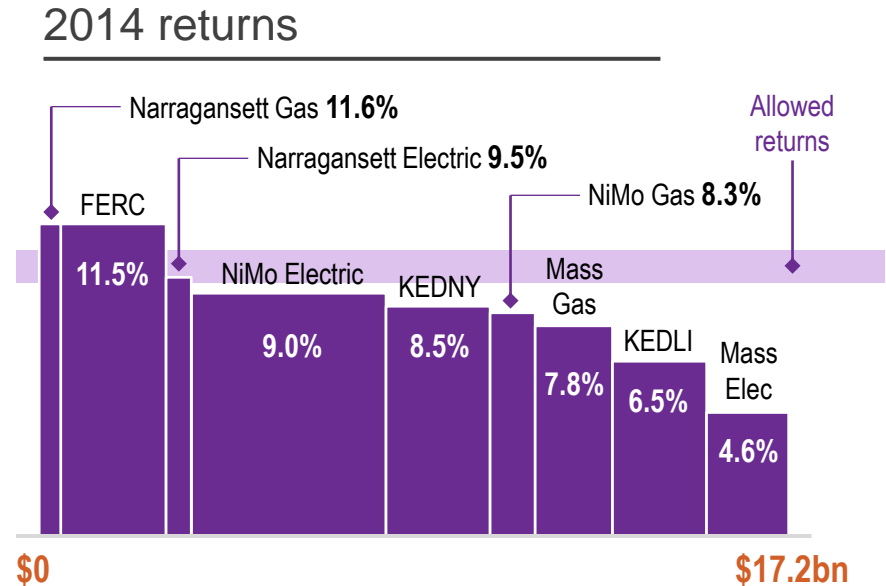
Asset growth: around 7%



# Our ambition over the medium term

## Target returns at 95% of the allowed level

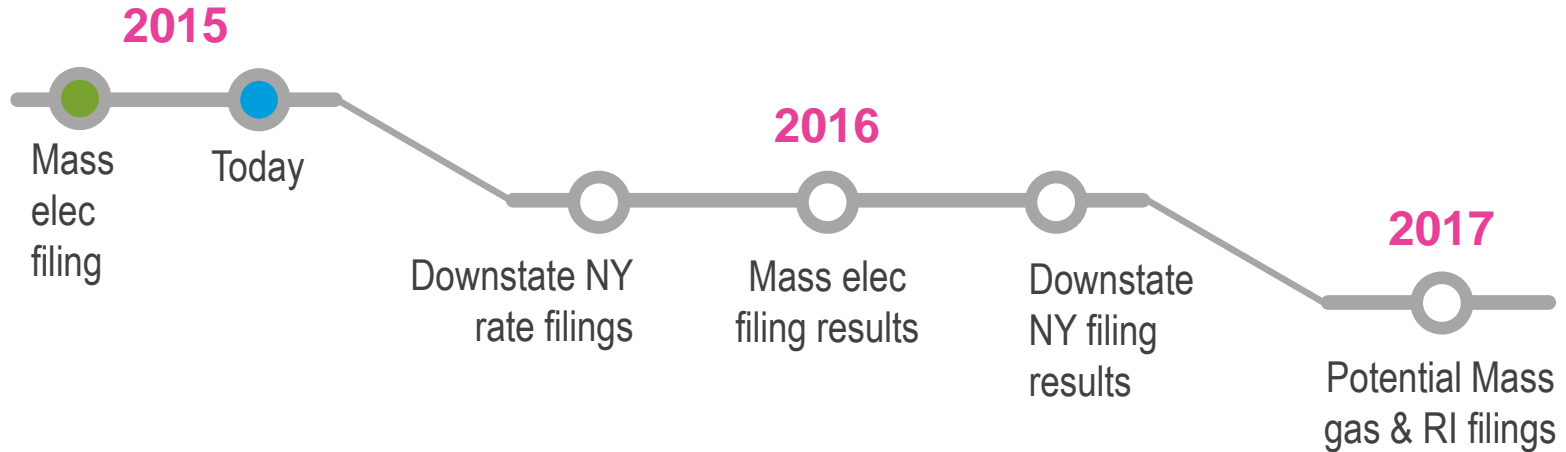
- Expect return on equity of around 8% in 2015
- Current returns reflect recent hiatus in filings
- Filing process underway - benefit expected in fiscal 2017/18





