National Grid Full Year Results 2022/23

Video Webcast

18th May 2023

Transcript

nationalgrid

Disclaimer
This transcript is derived from a recording of the event. Every possible effort has been made to transcribe accurately. However, neither National Grid nor BRR Media Limited shall be liable for any inaccuracies, errors, or omissions.

Speakers

John Pettigrew	Chief Executive Officer
Andy Agg	Chief Financial Officer
Nicholas Ashworth	Director – Investor Relations

Q&A participants

Jenny Ping	Citi
Martin Young	Investec
Harry Wyburd	Exane BNP Paribas
Jingjie Yang	UBS
James Brown	Deutsche Banke
Robert Pulleyn	Morgan Stanley
Ruisi Lui	Bank of America
Mark Freshney	Credit Suisse
Pujarini Ghosh	Bernstein
Dominic Nash	Barclays
Ajay Patel	Goldman Sachs
Bartek Kubicki	Société Générale

Introduction

Nick Ashworth: Good morning, everyone, and welcome to National Grid's Full Year Results presentation. I'm Nick Ashworth, Head of Investor Relations. And I'm really pleased to see so many of you here at the stock exchange this morning. And I know we've also got a good number of people listening and watching online as well.

So, look, as always, we'll start with safety. We're not expecting a planned fire alarm test this morning, but if there is one, please vacate the building and we'll meet out in Paternoster Square and maybe we'll carry on out there!

The second important thing to draw your attention to is the Cautionary Statement, which is at the front of the presentation. All of today's materials are available on the website and as usual, there'll be a Q&A with John and Andy after the presentation. If you need more info, then please do feel free to reach out to me or the IR team later in the day. And so, with that all said, let's start the presentation.

Highlights FY22/23

John Pettigrew: Very good. Good morning, everyone. It's great to see so many of you here today and have so many others joining online. As usual, I'm joined with Andy Agg, our CFO, and following the presentation we'll both be happy to take your questions.

So, it's been another good year of performance for National Grid. Our significant progress is demonstrated by: the positive impact of record levels of investment on both earnings' growth and the energy transition; a portfolio that's now repositioned to capture attractive growth for many years ahead; and the continued support we're provided to our customers and communities during these challenging times.

Last year, energy was in the spotlight for many different reasons, not least due to the affordability issues caused by much higher commodity prices. We've seen this galvanise governments and regulators resolve to accelerate the energy transition as they look to bring an end to expensive and unpredictable fossil fuel costs and increase the level of renewable generation and deliver greater levels of domestic energy security.

National Grid's at the heart of this push, empowering change through investment in critical energy infrastructure. And we're doing this across all areas of our business, such as in our UK Electricity Transmission business, where Ofgem have recently awarded us 17 major onshore transmission projects to enable greater levels of offshore wind connection. And in our US businesses, where we've had approval for $3.8 billion outside of rate cases to drive greater investment in the connection and delivery of clean energy.

But the energy transition isn't just about the future. We're delivering it today with another record year of investment across the UK and US Northeast. You'll have seen in the opening video, we've energised the world's first T-pylons as part of the Hinkley Connection Project, which will connect 6 million homes and businesses to low carbon electricity. We're rewiring London, with 90% of tunnel boring complete at the 33-kilometer London Power Tunnel project. Across our UK Electricity Distribution business, we've enabled twice as many EV connections in the past two years than all previous years put together. In National Grid Ventures, we continue to make great progress on Viking Link, our 1.4GW clean energy interconnector to Denmark. Across our US gas businesses, we've replaced over 360 miles of leak-prone pipe, taking the cumulative total to over 4,200 miles and avoiding annually, 134,000 metric tons of CO_2 equivalent. And in New York, we broke ground on our $600 million Smart Path Connect Transmission project, which will bring clean energy from Upstate New York to demand centres downstate.

The investments that we're making right now are driven by our vision to be at the heart of a clean, fair, and affordable energy future. And our key focus is to capture future growth opportunities by delivering the critical infrastructure required as safely and as efficiently as possible. National Grid has never been as well positioned to do that as we are today. The strategic pivot we announced just over two years ago is now complete. Our UK Electricity Distribution business, formerly Western Power Distribution, is now well embedded within National Grid with new leadership in place.

As part of the pivot, we've completed the sale of our Rhode Island business to PPL in May 2022. In January, we also completed the sale of a 60% stake in our UK Gas Transmission business to a Macquarie led consortium. And as a reminder, the consortium has the option to acquire the remaining 40%.

We continue our work to set up the future Electricity System Operator as an independent, separate body, ahead of agreeing a timeline for separation with the UK government.

And finally, following Ofgem's decision in December to award us the 17 major onshore transmission projects, we've created a new Strategic Infrastructure business unit. This will oversee and efficiently deliver the significant increase in transmission infrastructure needed in the UK over the next decade and beyond.

So, it's been a very busy time for National Grid. Today, our geographic and regulatory diversity with a portfolio that's broadly 70% electricity and 30% gas, ensures we're in a strong position to capture the considerable opportunities the energy transition brings. And I'm also proud of the way we've stepped up as a company in the past 12 months, helping our people,

customers, and communities through an incredibly tough economic environment.

Today, we're announcing the early return of £100 million of interconnector income where we've collected revenues above our cap. This comes on top of the £200 million of revenues we've already committed to return early. In the UK this winter, we allocated nearly £24 million of our £50 million energy support fund to help 30,000 households through the energy crisis. And in the US, we launched our customer assistance programme, contributing $6 million so far to help support vulnerable households.

We also continue to play our role within our communities. September saw the second day of service for our Project C initiative, with over 2,000 colleagues dedicating 11,000 hours across more than 200 locations - double last year's achievement. As a responsible business, we'll continue to do what we can to support our customers in easing bill pressures as we move through this challenging period. But it's clear to me this isn't a quick fix. Only significant investment in clean energy will bring customer bills down in the long term.

So, turning now to our financial performance. On an underlying basis, that is excluding the impact of timing, major storms, and exceptional items. Underlying operating profit was up 15%, or 10% on a constant currency basis to £4.6 billion. This reflects a full year of earnings for UK Electricity Distribution, good operational performance across all of our regulated networks, and a strong performance in National Grid Ventures. This was partly offset by the sale of our Rhode Island business and the energy support fund we launched to help vulnerable customers this winter.

Underlying earnings per share was 69.7 pence, up 7% compared with the prior year. Capital investment from our continuing operations was a record 7.7 billion pounds, 8% above the prior year at a constant currency. We've also made great strides with our cost efficiency program, delivering a further £236 million of savings on top of the £137 million previously announced, and within close reach of our £400 million target. And in accordance with our policy to grow the dividend in line with UK's CPIH, the Board has declared a final dividend of 37.6 pence per share. This takes the total dividend for the year to 55.44 pence, an increase of 8.77%.

Turning next to our safety and reliability performance. Last year was another year of good safety performance with a small improvement in our Lost Time Injury Frequency rate. However, following the tragic events in Massachusetts last May, when an employee lost his life, we've been focused on ensuring the lessons learnt have been shared across the whole organisation. Safety continues to be an area of close attention for us, to ensure that we continue to improve our performance.

Moving to reliability, we've had another excellent year of reliability, with over 99.9% availability across our regulated networks. I'm particularly pleased with this outcome given some of the challenging weather we experienced this year. I'm proud of the role we've been playing in safeguarding security of supply.

