National Grid
Full Year Results 2024/25

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Transcript

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Angela Broad: Good morning and welcome to National Grid's Full Year Results presentation. I'm Angela Broad head of Investor Relations and it's great to have so many of you on the call today. Firstly can I please draw your attention to the cautionary statement at the front of the pack. As usual a Q&A with John and Andy will follow the presentation. Please join via the conference call to ask a question or use the tab at the bottom of the webcast to submit a written question. All of today's materials are available on our website and of course for any further queries after the call, please do feel free to reach out to me or one of the IR team. So with that, I'd now like to hand you over to our CEO John Pettigrew. John...

John Pettigrew: Many thanks Angela.

Good morning everyone, thank you for joining us, to discuss our Full Year results. I hope to see many of you later on at our “Building our Energy Future event”, for a deep dive on the major capital projects we’re delivering across the UK and Northeast US. As ever, I’m here with Andy Agg and once we’ve been through our respective presentations, we’ll be happy to answer your questions.

Last May, we announced a refined strategy, focused on pure play networks. We also set out a new 5-year financial framework, and our plans for £60 billion of capital investment. This will drive asset growth of around 10% per annum, and underlying earnings per share growth of 6-8%, whilst maintaining a strong balance sheet and delivering an inflation-protected dividend. Alongside this we set out our comprehensive financing strategy, including our £7 billion equity raise, providing clarity over our funding to at least 2031.

In the first year of the 5-year framework, we’ve accomplished a huge amount, despite a turbulent economic and geo-political environment.

We’ve delivered record capital investment of £9.8 billion, in line with our plan and 20% higher than last year. This reflects the scale of activity across all our regulated businesses including significant progress within our ASTI portfolio, where all 6 of our Wave 1 projects are now under construction, a step up in asset health and network reinforcement in Electricity Distribution, over 350 miles of gas mains replacement across Massachusetts and New York and good progress with our Smart Path Connect project in US Electricity Transmission.

We’ve also secured the supply chain and delivery mechanisms for more than two thirds of our £60 billion of capital investment.

For ASTI, this includes contracts for the delivery of 12 onshore and 2 offshore projects whilst also making good progress on Eastern Green Links 3 and 4, and Sealink.

And in New York, we've made further progress with our $4 billion Upstate Upgrade, awarding contracts for the first phase, as well as the engineering works for phase 2.

The policy and regulatory agenda on both sides of the Atlantic has also continued to move forward, further enhancing visibility on our investment plan.

In the UK, the government published its clean power action plan in December. And Ofgem published its decision on connections reform last month which embeds **"is it 'ready'" and "is it 'needed'"** criteria into the connections process. This will deliver a rationalised queue of projects aligned with the clean power plan and clarify the specific investments and locations required in the outer years of T3.

New legislation on planning reforms was also introduced in March, which aims to reduce the time it takes to deliver infrastructure projects. Whilst these reforms will be more impactful in the 2030s, there are important measures in the bill that have the potential to further de-risk our ASTI projects.

In the US, we've refreshed all 3 of our New York rate plans and agreed new rates for our electricity distribution business in Massachusetts over the last year.

Altogether, this means that we've now agreed over 70% of our US investment with regulators, over our 5-year frame.

We also expect to receive approval for our Electricity Sector Modernisation Plan in Massachusetts, where we've filed for up to $2 billion of capital investment over the next 5 years to help deliver the state's clean energy goals.

So, the combination of these firm foundations and our resilient business model which provides strong regulatory protections from macro-economic uncertainty, and no significant exposure to energy prices or merchant risk means that we're very well positioned and hugely confident in our ability to deliver our £60 billion investment programme.

We'll have much more to share on capital delivery at our investor event this afternoon, where we'll showcase the sheer scale of our electricity transmission projects and how we've transformed the way we're delivering them.

So, turning now to some of the key highlights for the year.

We've delivered a strong performance with underlying operating profit increasing 12% to £5.4bn at constant currency. This reflects robust operational performance, as a result of increased regulated revenues and flat controllable costs, achieved through our focus on agreeing the right regulatory frameworks and efficient delivery.

Underlying earnings per share was slightly ahead of guidance at 73.3 pence and up 2%, reflecting the impact of a higher share count following the rights issue.

A record £9.8 billion of capital investment helped to drive regulated asset growth of 10.5%.

And in accordance with our policy to grow the dividend in line with the UK's CPIH, the Board has declared a final dividend of 30.88 pence per share. This takes the total dividend for the year to 46.72 pence, an increase of 3.21% on last years rebased dividend.