# Re-start of rate filings

- Quality data enables restart of rate filings

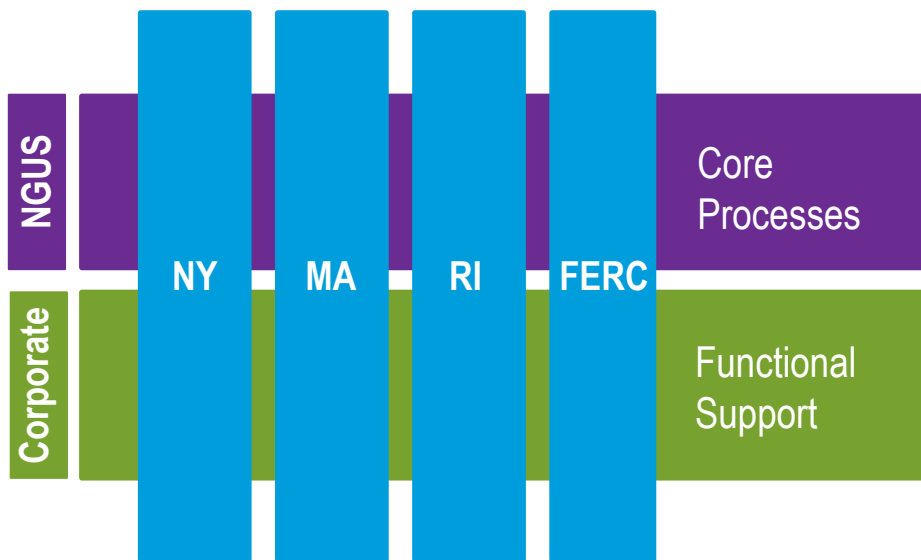


# Stronger regulatory interface

- Managing relationships with our key stakeholders is extremely important
- Since switching to our jurisdictional model we have strengthened relationships with our regulators
- Added more visibility and accountability

Local businesses, with synergies and benefits from being part of a world class utility

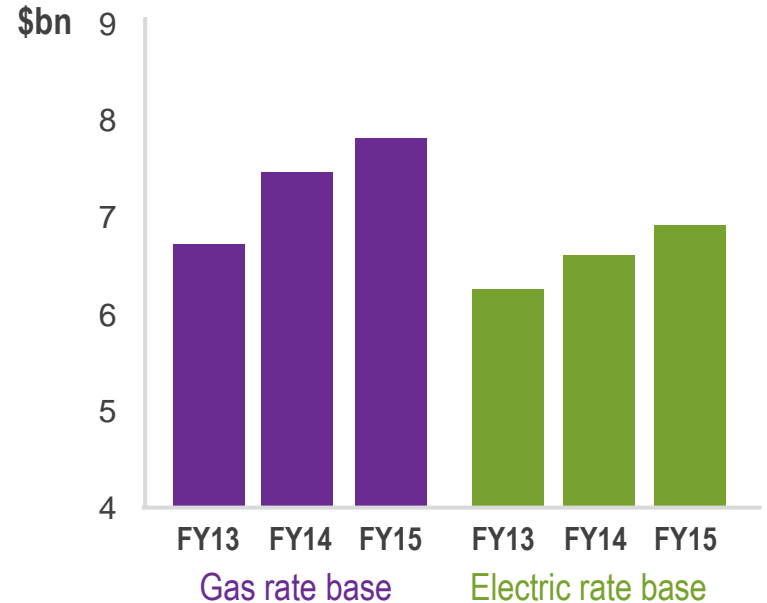
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# Organic growth opportunities

