Q&A

Afternoon session

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John: All right, team. Okay. So welcome back, everybody. I hope you found the breakouts really, really useful and got some more content on the things that we discussed earlier on this afternoon. As I said earlier on, we're going to have another opportunity for you to ask questions. So I have my team with me, so I'm just going to throw it open to the first question. Mark, I can see Mark at the front here.

Mark Freshney, Credit Suisse:
Hi, thank you. So we've had a lot of granularity on all of the various returns, targets, the 100 bps, what you're doing in WPD till 2023. How can we encapsulate? Well, I guess we can do that ourselves. But are you willing to put an overall group return on equity target out there to bring it all together?

John: Well, I think, Mark, we set out at the beginning of this year, the financial frame. I'm going to repeat that. So the financial frame that we're working to in the next five years is we're going to invest £30-35bn. We're going to grow the asset base by 6% to 8%. We're looking to grow earnings by 5%, continue to grow the dividend by CPIH, and retain the strength of the balance sheet. That's the financial frame that we put in place and we'll report against that on an annual basis. Of course, we'll report on returns. But for today, I think that frame is how you should think about it. Chris.

Chris Laybutt, Morgan Stanley:
Thank you very much. In the electricity UK transmission breakout session we had, an interesting chart showing RIIO-1 operating profit, and then moving into RIIO-2. Do you think that RIIO-2 will deliver more stable, less volatile earnings for you? And so the dotted line that looks much more smooth, do you think that's a reasonable expectation? I'll leave it there and come back if we need to.

John: Okay. Well, why don't I ask Andy just to talk about the financials, perhaps, Chris, just to talk about RIIO-ED2 as well.

Andy: Chris, in terms of the shape of the line, I think I'd love to believe it was going to be quite as smooth as the trajectory of that arrow, but I think that obviously, and it was in my presentation first thing this afternoon as well, I think absolutely, we believe that the way T2 is designed, that the mechanisms are in place to ensure much better alignment. I suspect inevitably, there's going to be some ups and downs, some waves in that line, but I think the important thing is that as we continue to drive that investment in the asset growth, we will see earnings track that much more closely than some of the ups and downs that we've seen through T1.

John: Chris?

Chris: Yeah. We covered a lot in the breakout, so I wasn't going to go into RIIO-2 performance.

John: Performance. Okay. Thank you. Okay. Thanks, Chris. Question here

Questioner

In your session, John, you got asked a question about COP26 and the opportunities. What about what you think of the policy makers? You're in a great position to compare the UK and the US here. Who do you think is perhaps lagging the curve? And who do you think is perhaps driving the curve? I suppose I'm particularly thinking about the UK Ofgem and the government and what they've got to do to make sure everything gets done. But do you see, let's say, the UK driving the bus a bit quicker than the US? Or what are your concerns about not being able to invest at the scale you are talking about over the next five to 10 years?

John: I don't think I can do a comparison of who's faster and who's slower. I would say that at COP26, the US showed up and were hugely visible and were driving a lot of the discussion and debate. Irrespective your politics and what we've seen in the last few years in the US, there was no doubt that the US were present and they were looking to think through what do we need to do in order to deliver on climate change. And similarly, the UK as the host, I think the whole cabinet was there pretty much most days over the course of the two weeks. From my perspective, what we saw was a lot of presence, a lot of visibility, and a lot of good engagement with business around the commitments that it needed.

From National Grid's perspective, I think we've been very clear in that converting commitment into policy and policy into action is now hugely urgent and the next step. I think lots of people feel that. The example I gave earlier is a crystal one, and it's true actually in the UK and in the US, which is if we are going to build the infrastructure that's going to be needed, then things like making sure we've got the right consenting and planning process are going to be massively critical, and also making sure that we've got stable regulatory frameworks is also, in the longer term, getting massively important, because there's a huge amount of investment that needs to be delivered. So I came away, as I said this earlier on, optimistic. But there's an expectation, I think, from everybody that commitment now needs to turn into significant policy and that policy then interaction. My sense was that business is there and waiting for that policy to come along to be able to deliver it.

All right. Next question.

