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National Grid

US Update Investor Seminar
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NATIONAL GRID

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Introduction

Steve Holliday, Chief Executive
Welcome, seeing familiar faces twice in a week that's a great privilege. I'm very excited about this afternoon now. I've been quite seriously been waiting for a while I think to talk about our US business in a bit of detail, rather than just the headlines that everybody gets during results, it's been a while since we ran a seminar actually.

Of course for those that have been around for a while it's been a while since we've been in the United States, 1999. It's been interesting in my own career with the company people saying you know - are you staying in the United States, well you know we have a massive business in the US today. It's clearly an integral part of our portfolio, $20bn of regulated assets today in the US, that's up 20% since 2011, so it's a business that's growing. As you know in our half year results we talked about the growth potential for the US, of which you'll hear more about this afternoon.

Andrew and I talked again about the portfolio of businesses that National Grid owns in total and our target growth range of 5 to 7%. You'll clearly have heard that the US is very much at the top end of that range, our expectation for this year that it's going to grow at 7%. And all of that is organic, all of that is growth inside our regulated businesses that we own today in the US.

And it won't surprise you at all our monotony of stressing where our focus is, where our efforts are, and where they'll continue to be. It's about getting the business delivering its allowed returns, that's clearly our priority. That means rate cases, it also means cost savings that we're finding and as we talked about on Tuesday it also means a continuous dedicated focus on the things that do drive value in these businesses in the longer term, safety, reliability and making sure that our customers are satisfied and pleased with the services that we deliver for them. And you'll hear more about that today.

But you know what I'm most excited about today is the chance to meet the team. And I think at the back end of today I'm looking forward to some of the feedback on the team, I genuinely am. It's been my pleasure during my time with this business to work with a lot of people in this company in both the UK and the US. This team in the US is by a long way the best team I have ever had the pleasure of working with, that's my opinion, you'll form your own opinion during the course of this afternoon.

We've got four jurisdictional leaders who run our four big businesses in the US. Each of those individuals have 27 years of experience, they know what they're doing. They understand the relationship they need to build with our regulators. They understand the need to be close to all of our stakeholders inside those territories. Very commercial and very clear on the job they have to do to drive performance.

And of course what we've done in the last few years as you know is Peggy and Dean have joined us as well, we've intentionally gone outside and bought into this business some real top quality talent. And you'll form your own view this afternoon again. So I think we've got a wonderful mixture there of fantastic experience inside National Grid

and its predecessor companies, great long standing relationships in all of jurisdictions and Dean and Peggy sitting on top of that organisation today.

And you'll have seen again on Tuesday in our half year results the beginnings of things coming through, the beginnings of the drive for performance that this whole team is focused on with already some savings actually kicking in in the first half of the year.

So you can expect me to have some confidence I think in this team, but you'll form your own judgement this afternoon. I'm very, very confident that you'll be as impressed as I am with this team of people and find out a lot more about our US business today, what's it's actually doing today, and how we see our exciting future. And with that I'm very pleased to hand over to Dean.

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Dean Seavers, US Chief Executive Officer
Thank you for that Steve, good afternoon everyone. I am delighted to be here today to talk about how I'm excited about the US business, but really about the prospects for National Grid in the US. As Steve said National Grid has a strong position in key North East jurisdictions. Our business is significant.

We operate primarily in three states, but across 140 sites. We have regulatory assets of over $20bn, with 7 million Distribution customers, supporting by 46,000 miles of gas pipeline and 100,000 miles of electricity cable. But most importantly we have over 14,000 talented and committed employees.

Now this is a fascinating time for our industry and for National Grid in the United States. There are a number of drivers at play that are actually favourable to us and really enhance our access to opportunities. For example the significantly increased availability of natural gas, the need for replacement of our aging infrastructure, the need for investment in safety and resilience and to a smaller but growing extent the changes driven by innovation in clean energy sources. From distributed generation to home automation we are surrounded by technological improvements that can deliver strong benefits to our customers. I believe we have a central role to play in this ongoing evolution to help our customers realise these benefits.

I have significant experience in customer facing businesses and this is really why I was attracted to National Grid. We have a business that matters to millions of customers every single day and we provide a service that is pivotal the economies where we operate and we have a multitude of opportunities to grow our business and enhance value to our customers.

So in the next couple of slide I want to talk to you about our ambition over the medium term and the first of this is asset growth. This business has strong potential and I'd like to share with the steps that we're taking to realise that potential over the medium term.

As Steve highlighted we expect the Group's portfolio of businesses to deliver asset growth in the range of 5 to 7%. And the US business is expected to be at the higher end of that range. We have been significantly increasing investment in the US, last year we invested $2.4bn, and that was a record level and it was $400m more than the prior

year. Looking ahead, this year we expect to step up once again to over $2.5bn. And overall we expect to sustain asset growth at 7% or more in the medium term.

Clearly our focus is not only on asset growth but also on the potentially attractive returns that this business can generate for our shareholders. So let me talk to you about the targets for a second. Our target is to deliver 95% of allowed returns. We will walk you through our filing process today and you will see that we expect the full benefit coming through in the fiscal year '17, '18.

With multiple regulated distribution businesses regulator lags will continue to be a characteristic of the business, but the level of return we are delivering today reflects the hiatus in filings, not business as usual.

Now turning to our timeline for our regulatory filings, improving returns from our current business as Steve said is our top priority. Key to this is the new rate filings and I am pleased to say that following the completion of SAP we now have access to better quality data which has enabled us to begin this process. As you probably have heard we filed for a rate case in Massachusetts last week.

Equally important we expect to keep a drum beat of filings over the next few years. In January we also expect to be filing the Downstate New York Gas businesses. So over the next three to four years we want to refresh all the rate bases within our Distribution companies.

Operating cost allowances are key to improving our returns, in Massachusetts and Downstate New York we have been living with cost allowances based on test years from as long as ten years ago. These need refreshing, not only for inflation but also for the changing demands of our customers.

Between rate cases we have already been successful in a number of smaller filings, wherever possible we're requesting additional capex, replacement spend, cost recoveries and recovery of deferral balances. These regular small filings and a focus on cost efficiency can help support returns between these rate filings.

Now in a few minutes I'll hand over to Peggy Smyth our US CFO who will take you through these matters in a little more detail. But managing relationships with our key stakeholders is extremely important. As you will hear from each of the jurisdictional presidents later today since switching to our jurisdictional model we have progressively strengthened our relationships with our regulators. We are very focused on ensure they are kept up to full speed on what we're doing to improve our customer satisfaction and that we're aligned to the states that we operate in.

Because of the improvements made under this model, as a first step since I joined I have strengthened our organisational structure by adding even more visibility and accountability for performance within each of the jurisdictions. It's important for regulators to see us as what we are, and that's a local business, led by local people who live, work and volunteer in the communities where they live and work.

But at the same time we need to continue to demonstrate the synergies and benefits that come from being part of a world class utility. Overall I am confident in our ability to deliver the improvement in returns from our rate filings.

So let me focus now on some of the multiple sources of growth opportunities that we have and we can define these across three key areas; organic growth, growth in our Transmission and FERC business and growth through innovation.

Let's take organic growth first, there are several factors which drive strong organic growth in this business. As I mentioned earlier the Gas Distribution business features strongly here. There continue to be significant requirements for gas main replacements, and the aging infrastructure, high profile safety incidents and recent cold average winters have resulted in increased demand from both our customers and a lot more regulatory focus.