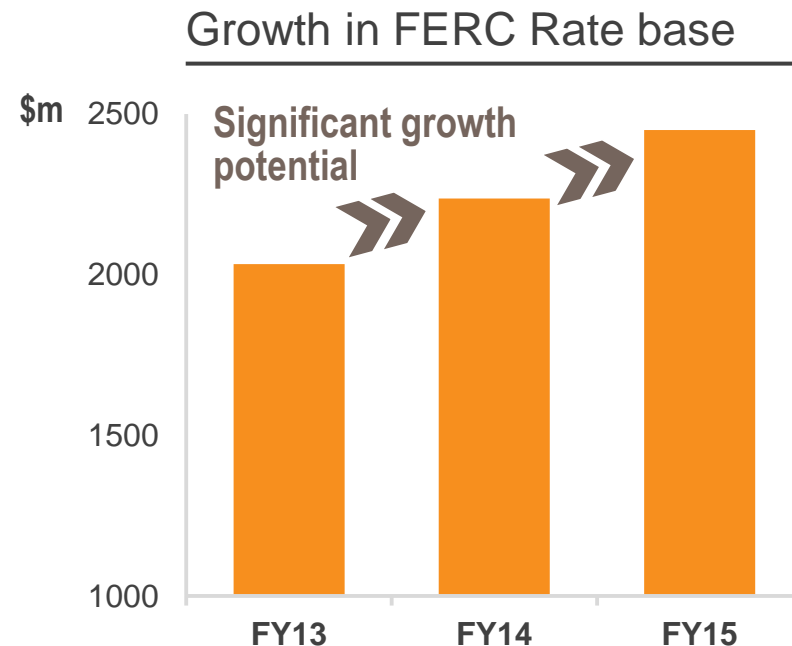
- Significant requirements for gas mains replacement
- Potential to add new gas customers
- Replacement of ageing electricity distribution assets

Growth in distribution rate base



# Transmission & FERC opportunities

- Potential to almost double size of FERC business
- Projects to
  - reduce bottlenecks
  - resolve network issues
  - reduce commodity costs



# Clean energy innovation

Consumer expectation



De-carbonisation of the industry



Advances in technology



## New York

- Reforming the Energy Vision (REV)
- Number of pilot schemes

## New England

- Worcester smart grid trial
- Grid modernisation proposal in Massachusetts

Data and intelligence from the pilots increases our ability to respond

# Strong customer focus and efficiency improvement

- Focus on operational efficiencies
- Customer satisfaction a key performance indicator for our regulators
- Capitalising on incremental improvement opportunities
- Focus on sustainable and replicable improvements



- A significant business with a favourable environment
- Restart of rate filings
- Strong customer focus and efficiency improvement
- Multiple growth opportunities





