National Grid

Half Year Results 2017/18

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National Grid

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

Questions From

Mark Freshney, Credit Suisse

Jenny Ping, Citigroup

Nick Ashworth, Morgan Stanley

Dominic Nash, Macquarie

Iain Turner, Exane BNP Paribas

James Brand, Deutsche Bank

Fraser McLaren, Bank of America Merrill Lynch

Verity Mitchell, HSBC

Introduction

Aarti Singhal, Director of Investor Relations
Welcome to the National Grid half year results presentation. Good news no changes to my speech this morning, we will begin with safety and no planned fire alarm tests. If you hear an alarm please leave this room through the doors to my right here. Also make note of the cautionary statement that's in your packs. And as usual after John and Andrew's presentations we'll have time for Q&A, all the material is on our website and I now hand you over to our CEO, John Pettigrew. Thank you.

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Highlights

John Pettigrew, Chief Executive Officer
So thank you Aarti and good morning everyone. So as usual Andrew and I are joined this morning by Nicola Shaw and Dean Seavers who will be on hand to assist with any questions.

So let me start the review of our performance in the first half of '17'18. It's been a busy period for the group and I'm pleased to report we've made good progress. On the underlying basis, that is excluding the impact of timing, operating profit increased by 2% to £1.4bn reflecting new rates in the US for Massachusetts Electric and Downstate New York Gas businesses.

Underlying earnings per share were 20.4 pence, 1.8 pence below last year's EPS on a like for like pro forma basis, mainly driven by higher interest charges on our index linked debt.

In line with our dividend policy the Board has recommend an interim dividend of 15.49 pence per share representing 35% of last year's total dividend.

Our investment in critical infrastructure continue to increase in the first half of this year to £2bn up 4% of constant currency.

Our outlook for the year remains unchanged from what we set out in May driven by our expectations for a stronger second half mainly due to the seasonality of our US profits.

So it's been a positive first half and this performance continues to support our investment proposition to shareholders where that offers an attractive combination of yield and asset growth in the 5-7% range.

So moving now to our safety and reliability performance, as you know safety is core to National Grid and I'm pleased to say we've had a good first six months. Our focus on ensuring we have the right safety plans and procedures underpins our world class safety performance with the lost time injury frequency rate of 0.09.

Across with our US and UK networks reliability has remained strong. In the US we continued to see the benefits of investments to improve network resilience. Last week we responded to one of the most severe storms in recent years affecting all of our jurisdictions and impacting over 400,000 customers. We provided a strong response and we're assisted by other utilities and as is normal practice with these events we'll carry out a post storm review to see how we can improve our response in the future.

In the UK our system operator has been working hard to ensure we have the right tools in place to efficiently balance the system. This winter will be the first year under the new capacity market rules which has contributed to a significant improvement in the capacity margin, up from 5.7% to 10.3%.

Turning now to our key achievements and developments in the first half across the Group. I want to start with the US because as many of you heard at our New York seminar in September we see strong growth potential. In the coming years we expect significant investment opportunity driven by the need to replace ageing infrastructure and to modernise the networks.

As you know rate plans pay a key part in ensuring our capital plans are fully funded. And over the last six months we continue to make good progress on our rate filing programme with our Niagara Mohawk Gas and Electricity businesses and still in discussions with the New York PSC staff.

To remind you NIMO represents over 50% of our New York rate base. Our rate filings requested $331m of incremental revenue with capital investment of over $800m and return on equity of 9.79%. The PSC staffs initial response agreed with the vast majority of our capital investment plans and around half of our revenue requests, this is encouraging at this stage in the process.

We worked hard to improve the quality of our engagement with the New York PSC and are hopeful that a reasonable settlement will be reached before the end of December with rates coming into effect from April 2018. This means we'll have new rates for over 70% of our US rate base contributing to an improvement in performance and allowing us to achieve returns as closely allowed as possible.

Turning next to the UK regulated businesses. With the sale of a 61% share in our UK Gas Distribution business last year we've reshaped our portfolio to strengthen National Grid's ability to deliver higher asset growth.

As you know in June we returned around £3.2bn via the special dividend of just over 84 pence per share and to date we've returned 60% of the total £834m via the share buyback programme.

Both our electricity and gas transmission businesses continue to deliver high levels of performance. Under RIIO we generate outperformance by delivering efficiently. Ongoing process improvements and further innovation increase our efficiency over time lowering the cost of delivery which is shared with our customers.

A case in point is St Fergus our northern most gas transmission site and largest terminal importing gas onto the national transmission system. Due to the coastal location this site is exposed to harsh environmental conditions resulting in corrosion. We've developed innovative techniques for dealing with corrosion on pipework as it transitions below ground, this technique provides a full excavation reducing the cost per valve by 85%.