Moving next to reliability and safety.

Reliability has remained strong across our UK and US networks, despite severe weather events across our jurisdictions.

An example of this is Storm Darragh last December, a once in a decade storm that hit our UK electricity distribution networks, causing significant damage across the South West, South Wales and West Midlands. Our teams worked tirelessly around the clock, restoring power to 95% of customers within 48 hours.

Last week, the NESO published its interim report investigating the outage following the fire at our North Hyde substation in March. We welcome the report which establishes the timeline and sequence of events, and outlines further steps required to deliver their final report in June.

On safety, our lost time injury frequency rate was 0.1, in line with our Group target.

As our workload increases, we continue to invest heavily in attracting, developing and retaining a qualified and competent workforce, with robust training programmes built around a culture of safety. We’ve also set protocols for our contractors, so that high safety standards are maintained, right across the workforce.

Turning to our operating performance across the Group, starting with UK Electricity Transmission.

Investment increased by 57% to £3.0bn, reflecting, the ramp up in the first wave of 6 ASTI projects, major substation upgrades and a further 4 gigawatts of generation being connected to the network. This included the UK’s largest battery storage unit at Lakeside in North Yorkshire and a 1.2 gigawatt Offshore wind farm in Dogger Bank.

The business delivered a return on equity of 8.3%, out performing its allowed return by 100 basis points.

Turning to regulatory developments. In December, we submitted our £35 billion RIIO-T3 business plan, representing the most significant investment in the UK's electricity transmission network in a generation. This ambitious plan will nearly double the power that can flow across the country, directly connect 35 gigawatts of generation and 19 gigawatts of demand, and create optionality for a further 26 gigawatts, all whilst maintaining world class levels of reliability.

Our submission also included clear evidence on the need for an investable financial framework, including a real 6.3% allowed cost of equity, appropriate levels of cash generation, and incentive mechanisms that will deliver benefits to both networks and consumers.

Under our proposals, we expect our investment plans to avoid constraint costs of around £12 billion over the price control period, offsetting the impact of investment to customer bills.

In addition, we're also pleased to see Ofgem's decision on the Advanced Procurement Mechanism. This will provide funding for transmission owners to secure supply chain capacity, covering items like switchgear and transformers. This builds on the approach Ofgem adopted under the ASTI regime, and we plan to utilise the framework from the middle of this year.

Finally, on policy developments, in addition to the connections reforms I mentioned earlier, the government published its Planning and Infrastructure Bill.

The bill includes a number of proposals that are important to us, including giving certain projects the flexibility to choose the type of consenting regime used and providing opportunities to accelerate the consenting process.

The bill also includes proposals intended to increase the public acceptability of electricity transmission projects, alongside guidance for wider community benefits.

Moving to Strategic Infrastructure. This will get a lot of focus this afternoon but to summarise, we now have the Great Grid Partnership up and running, the HVDC framework agreement in place, the supply chain secured for all 12 onshore projects, all wave 1 projects under construction, and we've continued to build our internal capabilities, and the workforce now stands at over 1000 employees.

So, in the last year we've put the platform in place and delivery is well under way. Carl and his team will provide a lot more detail on our progress later today.

Turning to UK Electricity Distribution, capital investment increased by 14% to £1.4 billion, driven by increased spending on asset health, network reinforcement, and connecting nearly 600MW of renewable generation.

The business achieved a return on equity of 7.9%, and whilst this reflects the benefit of our synergy savings programme, it was heavily impacted by costs from storm Darragh, as well as lower than anticipated allowances from Ofgem's Real Price Effects mechanism, that haven't matched what we were expecting when the price control was agreed.

We're working hard to address the ongoing headwind and expect performance to improve over the remainder of the price control period.

This year we've also made good progress in developing our role as a Distribution System Operator, or DSO, including our leading role in the development of flexibility markets. We now operate the largest market across all DSO's allowing us to avoid over 200 GWh of renewable generation curtailment, lowering costs for consumers.

On the regulatory front, Ofgem published their ED3 framework decision at the end of April, which gives us an early indication of their thinking on the next price control period and is the starting point for the development of the sector specific methodology.

And as I mentioned earlier, we were pleased to see Ofgem's decision on connections reform.

Electricity Distribution has been playing a leading role in driving forward these reforms, and over the last year we've been able to implement the industry's technical limits initiative, accelerating the connection offer dates on around 3 gigawatts of distributed generation and removed over 4 gigawatts of capacity from the connections queue.

