WORLD TELEVISION

National Grid

Half Year Results Presentation
10th November 2015

NATIONAL GRID

Aarti Singhal, Director of Investor Relations

Sir Peter Gershon, Chairman

Steve Holliday, Chief Executive

Andrew Bonfield, Finance Director

QUESTIONS FROM

Jenny Ping, Citi

Bobby Chada, Morgan Stanley

Iain Turner, Exane BNP Paribas

Analyst - Mark

Deepa Venkateswaran, Bernstein

Edmund Reid, Lazarus Partners

Dominic Nash, Macquarie

Peter Atherton, Jefferies

John Musk, RBC

Verity Mitchell, HSBC

James Brown, Deutsche Bank

Lakis Athanasiou, Agency Partners

Introduction

Aarti Singhal, Director of Investor Relations
Good morning everyone I'm Aarti Singhal, the Director of Investor Relations for National Grid and it's my pleasure to welcome you to the Half Year Results presentation. For me personally it's also great to see everyone again and I'm looking forward to interacting with you in this new role.

So I'm going to start with what always comes first which is safety, so just so you know there are no planned fire alarm tests this morning, so if there is an alarm then it is for real. And in case of emergency the fire exits are at the back of this room.

So turning now to the agenda for this morning, the first speaker will be our Chairman, Sir Peter Gershon and after Sir Peter's introduction we'll have the results presentation by Steve and Andrew in the usual format. Steve will start with the highlights of the results, Andrew will cover the financial performance and then finally Steve will take us through the priorities and the outlook for this year.

So just for everyone who is watching this on the web, all the material is available on our website and on the investor relations app and it can be downloaded from there.

So thank you very much for your attention and I now hand you over to Sir Peter. Thank you.

. . . .

Sir Peter Gershon, Chairman
Thank you Aarti and good morning everyone. Regular attendees at National Grid Results presentations know that I subscribe to the principle that Chairmen should be seen and not heard at these events. But given our announcement last week I felt it was appropriate to make an exception to that rule and to say a few works.

Steve has decided to retire as the Chief Executive Officer of National Grid and will hand over to John Pettigrew in the April of next year. I wanted to take this opportunity to thank Steve and to recognise the excellent job he has done in his 14 years with the company. As a result National Grid is today recognised as one of the world's largest and most respected utilities. And this has been achieved while creating significant value for our shareholders.

But I want to be clear this is not a valedictory, Steve is not going yet and he still has the second half of the year to deliver.

Laughter

I'm pleased so say that Steve will remain on the Board as an Executive Director until July next year to ensure a smooth transition to John.

So turning to John, in identifying Steve's successor the Board carried out a rigorous and lengthy selection process. I'm delighted that John Pettigrew was the unanimous choice given his extensive experience in the Group. The Board and I are confident that he has all the qualities and credentials which are needed to understand and address the opportunities and challenges on both sides of the Atlantic and to lead our company through the next phase of growth and success.

With John, Andrew and the Head of our US business Dean Seavers we will have an excellent senior team to take the business forward. The business is in great shape and we're excited about the strong prospects for asset growth and delivery of further value to our shareholders over the coming years. This is a great tribute to the whole team, but particularly to Steve.

And with that I'd like to thank you all for your attention and hand you back to Steve for the First Half Results presentation. Thank you.

Highlights

Steve Holliday, Chief Executive
Thank you Peter and good morning everybody. I'm very pleased to be able to report on another strong set of results for National Grid in the first half of 2015/'16. We're on track to deliver another year of asset growth and good returns. It is not the end as Peter said, but it has been a privilege to be the CEO of this business for many, many reasons that I can reflect on on another occasion. But one of those has been the ability year, on year, on year; to be able to stand in front of you can talk about the consistency of delivery of results for National Grid. And here we are again in exactly the same position - with results that we would hope for.

And it's been the result of creating the right mix of businesses in our portfolio, together with the clarity that we have in our regulatory arrangements both here in the UK and in the US and a relentless focus, day in day out, on delivery.

Now Andrew and I will both comment on delivery as we talk about the first half year. But firstly you'll have seen in today's announcement that we're commencing a process for the sale of a majority stake in our four UK Gas Distribution networks. Our investment proposition centres around owning a portfolio of businesses that can support an annual asset growth of 5 to 7%, deliver through that attractive growth in the dividend and ensuring that we have a healthy balance sheet to finance those investments.

For ten years the gas distribution business in the UK has been an important part of that portfolio. It has delivered attractive returns and added significant value to our business. But on many occasions Andrew and I have both commented on our focus on ensuring that we have the right mix of assets in the portfolio, not just for today, but as we look out into the future. And it's that thought process that is behind today's announcement of selling a majority stake in the UK Gas Distribution business would rebalance the growth in this company towards the higher end of that 5 to 7%.

But we're just beginning a process; we anticipate that will take 12 months. On completion of that we expect to return substantially all of the net proceeds to our shareholders. So today I just want to be really clear about the goals with all of our stakeholders. This decision should be seen as reinforcing our commitment to deliver growth in asset value, supporting our policy, continuing to grow the dividend at least in line with UK RPI right for the foreseeable future.

Now let me turn back to the performance of the business in the first half. Overall from an IFRS point of view we've had a strong first half. Headline operating profits were up 14% at £1.8bn, in particular reflecting the strong contribution from our Other businesses. Post-tax earnings of £1.1bn and earnings per share of 28.4 pence are both up over 20% half on half.

Andrew will take you through this in more detail and in particular he'll explain why we believe that the financial performance is expected to be more weighted towards the first half this year than in prior year. Nevertheless overall we are now expecting the full year earnings to be slightly ahead of our original expectations.

In line with our dividend policy the interim dividend will be 15 pence per share, 35% of the final full year dividend. And we're on track for total dividend growth at least in line with RPI.

In the first half we've delivered £1.9bn of new investment, that's an increase of £340m on the same period last year, a 22% increase. That growth reflects in particular a step up in the US as well as a £60m increase in the UK Gas Distribution business and we're now expecting overall investments across the Group to be £3.7bn for the full year.

Turning now to the performance in the UK and the US. In the UK we're again delivering strong operational performance and we continue to deliver savings through our regulatory totex allowances. And this will continue to benefit customers through RIIO totex incentive sharing mechanism. John has relentlessly driven performance excellence and innovation into the UK business and we'll continue to look for new ways to deliver stronger performance throughout the RIIO period.

Our US business performance is on track, we've reduced controllable costs while delivering a planned significant step up in investment. Particularly in the replacement of old gas mains. The US is well on track for another year of record capital investment. And as a result of several regulatory arrangements put in place over the last period we now earn an immediate return on the vast majority of that investment.

And I'm very pleased to report an important milestone last Friday, when we submitted our first full updated rate case for four years for the case for Massachusetts Electric.

As I mentioned our Other businesses have made a particularly strong contribution in this period, excellent availability on the French interconnector, has enabled us to benefit from the power price arbitrage between Europe and the UK.