The projected savings of St Fergus alone through the adoption of this technique is around £10m and we intend to use this across the national transmission system for some repairs in future.

And this is just one of many great examples of how the RIIO framework is working for customers, driving process improvement and innovation to reduce the cost and work that we do and of course customers directly sharing the benefit of this efficiency. As of March this year RIIO had generated £460m of such savings for customers.

Moving on to our UK system operator role, in August following extensive consultation Ofgem announced the changes and the funding we'll receive to evolve our electricity system operating business. We continue to work to ensure we're ready for April 2019 when the electricity system operator, while still fully owned by National Grid, will operate as a legally separate company with its own Board and licence.

So turning now to National Grid Ventures, I'm pleased to say we made good progress in all areas including the interconnectors that are currently under construction. We have completed seabed surveys for Nemo our interconnector with Belgium, construction work on the converter stations is progressing well and the project is on target for completion in 2019.

On the North Sea Link our 1.4GW interconnector with Norway, we successfully completed all the civil works on the Norwegian side last month and the project's on target for completion in early 2022. National Grid's share of investment in these two projects is expected to be around €1.2bn.

For IFA 2 the second interconnector with France we've commenced the offshore surveys and we're now progressing the design and permit work as planned.

I'm also pleased that in June we were awarded preferred bidder status for the Shetland energy solution, the contract's expected to be signed in December. So this is a 60MW, 260 km interconnector between the Shetland Islands and Scotland and demonstrates our ability to be successful in a competitive environment and the link should be operational by 2021.

In the near term interconnectors are a major feature of National Grid Ventures but as I set out in May National Grid Ventures was created to explore growth opportunities to reinforce our technological expertise and strengthen our commercial capabilities as we continue to evolve for the future. And I'll touch on these broader initiatives later.

So overall I'm pleased to say we made good progress across the group on our key priorities. In the US we've continued to deliver on our regulatory strategy. In the UK we continued with our focus on efficiency and innovation. And in National Grid Ventures we made significant progress on our new development projects. I'll talk more about each of these project later but first over to Andrew to discuss the Group's first half financial performance in more detail.

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Financial Performance

Andrew Bonfield, Financial Director
Thank you John and good morning everybody. Before I go into the results I would like to point out that both John and I are using the pro forma 2016/'17 comparatives. These are the numbers we use to measure our performance both internally and externally. As a reminder the pro forma numbers for last year include an estimate of 39% share of UK gas distribution, now called Cadent, and adjust the share count to reflect the impact of the share consolidation and buy back.

Obviously the comparisons to last year are made more complex by the accounting for the disposal and this is exacerbated by the impact of timing on our statutory numbers. We've tried to be as clear as we can within the limitations imposed on us by financial reporting regulations, however I do realise this may be confusing.

First half performance has also been impacted by the change in business mix which means the seasonality of US gas operations has a greater impact on the first half, second half split.

So now to the first half results. Headline operating profit of £1.3bn and earnings per share of 18.5 pence per share were both down on last year mainly reflected the expected reversal of timing differences. Excluding timing and foreign exchange operating profit was £25m higher than the first half of last year and was in line with our expectations.

Underlying earnings per share of 20.4 pence per share is 1.8 pence lower than last year mainly due to higher RPI accretions on our index linked bonds.

Capital investment was £2bn, a 4% increase at constant currency, this reflects the continued investment in our core regulator businesses as well as the ramp up of spend on our interconnector projects.

Our balance sheet remains strong and we are on track to deliver good overall returns and value added for the year.

As usual I will start with Electricity Transmission. Operating profit was £542m down 22% compared to the first six months of last year. Excluding timing operating profit was £70m or 11% lower primarily due to lower reduction in base allowed revenues and lower BSIS income.

We invested £515m on the reinforcement of our networks and new connections; this was £71m lower than last year reflecting the lower spend on the Western Link. Looking ahead to the full year we expect to deliver Totex performance close to last year. The contribution from legacy allowances will also be consistent but as a result of the reduction of the BSIS opportunity currently our incentive performance will be lower, overall though we expect good outperformance for the year.

For Gas Transmission total operating profit was £33m lower than the prior period with £29m higher excluding timing. This underlying increase reflects higher revenues due to allowances for the Avonmouth pipeline. As you know these revenues will be returned next year when the outcome of the mid period review is put through the price control model. This will reduce operating profit next year by approximately £85m; this is simply how the Ofgem adjustment flows through our IFRS revenue; however this will have no impact on returns as the allowances have been excluded from those calculations.