Turning to the US, our investment in New York increased by 24% to £3.3 billion. This reflects a further 218 miles of gas mains replacement and a continued ramp up in our $4 billion Upstate Upgrade programme, including the reinforcement and upgrade works as part of CLCPA Phase 1 and continued strong progress on Smart Path Connect, where we're rebuilding over 100 miles of transmission lines to connect large scale renewable generation.

Again, we'll have much more to say on our Upstate Upgrade programme this afternoon.

We achieved a return on equity of 8.7%, 94% of the allowed and 20 basis points higher than the prior year, reflecting strong performance in our downstate gas businesses in the first year of our new rate plans.

On the regulatory front, we reached a Joint Proposal in April on new rates for our Niagara Mohawk business, which includes an improved return on equity of 9.5%, increased capex of around 50% over the three years, reflecting our step up in electricity transmission investment, and funding to modernise our electric and gas networks and support New York's clean energy goals.

The Joint Proposal also includes provisions to mitigate bill impacts for customers by spreading increases over the three years of the plan and putting in place assistance programmes for low-income households.

In New England, capital investment increased by 5% to £1.8 billion, reflecting continued gas mains replacement and increased asset condition and grid modernisation work across our electric network.

Our achieved return on equity was 9.1%, 92% of allowed, benefitting from six months of the new rate agreement in our Massachusetts Electric business.

We've also seen a greater focus on affordability in the State, following increased bills from a colder winter. To assist Massachusetts gas customers, we agreed with the regulator to reduce winter gas bills by 10% during March and April, with the deferral to be recovered over the summer.

On the regulatory front, in September, the DPU issued its rate case order for our Massachusetts Electric business approving a five-year plan with an allowed return of 9.35%.

The order includes a new regulatory recovery mechanism that provides timely funding for growing capital investment, an updated performance-based rate mechanism providing inflation protection for operating and maintenance costs and increased allowances to cover the increasing cost of storms.

Taken together these enhanced recovery mechanisms are helping us to earn closer to the allowed return. And as I mentioned earlier, the DPU has also approved our Electricity Sector Modernisation Plan for anticipatory investments to support the decarbonisation of our networks.

And from a policy perspective, last month we submitted our Climate Compliance Plan setting out the strategy to enable our Massachusetts gas network, to advance state decarbonisation goals, whilst maintaining safe, reliable and cost-effective service for our customers.

Last November, Governor Healey approved legislation that reforms the permitting process for utility infrastructure. This new approach sets maximum timeframes for approvals, supporting the delivery of capital projects in the State.

Finally, in National Grid Ventures, capital investment was 43% lower at £378 million following completion of the Viking Link to Denmark last year.

During the year, we've seen good operational performance across the National Grid Ventures portfolio including good availability from our interconnector fleet high levels of availability and utilisation at our Long Island generation business and at our Grain LNG terminal where we're making good progress on the construction of the new tank.

On the regulatory front, last month Ofgem published their decision on the regulatory framework for Offshore Hybrid Assets, an important next step as we continue to develop our Lion Link project, as a next generation interconnector.

So, as I said at the start, we've achieved significant progress across all areas of the business in the last year, as we continue to efficiently deliver safe, secure and clean networks for the future. Let me stop there and hand over to Andy to walk you through the numbers, before I come back to talk about our priorities for the coming year. Andy.

Andy Agg: Thank you, John, and good morning everyone.

I'd like to highlight that as usual we're presenting our results on an underlying basis, and at constant currency. I want to start by expanding on what John has said about National Grid's financial resilience.

The visibility that our business model provides and the stability it gives is unwavering, however volatile the macro environment, including times such as now.

A large part of that can be attributed to our regulatory frameworks, but it is also a consequence of our efficient delivery, with controllable costs broadly flat this year, and our robust procurement and financing strategies.

Together, these enable us to manage the impacts of inflation and cost pressures, changing interest rates and fluctuations in exchange rates and importantly, that enables us to deliver stable and predictable growth through our significant capital programme.

Many of you will also know we have substantial inflation and cost protections, particularly in our UK regulated businesses with indexation of our regulated asset base.

In the US, around 90% of our supply chain is domestically sourced, and even if higher costs do come through, we can manage this through alternative suppliers or the pace of discretionary spend, with any additional spend ultimately being picked up in the following rate case.