**Peggy**  
Smyth

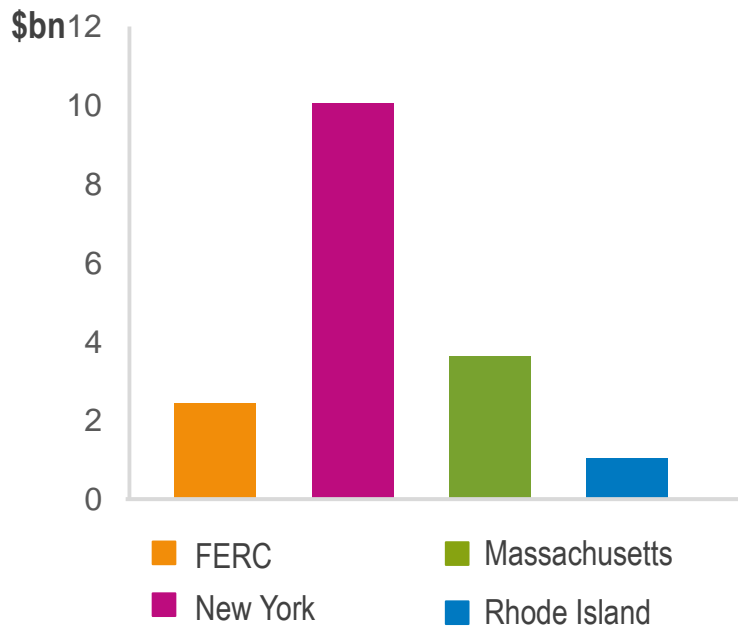


**US**  
Chief Financial Officer

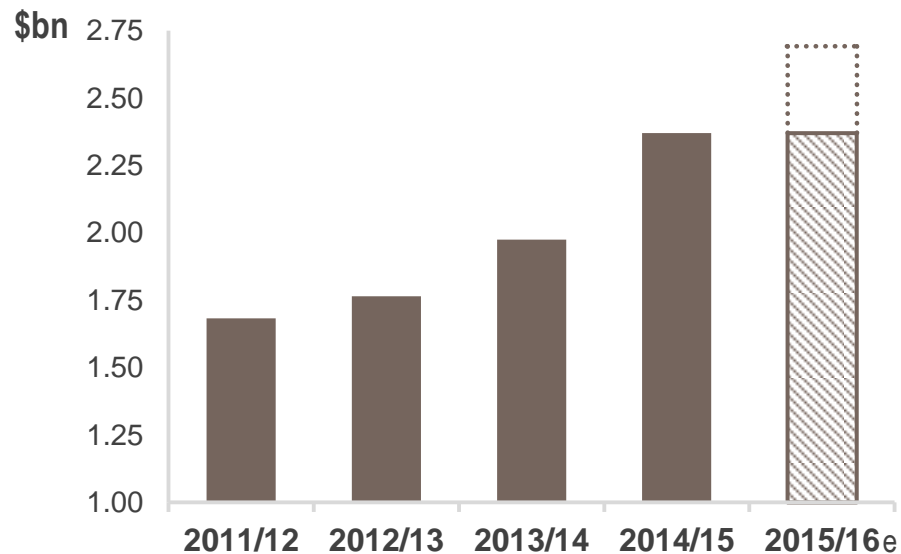


# Significant asset base and capital investment programme

\$17.2 bn rate base\*



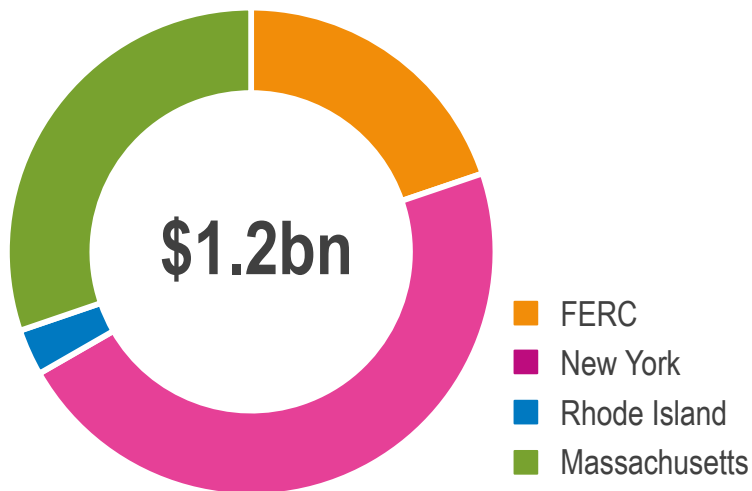
Capital investment



\* As at March 2015

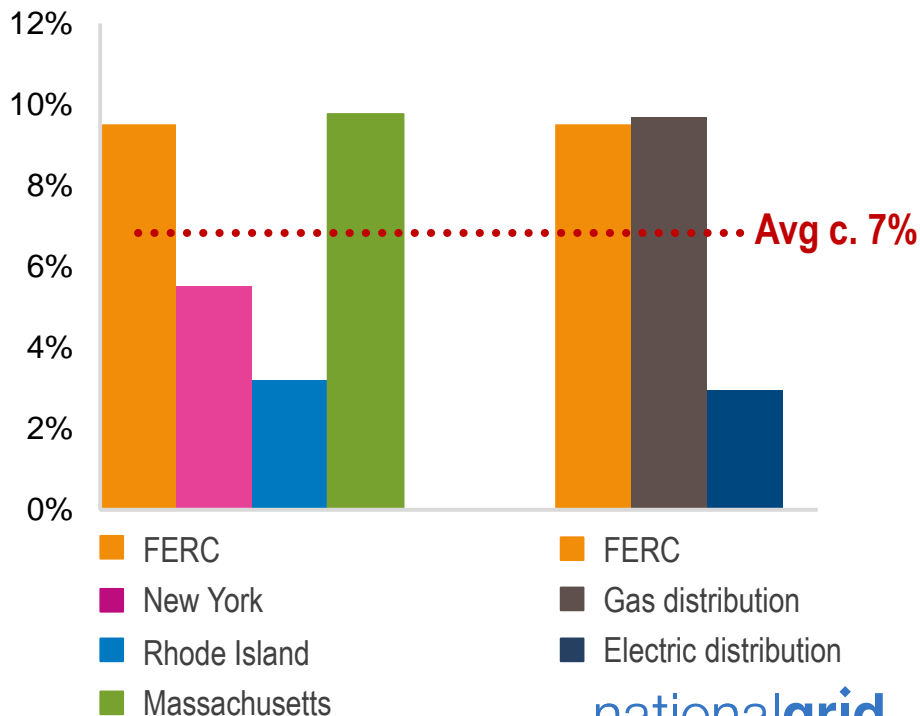
# Investment programme driving attractive asset growth

Annual rate base growth c \$1.2bn p.a.\*



\* Assuming \$2.5bn of investment, net of depreciation and deferred tax

Rate base growth 2014/2015



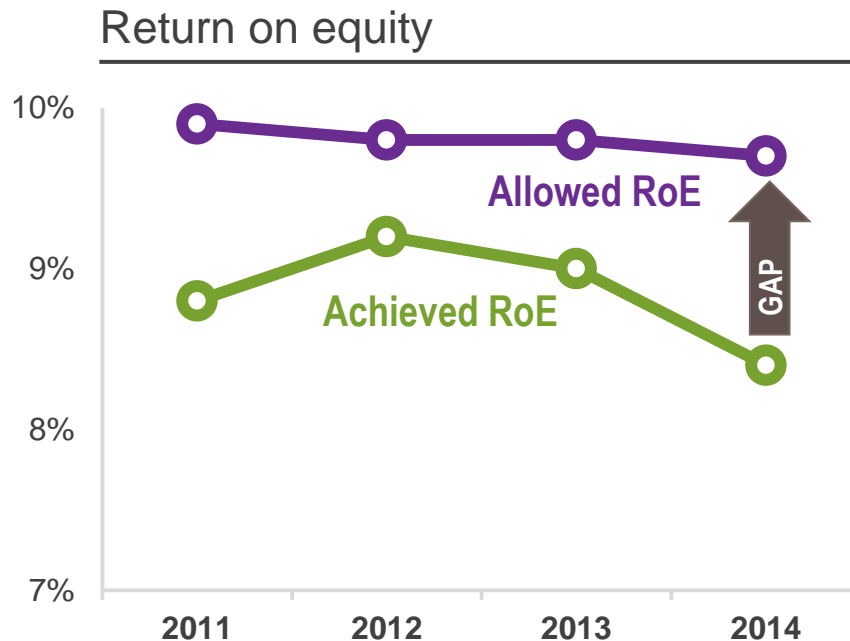
# Recent financial performance - IFRS

- Operating profit \$1.8bn p.a.
  - maintained in 2014/15 despite increased gas repair and bad debt costs following cold winter

\$m	FY 14/15	FY 13/14
Net Revenue	6,433	6,274
Regulated controllable operating costs	(2,246)	(2,220)
Post-retirement costs	(120)	(117)
Bad debts	(188)	(90)
Other operating costs and provisions	(1,330)	(1,347)
Depreciation and amortisation	(713)	(678)
<b>Operating profit</b>	<b>1,836</b>	1,822
Less: Timing impact	(47)	(16)
<b>Operating profit excluding timing</b>	<b>1,789</b>	1,806

# Focus on improving return on equity

- Average of 8.9% for past 4 years
- Benchmark against allowed return
- Achieved 8.4% in 2014 v allowed level of 9.7%
- Rate filings key to improving achieved returns