In the US, winter storm Elliott saw historic levels of snow, wind, and low temperatures, with the largest field force in Western New York's history, we helped to restore power to over 200,000 customers. In the UK, July saw the hottest temperatures on record. Our Electricity Transmission teams took extra measures to ensure our network continued to operate efficiently, including continuous monitoring for overheating and guarding against wildfire hazards close to our overhead lines. And our Electricity System Operator developed one of the most comprehensive winter preparedness plans we've ever had, ensuring that we successfully navigated what could have been a very difficult winter.

So, let me now turn to our operational performance. Starting with New York, where we achieved a return on equity of 8.6%, 96% of the allowed level. During the year, our capital investment increased by £340 million to $3 billion, resulting in a strong rate-based growth of 9.9%. And it's been a busy period for policy and regulation in New York. In July, we received approval to proceed with the $691 million of transmission investment projects to support the Climate Leadership and Community Protection Act, or CLCPA.

In February, we received an additional $2.1 billion of funding to enable over 2GW of renewable generation in Upstate New York. In December, New York's Climate Action Council approved the scoping plan, which outlined recommended policies to help meet the goals of the CLCPA. Within this, we were particularly pleased to see recognition for the importance of a decarbonised gas network in the state, as well as the role alternative fuels such as hydrogen and RNG can play in this decarbonisation pathway. The plan also made the case for continued investment in the replacement of leak-prone pipe, which will improve network safety whilst continuing to reduce emissions.

Moving to New England where we've seen similar momentum in regulatory approvals for clean infrastructure investment, our achieved return on equity was 8.3%, a 30 basis points improvement on last year. I'm confident the programmes underway to streamline and modernise our systems in Massachusetts will be a significant contributor to getting closer to the allowed level.

During the year, we delivered capital investment of $2 billion, which excluding Rhode Island, was $276 million higher than last year with rate-based growth of 6.3%. As I noted earlier, over the last few months, we

received funding outside of rate cases for new clean energy investments. This includes nearly $340 million for Grid Modernisation projects, $487 million for the rollout of the Advanced Metering Infrastructure programme, and $206 million for EV infrastructure, which will provide over 30,000 charging points.

In the UK, our Electricity Transmission business continues to perform well, with capital investment increasing by 9% to £1.3 billion pounds. The business delivered a return on equity of 7.5%, 120 basis points above the allowed return of 6.3%. Ofgem published its Accelerated Strategic Transmission Investment decision document in December. This confirmed the award of 17 projects to National Grid with much of the investment expected to be in the second half of the decade.

However, included in the £9 billion of capex in our 5-year outlook is around £1 billion of early investment in these projects. Getting the certainty was one of the key priorities that I talked about back in November, and it's just one of several positive developments in the past six months. The establishment of the new Department for Energy Security and Net Zero should bring increased prominence to the clean energy transition within government. In March, the department announced its "Powering Up Britain" package, highlighting networks as a key enabler of the transition.

As part of this, the government restated its intention to streamline planning processes to accelerate the delivery of transmission upgrades, and we are pleased to see that the community benefits framework that we've been advocating for help to address planning barriers is now out for consultation. Whilst all this is encouraging progress, in order to meet the government's climate ambitions, we still need to see faster development of policy. I'll come on to talk more about this later.

Turning now to UK Electricity Distribution. In the final year of ED1, the business continued to perform well, delivering a return on equity of 13.2%, including a 360 basis points above performance and customer satisfaction scores of 8.99 out of 10. Capital investment grew by 10% to £1.2 billion, driven by increased customer connections for renewable generation and electric vehicle charging infrastructure.

In March, we announced our acceptance of the 5-year RIIO-ED2 price control, which started on the 1st of April. Whilst the Final Determination is stretching, we believe there's a strong position to deliver the outcomes customers require as well as our regulatory commitments.

And lastly, moving to National Grid Ventures, where capital investment was £906 million, we're making good progress on the Viking Link to Denmark. We've now laid 75% of the cable and expect to commission the project by the end of the calendar year. Our North Sea Link to Norway has completed

its first full year of operation, and I was delighted that we resumed full service of our IFA Link to France in January.

Grain LNG had a record year of utilisation, with 102 ships offloaded, supporting energy resilience in the UK and Europe. And we remain on track to deliver the Phase 4 project with the outer walls and roof for the main tank now completed. In the US, our offshore wind joint venture with RWE submitted proposals to NYSERDA, and we expect them to announce the winning bid in the coming months.

So, as you can see, it's been a great year of progress right across the group. And following Andy's presentation on the financials, I'll come back and share with you our key priorities for the coming year. Andy.

Financial Performance

Andy Agg: Thank you, John, and good morning, everyone. I'd like to highlight that as usual, we are presenting our underlying results, excluding timing, major storms, exceptional items, and that all results are provided at constant exchange rates. Furthermore, following the completion of the 60% stake sale of our UK Gas Transmission and Metering business in January, we continue to hold the remaining 40% as held for sale.

So, turning to our numbers, I'm pleased to be reporting another good year of financial performance. Underlying operating profit on a continuing basis increased by £411 million to £4.6 billion. This was mainly driven by a full 12 months of earnings from UK Electricity Distribution, following its acquisition in June 2021; good performance across our regulated businesses; further supported by our efficiency program and a higher contribution from National Grid Ventures coming from a first full year contribution from our Norwegian interconnector, NSL; IFA business interruption recoveries relating to the Sellindge fire in September 2021 and, continuing good performance across the interconnector portfolio.

Higher operating profit, partially offset by a rise in interest costs helped underlying earnings per share increase by 3% to 69.7 pence per share, an increase of 7% at actual exchange rates. We have now delivered £370 million of enduring efficiency savings and are within close reach of our £400 million target. And our robust operational performance was also reflected in the 11% group return on equity.

In line with our policy, the board has recommended a final dividend of 37.6 pence. Taking the full year dividend to 55.44 pence per share, representing an 8.77% increase compared to the prior year. Reflecting 2023 average CPIH inflation.

We've continued to deliver record levels of investment with capital programmes to drive forward the energy transition on both sides of the Atlantic.

Capital investment from continuing operations increased to £7.7 billion, 8% higher than the prior year. Alongside the full 12-month inclusion of UK Electricity Distribution, this also reflected higher New York investment on electricity system reinforcements as well as across cyber, digital, and customer experience; Increased investment in UK Electricity Transmission as we make progress in our £1 billion London Power Tunnels project, and in National Grid Ventures, given the rebuild at our IFA 1 interconnector converter station at Sellindge, following the fire, and investment at Grain as we advance the work on the phase 4 project.

Now let me take you through the performance of each of our business segments. Starting with UK Electricity Distribution. Underlying operating profit was £1.23 billion, up £343 million from the prior year. Whilst this reflects a full year of ownership, we saw a strong final year of delivery in the ED1 price control, with an RoE of 13.2%, 360 basis points ahead of the allowed return.

Across the eight years, Electricity Distribution exceeded its 76 ED1 business plan commitments with delivery of 2% outperformance against Totex allowances, all whilst keeping network reliability at 99.995%. Capital investment increased to £1.22 billion, an increase of £321 million compared to the prior year, in part, reflecting our first full year of ownership.