Gas Transmission capital investment increased by £41m to £157m, this included spend on the Humber pipeline project and investment in asset health. We expect Totex performance to be similar to last year as we continue to make the necessary investments in the system. This is to ensure we meet the network output measures even though this is above our allowances.

We expect the good performance on other incentives to continue and as I've discussed previously our legacy allowances have ceased. Overall the return on equity will be around the allowed return of 10%.

Now turning to the US. Headline operating profit of £433m was in line with last year with the benefit of foreign exchange offsetting adverse timing. Excluding timing and foreign exchange operating profit was up £59m due to higher revenues from new rates in Massachusetts Electric and our Downstate New York gas businesses.

Capital investment was £1.1bn which at constant currency is in line with the high level of spend last year. We expect full year investment to be higher than last year.

As we've previously indicated we expect the US return on equity to be 90% of the allowed, this reflects the improved performance we expect under our new rate plans.

Over the medium term our US operating profit excluding timing is expected to increase in line with asset growth of around 7% per annum.

We are now showing National Grid Ventures as a separate part of other activities. Our existing interconnector Grain LNG and metering businesses continue to perform well delivering similar levels of profitability to the prior year.

Capital investment has increased significantly to £180m compared to £87m last year reflecting the investment in our interconnector projects that John mentioned earlier.

The full year operating profit contribution from NGV is expected to be in line with the prior year.

Other activities include our St William joint venture with Berkeley Homes, our residual property business and certain central costs. At the half year operating profit was £26m, £13m higher than last year reflecting the timing of property transactions.

The share of post tax earnings from our remaining 39% stake in Cadent was £55m compared to £71m on a pro forma basis; this reduction is mainly due to adverse year on year timing. The contribution from Cadent for the current year and for our pro forma results includes the impact of a proportionate shareholder loan from National Grid to Cadent. This means £15m of interest income is recognised as a credit in the interest line but is an equivalent reduction in our share of Cadent's profits.

Before I move on to talk about our interest charge for the first six months I thought it would be helpful to step back and look more broadly at how rising inflation and interest rates affect the group's operating results. In the UK inflation on our asset base is managed through an uplift to the regulated asset value and recovered over the life of the assets. By deferring the impact of RPI into the RAV the regulator keeps the costs to consumers lower in the short term but rewards shareholders over the longer term.

We've particularly hedged this by issuing RPI linked debt. Higher RPI is economically positive as the indexation of £19bn of RAV is far greater than the indexation on £7bn of RPI linked debt. 100 basis point increase in RPI would therefore represent a net total of £120m of incremental asset value.

However, in the short term the current higher inflationary picture decreases UK earnings as the impact on our interest charge is greater than the amount that was used to determine our 2017/'18 revenues. It will be two years before the impact of higher inflation is trued up in revenue.

The cost of debt allowance in the UK is updated annually based on the ten year iBoxx tracker. This mechanism has a lagged impact but protects the company in a rising interest rate environment. The key as I have discussed before is comparing the costs of new debt issue against the spot rate on the index.

In the US nominal regulation builds in the recovery of an assumed level of inflation in the year in which it occurs. This provides a faster cash return which means that the rate base is reduced quicker and therefore is not affected as much by inflation. Our rate filing programme is designed to adjust the cost of service and the return on equity to reflect increases arising from inflation although the speed and recovery obviously varies by jurisdiction.

The key to managing this is timing rate cases to mitigate the impact on returns. US regulators take into account the cost of debt and provide for a straight pass through of these costs to customers, this is why most of this debt is fixed rate, long term debt.

So turning back to performance for the first half, finance costs with £527m up 23% on a pro forma basis. We have now cycled through a full year of RPI increases so we expect this to have a much lower impact in the second half.

Our effective interest rate was increased by 80 basis points to 4.7% again due to higher RPI.

The effective tax rate before join ventures was 20.8% down 200 basis points from last year mainly due to the lower UK corporate tax rate.

Earnings per share were 18.5 pence, 6.5 pence lower than last year on a pro forma basis mainly due to adverse timing of 4.7 pence.

Operating cash flow was £2bn, this was higher than last year primarily due to lower pension contributions.

Net debt increased by £3.8bn to £23.1bn, the increase includes the return of £3.6bn of the gas distribution proceeds to shareholders and an increase of £1.4bn related to business requirements. These factors have been partially offset by stronger sterling and other non-cash movements which decreased net debt by £1.2bn.

In the first half of the year we raised over £1bn of new long term financing. Consistent with our policy the Board is recommending an interim dividend of 15.49p per share representing 35% of our prior year full dividend. The return of the £4bn of gas distribution proceeds is well advanced as both John and I have mentioned. The remaining buybacks are expected to be completed in the second half. The capital distribution is designed to maintain our per share measures, this will reduced the average share count by 300 million shares this year and a full year impact of around 400 million shares next year.