And over recent months we've made good progress on the two new interconnectors to Belgium and to Norway, we've agreed the contracts for the convertor stations and the cables worth over €2bn.

In the first half our property business has made to sizable sales and we've made progress with our new St William joint venture with Barclay Homes. We've already exchanged contracts to sell three sites to that venture, that releases 23 acres that will be used to construct 2300 homes in London. But just to remind you that is next year, none of the profits from that flow into the fiscal year '15, '16, they begin to kick in in '16, '17.

Fundamental to our business is safety, reliability and our focus on customers. If we just look first at the last six months in the UK, our safety performance has remained world class. Network reliability remains very strong across all of our businesses in the UK and we are well prepared for the winter.

In Electricity Transmission we've completed all of the maintenance that we planned through the summer to ensure that the system has maximum availability and minimum constraints for the winter period.

We've also improved in Gas Transmission our compressor availability and reliability and we've got robust plans as always in place in our Gas Distribution business.

Last year in the US we made a really significant step improvement in the safety performance and I'm delighted to say at the half year we continue to make another step up in the performance. However, we're all very aware of the challenges that the winter can bring in the US in particular.

Network reliability across our businesses in the Northeast of the US has been strong in the first half. Furthermore the benefits of improvements to our storm response processes were tested in August. In Rhode Island we had 80 mile an hour winds, flash storms, knocked out power for just over 120,000 consumers in Rhode Island, which interestingly 25% of the customers on Rhode Island was more than were lost during super storm Sandy. As a result of our new processes we were able to get 90% of those customers back up online in 48 hours; an amazingly successful performance and a reflection of all of the work that's gone into our storm response process. And as ever we're prepared in the US for the winter.

Our systems over the last few years have withstood some incredibly demands and demonstrated the benefits of the investment that we've made over a longer period of time. So it's been a promising start to the year, I believe that all of our businesses are well positioned for the second half and let me hand over to Andrew to take you through the numbers in slightly more detail. Andrew.

. . . .

Financial and Business Review

Andrew Bonfield, Finance Director

Thank you Steve and good morning everybody. Before I start I just wanted to echo something that Sir Peter said, it's been a great pleasure working with Steve over the last five years. As we all know Steve is Mr National Grid and he bleeds National Grid blood. We are all going to miss him, but he leaves the company in so much of a stronger place when he retires in the middle of next year. John, Dean and I look forward to building on that legacy and taking the company forward and into the future. Thank you Steve.

Now onto the results, we had an exceptionally good first half with earnings up over 20%, our balance sheet and credit metrics remain strong and we are on track to deliver good returns and value added - our key performance metrics.

Electricity Transmission revenues were adjusted for the first time under RIIO to return efficiency savings and other allowances back to customers. As a result of this and a legal settlement last year, operating profit was down £77m to £610m.

In Gas Transmission our revenues to September were higher than last year when we saw lower volumes of gas fired electricity generation. Operating profit was up £49m to £159m.

Gas Distribution delivered operating profit of £428m, in line with last year. We saw higher recoveries from regulatory allowances, reflecting a change in the tax treatment of replacement expenditure. This was mostly offset by increased depreciation and some operating cost increases.

Operating profit for our US businesses increased to £351m, reflecting higher revenues from capex trackers and the third year of the Niagara Mohawk rate plan and a reduction in controllable operating costs.

And operating profit in our Other business is significantly higher at £288m, reflecting very strong performance from interconnectors and the property business, lower costs from the completion of the SAP implementation in July last year and a £49m gain on the exchange of the Iroquois gas pipeline.

Overall operating profit was up 14%.

As Steve has mentioned we've delivered a step up in capital investment in the first six months of the year. Investment in our US business was up $340m, higher than the first half of last year, reflecting higher levels of spend on gas mains replacement.

Investments in the UK Gas Distribution network also has increased as we look to deliver our RIIO output targets.

In our Gas and Electricity Transmission businesses in the UK, levels of investment were flat versus the prior year. We expect these trends in capital investment to continue for the remainder of the year.

Turning now to our underlying business performance, remember timing and regulatory recoveries can significantly impact IFRS results on a year to year basis. So we use returns and value added as our key business performance measures.

These are only calculated at the year end, but I'll give you an indication of where we expect returns to be for each of the businesses for the year as compared to last year.

Looking first at Electricity Transmission, we expect to deliver strong totex efficiencies and expect performance to remain at last year's very good level. Our Balancing Services Incentive Scheme was reset last April, increasing the maximum profit to £30m. Including BSIS we expect an equal contribution from other incentives. So overall we expect returns to be similar to last year.

Our totex spend in Gas Transmission remains lower than in our other UK businesses and we expect to spend broadly in line with our allowances. We've made a good start to traditional incentive performance through the first half and we expect this to continue through the year end. However we will see a decrease from the high level achieved last year due to the expiration of the Gas Permit Scheme.

As we have discussed previously our legacy price control benefits start to ramp down this year and will be gone by the end of next year. Overall we expect Gas Transmission returns to be lower than last year, but this business is performing in line with our expectations.

In Gas Distribution we expect to see a similar level of totex efficiencies, we made some progress on our other incentives, particularly around reliability, but overall we expect returns to be broadly unchanged year on year.

Our US operations are performing in line with our expectations, even as we continue to deliver that significant step up in capital investment. While this is a value added activity it will continue to put pressure on returns until we get the benefit from updated rate plans.

As a reminder US returns are calculated on a calendar year basis, whereas IFRS earnings are on a fiscal year basis. So returns will reflect the higher level of gas repair costs that were incurred in the first quarter of this year following a very cold winter. Overall we expect to deliver returns of around 8% this calendar year, in line with our existing guidance.

Looking now at our Other activities, our metering and Grain LNG businesses continue to provide a good steady level of profit and we expect this to continue for the remainder of the year.

Our French interconnector has a very strong first half; we would expect the second half to be slightly lower than last year, partly due to the elimination of the climate change levy exemption certificates. The same goes for our BritNed interconnector which is reported through the JV line.

This year we have begun construction on our two new interconnector projects, we would expect to invest about £100m this year and next on each of those.

Our property business also had a strong performance from the sale of two sites. We do not expect to have any further major sales this year, so operating profit will remain flat to the end of the year.

The Other activities segment has also benefitted by about £50m from the elimination of the cost of the US SAP system project last year and £49m from the gain from the recent exchange from our interest in the Iroquois pipeline. Overall a very strong contribution from our Other activities in the first half which we do not expect to continue. We expect profit in the second half to be broadly in line with the second half of last year.

Turning to financing, costs were £493m, consistent with last year. Our effective interest rate reduced to 3.7%, from continued refinancing of debt at low prevailing rates and the benefit of the debt buyback last year. In the first six months the Group issued five conventional bonds, raising just under £600. In addition we issued an innovative non-dilutive cash settled convertible bond which raised in excess of £400m at a rate that was about 50 basis points below our normal costs of funding.

Another example of how by taking an alternative funding approach we are able to provide additional sources of liquidity at attractive rates for the Group.