We're also positioned so that the impact of exchange rate volatility from our US businesses is limited. We consistently hedge around 70% of our US gross assets with dollar-denominated debt. This means, from an earnings perspective, our general rule of thumb is that for every 5 cent move in the average US dollar to Sterling exchange rate, we only expect to see a 1 pence impact on EPS, on an annualised basis.

Finally, from a financing perspective, our regulated operating businesses broadly match leverage to our regulatory frameworks, which enables us to efficiently recover debt costs. We also hold around 30% of our debt book at the Holdco level, with maturities out to the 2030s, and any higher expected interest costs of refinancing have been factored into our five-year financial frame. We've also set out our comprehensive financing plan which sees us fully funded until at least the end of RIIO-T3.

So as I say, all of these things add up to create a very stable platform from which to operate and deliver on our plans.

Now let me take you through our financial performance. I'm pleased to be reporting a strong start to our 5 year plan.

Underlying operating profit, on a continuing basis, increased by £589 million to £5.4 billion, up 12% on the prior year. This was mainly driven by strong performance across our regulated businesses, including higher revenues and strong cost efficiency, partly offset by expected lower revenues from our interconnectors.

Higher operating profit combined with lower finance costs has led to an underlying earnings per share increase of 2%, to 73.3 pence per share, slightly above guidance, and including the impact of a higher share count following the rights issue.

Group return on equity was 9.0%, supported by the growth in our regulated earnings, offset by a higher denominator reflecting the rights issue.

In line with our policy, the Board has recommended a final dividend of 30.88 pence, taking the full year dividend to 46.72 pence per share, representing a 3.2% increase compared to the prior year rebased dividend, and in line with average CPIH inflation.

As John said, we've continued to deliver record levels of investment, with capital investment from continuing operations increasing 20% to £9.85 billion, helping drive regulated asset growth of 10.5%.

Now turning to our business segments.

And starting with UK Electricity Transmission, where underlying operating profit was £1.4 billion, 9% higher than last year.

This was helped by increased totex allowances, indexation and higher allowed returns, partly offset by increased depreciation reflecting growth in the asset base.

Capital investment of £3 billion was up 57% versus the prior year. This included the ramp up of our Wave 1 ASTI project spend, including Eastern Green Links 1 and 2, as well as the four onshore projects and construction activities on new customer connections, partly offset by lower spend on London Power Tunnels 2 and the Hinkley Connection.

We've achieved an 8.3% return on equity, delivering outperformance of 100 basis points, and we remain on track to achieve 100 basis points of average annual out performance throughout RIIO-T2.

We also saw underlying operating profit of £115 million from our Electricity System Operator over the first half of the year, prior to its sale to the UK government.

Moving to UK Electricity Distribution.

Underlying operating profit was £1.2 billion, £51 million higher than the prior year, reflecting an increase in revenues from indexation, partly offset by higher depreciation and one-off costs and incentive revenue impacts following the severity of Storm Darragh.

Capital investment was £1.4 billion, 14% higher than last year, with increased investment in asset replacement and reinforcement work.

We are on track to deliver our £100 million group synergies target by 2026 having achieved £88 million as of the end of this year, from areas such as procurement and operations.

We achieved an ROE of 7.9% in the year, outperforming our allowance by 20 basis points, which is lower than our aim to achieve 100-125 basis points of outperformance.

This reflects the one-off impacts from Storm Darragh, and an impact arising from the Real Price Effects, or RPE, mechanism, where lower than anticipated allowances due to reductions in commodity indices since the start of the RIIO-ED2 period have not tracked actual costs incurred.

We're working hard to mitigate this headwind and expect to improve in-year outperformance towards 100 basis points by the end of ED2.

Moving now to the US.

Our New York business achieved an 8.7% return on equity, 94% of its allowance and 20 basis points higher than last year. Underlying operating profit was £1.45 billion, 43% higher than the prior year. This reflects rate increases in our downstate gas businesses and cost efficiencies enabling us to deliver broadly flat controllable costs partly offset by higher depreciation on our increased asset base.

Capital investment was £3.3 billion, 24% up on the prior year. This was driven by higher electric investment including our upstate upgrade projects, with Smart Path Connect on track to energise in December 2025, as well as higher gas investment, driven by a further ramp up in gas mains replacement under our updated downstate rate cases.

In New England, the return on equity was 9.1%, 92% of its allowance. This was 10 basis points lower than the prior year and 40 basis points higher after adjusting for a one-off property tax recovery last year.