Underlying performance to the Group excluding timing is expected to remain consistent with the full year guidance we provided in May.

The two areas to highlight are, first our share of Cadent performance will reflect an incremental £22m annual depreciation charge associated with purchase price adjustments from the fair value exercise carried out by the new owners. This wasn't reflected in the pro forma EPS we provided in May as it wasn't available at that time. Adjusting for this our 2016/17 pro forma EPS will be 58.6 pence per share rather than the 59.2 pence per share we discussed in May.

And second in the US despite the outflow and timing the first half we continue to over recover revenues associated with the NYSERDA funding programme. The over recovered balance at September was $358m and over recoveries are expected to continue until November at which time the balance will begin to be repaid at the rate of approximately $10m per month.

So let me summarise, the financial performance across the Group as a whole is in line with our expectations. We expect a significantly stronger second half as a result of cycling through UK RPI increases and increased seasonality due to a greater proportion of our businesses being represented by US Gas.

Our capital investment has increased, supporting asset growth in line with our stated range of 5 to 7%. And our financial position remains robust. With that I'll you back to John.

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Priorities & Outlook

John Pettigrew, Chief Executive
So thank you Andrew. As I said at the start we've had a busy first six months and I'm pleased with the progress that the Group has made. So turning now to our priorities for the second half where I'll cover our key areas of focus and also provide some context on the environment in which we operate and I'll start with the UK.

So since privatisation National Grid has made significant progress, our electricity transmission costs today are 30% below that of privatisation levels. In the last ten years we've invested about £14bn in transmission infrastructure and today our electricity and gas transmission costs represent just 3% of the average household bill. And under RIIO we'll continue to invest and drive efficiency through the types of initiatives I discussed earlier.

Anyone following the energy sector in the UK in the last six months can be in no doubt from a customer, political and regulatory perspective the cost of energy remains top of the agenda. There's been wide ranging discussion and commentary on the functioning and ownership of the UK's energy sector and whether it's delivering value for customers. In effect we're seeing ever greater pressure to deliver higher quality services whilst simultaneously reducing costs.

But as I just outlined this is not a new area of focus for National Grid as the regulatory framework that we operate within incentivises us to achieve precisely this. National Grid is a responsible organisation and we'll continue to work closely with local and national governments to ensure we're able to deliver world class services whilst responding to customer needs.

So turning now to regulation, at the end of August Ofgem released a consultation for the needs case and options for delivery for Hinkley Seabank. This is a significant project with expected Capex of almost £1bn. Ofgem were consulting on three models of the delivery of this important connection. We've responded to this and we await Ofgem's decision. Ultimately our overarching goal is to remove the regulatory uncertainty so that we can focus on the timely connection of the power station. We expect the needs case to be published in December along with the consultation on the preferred delivery model which will be confirmed in 2018.

And now I'd like to touch on RIIO T2. In July Ofgem issued an open letter setting out their key principles for the future framework. We're pleased to see that many of their principles are consistent with our view including putting the customer at the heart of decision and ensuring infrastructure is built as efficiently as possible.

We firmly believe that with these shared principles Ofgem should be able to create a regulatory framework that ensures efficient delivery of needed capital investment whilst providing investors with certainty and confidence in the utility sector.

As you can see from the timetable on this slide we're still three and a half years away from the start of RIIO T2 and the exact financial parameters won't be known for some time. And 2018 will be an important year in the establishment of the overall framework for the price control.

Ofgem's high level timetable indicates a framework decision around the middle of next year with the company specific consultations beginning after this. We'll certainly be updating you along the way to 2021. However, we don't intend to respond to every piece of communication from Ofgem but will provide updates when it makes most sense.

Ultimately there are of course a number of parameters that make a successful price control from base returns, levels of investment, outperformance incentives to speed of cash. We've got a good track record of collaborating to achieve successful regulatory frameworks and being able to deliver against our price controls for our customers and for our shareholders.

As for our near term priorities in the US the first is to reach a settlement for the ongoing NIMO rate case with the new rates coming into effect in April 2018.

We also intend to submit rate case filing from Massachusetts Gas and Rhode Island Gas and Electric businesses this month, together these two businesses represent around 20% of our US business.

The Massachusetts Gas filings is the first since 2010 and will enable us to update revenues to more closely reflect our current cost of service and to allow us to earn returns closer to the allowed levels.

The Rhode Island Gas and Electric filing will be the first since 2013. Whilst Rhode Island regulation includes capital trackers it's important that we reset our operating expenses to ensure that we can earn a fair level of return.

In addition to rate filings over the next six months we have a number of priority initiatives to optimise the performance and evolve the US organisation to deliver significant increase in capex.