We have been stepping up many of our replacement programmes, for example in Rhode Island we're replacing all leak prone pipe within a 20 year timeframe. And in Massachusetts we have to step up to 150% of current levels of investment over the next ten years.

Also gas has become the fuel of choice for heating and we have the potential to add round half a million new customers, particularly in Long Island as they convert from oil to gas.

On the electricity side, the regions where we operate have a significant need for investment to replace aging assets, to maximise system stability and resiliency. Ken, Marcy and Tim will talk in more detail about these opportunities in their presentations this afternoon.

In addition to our organic growth potential we see further opportunities in our Transmission business, Rudy will talk about these projects and the strong regulatory framework that supports these investments a little later on.

We have a number of growth opportunities which could almost double the rate base to around $5bn in the next five years. Clearly we don't expect to close on every one of those projects, but the opportunity landscape is large.

On the Gas Transmission side, New England is severely constrained in its access to natural gas and in recent winters our customers have seen real bill impact from this as gas available is unable to supply generation economically at the same time as meeting the regions heating requirements. The Access Northeast pipeline we have proposed aims to resolve this issue by supplying readily available gas from Pennsylvania to the gas power stations in Southern New England. This is a great solution and our share of the solution would be about $600m.

This is only one of the projects and what's exciting about all of them is each one will help to resolve an issue and will help bring customer bills down.

Let's turn now to innovation, consumer expectation, decarbonisation and advances in technology are driving changes in people's needs for and use of energy. For example, in areas such as distributor generation and domestic scale batteries, these developments are creating investment opportunities and investment needs for the benefits of our customers to bring them reliable, resilient and affordable electric. With distributed generation the two way flow of energy means that the resiliency of the system needs to be enhanced to handle increased levels of variability and intermittency.

Our regulators are very focused on managing the resulting system issues that could arise in the future. One good example of this is New York's Reforming the Energy Vision or REV programme, which is focused on bringing new investments into the state and improving consumer choice and affordability by capitalising on innovation and clean energy.

Then there's grid modernisation or Grid Mod in Massachusetts, a proposal we've submitted to the regulators to bring smart technology to the electric network. We expect policy initiatives like these to increase and as a Group we have a strong focus on innovation in our industry.

In addition to existing projects such as our Smart Grid trial in Worcester Massachusetts we have a number of new pilots in areas such as domestic solar, micro grids and energy management underway to access how the grid of the future will work. As I already said technological advancements are on the rise and these pilots are essential, essential to ensure that we can continue to match the needs of our customers and agree the right actions with our regulators. The pilots will provide us with a great deal of data and a great deal of intelligence, which will help us to continue evolving our business to meet the changing demands. And at the same time provides us with the knowledge and the ability to seize on the potential growth opportunities.

With these multiple sources of growth opportunities we are well positioned to grow our asset base and our returns while delivering an enhanced service to our customers. That's why I'm so enthusiastic about our growth prospects for this business in the US.

Turning now to customer focus and efficiency improvement, two areas which are very close to my experiences across Pepsi, GE and United Technologies where I've led several operational efficiency programmes in customer heavy businesses.

As we all know the energy industry is evolving and customer proximity is now more important than ever. Increasing our customer focus is at the heart of every improvement that we seek to achieve and having happy customers is a key performance indicator for our regulators.

My view in the first months of my time here is that the business is well focused on core operational priorities and that's running the network efficiently and effectively and serving our customers. This is not a business that needs wholesale change. However, there are a number of incremental improvement opportunities that we must capitalise on and in some cases we're already doing so.

I am passionate about delivering an excellent performance through a disciplined process. With stronger discipline in our processes we can drive better investment decisions and better management decisions across our business.

But excellent performance just won't happen - not by itself, it requires everybody to step up and look at their processes, however great or small, and to challenge what they do, how they do it, and why they do it. Indeed we are intensely focused on finding and implementing small, sustainable and replicable improvements as much as we are larger one time improvements. And by doing this opportunities to improve cost efficiency and revenue maximisation will be identified. In fact we've already identified a number of areas of improvement, so I'm going to spend just a few minutes taking you through a couple of examples.

In our Gas business we are using better quality data to map our field force shift patterns to peak hours, which improves our customer service and drives down overtime. We're also tightening the processes for connection and disconnection services and we're improving the speed of backfilling our gas excavations by removing unnecessary timing lags.

We're also pushing the advantages of technology across the Gas business. For example using the cast iron joint sealing robot, or CISBOT technology to seal the joints on older, large diameter cast iron pipe we can do so at a fraction of the cost of traditional methods.

In our Electricity business we've also identified operational improvements. We've relocated our Rhode Island electric pole yard to remove one hour of unnecessary delays from every job. And again improving the pole replacement processes, again in New England where Verizon owns half of our poles we've driven improvements in communication between us and them to link up on prioritisation of pole placement.

But the opportunities are not just in gas and electricity. We found improvements in core functions as an example, improving our revenue collection process to ensure we bill people on time and at the right time and revalidating the customers are being charged on the right tariffs for their usage.

Better data coming from SAP is also driving better and more timely decision making in our day to day business.

Now in isolation these projects may not seem to be game-changing, but the cumulative impact of these and other similar projects mean we will realise tens of millions of dollars of savings in the ensuing years. This will help offset the impact of inflationary increases in costs and drive improvement in our underlying financial performance.

And as you saw at the half year results we are already making good progress in keeping our controllable cost down on a year on year basis. But I should reinforce and this goes back to what Steve said, that in making these changes we will remain focused on delivering safe and reliable service.

So in summary we're a significant business with a very favourable environment. Our target is to deliver 95% of our allowed returns, we're back on track for filing rates regularly and we expect to see full benefits of this coming to the fiscal year '17, '18.

Our investment level is growing and we see significant investment opportunities as the US infrastructure modernises itself, with the development of new technologies. This is why it's such an exciting time for us in this business, but specifically in the United States.

I'm also delighted that members of the senior management team are here with me today and you'll get a chance to interact with them. The first person I want to introduce you to is Peggy Smyth our CFO.

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Peggy Smyth, US Chief Financial Officer

Well thank you very much Dean and good afternoon to everybody. As Dean said my name is Peggy Smyth and I'm the CFO of National Grid's US business, and last month I celebrated my first anniversary of joining the company. My previous role was in New York with Con Edison, so I'm really familiar with the New York regulatory arrangements and the regulators. And I've also worked in senior financial roles for United Technologies and 3M as well as in public accounting. So I have a wider finance background outside of the utility industry as well.

I do want to reiterate one of the points that Dean made earlier and that is regarding the growth opportunities across the business. And at the current time they are higher than I've ever seen in my entire career in the utility industry. You've already heard about the strong investment programme that we have and our asset growth expectations and also about our performance ambition in terms of our target for returns.

What I want to talk to you about this afternoon is how we expect this to translate into our financial results and profits. So let me take you through a quick reminder of some of the metrics that we reported last year.

The first is our rate base, it's an important metric for the Group, it's the number that the regulators use to set our revenue allowances and it's based upon the US GAAP balance sheet. It's a really important metric for the Group. And at the end of last year, at March 31st 2015 we reported a rate base of just over $17bn. It compared to just over $16bn at the start of the year, so an increase of around 7% once we strip out the impact of working capital.