Underlying operating profit was £924 million, up 15%. This was driven by higher rates in our gas and electricity businesses, including through our new capital tracker and delivery of cost efficiencies partly offset by higher depreciation and other costs.

Capital investment was £1.75 billion, 5% higher, driven by higher Electric investment from increased asset health and maintenance work, and the advanced metering infrastructure roll out.

We also continued to invest in our gas networks, including the replacement of 135 miles of gas mains this year.

Moving to National Grid Ventures, underlying operating profit, including joint ventures, was £455 million, £116 million lower than the prior year. Higher profitability from a full year of Viking operations was more than offset by expected lower revenues on IFA2 and the North Sea Link.

Capital investment was £378 million, down 43% reflecting the commissioning of our Viking Link interconnector last year and the classification under IFRS of National Grid Renewables and Grain LNG as held for sale from the end of September, which means investments into these businesses are excluded from reported Group capital investment.

During the year, our Community Offshore Wind joint venture paused development activity in line with the broader slowdown of the US offshore wind industry. Whilst there are longer term trends that give us confidence in the need for offshore wind generation in the north east, significant nearer term policy uncertainty has led us to recognise an accounting impairment as an exceptional charge.

We recorded an operating loss for other activities of £143 million, including adverse fair value movements in the National Grid Partners portfolio.

Net finance costs were £1.36 billion, £116 million lower than the prior year, with the benefits of lower net debt following the rights issue and lower inflation on index linked debt, partly offset by the impact of higher refinancing costs, where we have issued £3.2 billion during the year.

For the full year, the underlying effective tax rate, excluding the share of joint ventures, was 15.4%, 20 basis points lower than the prior year. This reflects higher levels of capital expenditure qualifying for Full Expensing compared to last year.

Underlying earnings were £3.5 billion, with EPS at 73.3 pence, up 2% on the prior year.

Moving now to cash flow.

Cash generated from continuing operations was £7.0 billion, down 4% compared to the prior year. This decrease was driven by timing as we returned balancing charges within the ESO in the first half of the year, following over recoveries in the prior year.

Net cash inflow, at £954 million, was £4.6 billion higher than the prior year reflecting the proceeds of our Rights Issue, partly offset by the increase in capital investment.

Combined with disposal proceeds from the ESO and the remaining 20% stake in Gas Transmission, we saw a reduction in net debt of £1.7 billion to £41.4 billion.

Moving to our FY26 guidance, which is presented at an assumed exchange rate of 1.3 dollars to Sterling. EPS growth is expected to be at the lower end of the 6-8% range reflecting the headwind of a slightly weaker dollar.

Capital investment is expected to be over £11 billion next year, driving asset growth of around 11%, and net debt is expected to increase by just over £6 billion, excluding expected proceeds from the NG Renewables and Grain LNG sales.

As usual, detailed business unit guidance has been provided in our results statement.

Turning to the 5-year framework, as I said at the beginning, as a result of our visibility and resilience we are reconfirming our financial framework from April 2024 to March 2029.

We still expect to invest around £60 billion over 5 years, driving asset growth of around 10%, and EPS growth of 6% to 8% from this year’s baseline of 73.3 pence.

Our aim remains to grow the dividend in line with average CPIH, and we remain committed to maintaining our current investment grade credit rating.

With that, I'll hand you back to John.

John Pettigrew: Many thanks Andy. Before we move to take your questions, I want to spend just a few minutes setting out National Grid's priorities for the coming year, and the journey we're on to support economic development, energy security and decarbonisation across our jurisdictions.

Starting in the US, where nearly half of our investment will be spent over the five-year frame.

From a regulatory perspective, we've a number of key priorities.

In New York, having reached a joint proposal for our Niagara Mohawk business, we'll continue to engage with the PSC ahead of the anticipated approval by the Commission in the summer. In Massachusetts we'll continue to work with the DPU to agree the recovery mechanisms under the Electric Sector Modernisation Plan. We'll also be preparing our next rate filing, for Massachusetts Gas, and will work with the DPU to put forward a plan that balances investment needs and customer affordability.

On policy, we'll continue to work closely with the New York administration on its State Energy Plan, to develop a comprehensive roadmap to a clean, resilient and affordable future for our customers.

In Massachusetts, having filed our Climate Compliance Plan last month, we'll be supporting the discovery phase over the coming months, and we'll work with the State as they advance the Energy Affordability Bill.

And across our US businesses we're supporting our policy makers to understand the impacts and opportunities of increasing demand growth from data centres. And we're supporting Federal policy makers as they begin to look at resource adequacy in the region.