Martin Young, Investec:

In the slides today, you've obviously present CapEx requirements with a 5 billion range over the period through to 2026. Chris's breakout session in particular presented what looks to be a hugely significant investment opportunity through the 2030s. If I think about potential sources of funding for all of that, you will, at some stage next year, be in minority in the gas transmission business here in the UK. Would it be right to think that that is something that, if conditions are right in the future, could be a candidate for monetization to fund the pivot to electricity here in the UK? Thank you.

Andy: I think, Martin, in terms of the stake in gas transmission, as we said quite clearly, our intent is to sell a majority stake. I think beyond that point, where we described the pivot, that gives us to 70/30, electricity to gas, and that's the mix we're very comfortable with. Obviously, as we've seen in the past, we saw with Cadent, there were further steps taken because the eventual acquirer decided they were very keen to take on more over time and it worked for us from a value perspective. At this point, our focus is on the first majority stake and whatever the outcome of that and we're comfortable therefore with the minority stake remaining in the portfolio. You're right, it then comes a potential option for us going forward, but it's not one that we're assuming certainly within the next five years to deliver the frame that we've set out.

John: Ok, next question.

Deepa Venkateswaran, Bernstein:
Thank you. So there are two questions, so one is on the RIIO-ED2, obviously we are facing maybe a different environment in terms of the pressure energy builds. So for the question, obviously on the back, maybe the outlook is more clear, but how confident do you feel about your cost proposals and so on? Because I'm sure Ofgem is going to be looking at these numbers even more carefully. And second question more broadly is in terms of the plans you've laid out. John, particularly I think the UK transmission, you're generally confident that you will be able to get these through Ofgem, and we won't have a situation where you're not quite living... Because the fast money and slow money, it'll change earnings and so on. So how confident are you on achieving particularly the UK transmission?

Phil: So in terms of confidence, as I said this morning, it's a stakeholder-led business plan, which often recognize I think it's 24,000 in total inputs we've had, and these are real inputs as well, and they're not just mailing out to people and saying that we engage with them. I think the key is going to be in what we're proposing to deliver. As I said, it's 28% increase in there and we're holding those bills flat. So I think if I was the regulator looking at that, I'd like to think they'd see that in a very positive light. Because when we're focused on the bill impact and affordability, that's really important. But likewise, as John has said, pushing for decarbonization, we can't wait forever, and the investment is required to allow those connections to take place.

John: I'm going to let Chris answer because Chris is closer to it.

Chris: So absolutely. So the large transmission infrastructure projects, we're working really closely with Ofgem. So you might have seen they've approved the initial needs case for the Eastern Links, and we've been really transparent when the major milestones are. So for the Eastern Link ones, they're aware we need the final needs case approved early in the new year. Because to hit those targets, we need to go out to contract later in the year. If I take it all the way back, Ofgem, absolutely get the need for net zero and we're working together, laying out when the milestones are. And at the moment, we're in a good place that they do not want to hold up these investments.

John: Thanks, Chris. Next question, please.

Verity Mitchell, HSBC:
It's a question about capital allocation. Because even within the regulated businesses, there are lots of plans for the future that I would call quasi discretionary. How are you going to decide? There are so many opportunities now, even putting aside ventures, which is obviously a bit more or discretionary.

Andy: I think as we look forward to the next five years, I think, and we've probably tried to set out this afternoon much of that, capital investment in the frame that in the 30, 35 is clear. It's either mandated in our price controls today or it is highly expected to be negotiated as part of the uncertainty mechanism. I think the capital allocation flexibility is limited in the next few years. I think ultimately, and the way the price controls work is although you do have the negotiation with regulators in each jurisdiction, once the price control is set, there is that clarity and that's a very clear framework to deliver. So I think what we've tried to show this afternoon is the waves of different investment is what's really going to drive those levels of investment. And yes, there is some flexibility in terms of the ultimate levels and the phasing of that. But I think our expectation is that CapEx is going to continue to deliver and continue to grow across all of our operating companies. So potentially less optionality than you might be thinking.

John: Any further questions? Okay, in which case I'm going to say thank you, team.