The increase was driven by our substantial investment programme which has stepped up significantly over the last few years. As Dean said we invested a record $2.4bn last year, up from less than $2bn two years ago. We expect spending in our existing businesses to continue to increase to over $2.5bn each year. It's driven by continuing spend on gas main replacement and leak prone pipe replacement and system resilience and grid enhancements. We invested over $1.4bn in the first half of the year so we're well on track for another record year of investment.

This $2.5bn of investment each year will drive growth across our assets after deducting annual depreciation and increases in deferred tax liabilities each year we expect our investment programme to drive net growth in our rate base of around $1.2bn or 7% every year.

Our largest jurisdiction is in New York, where we have over $10bn of rate base, and it's our largest growth area in terms of dollars, growing at over half a billion dollar every year. In percentage terms our highest growth areas are Massachusetts and our existing FERC businesses growing at close to 10% every year. And Gas Distribution is currently a higher growth area than electricity, reflecting our sizable mains replacement investment programme.

So let's move on to profits, so for fiscal year 2015 our regulated US operating profit under IFRS was $1.8bn. It was relatively flat compared to our fiscal year '14, even withstanding the significant increases in mains and gas replacements and repairs from consecutive winters with exceptionally cold temperatures. And we also saw some impact from increases in customer bills, which drove up our bad debt expense as well.

The level of IFRS earnings for our US businesses can be impacted in the short term by a number of timing factors. So our key performance measure in any single year is our US GAAP based regulatory measure of achieved return on equity, or ROE. We've delivered an average ROE of just under 9% for the past four years and our earned ROE for the calendar year 2014 was 8.4%. We benchmarked this against the average allowed ROE under our regulatory arrangements, the 8.4% that we delivered last year compares to an average allowed return of 9.7%.

We're taking a number of actions to improve this return and get it back up towards the allowed level. Key to delivering this will be our next round of regulatory rate filings and to explain why this is so important I'll briefly remind you of how rate regulation works in the United States.

Our US regulatory rate reviews they don't occur at fixed intervals, there's no five year or eight year price control periods like there are in the UK. When a company decides that it needs to increase its level of revenues it will make a rate filing. It's usually based upon a test year of data, it involves submitting a large volume of financial and operational information to the regulator to justify the need for a revenue increase and its data will include the current level of the rate base and the current level of operating costs in the business; where our regulators use forward looking rate setting mechanisms, we also have to provide forecasts.

The regulator reviews the submission and then after a very extensive process of discussion and review, including evidence from third parties and public hearings, a new revenue allowance is set. And this revenue allowance stays in place until the company files again for new rates.

Our FERC Transmission businesses are a little bit different. They have rates that update regularly and automatically based upon actual costs and actual investment. And Rhode Island also has some annual update mechanisms as well and it's known as the

Infrastructure Safety and Reliability Mechanisms or ISR and Tim Horan is going to be talking about that in the session this afternoon.

But generally the framework that I just outlined for you, it does apply across our $15bn worth of Distribution business rate base. And it means that unless we have multiyear rate plans in place Distribution revenues will not automatically grow along with the asset base and the operating cost. It puts downward pressure on our returns over time. And as we get further away from the time that rates are set the more difficult it comes to maintain returns.

And it's particularly true in Massachusetts where rates are set based upon a historic test year. It means that some of the data that is use is already nearly two years old by the time the new rates go into effect. And as a result regular rate filings are a key feature of maintaining returns in the United States. They are an important way of increasing revenues to keep track of growth in rate base and operating costs.

The last full rate filings that we made in the US was in April of 2012 for Niagara Mohawk and Rhode Island and over the past three and a half years there's been a number of factors which have driven our decision not to make full rate filings.

In Massachusetts the regulators have been consulting on updates to regulatory arrangements to incorporate grid modification and modernisation proposals and the members of the commission were also changing during this time. Niagara Mohawk had a three year rate plan which has been running since April of 2013 and we extended the KEDNY rate plan to run until the end of 2014. In Rhode Island we make extensive annual updates as I mentioned before.

And at the same time starting in November of 2012 we implemented a major change to our financial systems. The implementation was longer than what we had planned with the system being fully stabilised last summer. And a rate filing is a very data intensive exercise and it requires 12 months of historic information to give our regulators the fullest confidence in the data that we were providing we waited a full year had passed until we stabilised the system to make our rate filing. And as a result we are not back on course with our recent filing in Massachusetts for Massachusetts Electric last Friday. And we expect to file, as Dean said, the Downstate New York Gas Company's in January of 2016.

Each of these filings, they take about 11 months from start to finish, so it will be in the middle of the next financial year at the earliest when we begin to see the new rates start to take effect. In the meantime as Dean said we're continuing to focus on driving efficient operation to minimise our cost increases. And we're benefiting from the changes that we have proactively made to our regulatory arrangements over the past several years.

When we were setting up new rates for our businesses between 2008 and 2012 we recognised the need for new ways to support returns in between rate filings. And at the same time we engaged heavily with the regulators to make a number of changes. And over the last four years we've continued developing innovative mechanisms through a series of filings and rate case extensions. So although it's been longer than we had

expected since our last full round of rate filings we've been able to put some mitigations in place. They managed to offset in part the pressure on returns since our last rate filings from our investment programme and from specific cost categories.

They work differently between the different states but generally they fall into two headings, capex trackers and cost true ups. So starting with capex tracker - a capex tracker adjusts revenue allowances outside of a rate case to reflect actual levels of investment, ideally the tracker revenues cover the incremental depreciation and cost of capital on the incremental rate base that we're adding each year. The revenue adjustments that these trackers produce are sometimes in real time - they sometimes have a fixed lag and sometimes they're deferred until the rate filing.

We've been very active in putting capex trackers into our businesses and extending them when rate plans expire. Our trackers in Massachusetts Electric were put in place several years ago and have a cap that's lower than our current level of spend. We filed for a higher level in our current rate case, but in the meantime despite our good range of trackers we do have some growth that is not earning any return.

Cost true ups protect the business from operating cost variations that are outside of our control. Where we have a true up in place revenue allowances are adjusted to reflect the difference between the actual cost and the level assumed when setting rates. Many of our true ups operate by deferring the recovery of any additional revenues until the next rate plan, or until a recovery - a specific recovery file is made.

We have almost universal true up for pensions and other postretirement benefit costs, which is a real positive for our businesses and keeps our returns much more stable. And we are looking to put true ups in place consistently for some items such as property taxes where we have trackers in New York and Rhode Island but not in Massachusetts. And I should point out and Marcy will mention this in her session that we did seek partial property tax recovery and true ups in last week's Massachusetts Electric filing.

The true ups that we have in place are supportive to our ROEs and cover some of the more volatile non-controllable costs that we have in the business. But the majority of our ongoing costs are not covered by these mechanisms, so as I said before regular rate filings are still required to keep our operating cost allowances up to date.

In particular regulators do not currently allow trackers on increases in the general level of controllable costs in the business, this is what we call operating and maintenance costs or O&M. As I showed earlier our regulated controllable operating costs last year were around $2.2bn, since our last round of rate filings this O&M cost has grown above the level that's fully allowed in our current rates.