# Background on regulatory rate filing mechanism

- No fixed “price control periods”
  - companies elect to file for new rates
- Test year of data used to generate forecasts
  - rate base
  - operating costs
- Comprehensive review and hearings process
- Revenue allowance set until next rate filing



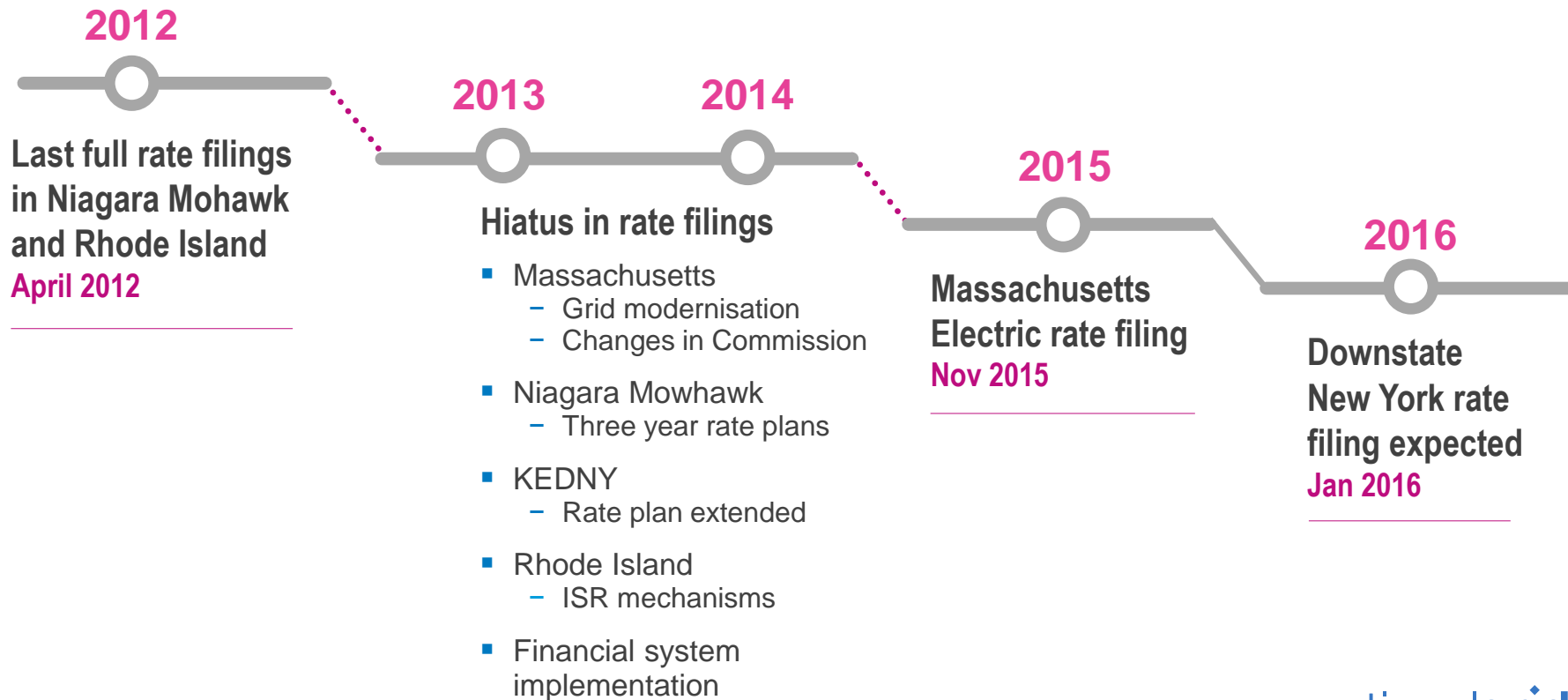
Growth in operating costs and in rate base leads to downward pressure on returns



Regular rate filings increase revenues in line with cost and asset growth

Jurisdiction	Ratemaking Mechanism
Massachusetts	Historic
Rhode Island	Forward looking
New York	Forward looking
FERC (transmission)	Formula rates