Moving to Electricity Transmission where underlying operating profit was £1.1 billion, down £45 million compared to last year. The underlying operating performance was offset by the near £150 million we've returned to customers in the year following the Western Link settlement. Capital investment was £1.3 billion in the period, as we delivered network reinforcements, asset health programmes and new connections, as well as made good progress on London Power Tunnels, where the main tunnelling is 90% complete, and the installation of new T-Pylons at our Hinkley Connection Project.

We've achieved a 7.5% return on equity, 120 basis points ahead of baseline allowance, and we remain on track to achieve 100 basis points of average annual out-performance throughout RIIO-T2.

Finally, in the UK, the Electricity System Operator saw underlying operating profit of £31 million and the RAV ended the year at £360 million.

Moving now to the US, where New York achieved an 8.6% return on equity, 20 basis points lower year over year. Underlying operating profit was £874 million. £91 million higher than the prior year. This reflects rate increases across our operating businesses as well as strong efficiency delivery, partially offset by higher property taxes due to increased investment, as well as a higher bad debt accounting charge. This relates to agreed COVID bad debt relief arrangements in New York where we now have certainty of COVID cost recovery in the coming years. Capital investment was £2.5 billion, £280 million higher than the prior year. This was partly driven by higher investment across our electric business on reinforcement, and renewable connection projects such as through our CLCPA investment and Smart Path Connect project in upstate New York. It also recognises non-cash capital leases at the Gowanus environmental site and the Volney Marcy transmission line.

In New England, the return on equity was 8.3%. 30 basis points improved on the prior year, excluding Rhode Island. Underlying operating profit was £819 million. Excluding the impact of the sale of our Rhode Island business in May last year, it was £104 million higher, reflecting the annual performance-based regulatory reset in our distribution businesses, as well as a continued focus on efficiency delivery. Partially offset by higher spend on cyber and vegetation management. Capital investment was £1.7 billion, an increase of £226 million, excluding Rhode Island. This was driven by higher electric investments on asset condition work, system capacity, and customer requested work, and fewer COVID-related restrictions leading to increased leak prone gas pipeline replacement.

We had another strong year in National Grid Ventures with underlying operating profit, including joint ventures, up £278 million to £693 million for the year. This primarily reflects a first full year from the North Sea Link Interconnector to Norway, continued higher revenues across our interconnector portfolio, insurance recoveries following the Sellindge fire, as well as higher income through incentives at Grain LNG. Capital investment decreased by £62 million to £906 million for the year. With increased investment at IFA and Grain marginally offset by the non-recurrence of the seabed lease purchase at our New York Bite offshore wind project in the prior year. Operating profit for other activities for the full year was £31 million, £9 million higher than last year. This increase is principally driven by property sales completing as part of the St. William transaction. Mostly offset by fair value losses at National Grid Partners given adverse market conditions and our community support payments through this winter. Capital investment was £72 million down year over year due to lower investments by National Grid Partners.

Net finance costs were £1.5 billion up £378 million, with treasury managed interest, £493 million higher driven primarily by inflation movements on

index linked debt costs and refinancing of the underlying portfolio. This is partly offset by higher non-treasury interest income from higher pension and capitalised interest. For the full year, the underlying effective tax rate, excluding the share of joint ventures, was 23.1%, 120 basis points lower than the prior year. This reflects a lower remeasure of state deferred taxes following the Rhode Island sale and UK property sales with a lower effective tax rate. Underlying earnings were £2.5 billion with EPS at 69.7 pence up 7% on the prior year at actual exchange rates.

Moving now to cash flow. Cash generated from continuing operations with £6.4 billion up 11% compared to the prior year. This primarily reflects stronger operating profit and the full year impact of UK Electricity Distribution. Net cash outflow at £3.1 billion was nearly double the £1.6 billion outflow from the prior year driven by higher levels of capital investment and lower levels of scrip dividend uptake in the year. Net debt of the full year was £41 billion. 7% or £3.1 billion lower than the prior year at constant currency. As we received proceeds from the sale of Rhode Island, Gas Transmission, and the Millennium pipeline through the year. Following the repayment of the acquisition bridge loan, our levels of floating rate debt are back in line with levels pre-transaction at around 10%. Around 70% of our debt sits within our regulated operating companies and has a high degree of regulatory protection. With our overall debt book having an average maturity of 11 years. The £7 billion of bond financing completed in the past year, demonstrates our strong access to financial markets and we expect to issue between £5 and £6 billion in the coming year.

Lastly, I'll turn to our full year 2024 guidance and longer-term outlook. Starting with 2024. We expect another good year of underlying performance, however, following the UK government's spring budget and changes to capital allowances, we now expect underlying EPS to be modestly lower year over year. Looking more closely at those changes to capital allowances, the UK government has announced increased rates of relief for expenditure on qualifying plant and machinery running from the 1st of April 2023 to the 31st of March, 2026. For our UK regulated businesses, the impact is economically neutral as we will receive lower revenue allowances through our system charges to reflect the lower amount of cash tax that we will pay.

For our Electricity Transmission business, we expect the impact on revenue to be around £200 million per annum and for Electricity Distribution around £100 million. However, this does have an IFRS accounting impact. Our total accounting tax charge will remain broadly unchanged as we will pay lower cash tax today but recognise the deferred tax liability to reflect higher future payments. Without this change in legislation, we would've seen underlying EPS growth in 2024 within our 6% to 8% CAGR range. But with the implementation of the capital allowance legislation, which as I've said is economically and cash neutral to the group, we now expect a 6-7 pence per

share impact on our underlying EPS for full year 2024. And this results in our 2024 EPS guidance being below our reported underlying 2023 EPS. Furthermore, we expect the six to seven pence per share impacts to grow modestly each year through to FY25, FY26 as our capital investment grows. If the policy does end by March 2026, we would see a significant optical benefit to EPS in the following year, as we'd receive higher allowed revenues, given the increased cash taxes we would then pay.

Moving to our 5-year outlook. We're reconfirming our financial framework from April 2021 to March 2026. As a reminder, we expect to deliver capital investment for the group of up to £40 billion, which will drive asset CAGR of 8% to 10%, and underlying EPS CAGR of 6% to 8%, with the change in capital allowance legislation now moving our expectation towards the lower end of the range by 2026. And an aim to grow the dividend in line with average CPIH. All of this, whilst maintaining credit metrics within the bands required consistent with our strong investment grade credit rating and with net debt to RAV to remain in the low seventies. With that, I'll hand you back to John.

Priorities and Outlook

John Pettigrew: Okay, thank you Andy. I want to spend the next few minutes looking at the year ahead and the journey we're on to support all aspects of the energy transition. This is a hugely exciting period for our industry. I can't think of a time in the last 30 years where we've seen so much opportunity for growth. As these opportunities become reality, National Grid can deliver a cleaner, more resilient and more flexible system that in turn will help to lower costs for consumers, create new supply chains, and new jobs across the economies we invest in.

And whilst I'm encouraged by the progress that's been made in the last six months and optimistic about the future, we need to see even greater urgency, both in terms of action and mindset from government and regulators and other key stakeholders. In the UK and US, we've played our part in helping to significantly improve understanding where it's most needed on the scale of the job ahead. But the development of policy and regulation still needs to move at a much faster pace. And given the similar issues that we see on both sides of the Atlantic, National Grid is uniquely positioned to provide solutions.