A lot of this increase has been due to the growth in costs, which are partly or entirely outside the control of the business. For example we do not have full true ups for property taxes and health insurance premiums. Health insurance premiums alone have been growing at a rate that is 5 to 7% higher than what was anticipated, even in our most recent rate filings. And as we covered at the full year results in May there has a been a clear change in circumstances in our Gas businesses, our level of leak response and repair activity has significantly increased, following two very cold winters, which has

also driven up out bad debts. And we've also seen general costs inflation. Remember that our Massachusetts Electric rate plan was based upon a 2008 test year. Over that time we've seen an increase in customer expectations around storm response, higher information systems cost and a cost of other new outputs.

We continue to focus on driving efficiency operating and capital cost in our business; this one of Dean's and my top financial priorities. We're ensuring that our customer bills do not increase any more than necessary as we deliver the outputs that our regulators and our customers are asking of us. And as a result we've been able to make a strong case to increase the level of cost allowances with our rate plans to reflect the current level of spend, addressing the current shortfall in allowances and improving our ROEs.

The current shortfall in cost allowances - in our rate plans it really focused in Massachusetts Electric and in our Long Island Gas business KEDLI. These two businesses are currently delivering returns on average under 6% and they represent a quarter of our total rate base. If we can bring the returns in these businesses back up and back in line with average recent ROE awards in the Northeast it would add over 80 basis points to the overall Group returns and take us a very long way to our goal of delivering 95% of the overall level of allowed return. We're targeting our rate filings in the right places to improve our returns as soon as possible.

So what would delivering an improved ROE on a growing rate base mean in practice for our financial results? Our ROEs are calculated based upon an approximately 50/50 notional capital structure assumed by the regulators for our Distribution businesses. On a rate base just over $18bn - it gives us an average level of regulated equity of $9bn. We expect to deliver an ROE of around 8% this year, which is 120 basis points short of our target. It's equivalent to pre-tax regulated operating profit of around $180.

This $180, is the amount of the extra regulated operating profit we'd need to theoretically generate this year to meet our performance aspirations and move us from the 8% return on equity that we expect to deliver to our target.

And in order to achieve a consistent ROE level year over year we would theoretically need to add a further $100m each subsequent year in regulated operating profit. This reflects the return on $1.2bn of annual rate based growth that I mentioned earlier.

So to be within our target range for returns in fiscal 2018 we will need to have added over $350m to regulated operating profit compared to our expected level of this year. And it's going to come from a combination of a couple of items, first is our existing rate plans, such as the ones that we have in our FERC business that Rudy is going to talk to you about this afternoon. Next is our new rate filings as well . Then we have already our capital trackers that are in place and then other true up mechanisms that we have in our current tariffs, which brings me to the future path of our IFRS numbers.

So far everything that I've been talked to and referred to is reflecting regulatory accounting and US GAAP. I'd just like to quickly bring this all together to show how the rate based growth and ROE improvements we're targeting will impact our IFRS financials.

IFRS accounting is much more closely aligned to cash than US GAAP and regulatory accounting which can lead to significant differences between the two. For example how the increase regulated operating profit we're targeting translates to IFRS financial profits depends partly on the movement in the level of regulatory deferrals.

So when we incur certain costs, for example prudent incremental costs for restoration following a major storm we are allowed to recover these costs under our tariffs, but we're not allowed to increase revenues immediately, instead the company puts these costs on the balance sheet and creates what we call under US GAAP a deferred assets. When we incur a storm cost and create a deferred asset at the same time there is no impact to our calculation of regulated operating profit.

What this means is that the does not reduce our earned return on equity, under IFRS though it's different. We cannot recognise a regulatory asset and so the storm cost reduces IFRS profit immediately that year.

Then we're allowed to recover the cost through revenues under US GAAP we record the revenue and at the same time we reduce the associated regulatory asset. Again, this has zero impact on regulated operating profit and ROE. But under IFRS however we recognise the revenue and there is no asset to write down so the profit increases accordingly.

So deferrals give rise to differences in timing as to when value is created and when this is recognised under IFRS. When we file for new rates, like we've just done in Massachusetts we often include recovery of some deferral balances. It would have a very positive impact on IFRS earnings with no additional ROE benefit.

Sometimes regulators look to do the opposite, they reduce immediately bill impacts by increasing cost allowances, but deferring recovery of these increased allowances to a later date, this could mean that the improved returns would translate into IFRS profits over a longer period of time.

Whether we recover or create new deferral balances over the next few years make the exact path of our IFRS profits more difficult to predict. But whatever the exact path, confident that a successful round of rate filings will help us to produce substantial uplift to IFRS numbers. In the near terms we expect IFRS operating profit to remain relatively flat this year and probably next year as we go through our rate filing process and maintain as Dean said a really strict focus on cost efficiency.

As we progress we expect the US business to strength its contribution towards Group earnings and credit metrics, alongside its contribution to Group asset growth. And while they'll be always some timing considerations when forecasting IFRS we are very clear about our expectation for returns. We expect to deliver a material improvement to our achieved return for calendar year 2017 and we will then continue to file for new rates across our businesses to maintain our overall achieve return. And as Dean laid out our goal is very clear - to consistently deliver 95% of the allowed level of return on average for our US businesses. We have a strong team and a really good plan in place to deliver this and now I'm going to turn it back to Dean.

Dean Seavers, US Chief Executive Officer
Thank you Peggy. As promised we'll now break out into small groups so you can hear more about the opportunities in each of the jurisdictions.

So today you'll hear from Ken Daly who heads up our New York jurisdiction, about 60% of our business, representing Gas and Electric Distribution in Upstate, and then Gas Distribution in three of the five New York boroughs including Long Island. Ken will talk to you about a growth agenda as well as about rate filings.

You've got Marcy Reed who is the President of Massachusetts. She will talk more about the recent Mass Filing as well as the growth opportunities we're seeing in Massachusetts.

Tim Horan who leads the Rhode Island jurisdiction which in terms of returns is leading our Distribution business currently. He'll talk more about the Rhode Island rate structure and how it's working to support customers and provide suitable returns.

And then Rudy Wynter, President of our FERC Regulated Business, will talk more about how we earn our FERC returns and the pipeline of projects we have in place.

So you all should have a colour on your badge that indicates which group you will be placed into today. So if you have an orange sticker you are with Andy Mead standing in the back. If you have a blue sticker you are with Mike I….. and George Laskaris standing there. And if you have a green sticker you are with Victoria Davies and David Brining in the back.

So I'll ask that you find your representative now and we'll see you back here shortly for Q&A and some libations. Thank you.

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Breakout Sessions

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Questions and Answers

Steve Holliday, Chief Executive
Well I hope you enjoyed those sessions. I know there was a bit of opportunity for some Q&As on the specifics at the end of each of those sessions, but now is the chance to ask any other questions, not just of me or Peggy or Dean but any of the other jurisdictional Presidents who are here or Andrew indeed. So open forum.

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Mark Freshney, Credit Suisse
A question I think a question for Peggy. Slide 25 you showed the bad debts increasing pretty sharply year on year which was something you spoke about at yearend, but you didn't disclose the real time allowance that goes against those. Are you absolutely sure

that things like the increases in bad debts are not going to in the next economic downturn come up again like they did in the last one?

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Peggy Smyth, US Chief Financial Officer
Yeah so what we're doing, and actually if you look at - if you were in Marcy's session you'd see that one of the items that we're requesting in the Mass Electric file is to get our regulatory mechanisms more reflective of our consumer paying patterns now. And so yes we are going aggressively, you'll see that as a theme going forward in our upcoming rate filings to try and match the regulatory construct to what's happening with our customers in terms of their bill paying ability.