As we mentioned in September we now have a US capital delivery function that is responsible for the majority of our US capital spend and will emulate the UK capital delivery function with clear end to end accountability.

This approach is key for some of our major capital projects that are in the early stages of development like the Metropolitan Reliability Infrastructure project in Brooklyn which is a $250m five year gas project aimed to support the long term system demand in New York City. And the North West Nassau project on Long Island which is a six year, $280m project that involves installing eleven miles of gas mains and replacing older sections of the transmission network.

Together both of these projects funded through our rate plans represent more than half a billion dollars of investment and given the scale of the projects the end to end process work should have a real impact at reducing risk and driving the overall success of these projects.

At National Grid we're at the forefront of technology and innovation and we know it's a key driver for our long term success. So before I talk about National Grid Ventures I want to pick up on two areas of technological development that are increasingly important in the near term where we're actively pursuing opportunities.

Starting with renewables where we've seen continued reduction in the costs, in the UK offshore wind has been developed at prices unheard of only a short time ago. Similarly if we look at solar in the US we've seen the costs falls by 85% since 2009. The reducing price for renewables is creating growth opportunities for National Grid for example we've connected the US's first offshore wind farm in Rhode Island and recently we won a project on Long Island for 23MW of utility scale solar.

Looking forward we're also working with offshore wind providers to bring more renewable generation into Massachusetts. Therefore I believe renewables will continue to bring opportunities for National Grid at multiple points along the supply chain.

The second area is storage with further reduction of lithium battery costs by 73% since 2010 batteries are increasingly becoming an important component in the energy mix. I'm pleased to say that next year we'll start the construction of our first large scale battery energy storage system in the US. On the island of Nantucket this solution which has been developed in tandem with Tesla will provide the additional capacity needed on the island. Although this is a relatively small project I highlight it because it demonstrates our storage solutions and one of a number of options we can use to respond to customer needs.

And finally as you know we've seen the continued development in electric vehicles. Although it's early days I'm excited about the role we're already playing. For example in the US we're proposing 1200 charging stations, in Massachusetts and in the UK we're in discussions with the government on how to develop needed infrastructure to support the adoption of EVs.

So turning now to our near term priorities for National Grid Ventures.   As I discussed earlier we already have a good pipeline with new interconnectors under construction and there are further opportunities too. For example last week the Danish Government announced its backing for the 1.4GW Viking Link between the UK and Denmark. A final investment decision is to be taken next March with completion planned for 2022.

In the US we have a growing pipeline of business development opportunities including competitive transmission, battery storage and electric vehicle infrastructure. In the second half of this year we'll continue to develop these opportunities whilst also taking small steps to better understand the impact of distributed technologies on the networks.

And one particular area of focus will be the transmission projects Granite State power link and North East Renewable link. In July we submitted bids to bring renewable energy to Massachusetts through both of these projects, the results of the tender process will be known in January 2018 and if successful these will represent over $1bn of new capital investment.

So overall I'm pleased to report good progress in all of our businesses and I'm confident this momentum will continue. In the second half we'll continue to focus on our priorities as we work to finalise the NIMO rate filings, continue our engagement with Ofgem on RIIO T2 and Hinkley Seabank and seek opportunities to grow the business whilst remaining focused on performance optimisation and keeping pace with the evolution of our industry.

As I said earlier we're operating in a dynamic environment but National Grid has strong fundamentals that underpin our ability to great value over the long term. We have a high quality asset portfolio, a strong balance sheet, access to solid growth opportunities driving asset growth and yield and excellent teams that are motivated to deliver enhanced performance. I'm confident that we're well positioned for attractive growth and good shareholder returns.

Thank you for your attention ladies and gentlemen and Andrew and I will be happy to take any questions.

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Questions and Answers

Mark Freshney, Credit Suisse
Hi you seem more than ever to be talking about National Grid Ventures and proactively going after growth rather than taking growth in your rate bases. Can you talk about the returns in National Grid Ventures and what kinds of returns you see and how those compare to the core businesses?

Secondly, just on capital deployment within the Group, it seems that National Grid is moving from being 70% of EV in the UK to you know well over 50% in North America in just a few years. Can you talk about where you see that going and whether you'd be able to find the growth in North America?

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John Pettigrew, Chief Executive
If I start with the first question in terms of National Grid Ventures and actually as I set out in there our focus is very much in three areas. In our UK core regulated businesses, our US core regulated businesses and also as the industry continues to develop we want to take advantage of opportunities which we're focussing through National Grid Ventures.

So the US is growing as we said in September at around 7% per annum in terms of the regulated asset base, we've got strong growth there. In the UK we're expecting the capital investment to be at a similar level to what we've seen in the first four years of RIIO which is about £1.3bn per annum.