In the UK, one of our key priorities this year is to help drive forward the significant regulatory and policy changes needed to meet the government's clean energy ambitions at an affordable cost to consumers. This week we published a detailed Policy Statement where we've set out 5 priorities that require action by government and the regulator.

First, the planning system needs to be reformed to provide the clarity and certainty required to support the delivery of net-zero infrastructure along with a streamlined consenting process. Second, governance frameworks need to be set up to enable new delivery models and must include: expanding Ofgem's mandate to support the delivery of Net Zero; regulation that enables anticipatory investment at scale; competition legislation for major transmission projects, given the significant levels of investment that'll be required in the next decade and beyond; and creating the new Future System Operator. Third, the regulator must transform the connections process from today's 'first-come, first-serve' model to one that prioritises strategically critical projects over those that aren't progressing. We were pleased to see Ofgem's recognition of this earlier this week. Last year saw an incredible 60% increase in transmission connection requests. Today, the connection pipeline in England and Wales is about 170GW, nearly three times the current generation capacity. That's a lot more generation in the pipeline than is needed to meet the current targets. Fourth, communities and consumers must be at the forefront of the transition. Government is consulting on a comprehensive community benefits framework for hosting local infrastructure. Getting this right will address many of the local consenting issues seen today. And finally, for the UK to compete in the global race for resources, supply chain capacity and green skills need to be invested in right across the country. Regulatory support is required to provide the supply chain the clarity and certainty needed to really scale up. And whilst it's early days, these priorities seem to be resonating with politicians and stakeholders. And in the months ahead, we'll continue to drive these 5 areas forward.

But as you'd expect, we're not standing still. As I mentioned, we've established a new business unit which will deliver the ASTI major transmission projects. This business unit will deliver the projects as one programme of work rather than individually, whilst putting in place a new contractual framework to enable efficient delivery. And on connections, changes are already underway to reduce waiting times. In Electricity Transmission, we're optimising the connection offer process and the Electricity System Operator set out its own 5-point plan, including an amnesty to exit the queue without cost, and a new commercial framework that requires progression against key milestones.

And finally, in the UK, I just want to touch on Electricity Distribution, where we'll share more details on our future plans at our investor event in July. It'll be hosted by Cordi O'Hara who has recently taken over as its President. And without stealing too much of Cordi's thunder, it's fair to say that the business is laser focused on a strong start in the new price control, stepping up investment in key areas, including distributed generation, EVs and heat pumps. And now that UK Electricity Distribution is well established within

National Grid, we'll start to drive further value across the group, particularly in transmission and our distribution businesses in the US.

Moving to our US priorities and starting with our gas business. As regulators and policy makers work to define pathways to meet their aspirations, we're working alongside them to share our knowledge and experience, including setting out pragmatic options to achieve their goals. The pathway to net-zero will be challenging, but our Clean Energy Vision sets out a plan that also balances the need for clean energy to be reliable and affordable. It marries the need for world-class energy efficiency whilst accelerating the electrification of buildings and the use of fossil free gas networks.

And whilst we're seeing increased recognition by policy makers, whether it's the Climate Action Council's recognition of the important role decarbonised gas networks will play in delivering net-zero, or the significant exemptions in the recently passed All Electric Building Act, the debate continues around the pace and feasibility of delivering greater levels of electrification. And therefore, our focus will be to continue engagement around the vital role our gas networks will play in ensuring reliable and affordable options for customers alongside electrification.

And we're taking action now to deliver this hybrid clean energy future through our ongoing programme of pipeline replacement with pipes that can handle decarbonised gas, delivering the $2.1 billion in energy efficiency measures across New York and Massachusetts approved in our rate plans, as well as continuing to progress the Northeast Hydrogen Hub proposals.

Turning to our electric businesses, at the federal level, the Inflation Reduction Act and Infrastructure Investment Jobs Act support the clean energy vision and have the potential to dramatically accelerate the energy transition. However, like the UK, this will only happen if accompanied by the significant permitting and consenting reform needed to enable investment at pace. And as you'd expect, we're working at the federal and the state level to advocate for reforms to streamline these processes without compromising environmental protection or local input.

And whilst undertaking this advocacy work, we'll continue to develop our growing number of transmission projects, including the CLCPA Phase 1 and 2 projects I mentioned earlier, the New York Propel Project, enabling offshore wind to be brought into the state, and the Twin States Clean Energy Link connecting Canadian hydropower to Vermont and New Hampshire.

On the regulatory front, last month we filed for new rates in our Downstate New York businesses, KEDNY and KEDLI. These comprehensive proposals are aligned to the state's clean energy goals whilst ensuring continued safe operation of the network and affordability for customers. Investment is

driven by targeted replacement of leak prone pipes, which support not only asset safety and reliability, but also lower methane emissions. And lastly, in Massachusetts Electric, we're preparing for our next rate case and expect to file this October for new rates effective in October 2024.

In summary, it's been another year of exciting progress and strategic change for National Grid. We've executed against our key priorities, including completing our strategic pivot, whilst investing a record £7.7 billion as we continue to build clean energy infrastructure that is critical for the future. Our positive collaboration with governments and regulators on both sides of the Atlantic has helped to improve the understanding of the scale of the task ahead. National Grid is delivering the energy transition today, and we're uniquely positioned to meet the scale of the challenges ahead, to drive forward a clean, fair, and affordable energy future for all. So with that, I'll take any questions with Andy.

Okay. What we're going to do, we'll take questions from the room first, and then we'll take questions online. If you are online, if you could press *1 before you need to ask a question, otherwise you won't come through. So we'll start.

Q&A

Jenny Ping (Citi): Thanks very much. Jenny Ping from Citi. Two questions please. Firstly, John, you talk very much about the strategic pivot being completed. Can we take that as you are effectively happy with the mix of business? And I'm specifically referring to the 30% of the gas that you still have in the US. You happy with that as status quo?

And then the second question for Andy, on the EPS guidance, clearly all the deferred tax noise is causing a bit of havoc in your guidance. I just wondered, given some of your peers actively give guidance ex-deferred tax, is that something that you've considered and will consider as we go forward? Thanks.

John Pettigrew: Thanks, Jenny. In terms of the strategic pivot, just to remind people, when we set out on the strategic pivot, we said that what we were trying to achieve was to get the shape of the group to really reflect the energy transition. The sale of majority stake in gas transmission in the Rhode Island business and the acquisition of WPD really achieved that. We still continue to believe that electricity has got the leading role in the energy transition, but that gas has got a really important role to play. The strategic pivot leaves National Grid 70% electric, 30% gas, broadly 50/50 US-UK, which today we are very, very comfortable with. Andy?

Andy Agg: Yes, thanks. On the tax point. Look, I think we've looked closely at it. We think it's a three-year arrangement that's been announced, which runs to 2026. We think that what we've chosen to do, which is to reflect how that flows through our numbers in full, is the right way to do it. That said, if it becomes an enduring change, and it looks like it's going to stick around, and it's going to continue to have a significant impact, then we will, obviously, continue to keep that under review. The important thing is to reinforce that it's entirely uneconomic, it's neutral from an economic and cash perspective, but we'll absolutely get that under review if it becomes a permanent and enduring change.