Moving to the UK.

In Electricity Transmission, our priority will be to continue to ramp up capital delivery, including commissioning two further circuits of our London Power Tunnels project.

Our primary regulatory focus for the year is to reach agreement with Ofgem on an investable RIIO-T3 framework, that will allow us to deliver at the unprecedented scale and pace that is needed to meet the UK's ambitious climate goals.

We expect Ofgem's draft determination to be published in June, with a final determination in December, ahead of the new regulatory period starting in April 2026.

We'll also be focused on supporting the NESO with the re-contracting of the connections queue, which in turn will clarify the specific investments and locations required in the outer years of T3.

Staying on the topic of connections, we're also seeing significant increases in data centre requests, with 15GW of signed contracts now in our pipeline. Our RIIO-T3 plan has been developed to meet this demand, and we're also supporting the Government's recently formed "AI Energy Council".

Here we're working to meet the challenges of increased power demand, including proposals for AI Growth Zones, dedicated to data centre development.

On the policy front, we expect to see the planning legislation progress through Parliament, and we'll continue to advocate for wider planning reforms. Through our input to the NESO, we'll support progress on the longer-term Strategic Spatial Energy Plan, which should align with the government's forthcoming industrial strategy and we want to see a skills strategy developed, which together with industry creates a collective view of the workforce needed for 2030 and beyond.

In Strategic Infrastructure, our priority is to continue to ramp up the ASTI programme where we'll be focused on stepping up work on the six Wave 1 projects that are now under construction and finalising the procurement contracts for the remaining offshore projects. Once complete, we'll have secured Tier 1 supply contractors for all 17 of our ASTI projects.

We'll also be focused on the consenting process, with a total of 8 consultations planned this year.

In our Electricity Distribution business, our priority is to complete on our targeted £100m synergy benefits and deliver improved returns.

And, following the publication of the ED3 Framework Decision document, we look forward to engaging in the Sector Specific Methodology Consultation later in the year.

Turning finally to NGV, our priorities will be to complete the sale of National Grid Renewables, agree the sale of Grain LNG having launched the process at the end of April and to continue the development of our LionLink project in the UK and the Propel Transmission project through our New York Transco Joint Venture.

So, in summary, it's been another year of enormous progress. As you'll have seen, I've recently announced my decision to retire from National Grid and I'm delighted that the Board has appointed Zoë Yujnovich as my successor. She has all the attributes required to deliver on the significant growth opportunity ahead. I'm looking forward to welcoming Zoë in the Autumn and working with her, before handing over the reins in November.

It's been an immense honour for me to work with so many talented people over the years and lead the company I joined as a graduate. I'm very proud that National Grid is leading the way to a new energy era, building the next generation of networks to unleash the energy needed to meet increasing demand.

We're delivering extraordinary change, implementing the largest ever overhaul of our networks, across all the jurisdictions we serve.

In a turbulent and unpredictable world, National Grid is a beacon of stability with an investment proposition that provides high asset growth, strong earnings growth and an inflation protected dividend.

In this context, we remain focused on delivering secure, affordable and clean energy for our customers and communities, whilst providing long-term value and returns for our shareholders.

As you've heard, there is much to do in the coming months and I remain fully focussed on ensuring we don't miss a beat, so that I leave National Grid in the strongest possible position for its future success.

Let me stop there and give you the opportunity to ask questions.

Okay, so there are lots of questions coming through. So I'm going to start with Dominic from Barclays and then after that I'll go to Sarah at Morgan Stanley. So Dominic, would you like to ask your question?

Dominic Nash: Hi there. Yes, thank you. It is Dominic Nash from Barclays, so thanks for your presentation and also, I would just like to say thank you. I appreciate your time at Grid and wish you the best in your decision on moving on. Couple of questions from me please. Firstly, on RIIO-T3 we clearly have the DD date. Now in the diary for the 25th of June, you submitted your business plans in December with I think a 35 billion totex program and since then clearly there's been a few movements in UK policy and a few projects falling out and going left and right.

On your conversations that you've had with Ofgem, what do you expect to see different in the DD to your business plan with regards to CapEx to the real nominal split in the debt calculation and on the returns? Well, I think Ofgem was 5.5% real and I think you requested 6.3. And then the second question, is just sort of following up from that, is that the Iberian blackout a couple of weeks ago, what sort of discussions have you had with policymakers, and with the UK regulators, on what happened, what are the impacts here and what sort of opportunities or changes are potentially needed in the UK to ensure that something like that doesn't happen here? Thank you.