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Mark Freshney, Credit Suisse
And secondly it seems that the underlying revenues, if you strip out commodity I think it's about $6bn - $6.5bn across all of your regions, and I think you put up a slide showing that you want a $350m rate increase which is 5% on the whole lot. But I guess if that only applies to certain jurisdictions it's more like 10% increases. What further confidence can you give us that consumers have - voters have the willingness to pay for that?

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Peggy Smyth, US Chief Financial Officer
Yeah well if you look at the Mass Electric filing that we just made, Marcy's asking for $143m. It's a big number but when you look at it, it's a historic test here. Our rates are really old, they're from 2008. $90m of that $143m is just general inflation in our costs. Another $26m or so is property taxes. And so there's not much arguing from that perspective in terms of getting recovery on that. And it's similar like that in our other jurisdictions as we'll go through our rate filings.

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Dean Seavers, US Chief Executive Officer
It equates to about a 7% in the bill and which may seem healthy but again to Peggy's point we've been out of rate cases for a number of years, so when we get back to doing a regular filing the bill increases will be a lot less on an annual basis going forward, but it's the increment.

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Steve Holliday, Chief Executive
I mean this goes, and Ken showed it in his charts as well as you know, I mean if you are a customer in Brooklyn or on Long Island you have seen a real reduction phenomenally I would think. That's all very academic and interesting isn't it, so that comes back to the theory of leaving rates for as long as that for ten years, doesn't matter how you tell the story it's still quite an increase even though for customers it's over time a decrease. So I think going forward that's why you'll see the need to just not leave rates for as long as

that in the future. I mean Brooklyn goes back to 2004 I think the rates, so they've seen a huge reduction. But of course when the bill increase comes in it's going to be a double digit increase.

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Peggy Smyth, US Chief Financial Officer
And that's what we were saying that one of our key objectives is getting our rate case machine set up so that we have really good data now and that we can actively file really whenever we need to.

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Bobby Chada, Morgan Stanley
So obviously in the UK two years into RIIO you've changed a lot and I think you're probably delivering outperformance that's more than many of us thought was possible at the start of that. Are there any things that you're doing here that you haven't yet taken to the US, or that you can take to the US? And if so what sort of opportunity is it?

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Steve Holliday, Chief Executive
Well Dean, and John could talk a bit about this possibly, Dean talked a little bit about it with CISBOT and things so there's a lot of work going on between our gas businesses at the moment actually, and that's the key area. Rudy talked a little bit about HBDC as well so some of the real in depth expertise that we've created because of our interconnectors business here is going to really help with some of these FERC actual projects where there isn't anybody who can really compete with us out there for that technology and that understanding. So it's just a couple of areas Bobby.

In terms of the core processes, as Dean touched on we don't have the customer skills in the UK to the degree we've got in the US. So a lot of those processes, I mean the call centres and the day to day connections business in the US is a US expertise in reality.

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Bobby Chada, Morgan Stanley
And one of the things that struck me that you did here was change the kind of the capital process, so you know you had that new team brought in who took away the scoping and the costing and seemed to get the project costs down. Is that not really applicable to the US because it's distribution and small scale projects?

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Steve Holliday, Chief Executive
Absolutely.

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Dean Seavers, US Chief Executive Officer

Yeah we've talked about that. I mean I think - I don't remember if it was in one of the breakout -

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Steve Holliday, Chief Executive
It was in Rudy's.

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Dean Seavers, US Chief Executive Officer
It was in Rudy's group but we talked about that from a PEX standpoint that in addition to doing a large work, I mean doing it and making sure we're more efficient on the job. And so there's a lot of back and forth with the UK, but there's absolutely synergy between that. I guess I wasn't expanding on it too. I mean I think it's across the board from the short period that I've been here I've seen it in safety, I've seen it in what we do in terms of reliability and I see it across a lot of our functions too. So a lot of synergy going back and forth.

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Deepa Venkateswaran, Bernstein
So I have a question for both of you. So Peggy you come from Con Ed so could you tell us what you think National Grid does better and what things maybe they could improve on versus your experience?

And then Dean again, you come from a completely different industry so when you came into National Grid what were the things that, you know, again that you thought National Grid was really good at and where they could improve from?

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Peggy Smyth, US Chief Financial Officer
I'll start, and just in terms we just talked about one of them and that is leveraging the synergies from the UK to the US business which a lot of other utilities don't have that ability to do. And then secondly when we talked about it earlier just the growth prospects. And National Grid in particular has a really big focus in Gas and you look at - if you were in Ken's session and you saw just look at the Long Island market, was it 54% of people on Long Island are not connected to gas yet. It's one of the most affluent suburbs in the United States and it's tremendous growth potential.

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Dean Seavers, US Chief Executive Officer
So I do come from a different industry but I think there's some similarities. Clearly just the question we just got in terms of some of the work that we've done with large projects and whatnot, so some similarities and flow from a customer facing standpoint, but then I'd say from a labour intensity standpoint there's a lot of similarities there in terms of other industries that I've been with.

The question I think the second one was what can we do better, is that the question? Yeah. You know to me I think one of the biggest advantages that we have at National Grid, I'm specifically talking about the US business and our 14,000 employees, I was astounded both in terms of the connectedness to the community and sort of the service ethos that we have in the business, and I'm sure you heard at least in the Distribution breakouts where they talked about storm responses, and you see it loud and clear in terms of the team and how well we work together.

So to me the biggest opportunity is to unleash that more and more every day and we're doing that with our PEX or our process improvement, we're doing it by being focused. And I think even though we talk about sharing with the UK, I think even within the jurisdictions in terms of standardising processes across the jurisdiction huge opportunity for us, huge opportunity.

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Dominic Nash, Macquarie
Two questions please. Firstly on debt levels, could you just give us a quick colour on what the cost of debt is across the US businesses and what sort of tailwinds you should be getting as they get refinanced and as growth puts in cheaper debt which I presume will improve ROEs?

And secondly, and this is kind of the first time that you're really steering up the growth in the US as a whole with structural issues, does that mean that you think that the potentially US utilities are they reflecting the value of this increased growth, and does that mean there's an opportunity or non-organic growth opportunities in the US?

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Peggy Smyth, US Chief Financial Officer
So just on debt levels we have a number of petitions actually in New York State where we have some old debt agreements and we're trying to get them now. We went into New York, we had discussions with the regulators, we have our petition out there, so trying to get approval and to go issue them at lower rates and just take an advantage of the rate environment that's in effect right now. So we have aggressive plans to renegotiate our rates while we have the ability.

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Steve Holliday, Chief Executive
But that will not enhance ROEs.

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Peggy Smyth, US Chief Financial Officer
Because we get recoveries. Yeah, it's a pass through.

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Steve Holliday, Chief Executive

It’s a pass through. But why we’re doing it or Ken has been doing it in New York in particular which is back to your question Mark in terms of what customers are going to see, part of our petitions are we’ve got some smaller instruments here that can be refinanced at a lower cost, that’s going to reduce the bill which gives us the headroom to get the rate increase in there to pass through to customers. So it doesn’t enhance our ROE. So we are refinancing it at the moment, but it’s just reducing consumers’ bills.

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Peggy Smyth, US Chief Financial Officer
Which is the right thing to do.

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Steve Holliday, Chief Executive
It’s a big theory. If you look across - Peggy answered it to a certain extent. Different businesses in the US have different growth rates. I think our business is looking very attractive in terms of its growth. Some of the sector is trading still on very high multiples without that growth.

