

# Chief Executive's review



**The energy sector remains firmly in the spotlight. Energy bills are high, net zero targets are getting closer and the weaponisation of global energy is no longer theoretical.**

## Context in which we are operating

In this context, it's very clear that delivering the energy transition at pace, whilst challenging, is vital if we are to create a future energy system that is not just secure and clean, but fair and affordable.

This is not just about the environmental benefits of more renewables on the grid, although that's critical to tackle climate change. It's clear that the benefits of the transition actually reach much further. In both the UK and the US, more renewable energy means lower bills in the longer term, increased energy security, economic growth and the creation of thousands of green jobs.

National Grid – and the whole energy sector – is innovating at a speed not seen before. The scale of the challenge – and opportunity – remains huge.

National Grid is operating at the very heart of this transition. We're driving progress and investing heavily in decarbonising the networks of today while designing the networks of tomorrow. Our colleagues are working hard to deliver a just transition, and to unlock the huge opportunities that this transition can deliver for all.

In the UK, we continue to work closely with the Government and regulator, and we welcome Ofgem's acknowledgement of the need for speed and scale. In particular, I am pleased that the regulator has confirmed National Grid will deliver the 17 projects that will make up the ASTI work on the East Coast. This decision gives National Grid – and the wider industry – clarity on the next step towards a more affordable, resilient and clean energy system. We now need to see a similarly holistic and forward-thinking approach to changes to the anticipatory investment framework, so that these projects can be progressed at pace.

However, we continue to face regulatory and planning hurdles which are slowing the pace of delivery of the net zero infrastructure needed for the energy transition. We urgently need to see regulation that allows for investment ahead of need, a more streamlined planning system and a recognition of the important role communities play in hosting this critical infrastructure if the UK is to reach the Government's decarbonisation targets. On 15 May we published a detailed policy statement 'Delivering for 2035', where we set out five priorities requiring action by the Government and Ofgem; we will continue to work closely with them on how best to push forward the transition at pace and welcome in particular consultations with a focus on the reform of the planning system.

Our winter outlooks this year showed that, although extremely unlikely, the UK could have faced some disruption to power supply. I am pleased to say that the extra measures we put in place to manage this – along with relatively mild weather for much of the winter and cooperation from European partners through our interconnectors – have prevented any disruption to supply. We will continue to take a prudent approach to planning in the months ahead as we look to the coming winter.

In the US, we have seen the introduction of the Inflation Reduction Act 2022 (IRA) – one of the most significant investments the US has ever made to develop clean energy and slow the effects of climate change. We welcome this Act and the bold ambition it demonstrates and the many aspects which align well with our own fossil-free vision, which will fully eliminate fossil fuels from both our gas and electric systems by 2050, if not sooner.

As in the UK, however, we need to see an increase in the pace at which clean energy infrastructure can be delivered, with a more streamlined permitting system introduced.

I'm pleased that – as the debate on the best path to net zero in the US Northeast continues – we have forged strong inroads with key stakeholders to find pragmatic solutions to bring us closer to a clean, fair and affordable energy future.

## Business highlights from the year

Our strategic pivot is now complete, with the sale of a majority stake in National Grid Gas (now National Gas Transmission) to a Macquarie-led consortium completed during the year. This pivot underlines our commitment to decarbonisation of energy networks in order to reach net zero, and provides a clear focus on electricity in the UK as we look to the future. A new business unit, Strategic Infrastructure (SI), will lead the delivery of the infrastructure required to support an electric future in the UK.

In May, we announced our underlying operating profit was up 15% (10% at constant currency) to £4.6 billion. Over the course of the full-year, we continued to invest in the energy transition at pace, investing £7.7 billion across our networks, up 15% on the prior year.

## Investment and delivering for shareholders

I'm extremely proud that National Grid is one of the largest green investors in the FTSE. Over the five years of our financial outlook we anticipate investing up to £40 billion between 2021/22 and 2025/26, of which £29 billion is directly into the decarbonisation of our energy networks (aligned with the EU Taxonomy).



Further reading: Our business units  
pages 28 – 32

Whilst continuing to invest at scale and pace in both the UK and US, we will deliver average asset growth of 8–10% per annum (compound annual growth rate (CAGR)) and drive underlying earnings per share growth of 6–8% per annum on average (CAGR) through the period 2021/22 – 2025/26.

Continued long-term growth will be underpinned by our strong operational and financial performance. We have the financial visibility to maintain a resilient balance sheet and a track record of delivering efficiently, highlighted by the fact we are making strong progress against our Group cost efficiency programme, having achieved £373 million of cumulative efficiency savings at 31 March 2023 against our £400 million target of savings by 2023/24 announced in November 2021.

## Empowering colleagues, delivering for customers and enriching communities

Against a backdrop of rising wholesale gas prices, and therefore steeper utility bills, we are delivering significant packages of financial support – to run across two years – to our communities in the US and the UK. There is more detail on these initiatives, including detail on the difference they are making to people left most vulnerable by the energy crisis, in our RBR.

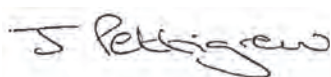
In the US, we committed \$17 million to help customers on the front line of the energy crisis, and our Winter Customer Savings Initiative in Massachusetts resulted in more than 248,000 customers receiving discounted rates, more than 25,000 electing for budget/balanced billing and tens of thousands of customers visiting our dedicated help website.