John Pettigrew: Okay, thanks Dominic. There's quite a lot in that. So why don't I start on RIIO-T3. I'll ask Andy to talk about nominal debt and then I'll come back on the Spain blackout. I mean as you said, we made the business plan submission in December, and I'd say since then we've had really productive conversations with Ofgem. As you expect we're in the last few months of the RIIO-T3 process that has been going for two and a half years, I think, what I'd say is our focus at the moment is very much on the financial framework. You might be aware we had a round table with our investors and Ofgem recently and I'd like to thank our investors who attended that who directly reinforced the message that we've been giving Ofgem around the importance of an investible framework for RIIO-T3.

Our focus continues to be as it was when we made the submission in December. There are three elements to the financial framework. The first is the returns. We've been very clear that we believe that in the range that Ofgem set out that the base return should be at the top end and in our submission we talked about 6.3 being an appropriate level, but also on top of that the cash characteristics need to be right to get the right balance of earnings growth and asset growth and also that the incentives are there as well to get to a sensible return that's comparable to what we see internationally. So all of that, conversations are going on as you'd expect. In terms of the investment levels, in terms of ASTI, which is a big part of electricity transmission, we don't see the recent announcements impacting on that investment profile and the 35 billion that we submitted is consistent with everything that we talked about with regards to ASTI and the 60 billion. So electricity transmission makes up about 23 of the 60, different timeframes, but that 23 is consistent with the 35 we submitted in the business plan. Andy, do you want to just talk about nominal debt?

Andy Agg: Yeah, and thanks Dominic. Yeah, I think Ofgem were fairly clear in their SSMD about signalling the direction of travel on moving to a sort of a nominal debt approach. We've seen nothing since then that would indicate that's less likely than it was. Obviously, we'll have to wait and see what comes out on the 25th of June, but everything we're seeing at the moment is that remains the most likely direction of travel. But I think as John said, for us that's one element of ensuring that the total package gives us the right balance and including cash characteristics overall. Clearly a move to a nominal debt does serve to accelerate some level of cash, but it's only a portion of, I think, the overall level that we've asked for in our business plan. So yes, that's what we'll be looking for on the 25th.

John Pettigrew: In terms of the incident in Spain, Dominic, I mean I think we're all waiting to see what comes out the investigation, as far as I'm aware, there is no clarity yet on the root cause. Lots of speculation and lots of hypothesis. I do think it is massively important that given the increasing dependency society has on electricity, not just for lighting but for heat and transport going forward, that actually things like resilience are looked at very carefully. I can talk about the UK in terms of, I've seen some of the hypothesis around renewables and when the National Energy System Operator was part of National Grid as the electricity system operator, we started several years ago looking at pathway products as we call them, which are effectively technical products that would be needed to support a renewable system. So things like frequency response from different sources, voltage control, reactive power and inertia. And I know the National Energy System operator holds a certain level of inertia on the system depending on how much renewables are there. So that standard is in place in the UK but the reality is we need to wait to see what comes out of the investigation, what the root cause is, and then from that we'll be able to learn any lessons that are relevant for the UK.

Dominic Nash: Thank you.

John Pettigrew: Okay, so I was going to go to Sarah next from Morgan Stanley and then after that I'll go to Pavan at JP Morgan. So Sarah, would you like to ask you a question?

Sarah Lester: Yes, thank you very much, but first and foremost John, congratulations for all you've achieved during your time at Grid. I've got two questions please. The first one, it's slightly different, but similar vein to Dom’s second question, mine specifically related to NESO's final recommendations and conclusion report on the North hide substation fire that we're expecting by the end of June that you mentioned. Just wondering what you expect to see in that that's tangible for the direction of investment needs or maybe put differently what would you like to see in that final report. And then secondly, a high-level question please, and given the upcoming CEO succession, I feel like it's very much obligatory to ask a reflective question. So John, I'm curious, how would you pitch the National Grid equity story today versus how you would've pitched it on day one in the CEO seat? Thank you.