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Dominic Nash, Macquarie
So the answer to my question is you’re not going to answer it, you are looking -?

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Steve Holliday, Chief Executive
The great thing about this business today is organic growth. It always allows any management team the right focus. And you drive your organic growth. If an opportunity comes along that is enhancing and makes some sense for shareholders, you have a duty to have a look at it, it’s just now where the focus is. The focus is on driving the growth in the portfolio today.

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Lakis Athanasiou, Agency Partners
Just very simply, I thought just to follow on from what Dominic said about refinancing, and I don’t really understand how you'll get benefit from that? You know you sell off a bit of debt, if it’s a high cost you have to pay money for that, NPV neutral. So I'm not quite sure how the refinancing benefits work.

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Steve Holliday, Chief Executive
There's a lot of instruments that are naturally maturing across the portfolio.

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Lakis Athanasiou, Agency Partners
Oh okay, well if it’s naturally maturing that’s answered my question.

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Steve Holliday, Chief Executive
And the other thing, sorry Peggy I'm answering your questions for you, don't forget how much we're investing. US$2.4bn a year gearing across the US roughly 50/50. So half of that needs financing with debt continuously which is therefore lowering your average cost of debt to customers continuously.

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Peggy Smyth, US Chief Financial Officer
We also have parent company debt as well and we do that, it's very tax efficient from a companywide perspective.

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Lakis Athanasiou, Agency Partners
Sorry you have?

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Peggy Smyth, US Chief Financial Officer
Parent company debt too, intercompany loans. And it's a tax efficient structure for us.

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John Musk, RBC
You're obviously talking up the capex as everyone is talking about. How much is that due to a lower commodity environment, and is there a risk that this all goes away if the oil price were to double over the next couple of years?

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Steve Holliday, Chief Executive
I could be slightly facetious, having just sat through the four presentations and understood what's driving the capex, it's pretty unlikely isn't it? I mean you know we're finally catching up with gas pipe replacement that is way behind many other areas that needs doing, the modernisation of the electric system is clearly there, the move to renewables, the change in the stance of the government in terms of decarbonisation that's going to drive a change in generation and transmission investments. Most of those things I think are fairly robust too. The Mark Freshney clear view of the US is about to go off the edge of a cliff and go into a big depression again. There's always the question on customer bills, isn't there? There's always the question on customer bills and rate increases for sure. But a lot of this investment is the essential infrastructure investment that's been required for a long time.

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Marcy Reed, President Massachusetts
Point out the shale gas too and -

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Dean Seavers, US Chief Executive Officer
And the gas, yeah.

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Steve Holliday, Chief Executive
Well that's very true. Marcy's shouting without a microphone. You know if you look at natural gas prices today of course where they were six years ago, significantly down on where they were. So total bills are way down on where they were a decade or so ago.

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Peter Atherton, Jefferies
Steve one for you really. I mean you've set a target here today of hitting 95% of the allowed return and clearly that will be a substantial improvement from where we are today, and be the top end of what you've achieved. But I'm just curious if this was the UK business and we were talking about under hitting the Ofgem numbers targets by - allowed returns by 5% that would be considered to be quite a failure. I'm wondering why the Board is happy for the US to earn below its allowed return as a target, given that the allowed return is actually meant to reflect the actual cost of equity?

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Steve Holliday, Chief Executive
The Board has set this target after huge deliberations as you can expect. And you know this Peter if I may as well as anybody that we're looking at an apple and a pear here. You know we are talking about a US GAAP, nominal return i.e. 50% equity base versus an IFRS real return on a 35% equity base. You know these are very different businesses if you're trying to compare them.

And the reality is in the UK you still have significantly more incentives that you can earn than the US. There's a move towards incentives, you've heard that through the course of the presentations this afternoon, but the long term best performers across the industry deliver 95% of their allowed return, you know that is - if you do all the analysis it is absolutely clear that's the upper decile of performance. That's exactly why this business is targeting it. And if you hit that then we're earning a very good return over our cost of capital, and that's what the Boards have actually focused on, investing and earning a very clear return over our cost of capital.

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James Sparrow, BNP Paribas
It's a bit of credit question this actually for Peggy. Just wondered if you could sort of explain the funding structure within the US? How you got sort of at the US OpCos which I believe is driven by the kind of 50/50 split? And then how you fund and why you fund the sort of intermediate US HoldCo and how that's kind of tax efficient and how that works?

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Peggy Smyth, US Chief Financial Officer
Well I might turn that one over to Andrew because that's something that when we're looking at how to best fund, it's actually done on a global basis.

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Andrew Bonfield, Finance Director
So let me answer that part. Obviously like many companies when you acquire assets in the US one of the things you have to consider is what is the optimum tax structure. From a tax funding perspective actually with tax rates in the US, corporate tax rates, it's 35%. Just you would actually think about you get a tax deduction of 35%, you're borrowing cash there at 35% deduction, and if you earn the income back in the UK it's 21%, so there is a tax arbitrage opportunity which we do use to look at that and make sure you fund on the most efficient basis.

So actually from a credit perspective and an overall perspective it's about how do you fund the business at the optimum rate and the post-tax cost of funding is part of that view.

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Edmund Reid, Lazarus Partners
Two questions. The first one is would you expect allowed returns to remain stable as you go through the cycle of your reviews?

And then the second question is about procurement costs. I think you've talked before about procurement synergies. Obviously we've seen commodity prices fall globally, are you getting any efficiencies from procurement and from lower commodity costs?

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Peggy Smyth, US Chief Financial Officer
Just on the first question in terms of the allowed return. So right now if you look at where the average returns have been that have been recently awarded, it's in the 9% to 9.5%. Even if the returns come down a little bit or if interest rates go up, you know we're pretty much trued up for everything that we have, so our debt costs are trued up, on the pension side we're trued up as well. So it doesn't have that big of an impact on us.

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Dean Seavers, US Chief Executive Officer
Yeah I think the part for us too is our ability to execute against that, whatever that allowed rate is. And I think for us we have a lot more confidence in our ability to do that. One, for all the reasons that Peggy said with all the trackers, but just as we look at what we're doing from end to end processes and what we're seeing the yield out of that. I mean one of the slides Peggy put up which was from prior year to this year, we've held

our controllable costs at 1.2% which is with a lot of the headwind from healthcare and everything else. So a lot of that is really - you know sort of what's hidden underneath that is a lot of process improvement that we have. That will continue.

And then I think from a supply chain standpoint, not just procurement, you know we're taking a hard look at that right now and I think yes we're getting a yield from that but I think in ensuing years we'll get a lot more.

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Peggy Smyth, US Chief Financial Officer
Again it's just hitting - as Steve said it's really looking at what the allowed return is and comparing ourselves to our performance.

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Steve Holliday, Chief Executive
I mean one of - if you're sort of - I mean behind your question there to an extent as well is one of the benefits of a multi-jurisdictional multi entity business as opposed to one entity is we will be inevitably filing continuously. So as rates wax and wane we're always going to be tracking to a certain degree actually. So as treasuries start to go up and if you look at the curve in the US, as treasuries come down then allowed returns lag and then eventually come down, likewise when they go back up. So if you're just exposed in one business you could mis-time it, couldn't you? We've got lots of businesses; we're always going to be filing something each year. So overall you'd expect our average allowed return to track fairly closely to where the market rates are.