Finally we began to draw down on our £1.5bn European Investment Bank loan that we announced last November at a very attractive RPI link rate. We've also extended the drawdown deadline by 10 months, giving us extra time to access this low cost funding. Overall the business is well funded for the remainder of the year and into next year.

The effective tax rate for the first half was 22%, down 70 basis points from last year reflecting the lower UK corporate tax rate and earnings per share increased by 22% to 28.4 pence per share.

Capital investment in the first half was just over £1.9bn, we now expect to invest around £3.7bn for the full year, a little higher than our expectations back in May. At this level of investment our UK Electricity Transmission business will grow at around 5%. Our UK Gas businesses are expected to grow at a more modest 1 to 2%, so overall UK growth is likely to be around 3%, as RPI remains below long run expectations.

Our US business is generating higher growth than we expected and we now anticipate rate based growth for the year of around 7%.

Overall we now expect the UK growth rate to be between 4 and 5%, depending on the final outcome of UK RPI in March next year. As RPI picks up again we would expect to be comfortably above the 5% per annum growth and as Steve has mentioned rebalancing the portfolio through the sale of a majority stake in Gas Distribution will put us firmly back in the upper half of our optimal growth range.

Operating cash flow in the period was £2.7bn, with increased operating profit offset by lower working capital recovery and higher pension costs. Excluding foreign exchange movements net debt increased by approximately £950m since March, primarily to fund our continuing capex programme and growth.

Scrip uptake for the August dividend was approximately 24%, resulting in the issuance of 29 million shares. We have bought all of those shares back. We will again offer a scrip option for the interim dividend and also expect to purchase shares to cover this. This flexibility enables us to maintain our key credit metrics, whilst eliminating any dilution at points where it is not required. Another example of how we maintain our continued capital discipline.

Steve has already covered the start of the process for the sale of the majority stake in the UK Gas Distribution business, I don't have much to add at this early stage of the process, but I do want to stress that this process is fully aligned with maintaining our dividend policy as well as the strong balance sheet and credit rating. In fact we would actually expect the sale to improve our key credit metrics, mainly due to the full deconsolidation of the debt associated with Gas Distribution.

As usual we provided technical guidance in the statement. Some key points to note are we maintained our guidance for all of our regulated activities. As I have discussed we have increased our expectations - profits in Other activities for the full year and we have also updated our capital guidance to be around £3.7bn for the year.

So to summarise, an exceptionally good first half with earnings up over 20%, our balance sheet and credit metrics remain strong and we are on track to deliver good returns and value added - our key performance metrics. Now I'll hand you back to Steve.

. . . .

Priorities and Outlook

Steve Holliday, Chief Executive
Thanks Andrew, clearly a strong first half. As Aarti said let me just take you back to the priorities that I laid out here in May. In our UK Electricity Transmission business we've delivered another half a billion pounds of investments, £514m across a whole suite of projects, the largest of these are the tunnels under London. They remain on schedule and under budget. In fact we've commissioned over 7 kilometres of those tunnels to date and the first circuits will actually enter into operational service next month - in December.

About half of the investment that goes into our UK Transmission business is in the ongoing replacement and refurbishment of existing assets. And this is where we focus on continuing to find new efficiencies. For instance we've now successfully piloted a completely new way of refurbishing the breakers. It significantly reduces the overall cost of what is a material spend for us throughout the eight year period. Our continued focus and success with innovating and different approaches is key to meeting the return objectives we have for our transmission owner businesses.

Of course here in the UK in addition to running the networks, we perform an important role as system operator. The Winter Outlook report that we issued in October showed that margins are expected this year to be tighter than last.

We've procured 2.4 thousand megawatts of supplemental and demand side balancing reserve, an increase from those new tools last year, but the overall costs to customers remains that same.

And last Wednesday due to an unusual lower amount of generation on the system we had to briefly call on that demand side response for the first time, switching down air conditioning in London a voluntary service and a really good test of the effectiveness of that new tool. This winter will be tight, but manageable.

In UK Gas Transmission our capex was marginally up half on half as we delivered some important upgrades. In fact in the first half of this year we completed the £140m investment in two new electric drive compressors at St Fergus, they ensure compliance with emissions legislation and a significant step up in reliability. And discussions continue with the regulator on the full level of spend for the compressor programme across the remainder of the RIIO period.

In UK Gas Distribution we've delivered an increase in the volume of mains replacement in the first half and a huge focus continuing on consumer service, improving customer service. And the particular area of attention in the last six months has been on the introduction of a new connections process. How people get a new connection to the system. Having piloted the new process in the Northwest with superb results we're now rolling it out across the rest of the networks in Great Britain.

We are on course, on course to meet all of our eight year RIIO targets across all four of the gas networks. And let me be really clear and I don't think this will surprise anybody, the announcement that we've made today about the sale process in no way changes our drive for performance in the Gas Distribution business day in day out.

In recent years the US has experienced upwards pressure on operating costs. Healthcare costs are significantly higher, property taxes have increased across all of our territories and the exceptional weather of the last two winters has had an impact on our gas mains repair costs. But despite those pressures Dean and the team have been successful in the first half in delivering a reduction in controllable costs versus the same period last year. That should help to sustain returns around the 8% level for the year as we guided to back in May.

And as planned, as Andrew mentioned, we've stepped up the level of investment again. We in fact now expect to invest more than the US$2.5bn we forecast at the start of this year. It is driving and will continue to drive growth in the US rate base above the 6% guidance to around 7% for this year.

And as I indicated earlier we now have new allowances for additional mains replacement in three of our Gas businesses. In New York the Public Service Commission has now approved an increased level of spend over two years, 2015 - 2016 to $400m for the Gas business on Long Island and $900 in total for the New York Gas business in Brooklyn. That agreement allows us to earn a return on our investment programme in Downstate New York ahead of when we have new rates coming into effect in January 2017.

And in addition in New York we've been allowed a revenue increase of $37m to recover some cash costs for the clean-up of old gas sites, the remediation programme.

Similarly in Massachusetts we've agreed a further increase in investment to over $200m next year to strengthen the gas system together with concurrent recovery of the returns.

But despite all of those improved arrangements we're still not recovering today a return on all of our investment. And while the capital trackers that we have in place will help us sustain our US returns, getting US returns increased to the allowed level requires a programme of full rate case filings. And last week as I said we were delighted with the first rate case for four years for Massachusetts Electric, that replaces arrangements that date back to 2008. The revenue increase of £143m represents an increase to our customers of a 7% increase in bills and Dean and the team are running a seminar as you know on Thursday and we'll tell you a lot more about that.

And of course we now have an additional priority for the second half of rebalancing the portfolio to secure a higher growth for the business into the future. And if we just take a look at the portfolio very simplistically, despite some reduction in investment levels UK Electricity Transmission remains a high growth business, as Andrew says when inflation comes back to more normal levels we'll be expecting 6% growth in that business.