Martin Young (Investec):

Morning, it's Martin Young at Investec. Just one question, and I guess it's a bit of a follow on from Jenny's in part, but if I look at everything that's been talked about this morning, there is quite clearly a considerable investment opportunity that goes way beyond this decade. When you allude to the way that you look at financing and your level of gearing, you only talk to March 2026. Now that date is approaching us very, very quickly. When we then think about the financial structure of the group beyond 2026, and the way that you will finance these investments, it does bring us back to how you might look at that portfolio. Clearly in the past you have made disposals of assets to finance to free up the ability to move into other areas of investment. If I then look at the gas / electricity split, particularly in the UK, you have stepped away from the molecule in the UK, both in terms of selling the gas transmission business, and you've decided not to progress carbon capture storage or transport facilities in the north of the country. And where does Grain fit in to all of this, because that is a gas asset in a country where you are principally electric? I just wondered what your thoughts on that were please.

John Pettigrew: Okay, there's quite a lot in that. Let me just start with the frame that we set out today. As you saw from Andy's presentation, what we set out is that our expectation remains that over the period 21 to 26, that we'll invest up to £40 billion. You'll remember that we updated that in November last year. In updating that, that really reflects some of the more recent events that we've seen, particularly in terms of the acceptance of ED2 Electricity Distribution price control, as well as it really reflects our understanding of the KEDLI and KEDNY rate filings that we've made recently as well. And it includes about £1 billion of investment for the ASTI projects that Ofgem confirmed that they want National Grid to take forward - the 17 projects announced in December. Beyond that, actually, there's still work to be done in terms of getting clarity about exactly what we're being asked to do and actually what the profile investment is and what the regulatory framework is.

As we get more transparency on that, and you would've seen our Policy Document that we issued on Monday, that sets up some of the areas that we need to see progress on to be able to do that. Then we'll be able to update the market about what beyond 2026 looks like. But we're reaffirming today up to £40 billion to 2026. In terms of the overall mix of the business, I always think about the businesses in terms of its contribution to the investor proposition, both in terms of growth and in terms of yield, and always look at those businesses, and if they're not contributing to that, you have seen that National Grid has taken action in the past to address that. At the moment, we're very comfortable with the portfolio. With regards to Grain specifically, we're in the midst of a huge construction programme to expand the capacity of it by 20%, but it continues to contribute to our investment proposition and therefore is an important part of the portfolio as it sits today. Andy, did you want to pick up on the sort of financing side of it?

Andy Agg: Yes, and I think Martin, just maybe to build on what John has set out and go back to some of his comments in the presentation this morning, we're clearly in a place where there's a lot of work still to be done around things like ASTI and a number of the other potential UK investment opportunities around what is the regulatory framework and that'll be critical in terms of determining not just the returns that come with those types of projects but the other characteristics like asset life, speed of money and so forth. That's really before you can start thinking about financing strategies and so forth beyond 2026. That's where we have to start and that's our focus today. Beyond that, as you know, we have a number of opportunities, as you said, you talked there about the portfolio, we've talked previously about the amount of additional hybrid capacity. We're relatively light in hybrids at this point, so a lot of untapped capacity there. There are a number of other levers that we have, but the critical thing today is to make sure that we focus on the right regulatory frameworks.

John Pettigrew: Thank you. Yes sir?

Harry Wyburd (Exane BNP):

Hi, thanks for taking my questions. This is Harry Wyburd from Exane. Two from me, first just on Gas Transmission and the 40%, so that's Held for Sale, but have you made any assumptions on the sales proceeds if it gets sold and the use of those proceeds? Could you give us an update on what your thinking is on the likelihood that you would end up disposing of that?

Then the second one's on politics, it strikes me there are sort of cross currents. You, on the one hand, are sort of calling on Government to make various changes that you walked us through earlier. On the other hand, you’ve got sort of John Penrose calling for a more aggressive stance from regulators on monopoly businesses. I wondered how do you feel this is going

to shake out? Should we fear that there's a looming crackdown on regulated businesses or moreover on the regulators? Or is it the opposite actually, that we might get more favourable regulatory and government policy for you, given the obvious need to accelerate net-zero and transmission capacity? Thank you.

John Pettigrew: Well, why don't I pick up the politics then. Andy, if you want to pick up Gas Transmission. I think in terms of the energy sector, I think there is an increasing recognition of the scale of the investment that's needed and how important it is to have a stable and predictable regulatory framework that supports that. I think if anybody listened to Jonathan speak this week, I think you'd get a sense of his recognition that the regulatory framework needs to change going forward and that Ofgem have an aspiration to be seen as an enabler and supporter of the energy transition.

From our perspective, one of the reasons we put the Policy Document out on Monday was that we wanted to be absolutely clear where we felt the focus needed to be over the next few months in able to not just maintain the momentum of the energy transition but actually to accelerate it because of the scale of the construction investment that's needed. From an energy perspective, I think what I've seen and certainly the discussions I've had is that the regulators are recognising that. More broadly than that, there are broader issues around the water companies and so on, which I'm not going to comment on. But I think for us and the conversations we are having, I think what we're seeing is a sense that everybody needs to come together to get the right regulatory and policy frameworks to be able to deliver the transition over the next decade.

Andy Agg: In terms of the 40% in Gas Transmission, you're absolutely right. You'll have seen it's accounted as Held for Sale and that relates back to the existence of the option. The option window runs to the end of July and it's entirely a call option for the Macquarie-led consortium. We're just in the first month of that option window, that's driving the accounting. In terms of the likelihood, I'm not going to comment on that, you'd have to ask the consortium in terms of that, but as I say, the option window runs to the 31st of July. Then in terms of the proceeds, given the quantum, we're looking to next year be investing sort of north of £8 billion of capital. I'd say in terms of expected use of proceeds, it’ll be redeployment into funding that.

John Pettigrew: Okay. Should we go to the front first and then we'll go behind? I can't quite see who it is.

Jingjie Yang (UBS): Hi, thanks for taking my question, Jingjie Yang from UBS. My first question is on FY24 guidance, could you clarify this a little bit? My understanding is your 5-year framework is unchanged, so it's now going to be towards the lower end by 2026 and now you've delivered two very strong years results on

underlying EPS and this year nearly 70p already. Is my understanding correct, that for the next three years, to go from 70p to the lower end of 6 to 8% CAGR than 2026, you would be landing on something like 74p, 75p and then that means for the next three years you will have only 1-2% growth each year?

If that's correct, then you've mentioned that if excluding the consideration of the capital allowance, then the FY24 guidance would have been within the 6-8% increase from the FY23 numbers. Then does it mean that if not for the tax change you would have to upgrade your guidance a lot for FY24? That's my first question. Second one is on the follow-up on the gas minority. Obviously, we are still on the first month of the option window, but they already have sort of a long period of time to think about if they will take it or not. By this time, they haven't really actioned on it yet. What do you think the reason could be? Is it that the valuation and FX change that's making them change their mind? Because if they made the decision they would have acted on the 1st of May, we would think. Yeah, that's my two questions.

John Pettigrew: Okay. I'll take the gas issue and then Andy if you could talk about guidance. On the gas issue, as Andy said, they have a call option, that option's exercisable until the end of July. It's for them to make that decision by that timescale. From our perspective, as Andy's also indicated we have good governance in place for the 40% that we do own. Ultimately, if the call option isn't exercised, then the board will consider what action is appropriate. But actually, we could also hold onto the asset, as well. We'll take that decision as and when we get to the end of the call option if it's not exercised. But as Andy also said, it's a decision from Macquarie as to what they want to do.