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Craig Pennington, T. Rowe Price
Is rate files finding it sufficient to get to 95% of the allowable return, or how much of this is an increased efficiency drive - how much of the shortfall is due to inefficiencies in the company?

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Dean Seavers, US Chief Executive Officer
You know the rate filings are a huge gap for us. You know I'd say the inefficiencies that we see; they're going to always be there. I think that's part and parcel of just how we do our job and continue to improve. But four year gap in terms of filing rate - having rate files is a huge gap for us.

You know as Peggy talked about the growth that we have in what $2.5bn in capital, we've got $2.2bn in controllable cost, most of which is labour. And so that's got a 3% or 4% uptick every year so we have to file to be able to match up the revenue with the cost. So the vast majority of it is the rate file. And then the efficiencies, we're squeezing those out every day. It's just not as visible without the rate case.

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Ashley Thomas, Societe Generale
Actually a follow up to Andrew just on the double leverage sort of issue. We had the OECD BEPS report which sort of looked principally at sort of tax planning and debt allocation. And I think in response to that in the UK we're looking at potentially having an interest deductibility cap. But is there a potential review on interest deductibility possibly coming in the US in response to that OECD report? Or basically in response to the OECD report are there any potential issues that could affect National Grid's funding or tax structure?

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Andrew Bonfield, Finance Director
Okay so let me answer that one very simply. The IRS already does put limits on interest deductibility. It already does that. Every jurisdiction around the world does. The UK does as well so there always has to be a sort of viewpoint as to what you can optimise at. The issue on interest deductibility actually probably is more of a worry for me in the UK than it actually is in the US, and that's because our required leverage on average across our UK businesses is 62%, and in the US it's only 50%. And if they'd limit interest deductibility it actually probably is going to impact the UK to a greater degree, given the level of gearing that there is.

So I think it is one of the things we're already talking to HMRC and the Treasury about because there will be implementation rules, and particularly for infrastructure. So one of the issues around BEPS and for those of you who don't know I'm actually Chair of the Tax Committee The 100 Group, so this is something I'm sort of very focused on. It is going to be something we do have to watch for all companies who build large infrastructure. Because optimising customer builds may not have the same impact from the regulatory perspective versus what the HMRC and Treasury are trying to do. So there is a disconnect there that we're already discussing with them.

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Ashley Thomas, Societe Generale
And is it your expectation that we have a 30% cap in the UK in March '18?

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Andrew Bonfield, Finance Director
Well there is talk of a 30% cap to EBITDA. The question is are there certain industries - there are certain exemptions allowed under the proposals, BEPS proposals and that's part of what we - I mean I saw David Gauke on Monday so it is a live conversation.

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Verity Mitchell, HSBC
It's just about asset rationalisation. I mean one of the things we've learned this afternoon is that in the US there are some areas where there are overlaps with other utilities. And I know some of the US utilities I talk to have done asset swaps, asset rationalisation. Clearly you've just made a decision on Gas Distribution. Is this the

perfect asset mix or can we see a review of the whole shape of the US in the next few years?

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Steve Holliday, Chief Executive
I think that's one for John isn't it the next few years probably. But you know as you've sat and gone through these presentations I would have hoped that you can pluck out from each of those that actually we don't have a jurisdiction today in the US that looks like an outlier. We did have in New Hampshire if you remember not - it was a very small jurisdiction for us, but it was an outlier. It had very, very low growth and consistently had regulatory arrangements that didn't allow us to get anywhere near our 95% of allowed return, and no trackers etc.

There's growth in Rhode Island you've heard about, there's a lot of growth in Massachusetts, there's a lot of growth in New York and a lot of opportunity in FERC. So it's not obvious today Verity I think that there is anything in that portfolio that looks unattractive to us. But the strategy of the business that John and Andrew and Dean will take forward is constantly looking at the portfolio. It's the mix of assets, the right mix of assets to give us the 5% to 7% asset growth, ensure we can keep paying a dividend that grows in line with inflation, and maintaining the strength of the balance sheet. Today the US looks like it's a good fit in that portfolio.

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Peggy Smyth, US Chief Financial Officer
And if you look at our 7% growth rate that's all organic growth. It doesn't encompass - Rudy talked about opportunities to double his portfolio, that's not included in what we presented in the 7%. Marcy has Grid Mod, Ken has REV, Tim is working on aggressively updating the ISR mechanism. So it's really a wonderful opportunity for us and we have a lot of organic growth just in the areas that we work in right now.

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Dean Seavers, US Chief Executive Officer
It's an incredibly unique portfolio.

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Iain Turner, Exane BNP Paribas
I guess the obvious follow on question is is there any appetite for further acquisitions in the US when you look at the map, things that might fit in neatly?

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Steve Holliday, Chief Executive
I think that was what Dominic was hinting at as well, and you know I think a lot of investors will hopefully ask that question to an extent because they can see a business here that's growing, a team that are able to drive that business very, very well. It's an appropriate question to ask. But it's got a 7% growth, and you know as well I do

organic growth is a great place for any business to be. You're not paying a premium for anything you've got to try and recover somehow share, you can drive that business.

So I think our mantra has been for a very long time. What investors should therefore have is the confidence of their team going forward that are going to keep a discipline as opposed to I desperately need to go and try and find some growth, I need to purchase some growth. This business does not need to do that. It should never rule out the opportunity of looking at something, but the focus absolutely right now, you've heard it from everybody here today, is delivering a very attractive 7% growth portfolio in the US.

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Andrew Fisher, Berenberg
Just a follow up on that point, did you look at UIL ahead of obviously Iberdrola making that acquisition or merger?

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Steve Holliday, Chief Executive
How do you define look at?

Laughter

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Andrew Fisher, Berenberg
Did they approach you or did you approach them?

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Steve Holliday, Chief Executive
No we - you'd expect any business I think to understand the businesses that surround it that may at some stage be a business that just slips in quite easily. So we have a very, very high degree of knowledge of UIL. It was not a process that we got involved in.

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Edmund Reid, Lazarus Partners
In terms of some of the policy agendas around decarbonisation, energy efficiency, how robust are those to a change and incumbency at the Whitehouse and Republicans say taking over? I'm just not close enough to the politics to understand.

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Dean Seavers, US Chief Executive Officer
It's hard to say if a Republican taking over the Whitehouse is going to change specifically things around the EPA Clean Power Plan, and it could because there are some challenges to it already. But what can't be changed is number one the huge consumer activity taking place around renewables, and number two at the state level the huge activity taking place around renewables. So that's going to be there irrespective of a Republican

or a Democrat in the Whitehouse. I think that is a path that we're on and that's a path we're going to continue on.

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Steve Holliday, Chief Executive
I mean if you go back to the States in the US and Dean can comment with all his experience as well, we happen to sit in an area where those states have had green policies for a long time. They've had renewable targets for a decade now haven't they in Massachusetts and New York, and you've seen that against other states where you've worked I guess Dean.

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Fraser McLaren, Bank of America Merrill Lynch
Over the years I recall there has been some adjustments which have influenced either returns or the rate base in the US. Have these all worked through now and therefore are the growth trajectories that you're speaking about now absolutely real and clean?