The level of the US is clearly stepping up, the level of growth. The UK Transmission business today as you've seen is growing at about 1 to 2% with low inflation rates and not a huge amount of capex. But when we look ahead with the anticipation of more gas plant being constructed in the UK there will be opportunities for the growth rate to increase in the future.

Our UK gas distribution business is a mature stable business, with lower growth relative to the rest of the portfolio, good cash generation, good returns, but lower growth.

And lastly we have our Other businesses, a mixture of what I refer to as quasi regulated businesses and a series of new opportunities that enhance our overall returns across the Group and offer the opportunity for us to tailor our growth into the future, some further. But reducing out stake today in the UK Gas Distribution business will rebalance the portfolio, ensuring that we deliver higher asset growth into the future, growth that will provide further support for the dividend policy and a healthy balance sheet into the future. Across the Group though priorities remain consistent, as you'd expect, and very clear for all of us for the second half of the year.

We've got a busy time ahead of us so let me just set out those milestones again as you look out 12 months or so. Today we're kicking off the process for the potential sale of a majority stake in our four gas distribution networks in the UK. In January we plan to submit a full rate case filing for the Downstate Gas businesses, KEDLI on Long Island and KEDNY in New York City. Together they represent 25% of our rate base in the US, so an important milestone.

In October we should have the results back from the filing in Massachusetts from Massachusetts Electric. By Christmas we should have the results from the KEDLI and KEDNY rate filing because new rates are planning to go into effect on the 1st of January 2017. And at that time we should also be expecting to be at the end of the process to explore the sale of a majority stake in UK Gas Distribution.

But while all of that is going on we'll continue to keep our focus on the things that ultimately ensure that we drive long term value, safety, reliability, customer service and a relentless focus on operational execution.

So we've had a strong first half, we're on track for another year as you've heard of asset growth and good returns. And we now look forward to a successful second half of the year. And with that Andrew and myself and John and Dean would be delighted to answer any of your questions. Thank you.

. . . .

Questions and Answers

Jenny Ping, Citi
Thanks very much. Can you just talk us through the thought process in which you've decided to hand back the proceeds; did you also explore what you could do with those proceeds, whether it's in the US - further expansion there, or has it always been return of cash to shareholders?

Secondly you talk about the majority of the stake and also a deconsolidation of the debt, does that mean we could see you still owning a 20% stake from an equity point of view going forward on those four assets? Thanks.

. . . .

Steve Holliday, Chief Executive
Sure Jenny, well the thought process is all about the portfolio, I think Andrew's covered it, I've covered it, you know we've talked before I think about thinking about the portfolio as a series of assets and also I think we've talked often in the past about trying to make sure that people don't think very black and white about selling a whole asset, but actually diluting our equity stake in certain assets and this is evidence of that thinking.

So the judgement of the Board today is that we reshape the portfolio by reducing our stake to a minority in the UK Gas Distribution networks. We're selling them as a lump, as all four, there are some efficiencies there for customers and for ourselves as an owner going forwards to keep them together, that is our decision. The stake will be between 49 and 20% is not an unreasonable number. You know it's at the very beginning of the process, so you know we will need to see where we end up on there.

It has always been in the minds of the Board at this stage that the right thing to do with the proceeds is to return substantially all of the net proceeds to our shareholders. The form of that return will obviously be decided at the end of the process. But that is the way that strengthens all the credit metrics as Andrew says and allows us to continue to deliver a dividend that grows at least in line with RPI for the foreseeable future.

. . . .

Bobby Chada, Morgan Stanley

Two questions, the first is on the US business, so you went through a lot of the trackers and agreements that you've established recently. If we think about the next couple of years before the next few rate cases will have fully kicked in, what proportion of your capex do you think has already been signed off with regulators? What proportion of it are you confident will be fully go into rates, because it seems to me like that will be a very high number?

And then secondly to go back to the plan for disposal, just to be crystal clear, whenever you distribute the proceeds I assume they'll be some kind of either share buyback or consolidation of the shares so that the actual dividend per share won't be substantially be rebased - so the actual dividend per share from an investor's perspective will basically be the same either with this transaction or without it?

Steve Holliday, Chief Executive
On the second point absolutely right.

Bobby Chada, Morgan Stanley
Thank you.

Steve Holliday, Chief Executive
Categorically right. The method of a B share issue, a consolidation, a share buyback that's a decision for the Board to make in the future, they will leave all of us and that includes the individual shareholder with the same dividend and the same dividend growth rate into the future, that's exactly the structure of the intention there.

Are you coming on Thursday?

Bobby Chada, Morgan Stanley
I think so.

Steve Holliday, Chief Executive
Good, well on that case you'll get an awful lot of answers to your first question on Thursday, so I don't really want to pre-empt the seminar on Thursday. So Dean can comment because one of the things that team intend to do is to actually go through some of the granularity of all the trackers and each of the things and where they are.

But headlines - of all of the extra capex that we're putting in today in the Gas businesses, Downstate and in Massachusetts we are earning a return. On Rhode Island there's an arrangement that each year is truing up. So the exposure on Gas is really in NiMo Gas, although we've clearly got to enter into an extension of the three year arrangement there.

On the Electric business that's what the Massachusetts Electric case that Marcy will talk about on Thursday is all about. We are over investing today and not earning a return on that incremental investment. NiMo is investing pretty much in line with its expectations. So it's the Electric business in Massachusetts in particular that is the one that is exposed today where we're not earning a return Bobby.

Do you want to add anything to that at all Dean?

. . . .

Dean Seavers, Executive Director, US
Morning. I don’t have a lot to add. I think Mass. Gas is the other opportunity for us in terms of capital trackers but for the most part it’s lined up, as Steve and Andrew said, in terms of the customer service, safety and reliability. So we expect to get most of it from a remuneration perspective.

. . . .

Iain Turner, Exane BNP Paribas
I had a quick look before I came out so pardon me if these numbers are wrong but I think there's about 4 billion of debt at National Grid Gas so above both the Distribution and the Transmission businesses. How much debt do you think would go with the Gas Distribution businesses?

. . . .

Andrew Bonfield, Finance Director
Yeah I mean we try and obviously stick to as much as possible the regulatory allowances within the individual entities Iain, so you would assume that given the regulatory gearing is 65% you would normally allocate about 65%. Part of the discussion with any potential purchasers will be whether we actually transfer debt in or actually retain the debt and buy back the debt. That’s all about price negotiation and there is quite a flexible degree that we can go through in that regard as far as the debt within the individual entities are concerned.

. . . .

Analyst - Mark
Thank you. I have three questions. Firstly Andrew just to confirm something I think you alluded to, is it fair to say the Gas Distribution businesses will be deconsolidated from this financial year?

Secondly, more of a question for John. You know you have put up your returns outperformance estimates which you've used for the last 18 months. When you talk to Ofgem do Ofgem agree with those estimates of outperformance, because I understand that they may calculate in a slightly different way?