# National Grid rate filings since 2012



# Proactive steps to support returns between rate filings

- Cost control initiatives
- Improvement through filing extensions
- Overall - partial mitigation measures
- Targeting additional rate mechanisms
  - Capex trackers
  - Cost true ups

# Additional rate mechanisms

## Capex trackers

- Adjust revenues (current and/or future) to reflect growing rate base
- Depreciation and WACC return

	Downstate New York Gas (KEDNY/KEDLI)	Upstate New York (NiMo Electric/Gas)	Massachusetts Gas	Massachusetts Electric	Rhode Island Gas	Rhode Island Electric
Capital Investment / Plant in Service Tracker	✓	✓	✓	✓	✓	✓
Property tax true-up	✓	✓	✗	✗	✓	✓
Bad Debt commodity element true-up	✓	✓	✓	✓	✓	✓
Environmental deferrals	✓	✓	✓	✓	✓	✓
Pensions and OPEBs* true-up	✓	✓	✓	✓	✓	✓

## Cost true ups

- Reflect differences in actual operating costs compared to allowance
- Give rise to deferral balances
- Company files for recovery of deferrals

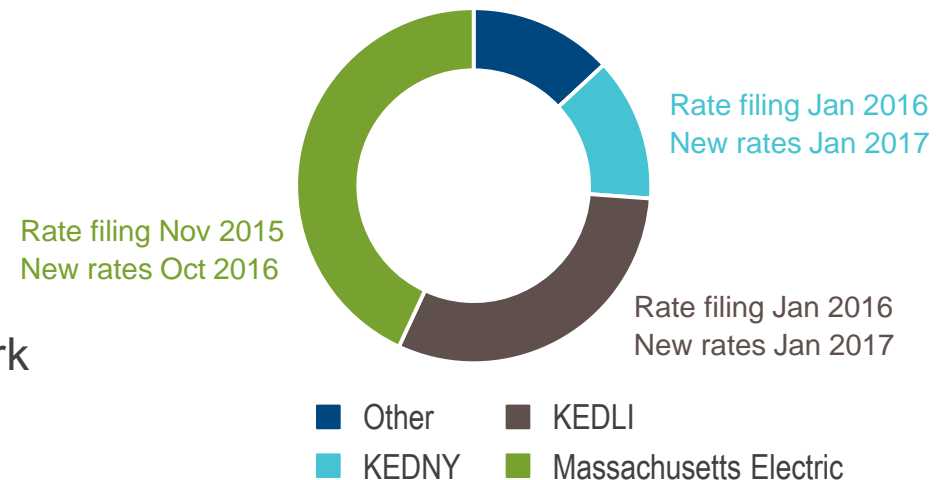
\* OPEB: Other post employment benefits



# Full rate filings required to recover operating costs and meet target returns

- \$2.2bn regulated controllable operating costs
- Test years date back to 2008 in some cases
- Growth above rate plan levels
  - Property taxes
  - Healthcare costs
  - Gas mains repair
  - Underlying annual cost inflation
- Cost pressures concentrated in Massachusetts and Downstate New York

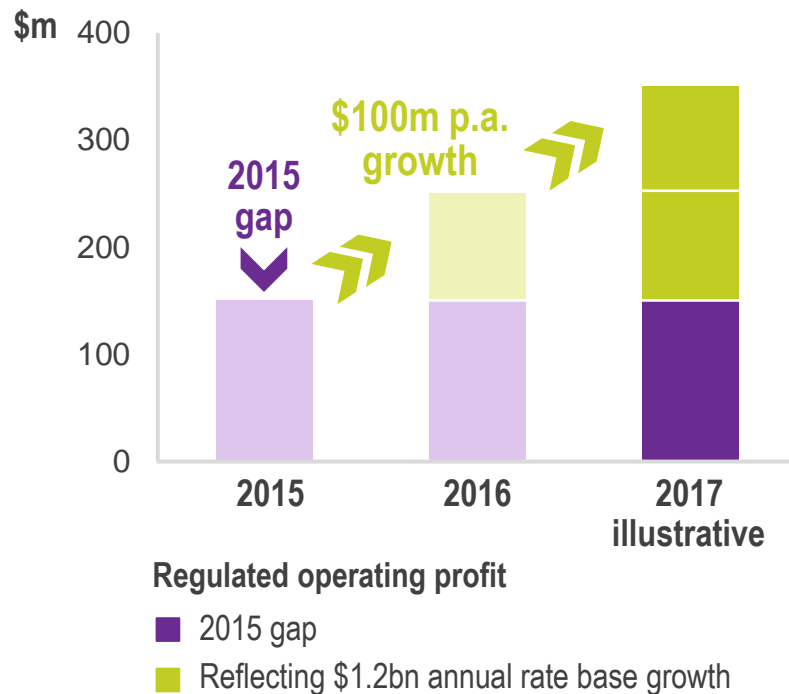
Focus for return improvement by jurisdiction