In the UK, a £50 million fund has been targeted at charities that provide immediate, emergency financial relief to households using pre-payment energy meters; charities that fund energy-efficiency measures to lower bills over the long term; and charities that provide advisory services for households who need help with energy bills, payments and debt. Money from the fund will be used by beneficiary organisations to support people struggling with energy costs by increasing the number of support staff giving advice on phonelines, providing fuel vouchers and improving the energy efficiency of homes at no cost to householders, for example. This fund has supported 30,000 households to date.

This fund is in addition to the £200 million interconnector revenue Ofgem agreed to National Grid paying ahead of schedule. And, subject to regulatory approval, we will return a further £100 million of interconnector revenue to Ofgem ahead of schedule, to help consumers sooner.

Sadly, in May 2022 we had a fatality: we lost a colleague in Massachusetts. He was electrocuted whilst working on live equipment keeping power to a residential building. This loss has had a profound effect on me and the whole organisation. Since then, we have completed a thorough investigation, shared what happened with the whole organisation, changed our Group-wide approach to safety through the establishment of a new policy and safety strategy called 'Stand Up For Safety'. A second fatality occurred in September 2022 when a vegetation contractor in our New York business died following an allergic reaction to a bee sting. Everyone should return home safely at the end of their working day and following these tragedies we are re-doubling our efforts to ensure this is the case for all who work on our assets.

I am pleased to report that our employee engagement survey, Grid:Voice, which included our UK ED colleagues, shows high levels of engagement and empowerment across the business. I'd like to take this opportunity to give my heartfelt thanks to my colleagues right across National Grid; they have unrivalled dedication, professionalism and commitment to doing the right thing, making it happen and finding a better way.



**John Pettigrew**  
Chief Executive

### UK ET highlights:

Good progress at London Power Tunnels 2 – a £1 billion project to rewire South London – where we have now completed three of five drives for the tunnel boring machines, marking a significant milestone for the project which will future-proof the energy infrastructure of the capital for many years to come.

We've continued to develop our proposals for the critical infrastructure needed to upgrade the network and enable the connection of more offshore wind. We have submitted planning applications for key parts of the grid, and continue to consult with local communities on our plans.

We've wired up and energised 37 of our innovative T-pylons as part of the Hinkley Connection project, which is connecting six million homes and businesses to low-carbon energy. The Hinkley team has also energised Shurton substation in Somerset, to support Hinkley Point C nuclear power station in readiness for the connection of its generators in the future.

### UK ED highlights:

Our new price control, R110-ED2, which was developed with 25,000 stakeholders over the course of two years, is now agreed with Ofgem.

We have run a significant winter awareness campaign to encourage vulnerable customers to sign up to the Priority Services Register, ensuring people know how best to prepare for winter and that we can serve our customers in the best way possible.

Our most recent customer satisfaction survey showed an average score of nine out of ten for April 2022 – March 2023

Phil Swift left the business at the end of March, and I'm pleased that Cordi O'Hara has been appointed as President UK ED. I'd like to thank Phil for his valuable service.

### ESO highlights:

Creation of the FSO: we successfully delivered our separation blueprint to Ofgem and the UK Government in December 2022. Subject to agreeing cost recovery, and timely passage of the legislation, we expect the process to complete in 2024, in line with Government ambition.

### New England highlights:

We have been successful in receiving \$336 million in grid modernisation funding and \$487 million pre-authorisation for Advanced Metering Infrastructure spend. These are important milestones for progressing our modernisation of the electric grid.

The Clean Energy and Climate Plan (CECP) issued by the outgoing Baker Administration recognised the role that decarbonised fuels will play in meeting the Commonwealth's net zero ambitions, including for commercial and industrial customers and hard to electrify sectors.

The Massachusetts legislature introduced a bill to advance anticipatory planning and investment to enable transportation electrification along the Commonwealth's highways and a bill to consolidate and better align the permitting process for infrastructure that supports clean energy development and deployment, and engages communities.

### New York highlights:

The regulator has approved over \$2.8 billion in NiMo transmission upgrades to enable National Grid to build ahead of need to meet the State's 2030 climate goals.

New York state adopted its Scoping Plan for implementation of the Climate Law in late December 2022, and we were pleased that much of it aligns with our fossil-free vision. It's clear that investment in traditional infrastructure will still be necessary to maintain reliability and safety, and that a decarbonised gas system has a key role in achieving emissions reduction targets, as we map a pathway for the scaling up of renewable natural gas and green hydrogen.

The New York state legislature has introduced a bill, written in consultation with National Grid, to establish a highway and depot charging action plan to meet the upcoming surge in demand from the electrification of passenger vehicles and commercial trucks.

### NGV highlights:

Our IFA interconnector returned to service ahead of schedule, taking our total National Grid interconnector capacity to 6.4 GW.

Community Offshore Wind, our partnership with RWE in the Northeast US, has submitted a proposal to the New York State Energy Research and Development Authority for a 1.3 GW offshore wind development, with the potential to power nearly 500,000 homes.

Ofgem has selected two National Grid projects – LionLink to the Netherlands and Nautilus to Belgium – as part of its Multi-Purpose Interconnector (MPI) pilot scheme, which is designed to accelerate the delivery of offshore wind faster.

At Viking Link we have seen the completion of onshore cable works and the converter hall in Denmark, with the project still on track to become operational in early 2024.

It was a record year for Grain LNG with 102 ships unloading highlighting the impressive availability record and critical role Grain LNG plays in supporting security of supply both here in the UK and for our European neighbours.