And I guess thirdly further to the last question many of the financial buyers, the target audience for Gas Distribution, will need to put in a large amount of extra financial leverage to try and get the kind of returns that they require. Is it possible that you might do something with Gas D in a similar form to what SSE and Borealis with Scotia Gas for instance? Would you lever the business some way above the 62.5% that Ofgem looked to, up close to 70% or 80%?

. . . .

Andrew Bonfield, Finance Director
Do you want me to do the Gas D? So on the deconsolidation as we are still only exploring a potential sale you should expect full consolidation for this year. We actually haven't got to the point yet where there are assets out for disposal so that probably will be the following financial year if we proceed Mark.

On leverage, the reality is there is - any buyer who looks at it will obviously have to look about how they structure. The 65% leverage that we actually do have in the Gas Distribution businesses today, there is a potential loss of some of the - there is potential tax leakage if you go above that, so they may end up putting more debt in but that may be in a holding company environment rather than actually in the individual entity. They will obviously structure it as they would see fit.

. . . .

Steve Holliday, Chief Executive
That's why Ofgem moved to the post tax returns as you know to stop people over levering in the entity itself. If someone levers elsewhere in their structure that's their decision quite clearly.

Our forecast on returns, I'm interested and John can comment, you know we've been very consistent from the day we accepted RIIO that we expect year on year to generate 200 to 300 basis points of outperformance on average across the UK against the allowed return. That statement has been consistent for the past two years and remains the position going forwards.

John do you want to add anything to that?

. . . .

John Pettigrew, Executive Director, UK
The only thing I'd add Mark is so Ofgem as you know come in every year as part of the regulatory reporting cycle and basically look at have we delivered the outputs, at what price have we delivered the outputs and what our projection is to deliver across the eight years. So that RRP process happens every year so they come into National Grid and they look at the Electricity Transmission, the Gas Transmission and the Gas Distribution businesses. They give us feedback on the quality of the reporting and any concerns they have, but you know there's been no significant issues.

. . . .

Deepa Venkateswaran, Bernstein
I have three questions, two for Andrew and one for Steve. So starting with the Gas Distribution, you were mentioning that the credit ratios you expected to improve; I mean

presumably that's from the deconsolidation of the debt. In terms of the numerator, presumably for the FFO ratio would they then just take the dividends that you would get from this SPV?

. . . .

Andrew Bonfield, Finance Director
Yes, the assumption is that yes you will have a dividend flow coming back up into the company, yes.

. . . .

Deepa Venkateswaran, Bernstein
And second question is about the inflation rate that you've used in chart 21 which shows the 1% to 2% growth. So what are you assuming for this year?

. . . .

Andrew Bonfield, Finance Director
Around about 1.5% based on the forecasts for the end of March, obviously it's depending. As we know at the moment anybody who can predict what the final RPI print is next March, any offers would be gratefully received please because it keeps fluctuating.

. . . .

Deepa Venkateswaran, Bernstein
And the question to Steve is about the Berkeley JV. So you said that's it's next year when you'll first see some of the impact. Could you just give us an order of magnitude? Obviously the property business is - it seems to have some volatile flows given sales, but just an order of magnitude of what you would expect this Berkeley JV to kind of deliver?

. . . .

Steve Holliday, Chief Executive
You can see there's a spike in the first half. We sold a property in Tottenham and Northfleet; you know both old property if you like in a sense under the old …. That level of earnings though into the future is the sort of thing that we should be able to consistently deliver and build on into the future. And when we announced that JV we talked about the assets that were going to go into that JV being probably double what people assume actually for national Grid.

But it's going to be a function of house prices of course as well. I think we're building houses in a place where there's clearly huge supply in London. These first three properties alone are going to build actually 2,300 homes so you can begin to see the benefit of that in '16, '17. And once it first kicks in I'm sure Andrew will explain during the course of next year then the trajectory as we start to put other pieces of land into that JV into the future. But it will be a strong earnings line going forward.

. . . .

Andrew Bonfield, Finance Director
Because it's a JV part of it will be that we will recognise in effect 50% of the profit on each of the proceeds on each of the assets as they go in. And it's depending on the size of the site. So there are some sites which will make substantially more profit than others because of things, they are larger and bigger sites and therefore more valuable, Battersea, Fulham and so forth. So that will be how it will work. So there will be a bit of volatility and then the second part, longer term actually through the JV line, we will start to see the benefit of house sales through there, our share of the profits on that business.

. . . .

Edmund Reid, Lazarus Partners
Two questions. The first one is on the increase in distributed generation and how that is changing, if it's changing, investment requirements in both your US Distribution business and also UK Transmission?

And then the second question is on balancing costs in the UK. How would you expect balancing costs to - or the direction of travel of balancing costs given increasing intermittent generation, and will the change in the cash out cost regime have any impact on that going forward?

. . . .

Steve Holliday, Chief Executive
John will enjoy a crystal ball look into the future on balancing costs out, of course those two questions are related Ed in a sense, aren't they? I mean I often comment, I think it's surprising to a lot of people how much solar has been constructed in the UK in the course of the last few years. We're probably looking at about 10,000 megawatts embedded in the networks today, heading out towards 12 by April of next year, a level that some people would have found very hard to forecast. And we're living with that at the system operator level; you know we're able to balance the system as that comes on in the afternoon and goes off at teatime, we're managing that. That clearly has an impact on balancing costs as John can comment.

But it is also beginning to put some pressure on the systems, and clearly what we're going to go to over time in GB is a complete systems look from the top to the bottom actually rather than looking at different bits of the system in isolation. So National Grid I would forecast, you know, will work a lot closer with the DNOs than perhaps it has historically.

Those are the businesses that you probably know are some seeing real challenges, you know they don't have the capacity to connect all the distributed generation and we're seeing a number of them now applying for extra capacity at the interface, the grid supply points, between their networks and the transmission network to let that power flow up into the transmission system to get elsewhere in the UK. So it is likely to put some extra capex into our Transmission business I would suspect in the next five years or so, but the pressure point is really in the Distribution businesses at the moment.

John, balancing costs, crystal ball?

. . . .

John Pettigrew, Executive Director, UK
Yeah well I'll start with a near crystal ball I think. So BSIS, this year as you know we've agreed with Ofgem a new BSIS scheme which allows an incentive of plus or minus 30 million with 30% shoring factor. And we take into account all the sort of different balancing costs to get ourselves comfortable, and that's a sensible range.

With regard to distributor generation, the focus to date has actually been less on the volumes of balancing service actions we're taking and more about the relationship with the DNOs and the generators themselves to make sure that we can facilitate them coming on.

I think going forwards with the new in balance price, actually if it works as it's meant to work then we should see ourselves taking less balancing actions. You know just remember the system operator only takes action for that last 3% of the market, so if we're seeing spike in balance prices you would hope that message gets through to the market and actually we should see less volumes coming through. Of course we'll have to agree with Ofgem what the new BSIS scheme looks like reflecting how people behave with that new in balance price.

. . . .

