RIIO-T2 Final Determination

National Grid response

London, 2 March 2021
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Our response

John Pettigrew
Chief Executive
Overview

• Our overall view of Ofgem’s Final Determination
• The basis of our decision to make an appeal to the CMA regarding;
  – the cost of equity and;
  – the outperformance wedge
• Group credit metrics outlook
• Dividend policy
• Next steps
Broad acceptance of Final Determinations

• Recognition of the effort the team has put in to the RIIO-T2 process
• Our widest consultation ever - over 25,000 stakeholders
• Pleased to accept a large part of the Final Determinations
• Our three core objectives we set out to achieve:

ONE
Investment levels to maintain world class reliability and resilience

TWO
A framework to deliver energy networks of the future

THREE
A financial package that allows a fair return for our investors, whilst limiting the impact on customer bills
Achieving our objectives under RIIO-T2

• We believe the final determinations provides:
  – the investment required to maintain asset health levels
  – the flexibility to deliver investment for the green recovery and energy transition

• Looking ahead to the next 5 years we expect:
  – to invest around £10bn
  – higher than average annual investment levels in RIIO-T1
  – 60% of investment focused on asset health

• Continue to enable a cleaner energy system, with investment in:
  – the Hinkley Seabank connection
  – new overhead line routes to facilitate offshore wind
  – connecting customers to renewable generation
A technical appeal to the CMA

- The Board has decided on a technical appeal to the CMA focused on the cost of equity and outperformance wedge.

- **On cost of equity we believe that Ofgem's methodology:**
  - discards evidence for higher total market return and risk-free rate levels
  - uses too narrow a peer group for cross checking

- **On the outperformance wedge we believe this:**
  - undermines productivity incentives
  - discourages companies from innovating
  - would lead to consumers paying more

- We expect confirmation of appeal by early April and a conclusion by early October.
Near term impacts

**COVID-19**

- Our guidance due to Covid-19 remains unchanged for FY21:
  - £400m headwind to underlying operating profit and
  - up to £1bn cash impact
- We remain confident on recovery through UK timing mechanisms and US rate negotiations and filings
- Timing of US recoveries may now take longer than first expected, as we look to manage the impact on customer bills

**RIIO-T2**

- Lower returns
- Higher levels of investment
Impact on financial metrics

At the National Grid plc level:

- Moody’s targets a 9% RCF/Net Debt for Baa1
- S&P targets a 13% FFO/Net Debt for BBB+

5 year outlook

- We expect to remain below these thresholds
- Strong possibility that we’ll see a one notch rating downgrade at National Grid plc and the majority of our rated subsidiaries
- We expect our rating metrics to remain stable, with sufficient headroom above the next thresholds
- We remain committed to maintaining a strong overall investment grade credit rating
Dividend policy

The Board has reaffirmed the existing dividend policy for this financial year

• To grow the dividend at least in line with UK RPI inflation

New dividend policy from FY2021/22

• Aim to grow the annual dividend per share in line with UK CPIH inflation
• This reflects the move from RPI to CPIH in our UK regulated businesses
• The Board will review this policy regularly taking into account;
  – expected business performance and
  – regulatory developments

Use of scrip dividend

• The scrip alternative will continue to be offered
• We don’t expect to buy back the scrip given the continued outlook for strong asset growth
Next steps

- Pleased we are able to accept a large part of the final determinations
- Will work closely with the CMA over the course of the year
- We remain:
  - committed to a strong, investment grade credit rating
  - well placed to deliver investment to deliver strong asset growth towards the top end of our 5-7% range
  - enabling the energy transition in the years ahead
- More detailed guidance on FY22 and the impact of RIIO-T2 at full year results announcement on 20th May