Andy Agg: In terms of the guidance, I think... Yeah, so let’s probably separate out the 5-year frame that we've set out and then what we’ve said about next year to be clear. Let me talk about the 5 years first. Absolutely, we've reaffirmed in November that the 5-year frame is unchanged and that we've said that again this morning. Remember that the 5-year CAGR, the 6-8% runs from a FY21 baseline. We said right from the start that there would be years of higher growth and years where the growth might be slightly lower than that. You're right, that we had some high years early on, particularly as we stepped through the transactions. We've reaffirmed this morning that over the 5 years we still expect to be in the 6-8% range, albeit now as you say, because of the tax, towards the lower end of that range.

That's absolutely right in terms of the one-year version for FY24. We said absent the tax, we expected to be, given the underlying performance across our businesses, that we would've been in the 6- 8% on a one-year basis. But that's not us changing our guidance and saying we will always be in the 6-8% range. The 6-8% (CAGR) is a 5-year frame. Now, reminding you again that it's

economically neutral, but from an IFRS reported perspective, we do expect to be slightly down next year.

Jingjie Yang (UBS): Sorry, a little bit of a follow up on the guidance. You said that's going to be, so if not considering the tax effect, it's going to be 6-8% for FY24 only. But the actual number we land on FY23, it's already nearly 70p. Then for the next 3 years there will be a smaller range of growth to achieve the CAGR lower end. Then to compare, so it would be 1 to 2% for each year, the next three years, is that correct?

Andy Agg: But you have to remember that effectively as we've guided this morning, the tax impact is 6-7p year one, and we expect that to grow slightly higher. We are delivering the 6% still over the 5 years taking account of that. In terms of the underlying performance of the business against that 6-8%, I think that if you do the maths on what 6- 8% (CAGR) is at the end of 5 years, it's a wide range and that sort of 6-7p per share as it grows with the capex over the three years, the underlying performance would probably have put you much higher in that range by the end. I think you're doing your maths, but you've got to remember we'll still have that tax drag in the final year.

James Brown (Deutsche):

James Brown from Deutsche Bank. Just on this 2025/26 guidance point, is there an explicit underlying upgrade really going on here for 2025-6 guidance? Because if we take the low end of your range, we add on 6-7p plus however much it's growing, we actually get to the top end or maybe above your guidance range. Is that the right way to look at it?

Then secondly, John, you mentioned the need in your priorities for the UK, a need for competition legislation, which was the only one that kind of jumped out to me as maybe being a bit more as surprising. I was wondering whether you could just talk, are you advocating for... I guess you are advocating for competition legislation, what would you like to see? Because I guess most people's kind of assumption would probably be that you wouldn't want more competition, you'd want to stick with the status quo.

John Pettigrew: Okay, so I'll take the competition one, and Andy can talk the guidance. In terms of competition, actually National Grid has consistently said for several years that actually we'd be supportive of competition. I guess what we'd like to see is a decision made on that, because actually the energy transition is accelerating. There are still outstanding questions about which project's going to be put out to competition. Legislation is going through, but we need to get a position where we have clarity going forward and the scale of the investments needed in the UK and beyond is probably bigger than any single company or the transmission companies that exist today. We're just advocating for, let's make a decision on it so we can move forward.

Andy Agg: Yeah, and just on the guidance point, so we'd previously not guided specifically within the range at the end of the 5 years, we'd said in November that we expected to be now in the 6-8% range. But as I said in the previous question, if you look at what a 6-8% range over 5 years gets you, the range is close to 10p. Given we are now expected to be at the lower end of that range with the tax drag, then I can't disagree that without the tax drag you would've been towards the top end of that 6- 8% by year 5. I'll remind you again, it's a 3-year transitional change to the tax allowances regime at the moment. If that doesn't get extended, we would expect the optical jump back up in EPS when you get to FY27. But we'll have to see where we get to.

Rob Pulleyn (Morgan Stanley):

Thank you. Rob Pulleyn from Morgan Stanley. I have one question and then an observation if I may, and neither's on guidance or accounting, you'll be glad to hear. Firstly, I think everyone can agree that the biggest bottleneck, and it's on your priority slide, is permitting. One of the biggest issues on permitting is local opposition, which is remarkable at a time of affordability crisis around living costs both in the UK, Europe, and the US. What do you and other energy transition companies need to do to make the argument stronger, to get local support, such that permitting can improve? The observation if I may, is regarding the political process and given the fixed term Parliament Act, we are within sort of 12 months-ish, slightly longer of those in government not being there. Do we need to see, or will we not see a significant improvement in the framework, until actually you get a new government in place with a mandate and a time horizon over 5 years to actually go and change things in a way that you wish. Thank you.

John Pettigrew: Yeah. Well, thank you for the question. Just so it's clear, National Grid has a very defined process that's set out in the National Policy Statements as to how we assess what's the right infrastructure to connect things like offshore wind farms and therefore what are the options, and therefore what it means for local communities. We work incredibly hard to engage with local communities over multiple years to set up what those options are and also to share with them the criteria on which we, through legislation, are obliged to assess those options, the economics, the engineering, the aesthetics, the environmental impacts, and also the local community's views. We do that every single time that we're looking to build major infrastructure, but we're very sympathetic to not everybody will want to host infrastructure, albeit on behalf of the UK as part of the energy transition.

One of the things that National Grid has been advocating for quite strongly as part of the planning process, as well as streamlining the process to make it quicker, is that there should be community benefits for those local communities that do host infrastructure. We were particularly pleased actually that the government has actually launched a consultation on that. As

part of that consultation, we were also pleased that one of the options that they're considering is that actually what that community benefit looks like and that should actually be something that you engage with the local communities on.

Rather than dictating something, it could be lower energy prices, it could be investment, great jobs, it could be investment in the local community, but that is something that should be discussed with the local community so that they can agree what those benefits are. We're a big advocate of that. We've been pushing for that quite strongly. We're really pleased that the government's consulting on it. One of the reasons we put our Policy Statement out on Monday is that being bold and having pace are going to be really important, which is why we set out on Monday, that that is one of the key things that we see as part of a new planning regime going forward.

Ruisi Liu (Bank of America):

Hi, morning. Ruisi Liu from Bank of America. Can I ask you two on the US if that's okay? The first one is regarding the New York City gas ban that's coming into place next year. What are your thoughts on that and how that sort of impacts your guidance? I think in the testimony you filed, you said that's going to impact KEDNY more than KEDLI, if you can comment on that one.

The second one is on the 9.8% RoE I think you requested to the New York regulator. Can you give us an indication of how that conversation is going? Sorry for coming back to the guidance, is that 9.8% what you used for the 6-8% EPS guidance? Because I think others went in with a 10% request and came out with 9.25%. I'm just wondering if that's your base case or that's what you're using for your guidance. Thank you.

John Pettigrew: Okay, so I'll come to you for guidance, Andy. So in terms of gas, let me just talk about US gas. I think people will recall that National Grid set out a vision for how we see a roadmap for gas evolving as part of the engine transition in the US in April last year. And I've actually been very pleased with the way that people have leaned into that. And as you heard in my remarks this morning, we're also quite pleased that some of the documents that have been produced in New York over the last year have recognised that gas networks have got an important role to play. Albeit it should be part of a decarbonisation agenda. So things like blending for hydrogen, renewable natural gas has been recognised as a potential pathway for that. So for all those reasons, I'm quite pleased that actually those things are recognised.