Dominic Nash, Macquarie
Two questions please sort of following on from Ed's really. Firstly on Transmission, you said that you see medium term Transmission investment rising by I think 6% per annum going forward in a world of increased distribution. So the question I've got is who is going to pay for it as fewer people are connected?

And secondly on sort of a dreaded system security question. I think this time last year you stood up and you said that the UK desperately needed new gas fired power stations to be built, that there was going to be a potential shortage by the end of the decade but the capacity auctions will come through. We haven't really seen anything getting built, indeed it looks like it's not going to get built the one big one, and we've seen stuff getting withdrawn, plus we've got another what 5.5 gigs of coal disappearing potentially in March. Are you getting at all worried that at peak points that the UK might be getting a little bit tight?

. . . .

Steve Holliday, Chief Executive
I must get my notes out; I don't recall saying desperately needs to build gas generation.

Laughter

. . . .

Dominic Nash, Macquarie
I think it's probably close, fairly close.

Steve Holliday, Chief Executive
I find that an unlikely statement if I may. But the reality is we ran, on behalf of the government, the first ever capacity auction for 2018 last December. We will administer the same auction for them for 2019 this December. That auction only brought forward one new gas plant as you know, and that gas plant at the moment it's slightly uncertain as to whether that's going to be built.

So this is a conversation unquestionably I think for the end of the year to a certain extent. It's after two auctions you know is that mechanism working in the way that government intended it to provide incentives for new gas generation? I personally think it's a bit early to draw a conclusion either one way or the other. We need to see how this auction runs in December for 2019. And clearly there's more plants shutting, you're quite right, so I think anyone who is observing this, we need to build some more gas plant in the UK at some stage. But I do think we need to let this auction run its course before we draw a conclusion that that mechanism that the government introduced is not working.

Your first question Dominic, of course it goes back to Ed's as well to a certain extent and I probably didn't pick up in answering your question Ed the impact on the US business, again which the team will talk about in our seminar on Thursday because a lot of the work that we're doing in New York right now to do with REV, the pilots we've got, we've got a pilot in Buffalo we've got permission to build which is a solar on residential and balancing the system in the city of Buffalo. We've got the smart grid pilot in Massachusetts. We've put a filing in for modernisation of the system in Massachusetts that proposed investments between $200m and $800m I think was Marcy from the top to the bottom that the DPU are considering which is all about the smarter systems for the future with lots of embedded generation connected to our distribution networks in the US back to your previous point.

There is, I would argue, in the UK, in Europe, in the US, wherever people are building small generation, a fundamental rethink of rate structures globally. Lots of smart economists trying to work out how do we make sure that the charges are portioned appropriately between domestic, industrial consumers. And as we rebalance those charging mechanisms which for sure as you rightly point out are going to have to change, regulators need to be really careful they don't put any perverse incentives in place actually and drive some very strange behaviours.

So a lot of work going on in Arizona in particular where they're trialling some new rates, in New York the PSE have done a huge amount of work on REV and what the rate structure will look like. We're clearly part of that conversation. There aren't any answers yet. It's the next few years there's going to be some very interesting things evolving. What we need to do as a business is make sure that we're influencing decisions and structures that have consistency and longevity about them and don't cause a knee jerk. Someone has to pay for the reliance of these systems, you're absolutely right, but it will be apportioned very differently in the future.

Peter Atherton, Jefferies
Quick question. Nice to see in your statement you say that you now expect to connect around 11 gigawatts of capacity to the Transmission network during this RIIO period which is half the amount that was assumed when you set RIIO in 2013. Does that in itself create a reopen opportunity for Ofgem in the midterm review?

. . . .

John Pettigrew, Executive Director, UK
So Ofgem are about to start the consultation on the midterm review, in fact I'm expecting it any moment now. They've consistently said there are only two reasons that they would look to do a midterm review. The first is that there's a request from customers and stakeholders for National Grid to deliver extra output. And the second is a fundamental change in the outputs as a result of government policy.

My assessment of it Pete is the first one, well I can't think what those outputs are, I'm certainly not aware of things that people have asked us. And the second there is a mechanism already built into the RIIO formula so to the extent that we're not delivering that generation our revenues naturally adjust. Now Ofgem will go through the consultation process but on the face of it, it looks like the adjustment mechanism was put in place for that very reason, which is you know the generation can go up or down, it's gone down and our revenues are adjusting accordingly.

. . . .

Steve Holliday, Chief Executive
I think that's right John, it goes back to a long conversation we had about RIIO over many years. You know it's working, it's a clever set of mechanisms. It's sharing the savings that we're making with customers. How can you have a crystal ball that can look eight years out with certainty? Those flexible revenues were the right answer I think for shareholders and for customers and they appear to be working very well as John said.

. . . .

John Musk, RBC
Harking back to the questions from Ed and Dominic, specifically on battery storage is that something that - is there any opportunity at all at this stage for National Grid and how does it - are you able to do anything in the UK as the Transmission operator rather than - or is it all going to be in the US with your Distribution networks?

And then secondly a more simple question hopefully. Just on US dollar exposure, can you just remind us of how you're hedged if we're to see a strengthening of the dollar versus sterling?

. . . .

Steve Holliday, Chief Executive
Andrew can do the dollar in a minute. I mentioned this I think at the full year didn't we to an extent and was wary of getting people overexcited I think about something that's

going to be a huge change. But we did announce it recently a $50m investment into a technology fund in the US with a number of other utilities, of which battery storage is part of what's behind there. In the pilots that we're talking about already in New York we've got some storage at local level enshrined in those products, we've got some in Massachusetts in the city of Worcester in the pilot that's going on there.

Our belief is that it is going to be a fundamental part of the system of the future, particularly with lots of distributed generation that is intermittent. So homes with storage and solar and still needing a network. You know the technical analysis would say even in a sunny country with battery storage 20% of the time you still need a connection into the network. So this goes back to then who pays for the charges. So we certainly see it integral to a lot of the things that we're doing in the US at the moment and part of our filings and our conversations with our regulators. We're not precluded in the UK; in fact we've got one particular transmission project haven't we John in the south down here where we're co-investors you might like to mention.

. . . .

John Pettigrew, Executive Director, UK
Yeah it's a really interesting area so we've been involved with UKPN who have been doing a pilot for a 6 megawatt storage and just really looking at how that will interact with the network. But we're also getting people coming to us now and asking about the potential for storage being a balancing service. So with all the intermittency we're seeing on the network, new balancing services so quick response and reserve is really important to us. So we're starting to explore those options as well about how we can better operate the networks more efficiently using storage. It's still early days but there's quite a lot of activity to do that.

. . . .

Andrew Bonfield, Finance Director
And on the currency we hedge about 90% of our effective economic exposure to the US dollar through hedging of debt. Effectively in the first half of this year we saw about a £20m movement on operating profit level, and that was offset by a £21m movement at the interest line. So effectively the net exposure on about a 1.5% movement on the US dollar first half was £1m so very, very small.

Small on the balance sheet side John you'll see through net debt.

. . . .