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Dean Seavers, US Chief Executive Officer
So I'll let Peggy talk about any sort of adjustments in the past, but as we run the business we are absolutely focused on what's real. We're not - in any of the plans we have when we talk about 7% growth, when we talk about getting the ROE targets, it is pure, we're not talking about any adjustments to make that number, so it's absolutely organic growth and process improvement.

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Andrew Bonfield, Finance Director
Do you want me to take Peggy the first half? I'll give Peggy a pass on that one given that she's only been here for a year so wasn't involved in any of those previous restatements of asset base.

I think one of the things if you remember, one of the challenges for us historically and the reason why we went to SAP was we had two separate systems and we had 65% of our costs allocated and it was quite a complex way of working, which meant the rate base calculations were a challenge. I think the fact that we're now on a single system, we do actually have upgraded quite significantly some of our finance capabilities in the US, particularly around understanding US GAAP and FERC reporting. And that's enabled us to again be much more stable.

Now will I ever rule it out Fraser that you could ever have an adjustment in the future? No you can't but I think we are now in a position, given that we've been through a regular cadence of rate filings now, where we're actually agreed the rate base for the regulator. We're continuing that and we have better data coming through our systems. I think the probability has significantly reduced.

So while we never, ever can say never, I think things have improved quite dramatically so hopefully we won't see that again.

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Peggy Smyth, US Chief Financial Officer
And Fraser that's why we waited a year for the system to be - after stabilisation of SAP to file our first rate case. And we actually just to make the - we were very confident that our data was clean. We actually engaged one of the big four accounting firms also to do a review of the data and they issued actually an attestation report in accordance with the standards of the American Institute of Certified Public Accountants, it's attached to Marcy's rate filing. It was very clean. So we feel really good.

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Steve Holliday, Chief Executive
And I was going to say and all your audits and all your regulated entities are now completely up to date and -

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Peggy Smyth, US Chief Financial Officer
Our filings are up to date. We caught up with all the backlog that we had. We've been filing on time.

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Bobby Chada, Morgan Stanley
Just to be clear and sort of keep expectations measured, it's still the case though when you file a rate case there will be a discussion about the ROE, there will be a discussion about capex, there will be things that get disallowed, there will be costs that get disallowed? It's not your expectation that you're going to get 100 cents in the dollar on your $143m rate increase in Massachusetts or anywhere else for that matter? I would not expect.

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Steve Holliday, Chief Executive
But to be fair, and Peggy can add with her experience in Con Ed as well, these are very well thought through rate cases. Peggy talked and Marcy talked in her session about what makes up the $143m, how much of it is the reality of the cost base 2008 to 2014, how much of it is property taxes, costs that are passed through to customers that aren't yet being passed through. There's always your negotiation around some of the smaller elements in here, you know but it's an absolutely fair ask. It's not let's pitch a number high and try and - you know, that's the way we do it with rate cases and that's exactly the way we'll go through things.

I don't think I can ever remember a rate case where you asked for 143.6 and the answer was 143.6 because there are different things that will move around, because information

will change during the course of an 11 month process as well. But absolutely it's a very fair ask that we're asking for. We're not entering into a negotiation Bobby.

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Dean Seavers, US Chief Executive Officer
Well this is my first rate case but I would say in the year that I've been here I think there's been absolute transparency too. There are no surprises in terms of what the DPU is seeing in the $143m request.

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Peggy Smyth, US Chief Financial Officer
And that's what I was going to say. There no surprises in the re-filings. I've been with Marcy to the DPU; I've been with Ken up to the New York Public Service Commission. They have a really good idea of what's going to be filed.

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Fraser McLaren, Bank of America Merrill Lynch
But we should judge you on your 95% of ROE target, rather than getting 90 cents in the dollar on your rate?

. . . .

Peggy Smyth, US Chief Financial Officer
That's right.

. . . .

Steve Holliday, Chief Executive
Absolutely. Because of course the other thing is to - sorry - you guys but if someone comes back and says we don't think you should spend customers' money on that, well the plan is going to change to reflect it actually. So ultimately you change the plan to effect the objectives that are agreed and are funded.

. . . .

Jenny Ping, Citigroup
You keep on talking about sort of growing your asset base to sustain dividend growth. As we exit more of your UK assets and move into the US, would you look to link your dividend policy more to the performance of the US business?

. . . .

Andrew Bonfield, Finance Director
Let me just make a comment about the cash flow characteristics of the US. Remember the US is nominal regulation so one of the advantages, if we always remember when we talk about balance sheet and balance sheet constraints, one of the factors that we have to look at is RCF to debt. That's our most constrained credit metric, and effectively it's the retained cash flow, pre capex to your net debt number. And that's the most

important metric from when we determine the dividend and actually balance sheet care capacity.

The US actually on a marginal basis, given that it's a 50/50 debt to equity structure, plus on the basis that actually the allowed return on average in the US is about 9.7, the actual marginal return in the UK is 7.1% on a cash basis, because effectively you get outperformance plus also a real return. So actually the US often funds more and does a better basis for our RCF to debt metric on the marginal basis than actually the UK.

So as we move forward with a slight move more towards the US because of growth plus also exiting partial sale of the UK Gas Distribution business, actually that is part of the reason why credit metrics actually improve post the sale of the UK Gas Distribution business, the minority stake. So actually that means we are actually better able to fund the dividend so will have no impact on our dividend policy going forward which will be to grow the dividend at least in line with the RPI inflation for the foreseeable future.

. . . .

Steve Holliday, Chief Executive
But you were hinting at it's in like a wholesale change. Let's just remember it clearly depends on the outcome of the sale process for the Gas Distribution business in the UK, but if you sell a majority, just over 50%, the PLC goes from 69% UK down to about 60% UK. You know it's not a huge shift actually overall when you net-net net it down. So I don't want you to interpret it depends on where that process ends up, it's a wholesale massive switch of the dial. Because it isn't in reality, it's a big business overall obviously.

. . . .

Deepa Venkateswaran, Bernstein
This is a question US GAAP versus IFRS. So you mentioned there could be this volatility so for the next two years till you get the full benefit of all the new rate cases, do you see a big divergence between the two?

. . . .

Peggy Smyth, US Chief Financial Officer
Nothing more than what we've had in the past. So when you look at - we talked about a couple of the different items in terms of the trackers and true ups, if we have a major storm we get to defer those costs, in the US they'd have to hit the P&L immediately and IFRS. So nothing is new or different than we've had.

. . . .

Deepa Venkateswaran, Bernstein
And would you consider a slightly different reporting on ROE because you have this strange December ROE metric and then the rate base March, it's very confusing and it's also difficult to understand your underlying GAAP accounts? So would you at some stage now with the new SAP system consider something else?

. . . .

Steve Holliday, Chief Executive
Yes.

Laughter

. . . .

Peggy Smyth, US Chief Financial Officer
Something we're thinking about.

. . . .

Andrew Bonfield, Finance Director
We are looking at it.

. . . .

Dean Seavers, US Chief Executive Officer
I think that was the last question. I want to thank everyone for coming. Hopefully you've heard what we think is a very compelling growth story. But the other points that I think you've heard in here and hopefully you've heard in each of the breakout groups is that we are laser focused. We know we have growth to deliver, we know we have ROE improvements to deliver. Our regulatory relationships are solid, and each of the jurisdictional presidents as well as Peggy and I are absolutely focused on margin improvement. So hopefully you heard that. Look forward to talking more at the break.

. . . .

Peggy Smyth, US Chief Financial Officer
Thank you very much.

. . . .

END

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