In terms of the building ban for, I think, it's less than 7 story buildings in New York City. Actually when you look at all the exemptions, it has quite a small impact. And actually for our gas business, new connections is certainly not a

driver for the growth that we've been seeing. Actually, our leak prone pipe replacement programme is the significant driver for our growth. So it's not going to have a material impact on National Grid and its gas business. But one of the things that I was talking about in my remarks is that we need to continue to work on articulating how gas plays an important role in our jurisdictions in the North-East and how it supports the electrification agenda as well. And we do that by setting out pragmatic examples and also recognising the affordability issue that customers are concerned about. So materially, it doesn't have a huge impact on the business underlying.

In terms of the 9.8%, so for New York, for both KEDLI and KEDNY, we've been working very closely with stakeholders and with the regulators in preparation for making the filing for the rate cases. There is quite a well-defined methodology that we've used and the regulators use for RoE and in the rate case filing, we've done that. It's at a very early stage. So we will now start the discussions in detail with the regulator to make sure we get the balance right between what we need to do from a safety reliability perspective. What we need to do as part of the energy transition and how we balance that with affordability. And we'll see where we get to as part of those discussions. It's quite a long process. It can take 12, 16 months in New York to go from a filing to actually get an agreement. But we're just at the beginning of that.

Andy Agg: And in terms of the guidance point, look, when we put the 5-year guidance out originally, we always aim to make the frame robust, so not subject to change for individual outcomes on individual rate cases. So I'm comfortable that any sort of sensible outcome on that rate case isn't going to move the guidance, move us outside of the guidance that we've put out this morning for the 5 years.

Mark Freshney (Credit Suisse):

Hello, it's Mark Freshney from Credit Suisse. Andy, looking holistically, we're in a different environment now to the one we were in 18 months ago in many levels, but particularly on interest rates. We've gone back to higher rates. You've got very quick trackers in the UK, slower in the US and you've got substantial net debt at group level outside of the rate base. So, if you put that together, how much lag do you think there is when rates go up, how much lag do you think there is before you actually find that your EBIT and your returns actually go up? And also, on the debt element, as I understand it, a significant fraction of your debt is floating, which is fixed for shorter periods. And if you could take that into account as well.

Andy Agg: Sure. So let me just quickly, in terms of the mix of the debt book today. So, as I said this morning around 70% of our debt is within our regulated entities. So around 30% is Holdco across the UK and the US. In terms of fixed flow post the transactions with the repayment of the bridge, we're now very much

back in line with where we were previously. So around 79% long-term fixed, 11% index-linked and 10% floating. And that's a balance I'm very comfortable with going forward. So it's only 10% of the total book that is floating. In terms of the linkage to regulation, I think here in the UK you're right, we have the tracker that trues up each year and obviously the risk-free rate also flows through the cost of equity mechanism under both transmission and distribution. So I would anticipate that that will get trued up very quickly.

But in the US so I think your comment was that it's much slower. I think I'd probably phrase that slightly differently, which is it depends on the cadence of rate cases, because cost of debt allowances are set and reset when you file. But you are given an allowance for future filings as well. So as long as you issue with inside that, you do get that recovered in full. And I think we've been very successful in making sure that our regulatory arrangements in the US accommodate predicted debt filings as well as past ones. So I don't see that there's a significant lag from a regulatory perspective in the US either. So we're comfortable both sides of the Atlantic. So as I said in previous presentations, the focus is therefore on the Holdco debt. And there, as I said this morning, we have the average maturity of the whole group which is around 11 years. And we've absolutely included the impact of interest rates in our 5-year guide interview as well.

John Pettigrew: I think there's another question in the room, so I'm going to take that while we sort out that technical hitch.

Pujarini Ghosh (Bernstein):

Hi, this is Pujarini from Bernstein and thanks for taking my questions. So on offshore transmission. For some time you've been talking about this Holistic Network Design and given that now you've created a new division, is something moving on the ground, could you give us some more colour on that?

And then coming back to US RoE's, in New York I think there was a slight decline in your RoE this year. Should we read too much into that? And also, could you give us some more colour on the Massachusetts upcoming rate filing?

John Pettigrew: Okay, let me start with... so the new business unit, Strategic Infrastructure. So it was in December that Ofgem made the decision finally to award National Grid the 17, what we call ASTI projects. So given the scale and the nature of those projects in terms of the vast majority of them, they are National Critical Infrastructure with the significant planning processes that we talked about earlier. We've taken the decision that actually separating that out and focusing on delivering that is the right thing to do. And we appointed a new person to lead that, which is Carl, who hopefully you'll get a

chance to meet soon. The focus now is really in two areas. The first area is to work with a supply chain to put in place the right contractual frameworks to deliver that program of work.

So you heard me say my remarks, delivering that work as project by project on an individual basis is not going to be the most effective way to do that. And given that the UK is competing globally with a supply chain, we need to put in place a program that gives the supply chain the visibility and the transparency of the work that we are asking to do over the next decade. So Carl and the team are very much focused on getting that contractual framework right. The second step then is, having got agreement from Ofgem that we're doing the work, we now need to put the regulatory framework in place to deliver that. And again, there are two aspects to that. The first is to make sure that we've got regulatory framework that allows us to deliver this work as a program of work. So historically, for those who are close to it, the LOTI projects tend to be individual projects.

You have to go to the regulator to get approval individually. But delivering this as a program of work means we need some changes to the regulatory framework. And then ultimately we also need to agree the financial frames, Andy mentioned earlier, in terms of the returns and speed of cash and those sorts of things. That may not get done until T3 because actually the vast majority of the capex is not going to be spent until T3 and beyond. But actually we will continue to encourage the regulator to give us clarity on that as well and we'll continue to work on that. So that's the focus in those areas.

In terms of New York, I mean we're very pleased actually; 96% of allowed is a good return. We've had some cost pressures in New York which is just reflected in that, but the underlying performance, the business continues to be strong as we go into the new rate filings for KEDLI and KEDNY. And in terms of Massachusetts, we're just currently putting together our plans on that. One of the things I've been very pleased about in Massachusetts is outside of the rate filings, we've been able to agree with the regulator some significant investments for smart metering and grid modernisation and EVs. So the rate filing will focus very much on the core of the network in terms of making sure that we've got the investments for asset replacement, resilience, storm hardening and those types of areas. But we'll also be discussing with the regulator what is also needed for the energy transition as well and creating optionality around that.

Nick Ashworth: Yeah, so there's one question waiting which is Dominic.

John Pettigrew: Okay so Dominic, if you're on the line, love to take your question.

Nick Ashworth: Dominic, your line is open.

Dominic Nash (Barclays):

Hello there. Yes, it's Dominic Nash here from Barclays. I hope you can hear me?

John Pettigrew: I can hear you Dominic.