But National Grid Ventures is an opportunity and as I said the initial focus is very much on the construction of the interconnectors. This year the capital investment is around about £400m and we've got some good opportunities as I've set out in my speech going forward. So it's not more of an emphasis, it's more about making sure that we're focussing on all three areas going forward.

In terms of the overall shape, I mean the overall shape was impacted by the successful sale of 61% of our gas distribution business last year so with the growth rates that we're seeing over the medium term in the US and the UK then naturally the overall shape is going to head towards a 50/50 split between the UK and the US. Our medium expectation is that the US will grow at around 7% and the UK by about 5%.

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Mark Freshney, Credit Suisse
And returns in Ventures?

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John Pettigrew, Chief Executive
So returns in Ventures you know the focus at the moment is on our interconnectors business so any investment we make on an interconnector on any project with National Grid we've got a very disciplined approach. Our expectation as we said before for the interconnectors is that they're likely to earn returns based on scenarios that we've tested at slightly higher than you expect to see on the onshore transmission businesses in the UK. And of course they're protected with the cap and collar that we've got in place for the new interconnectors going forward as well.

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Jenny Ping, Citigroup
Thanks very much. I just wondered whether you have any comments on the back of the Helm Review, some of the issues that's raised in terms of networks and the profitability there?

And then secondly you talk about EV infrastructure discussion with UK government, can you just give us an update there as to where you are, what the potential structure could look like and the potential spends there? Thanks.

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John Pettigrew, Chief Executive
So in terms of the Dieter Helm Report I think it's fair to say it was comprehensive and ambitious given the timescales that Dieter had to do it. And I think there are some interesting concepts in there particularly around simplification and transparency that he's promoting.

From a networks perspective I don't agree with his analysis on RIIO, I think when you look over the last four years with National Grid then it's clear that we've delivered about £460m of savings through actually delivering projects more efficiently using innovation whereas Dieter has sort of focussed in on the assumptions that were set out at the beginning of RIIO T1.

So you know the government this week has opened up the opportunity to respond to that with a call for evidence that's due just after Christmas so we'll look at the detail now and we'll respond accordingly to it.

In terms of EVs as part of the response to the Industrial Strategy that came out a few months ago, National Grid set out a concept really about how do you address the key issue of range anxiety. And one of the ideas around that is potentially creating a network of service stations that have access to fast charging so the simplistic concept is you know you can charge your car in the time it takes to get a Costa Coffee. And if you were to do that then you potentially need quite a significant amount of power potential of the transmission system. So we've been exploring that concept both with service station providers, car manufacturers and the government to see whether there's an opportunity to create a backbone for infrastructure in EV as part of the government's broader ambitions to rollout electric vehicles.

In terms of potential investment opportunity then it would be several hundred million to connect all the key service stations in the UK. But it's very, very early days and this is the concept at the moment and we've got a lot more work to do to think about the impact on networks and how best you address issues like range anxiety.

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Nick Ashworth, Morgan Stanley
Thank you, morning. Firstly can you give us an indication around how much money is being spent on the interconnectors? I think both of you talked about it in you presentations so it would be good to know how much has gone into that already?

Secondly where will net debt be by the end of the year, looking at the technical guidance it seemed to be pointing towards £24bn but I just wanted to make sure that I'd read that correctly?

And then finally in the US you're talking about targeting 90% of the allowed returns, does that mean that you think you will get there this year, what are the risks arounds that and just have a bit more colour on that would be helpful? Thank you.

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John Pettigrew, Chief Executive
Shall I take the first and third and I'll hand the second to Andrew. So in terms of interconnectors against the projects that we've got in construction at the moment and potentially including Viking, then the overall capital investment would be around £2.2bn.

I mean currently this year we're probably going to spend a couple of hundred million so it's going to ramp up over the next two to three years quite significantly to get the projects complete. So NIMO is due to be complete in 2019 so it's further advanced and NSN is due in 2021 and if we take Viking forward that would be in 2022 and IFA 2 in 2021. So actually over the next four or five years it will be quite a ramp up in capital investment in interconnectors.

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Nick Ashworth, Morgan Stanley
But in terms of how much has already been spent today or this year it will be …?

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John Pettigrew, Chief Executive
It's probably something around about £400m Andrew?

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Andrew Bonfield, Financial Director
Yes, somewhere around £400m I would guess.

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John Pettigrew, Chief Executive
In terms of allowed returns so as you said in your question so we've set a target to achieve 90% of allowed returns this year. So clearly we get the benefit of the KEDLI and KEDNY settlement that we did last year as well as Massachusetts Electric. So at the half year stage we remain confident that we're going to hit that target.