Edmund Reid, Lazarus Partners
I was just wondering if there's a possibility of increasing the scope of demand side response as a way of dealing with the tightness in the system or potential tightness in the system out to 2020?

. . . .

Steve Holliday, Chief Executive

The simple answer to that question is yes clearly, and we're at great pains John and I and many others as well to try and negate this sort of doom mongering of factories being shut down in the UK to keep the lights on. You've got these old pictures of the 1940s almost haven't you, which is not what's going on. There are some really sophisticated players in this market now aggregating demand which we use, as I mentioned the other week, on air conditioning, supermarkets and their refrigerators and freezer load, you know reducing it down. It is the economic way of balancing a system that will have more intermittency in the future.

So starting to get this market to grow, you know we've been at the heart of that since something we launched called Power Responsive in June of this year to try and get more products in that market working. It's the right long term answers for customers. It's still a very slow burn in the UK. There's more active in the US right now, you know the independent system operators in the US have more demand side at their call than we do today over here in Great Britain. So part of our challenge is to get that market I think growing and more effective in the UK. It will keep the cost down for customers in the long run.

. . . .

Edmund Reid, Lazarus Partners
And just in terms of order of magnitude, I mean I think you've got - I want to say 500 megawatts or so at the moment under the supplemental demand side response in how - what do you think you could that to from a technology/practicality standpoint?

. . . .

Steve Holliday, Chief Executive
Actually we've got 133 on demand side for the 2.4 gigawatts we've got for this winter. But we've got a target, you know, we just keep going saying we think this market can grow phenomenally. We think we can get to a situation where 25% of our balancing is done on the demand side. But it's not just National Grid clearly, so we've got a central role to play to try and help encourage that market but we've got to work with the aggregators, got to work with the technology companies and the DNOs as well to try and create a product that works across the system in its entirety.

. . . .

Verity Mitchell, HSBC
Just got a question about ITPR actually. There has been some progress clearly on Hinckley since we last met and that's a key project that's been identified for Ofgem under ITPR, and I just wondered what your comments were about the process and what you think about the likelihood that it might be competitively tendered given that it's quite a key project for you?

. . . .

Steve Holliday, Chief Executive
Yeah good question Verity and John can comment. You know there's a consultation going on now as you well know on this and Ofgem's desire to put more competition in

which is something that we would agree with. A key point that we're making in this consultation and will continue to make though is we've put the customer first and foremost here. Be absolutely crystal clear, as we create more complexity in this industry that the customer is going to see real advantages from it and real benefits.

John you might want to comment on Hinckley on that basis.

. . . .

John Pettigrew, Executive Director, UK
I'll talk a little bit more about ITPR because there are two halves to ITPR. The first half is around an expanded role for the system operator to provide more coordination for the transmission companies across England and Wales and Scotland, and the consultation sets out how that will be done and we're very comfortable with that.

On the competition side you know it's still at the very early stages. The consultation hasn't got much detail in it so there's a lot of work that needs to be done to really understand how the competition is going to work. Ofgem has reaffirmed that competition for onshore transmission is not going to be applicable for our baseline capex, so it's really only talking about the strategic wider works of which Hinckley is one.

Now I'll just pick up on Steve's points. Our response to the consultation will be if there is going to be competition it has to be very clear that it's in consumers' interests. I think at this stage I don't think that case has been fully made. We will be responding to the consultation and setting out both where the benefits for consumers can be, but also some of the risks in delivering significant investment projects like Hinckley in terms of making sure that you can do it in a timely fashion. So a long way to go on it Verity.

. . . .

Steve Holliday, Chief Executive
We should just - I think there's a philosophical point here for us if I may, which is not just looking at our own benefits here but something that's sustainable in the interests of customers in the long run. The introduction a long time ago of competition into the metering industry in the UK has not been a pleasant journey for customers actually. There's a simpler way of reducing the prices for customers than that. So we're going to look at this thing through two eyes, our business but really clear in the long run that customers are going to see the service they want at the price they think is appropriate as well.

. . . .

Iain Turner, Exane BNP Paribas
Just a couple of questions. On wind when you do your assessment of capacity and available capacity, your mapping versions or your outlooks, are you using this equivalent to determine capacity? Are you sure that's still the right way of doing it given what happened on windless Wednesday You end up being an investment bank with the statistics saying you are hedged but then it all goes a bit wrong.

And then secondly as far as a capacity auction is concerned you're running the auction but you're also potentially a bidder through Nemo. Can you just explain how you manage that conflict of interest and how you fix the capacity that you're going to bid in from Belgium?

Steve Holliday, Chief Executive
Yeah, John can explain on the Nemo how that intends to work.

I mean on your first point I could be facetious back actually, you know we have a de-rated capacity on a coal station as well. Well if it's not running it ends up being zero. Our judgement of where the de-rated is on wind is it's the right place to be to think about the system in its entirety because clearly you're averaging lots of data points in here. So I haven't got any evidence just because of one particular day, because we've had other days in fact this week, this week I think we're generating about 90% of full capacity off the wind through the course of this week as a windy week. So I think the de-rating mechanism, the way our processes work we continue to look at those year on year on year. So far I think that looks an appropriate de-rating.

Nemo John?

John Pettigrew, Executive Director, UK
Can I pick up on the windless Wednesday as well? So I think last week on the windless Wednesday as you called it, I mean if you actually look at what happened last Wednesday actually there were a couple of things. We're in the shoulder month so actually what we had was a lot of generation that would normally be available in the winter not available because it was still on outage doing summer maintenance and it hadn't come back. And we also saw a significant number of generators fall off the network on Wednesday which resulted in the shortfall that we had. So that was predominantly the reason for it rather than it being a windless Wednesday.

In terms of Nemo and in terms of bidding into the capacity market, then National Grid has very strict licence obligations between the system operator and the role that it plays in EMR and the rest of its business. So we have complete business separation. It's a team that's held separate from the rest of organisation. You know Steve and I are not allowed to know a lot of the information that goes into that team and therefore - and Ofgem regulate and make sure that we're transparent the information going to the market, and the only information coming back to National Grid is exactly the same as the rest of the market.

Steve Holliday, Chief Executive
Thanks John.

James Brown, Deutsche Bank
Two questions. First is just a kind of follow up from the last question and the events of last Wednesday. Would you see that as being exceptional event within the context of where we are now, or is that just a kind of something we should expect to happen a lot more often now given the extent to which the UK power market has tightened that you will be using those elements of your toolkit more often?

And second question is on the capacity auction. There have been some kind of rumours or comments from some market participants that maybe looked at again the extent to which the penalties are set and also the overall assessment process as to capacity qualifying to bid in. Is that something that you're looking at or thinking about for future capacity auctions?

. . . .

Steve Holliday, Chief Executive
On the second point that's the role of government. You know our role is just to run the auction. They are indeed looking at that and they will set those parameters on both the screening of the plant coming in and any penalties. Our role is just through this little separate team as John mentioned to execute the process for them.