Dominic Nash (Barclays):

Ah, brilliant, thank you. Okay, couple of questions for me please. The first one is on REMA. That's obviously trundling along on the sort of review of the power markets and sort of nodal pricing versus sort of a one market etcetera. But I just want you to know what your thoughts were on this policy as to what you would like to see for the price signals, safer transition with transmission, nodal pricing? And/or we'll also be looking at things like first come first serve, versus auctions for connections and other sort of policies that will affect the energy transition. And when do you think we'll get a response from Ofgem and government on that. And secondly, I just wanted to quickly ask a question on following up from Mark Freshney' s question. What is your current cost of debt do you think, and what do you think the current cost of equity? Because I'm looking at your returns on UK; UK Transmission is sort of 6.3% nominal. And that looks quite low to me. What do you think you actually do need to meet your cost of equity? Thank you.

John Pettigrew: So I'll take the first Dominic, then I'll ask Andy to take the second. In terms of the two areas that you referenced, particularly locational marginal pricing and nodal pricing. I think the real debate to be had certainly in my mind is whether that is truly going to be effective in the UK, given that to a large extent the locational decisions on where generation has sat for the next several decades has been decided. In that we are going to be a network that's predominantly dominated by offshore wind, which is going to be located in the North Sea and in the Irish Sea. And to the extent that there is a nuclear program, we know where nuclear will be as well. So I think there is a debate to be had around how effective that type of mechanism would be for the UK given that the key decisions have been made.

And we are feeding into that as part of the consultation process. In terms of first come first serve on things like connections. One of the things that we set out in our policy document is actually we do think there is a need for fundamental reform. And one of the thoughts that we've had is actually as we move forward that linking it with things like anticipatory investment. It may be more efficient for customers if actually you could create connection zones where you've done the investment. You create the capacity and, rather than individuals deciding where they want to connect on the transmission system, you create capacity and let people know where the capacity is and they connect into it. And that potentially may be a much more efficient way

of delivering the energy transition than the existing mechanism where any of you can choose to connect anywhere and then you have to build up the infrastructure to support it. So that's something that we set up in the policy document and we're going to be spending some time talking to Ofgem and others about in the months ahead.

Andy Agg: Yeah, thanks. So Dominic, I mean on cost of debt, you're absolutely right that we have seen a tick up in our overall effective interest rate, partly driven by obviously higher inflation feeding through the index link portion of the debt book this year. So that's as you'd expect. In terms of your point on cost of equity, clearly I'm not going to give you a view on what National Grid's cost of equity is or so forth. But in terms of how we see the regulatory returns, I think that you mentioned 6.3%; that's what it has been for the past year.

But as we look forward into FY24, I think the base allowed return for both ED2 and T2, if you neutralise the gearing impact is 5.28%. So you've got CPIH on top of that. And as you heard this morning, we've reaffirmed our guidance aiming for outperformance of a 100bps (operational outperformance) on top as well. So that's how we see those regulatory frameworks building. And yes, I think the number you mentioned is slightly low on that because of the gearing change on transmission. But if you allow for that, that's where we see some of allowed returns going forward.

John Pettigrew: So I think we've got a question from Ajay from Goldman Sachs.

Ajay Patel (Goldman Sachs):

Hi, can you hear me?

John Pettigrew: Yes, we can.

Ajay Patel (Goldman Sachs):

Good morning. And thanks for the presentation. I had a couple questions, just on the renewable side. Is there any indication of the returns that you're making there and how they compare with the rest of the business? And if that was to be proven to be more successful, would you allocate more capital in that direction?

And then I'm just looking at the overall business, the reviews, the opportunity in capex that you highlighted. I'm just wondering what are the key obstacles here for you? What keeps you up at night? Feels like things are very clear in terms of direction you're heading. Just wanted to know what considerations there may be that maybe I haven't looked at?

John Pettigrew: Okay, thanks Ajay. In terms of renewables, I mean our position has always been very consistent in that we see our renewables business as adjacent to our core networks business. And we look in a discipline way to invest in projects where we think we'll get return, which is above what we see in our sort of onshore networks business. That has always been the case. Within National Grid Renewables, I think we've got about a 1000MW now in operation and about 800MW as part of our Joint Venture with Washington State Investment Board that we're taking forward, which will be delivered over the next couple of years. So we continue to see opportunities in National Grid Renewables with good returns. And on top of that of course we'll also progress on the offshore wind project with our Joint Venture with RWE. In terms of the second question, I didn't catch the beginning of it, sorry Ajay, if you could just repeat it. I heard the word obstacles but not the rest of it?

Ajay Patel (Goldman Sachs):

Yeah, it was very high level, but I'm just trying to understand what keeps you awake at night here, it feels like the story in terms of the capex opportunities are there and ASTI is just driving that even more so on the UK electricity side. I just wonder what are the obstacles in delivering this plan or what are the things that effectively keep you up at night when you look at the businesses that currently stand? Just because it all feels like everything's just running very smoothly.

John Pettigrew: Well, I'm pleased to hear that Ajay, because that was the intent of the presentation. Genuinely I think we're in a very good position. We've spent the last two years executing on the strategic pivot and we've come out of that. We've done that whilst performing very well. So, we do see significant opportunities ahead of us and we think that National Grid is very well-placed to take advantages of opportunities. And one of the key messages is we're acting now, which as you've seen we've just established a new business unit to deliver those ASTI projects because we think that is the most efficient, effective way of doing that.

In terms of obstacles, I guess the Policy Document that I put out on Monday is really setting out from our perspective; we recognise that networks are a key enabler to the energy transition; and that those are the things that we believe regulators and governments should now be really focusing on. And they need to do, as I said, with pace and to be bold if we are going to continue and increase the momentum of the energy transition. So I'm not sure I'm losing sleep, I'm a pretty good sleeper, but those are certainly the things that are on my mind as we look forward to the opportunities ahead of us.

John Pettigrew: Nick, has a question? I assume this is from online.

Nick Ashworth: It's not from my old days. Yeah, so I've got two questions from Bartek, from SocGen. So the first one is what RoE outperformance do you expect for ED2?

And secondly, how to reconcile your cost savings with the fact that controllable costs have increased across all divisions. Thank you.

John Pettigrew: Okay. Do you want to take the second one Andy. In terms of the RoE performance for ED, what I'd say, as I mentioned earlier, please come to our investor day in July. I mentioned that I'm really pleased actually with the progress we've made in integrating electricity distribution into National Grid, we've appointed a new leadership team. Now that we've got the outcome of ED2, we're very focused on looking at how we deliver both the regulatory commitments the customer needs, but also how we deliver financially against that. So Cordi O'Hara is looking forward to actually meeting you all and sharing her plans with you at the beginning of July. So I look forward to seeing you all there. Andy, do you want to talk about the cost?

Andy Agg: Yes. So as we said this morning, we've had a good year in terms of delivering our cost reduction initiatives up to £370 million. But as you said, in terms of the total cost base and as we guided last year, this is very much now about helping us offset both the headwinds that inflation is bringing, as every business is facing, and also offsetting the growth of the business. We're growing at 8-7% per annum. That brings with an additional cost of maintaining and managing that asset base and therefore the efficiency programme is making sure that we're offsetting some of those cost pressures as well. So we're very pleased with how it's delivering and that's where it's working for us.

John Pettigrew: No more questions? Okay, in which case, I'm going to thank everybody for joining us this morning. I guess in summary, I think it's been a good year for National Grid. We're really pleased to have completed the strategic pivot. I do think it positions us well for the future and we're really looking forward to seeing many of you at the July event on Electricity Distribution. Thanks for joining us.