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Andrew Bonfield, Financial Director
And on net debt we've estimated about another half a billion of business related spend, there's about another half a billion of potential gas distribution so somewhere around £24bn is constant currency so currency is the big swing factor.

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Dominic Nash, Macquarie

Hi two questions please. Firstly I see that your developing this 23MW of solar on Long Island, are you actually the owner operator of this renewable generation?

And a follow on question from that is the scale of opportunities for renewables in the US is obviously huge, is it something that if it work and you could actually potentially rollout at a magnitude or two greater?

And my second proper question is how are the negotiations going with the DSO versus TSO debate on who's going to be sort of controlling the lower voltage networks, will you be the people sort of controlling that?

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John Pettigrew, Chief Executive
So in terms of the first question the solar opportunity on Long Island - so this is actually a JV that we're in with NextEra, so that it's a relatively modest investment, around about $30m and we're currently in negotiations with Long Island Power Authority for a long term PPA.

But as an opportunity to your second question, and one of the reasons that we created National Grid Ventures was to look for opportunities where you know the type two investments have similar characteristics that we believe we have in terms of the infrastructure energy. So infrastructure energy that requires good engineering, good asset management, low risk with regulatory characteristics are things that we would look to explore through National Grid Ventures and renewables clearly is one of those opportunities.

In terms of the TSO, DSO, we're making good progress actually through the work that the ENA has set up to really establish a clearer framework for transferring data and understanding where the constraints are in the systems. And that particular work is going well, it's focussed very much with UK power networks at the moment because there's some real constraints in their network and we're identifying where they are and working to see what the whole system solution is. So that work is progressing well I think.

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Dominic Nash, Macquarie
When you think we'll get clarity on that?

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John Pettigrew, Chief Executive
I think it's an ongoing thing rather than it's a point in time. Dominic I think as the networks continue to evolve I think the role of the system operator and its interaction with the DSO is going to have to continue to evolve. So I'm not sure there's a deadline but you know it will continue to ramp up as the networks continue to evolve and the challenges change.

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Iain Turner, Exane BNP Paribas
Can I just ask about the accounting implications of the NYSERDA thing and it looks as if you ex that out you're actually under recovering by more, there's more under recovery on the ex NYSERDA performance, there isn't a headline figure is that right?

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Andrew Bonfield, Financial Director
Yes so we actually did continue to over-recover by about $10m a month through the first half of the year so the balance I think has gone up from somewhere about $270m to $350m in the first half of the year so that

was a contra to the other. But if you remember we did have quite a significant time imbalance in the US at the end of last year which is part of what we've handed back.

NYSERDA is unfortunately one of the quotes of IFRS accounting, we have this discussion often, I notice the Chairman smiling in the front row about the fact that we actually have to recognise revenue which is probably not ours and we then have to give it back over time. That is part of the reason why we highlight timing as an issue. So effectively the under GAAP it would have just been the deferral and you wouldn't have seen it through the P&L, under IFRS we count as revenue and the give back through revenue. So it's just going to have a legacy impact on us going forward probably for a couple of years now.

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Iain Turner, Exane BNP Paribas
So it's basically a switch from over recovering to paying it back …?

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Andrew Bonfield, Financial Director
Yes eventually it will not just be effectively taking what we continue to take through bills, we'll actually then start passing on to NYSERDA as well, so you'll lose the 120 overall recovery and move to 120 over recovery unfortunately.

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James Brown, Deutsche Bank
Two questions both on the US. Firstly I was wondering whether you could give just a view on what the impact of US tax reform might be on you if it goes through somewhere in line with the current proposals?

And secondly obviously I guess one of the other focuses of Trump has been infrastructure spend and the need for a massive infrastructure investment programme. And when you have rate reviews in the US there's always been a bit of a trade-off between infrastructure spend requirements and affordability. I was wondering whether you could give us an update on whether it's becoming any easier for you to convince regulators of the need for investment and whether that trade-off between affordability and investment is moving a bit closer to facilitating more investment than in the past?

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John Pettigrew, Chief Executive
Shall I do the second you do the first?

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Andrew Bonfield, Financial Director
So US tax reform obviously there is the draft bill that we've seen, a couple of things of interest for you. Obviously one which is the fact that they seem to indicate that interest deductibility for utilities will remain which is important. The other key factor which we were interested in was obviously around property tax deductions, deductibility because that is obviously key.

The other factor that's there is obviously the elimination of bonus depreciation for utilities again which is quite good. Because effectively at the moment we do have this situation where all our investment is depreciated in year one and we're building up a very large deferred tax liability against RAV and that's actually been a break of RAV growth over that period of time.