reflects 2014 gap to group average allowed return

# Regulated operating profit growth profile to deliver return improvement

- Over \$350m required in 2017/18 to match return aspirations and asset growth
- Mix of trackers and rate filings



# Deferrals will create difference in timing of profit recognition

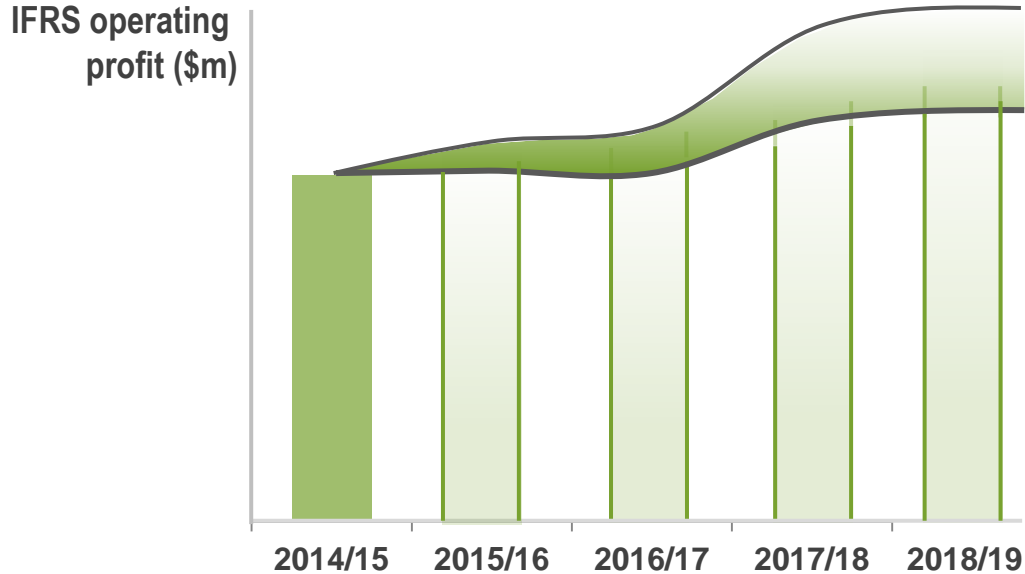
## IFRS and US GAAP accounting

	US GAAP and RoE		IFRS	
<b>Incur expense: recovery deferred</b>	Defer cost to an offsetting regulatory asset	No net impact on profit	Recognise cost as incurred	Negative impact on profit
<b>Receive associated revenue under deferral mechanism</b>	Recognise revenue and reduce regulatory asset	No net impact on profit	Recognise revenue as collected	Positive impact on profit

- True ups and trackers give rise to “deferrals”
- Regulatory asset/liability created under US GAAP
- Additional cost and subsequent recovery have no impact on profit

- No regulatory assets, liabilities or deferrals
- Costs and revenues recognised when incurred/collected

# Impact of deferrals on IFRS operating profit



- Deferral creation and recoveries may affect IFRS profile
- Deferral creation and recoveries do not affect RoE improvement



# Dean Seavers



**US**  
Chief Executive Officer

# Today's sessions



**Ken Daly**  
New York



**Marcy Reed**  
Massachusetts



**Tim Horan**  
Rhode Island



**Rudy Wynter**  
FERC



# Q&A



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