On the first one if I may I'd like to go back a bit in history. Because people I think do tend to forget we have an instrument, a tool in our kitbag called the NISM which is a notice of insufficient surplus margin. Not a shortage of power, a shortage of the surplus margin that we'd like a day ahead. If you go back to the period of 2003 to 2008, in each of those years we issued seven to ten of those instruments during the course of the winter. And the margin was very similar to the margin that we've got on the system today. So you would expect in an average winter for us to use that tool, as it was used very successfully last week, during the course of the winter seven to ten times possibly. That's not a forecast but it depends on lots of things.

But back in that era interestingly I'm sure we never had a single question at results, never a single question from anybody in the media about this technical thing that was all hidden. And in many ways I think that's good news because everyone is more concerned and more acutely aware of the importance of electricity today to our everyday life and ensuring that we've got secure supplies in the future. So I think the change is a good change, but actually these are tools we've always had and we've always used. And we'd expect to use it through the course of the winter again if required. And furthermore we've got these additional tools, the supplementary and the demand side balancing tool as well, to help when things get particularly tight. But we're comfortable that we can manage through this winter.

. . . .

Peter Atherton, Jefferies
I don't want to be miserable because that would clearly be out of character.

Laughter

. . . .

Steve Holliday, Chief Executive
So out of character.

. . . .

Peter Atherton, Jefferies
It would be undoubtedly. But I'm just thinking about the political risk and because clearly political risk has been one of the really important drivers on share prices across the sector and across Europe for the last five or six years, and I was thinking if I'm sitting in Whitehall and Millbank, I'm looking around the sector at the moment, you know gas fire generation is making no money, coal is getting hurt, renewables are having their subsidies slashed, the supply business is a huge amount of competition coming in, lots of change, CMA inquiry and things, so there's this sort of oasis of both performance and cash generation that is National Grid, you're reporting record profits, you're hammering the RIIO numbers and you're about to deliver a multimillion pound payback to shareholders albeit via an asset sale. Is there not a risk, a sort of political risk, that you are creating a target by being so successful but - well you know what I mean. I mean there's a chance that you're just being so flamboyantly successful that you create a political target.

Laughter

. . . .

Steve Holliday, Chief Executive
Flamboyant, that's a …

Laughter

. . . .

Peter Atherton, Jefferies
Sorry I was struggling to find the right word but you know what I mean.

. . . .

Steve Holliday, Chief Executive
Not sure that's ever been a descriptor of National Grid now or into the future. Look what you have to do in this business is deliver operational performance fundamentally. And I know it's kind of a monotonous comment that we all make at our results and the team will continue to make it. If we deliver the services that customers need and rely on, you know secure, safe, reliable energy supplies, then we expect to earn a reasonable return on the enormous investments that need financing for the future. As long as those two things are still true this business is successful. We've always understood and will always understand into the future that you've got to do both those things. If we don't deliver what customers need we will eventually have a problem. If we don't deliver the profits that are appropriate with the investments that we're making, eventually we won't be able to finance those investments. The focus of the team, which is a fantastic team, going forward will be ensuring that continues to be the case in the future. If we do that

then we have the right to earn a reasonable return on our investments. That's why we focus so much on the operational stuff Peter and we'll continue to do so.

. . . .

Andrew Bonfield, Finance Director
And Peter we are down year on year first half in operating profit terms. We are guiding people down on overall returns in the UK this year, marginally but they are down. So those are not numbers that are continually ever increasing, and so I mean I understand your point but I do think you have to recognise occasionally actually it's the other businesses which actually have driven the performance in the first half of the year.

. . . .

Peter Atherton, Jefferies
Great thanks.

. . . .

Lakis Athanasiou, Agency Partners
Just going back to transmission competition in the UK, the likeliest project that will go ahead in the T1 period is probably north of the border. Could you see yourselves bidding for that?

. . . .

Steve Holliday, Chief Executive
John?

. . . .

John Pettigrew, Executive Director, UK
So I think I'll go back to my previous answer. So first of all given where the consultation is we need to be very clear what the nature of that competition is. If there is a definition of competition that actually defines separable assets that works for National Grid and works for customers then I could see a reason - an opportunity for us and the same with other opportunities. But I think there's such a long way to go in terms of defining exactly what is that competition it's a bit early to say, but possibly.

. . . .

Deepa Venkateswaran, Bernstein
I had a question on the supplemental balancing reserve and demand side balancing reserve. How do you see that quantum that you will procure from these markets going forward at least in the next two to three years?

And secondly how do these actions get priced in? Even on the demand side is it the value of lost load? Because you could be tempted to increase the SPR going forward and you could be tempted to dip into that market time and again, but then how does a market as such - how does that get priced in so that there's the right pricing signals?

. . . .

Steve Holliday, Chief Executive
If I can I'd be happy to have a more detailed conversation with you. These are measures that were agreed between Ofgem, the government and ourselves as interim measures through until the period when the capacity auction is expected to ensure that we have adequate capacity in the UK.

And we agree with the government and Ofgem that the amount that we're able to procure for each winter as we go into the winter. And last winter we had an agreement to procure 1.1 gigawatts, this winter we had an agreement to procure a 2.45, next winter we will look at after we're through this winter, and again it requires the tripartite agreement with Ofgem and the government and the charges flow through the balancing market. That's how you get to 50p per customer, through the balancing costs that get charged out to all of us in our electricity bills.

. . . .

Analyst - Bobby
Thank you. It's more a sort of group Plc type question rather than technical. So I guess there's been a lot of discussion at Board level about succession given the announcements recently, and I wondered if that had also encompassed a kind of review of performance, and if so how quickly you think it will be before the US is up to the level of return that you deem acceptable? Because you know in the nicest possible way some of these assets are not delivering the returns you would hope for them to be right now.

. . . .

Steve Holliday, Chief Executive
No we're not and the team are going to go through that as you expect on Thursday. But just to hit the headlines. If you go back to our full year results last year and the returns that Andrew presented, the three businesses that were fundamentally under earning their returns by quite a significant margin were KEDLI and KEDNY and Massachusetts Electric. That's why they are the first three rate cases that we're making. So one is already in, another two will be in the end of this year, early next year. You know that's 35% of our rate base in the US.

So when those new rates come into effect and the KEDLI and KEDNY rates come in the beginning of 2017, that's when you'll start to see us getting up towards earning our allowed return as well. As well as, as Dean will go through on Thursday, the other actions that he and the team are taking. But as I said you know we need those rate cases and that's a third of the business that needs a reset.

. . . .

Analyst - Bobby
But it's not your expectation that as those get reset the others are down at those sorts of levels?

. . . .

Steve Holliday, Chief Executive
No, but we do know that we'll be in a series of re-filings. Niagara Mohawk was a three year deal; we're working on the possibility of extending that deal. When we're through those three big rate cases Marcy's plan will probably be to go in and file for Massachusetts Gas the following year. And you can expect to see a rate case per year therein afterwards which keeps our ability to then hit our target of 95% of allowed returns. But we need these three rate cases.

Okay thank you very much for your time this morning, appreciate it.

. . . .

END