So obviously there's still a long way to go, there are a number of things in the legislation which we don't particularly like so we'll be working to look at those particularly around Hold Cos and what that means from an interest deductibility perspective and so forth. So there are some things and obviously there's a long way to go before we can actually give you the real picture of what it is.

I think the interesting thing which I think is one which leads into the second part of the question is potentially there is some actual headroom because effectively if you have a significant reduction in the tax rate effectively there is a give back potentially to customers. And can that be used then to actually invest more, give you a bit more bill headroom to do some more of the interim structure and investment which we think is necessary.

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John Pettigrew, Chief Executive
And in terms of the infrastructure so I guess we're keen to see when any legislation or thoughts come forward in terms of infrastructure. So we're certainly part of the initial key policy areas but we're waiting to see and potentially that's a positive thing.

But for our US business you know state is really important as well so in terms of the infrastructure drivers. If you look at our Downstate Gas businesses last year we set out the requirements for investing both for safety, resilience, reliability and to start to adapt the networks. We asked for $3bn over three years and effectively that's what the regulator supported us with.

If you look at NIMO in Upstate New York the affordability issue is more of an issue in Upstate New York just in terms of demographic. But in the initial response from staff against our capital investment proposals which are again driven by safety, resilience, reliability, as well as some grid modernisation their initial view was to accept about 92% via electricity transmission capex and about 82 of our gas. So from a starting point that's a very high level.

When we put our rate filings in place we're very cognizant of affordability so obviously in recent years we've had the benefit of commodity prices coming down so there's been some headroom.

But we also look to shape our rate fillings to mitigate the initial impact. So if you look at our KEDLI and KEDNY last year for example we smoothed the revenue impact over three years rather than the customer seeing a significant increase in year one. And we have the same engagement and discussions with the regulators in Upstate New York as well.

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Fraser McLaren, Bank of America Merrill Lynch
Good morning. Just two questions please. You seem to be expecting NIMO to complete by the year end, that's a little earlier than you thought might be the case, does that mean that things are going particularly well and is that therefore related to your expectation of a reasonable outcome?

And finally just on tax guidance, notwithstanding the definition used in the statement versus the full year, is the underlying rate now higher than your previous indications and if so why is that the case?

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John Pettigrew, Chief Executive
I'll do the first and Andrew can do the second. I mean in terms of NIMO the positon hasn't changed massively from where we were in September at the seminar. So following the staff's initial response to our filing we agreed to enter into settlement discussions. Those discussions are going well and you know our hope and

expectation is that we could potentially come to a conclusion towards the end of the year. But those discussions are ongoing as we speak.

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Andrew Bonfield, Financial Director
And on tax guidance yes it is slightly higher but that does reflect the mix of profits we're expecting for the full year so don't forget obviously the differentiation between UK profitability and US profitability has quite a significant impact on the swing so the mix of profits is the major driver.

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Analyst, HSBC
Just a quick question with your system operator hat on. There's been quite a lot of comment about perhaps the de-risking or reduction in grid volatility because of battery storage or a more stable system. Given that one of your responsibilities is keeping the lights on and balancing the system, how do you see that evolving with battery storage and new other solutions, are you more confident about the stability of the grid going forward?

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John Pettigrew, Chief Executive
Yes thank you for the question. I think over the least three or four years the system operator has been consistently looking at developing new products and services that allow us to balance the systems as efficiently as possible, reflecting the new challenges that intermittent generation brings.

So I think it was at the full year results we talked about the fact that some of the new products we put in place have included what's called fast frequency response. It wasn't technology specific but things like storage are really well placed to be able to provide those services where you need to have response from generation in sort of milliseconds. We put a tender out, we got a huge response, I think it was over 1,000MW actually response and we bought 200MW which is what we needed for the system operator.

Every year we set out our strategy for how we're going to operate the system and at the moment we're looking at what we can do to simplify the products we've bought historically so that we've got the right products and services going forward. And that will continue as we see more and more intermittent generation coming on and I think storage will be an important part of the types of tools that the system operator will need to use.

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Analyst, HSBC
Are you more optimistic about the ability of the system to be balanced?

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John Pettigrew, Chief Executive
So I'm very confident the system operator will be able to forecast how the requirements are changing, we'll be able to buy the products and services it needs to balance the system.

The challenges are changing; we've reported this year we've had the first summer daytime demand that's been below the night time demand. We've had periods where we've seen no fossil fuel generation on the network. So the network is evolving all the time and we are confident that we can develop the products and services we need to meet those challenges.

Okay if there are no more questions can I thank everybody for coming today. As I finished, I think we're confident that we're in a great position in terms of the asset portfolio we've got and it's good to see you all. Thank you very much.

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