John Pettigrew: Thank you, Sarah. You've made me laugh this morning if nothing else. Look, let me talk about the North Hide incident. So first of all, as you can imagine, we were pleased to see the interim report that came out from NESO last week. I think it was really sensible to set out the timeframe, the sequence, and the next steps, as an initial part of the report. We are working closely with NESO. We're providing all the information that you can imagine that is needed for that type of investigation. I'm hopeful that the report that comes out in June will cover all aspects of the incident. So as you know from our perspective, it was a very rare event. In my very long career, I can't remember a circumstance we've had such a ferocious fire that's taken out the substation, but power was also available into the local area, into Heathrow right through that throughout the two other substations. So I'm hoping it will look at specifics of the asset failure at the substation, it will look at broader resilience issues, it will look at the interaction between transmission distribution and national critical infrastructure and it'll look more broadly around the changing nature of networks as they go forward. From the scope of the terms of reference I've seen, I think it will cover all those aspects and we look forward to seeing the report when it comes out at the end of June.

In terms of, I didn't quite get the question, but in terms of as I move on from National Grid, the proposition that National Grid makes today to its equity investors is very clear. It is very much a growth and dividend proposition and as you know, we've set out for the next five years that we're looking to grow the asset base by 10% and we're looking to grow the dividend, our policies to grow in line with CPIH and that very much is the focus for National Grid.

I think from where I started back in 2016, growth was significantly lower back then. We were more typical perhaps of what people expect in the utility, but as we look forward, growth is an important part of the proposition and that is all underpinned I think by the fact that, as we said in our results today, what National Grid is, it's very predictable, it's very stable and has an incredibly resilient business model in a world in which there's quite a lot of turbulence. So that proposition of growth and yield, but also stability and predictability, I think is the key to an equity proposition for our investors.

Sarah Lester: Perfect, thank you.

John Pettigrew: Thanks Sarah. Okay, so we'll go to Pavan and then after that we'll go to Mark at UBS.

Pavan Mahbubani: Hi team. Good morning. Thank you for taking my questions. And John, I'd like to echo Dom and Sarah's congratulations on your career at National Grid. My two questions are firstly you mentioned John in your speech, some of the measures you're taking on affordability in Massachusetts. I guess if you can go into a bit more detail on what you're seeing on affordability pressure in the US, any pressure you're seeing on returns and how your conversations are going with the US regulators and with US policymakers on this topic. And my second question is on the planning and infrastructure bill, I appreciate it may not have an impact on your five-year frame, and I think you say this in your statement, but can you talk about any positives that could be there in the five-year frame or certainly beyond that, how we should think about that affecting National Grid please? Thank you.

John Pettigrew: Yeah, thanks Pavan. I mean in terms of affordability, I think you're aware that National Grid thinks very carefully and thoughtfully around any rate case that we're doing to make sure we get the balance right between the investment that many of our regulators and policy makers want us to make and ultimately affordability. And therefore, we have lots of deep conversations with our regulators to make sure that any submission reflects that. In New York you'll have seen that in terms of, if I take our latest rate case, NIMO, we've got a joint proposal which is for three years. And within that we've actually smoothed out the increase in the bills over that three-year period to reflect the fact that commodity prices have been quite high in the US during the winter and therefore that's mitigated the impact for customers whilst doing the investment we need. We also set aside about $290 million to support vulnerable customers over that rate case period with nearly a $100 million in the first year.

So again, that's us working closely with the regulator to make sure we got that balance right. In terms of returns, then in New York, as you saw in the joint proposal, we've actually got a joint proposal that increases our returns. I think reflecting the nature of the investments that we're doing, 9.5% for Niagara Mohawk and similarly in downstate New York, you would've seen the three-year rate case there where we saw an increase to 9.35. So I think the regulators are thoughtful in making sure that it is an in investible proposition as we do this significant investment but we are careful as we think about affordability. In Massachusetts, you would've seen, as I referenced in my speech, high commodity prices during the winter meant our gas customers were struggling a bit and then we were very happy to work with the regulator to provide a 10% discount on bills in March and April, which we'll then recover in the summer when commodity prices are low.

And as we look forward, again, we will be very thoughtful both in terms of how do we deliver the investment needed in our rate case for Massachusetts Gas and how do we reflect that in affordability? And you may have seen this week actually that the Governor of Massachusetts has launched an initial affordability bill. It's a 120 page document and we will work through that with the governor's office and the PSC to see how we can support and contribute towards that as it goes through the various machinations of committees and the Senate and Congress and so on. So that's sort of how we think about affordability, but it's an important issue and you're quite right to raise it. In terms of billing and infrastructure, the Planning and Infrastructure Bill, I mean a lot of what's in that bill are things that National Grid has been advocating for.

So we're sort of really pleased that the government is moving forward with that. So there's a lot in there that will streamline the planning process and make it more effective and shorter. There is some legislation in there to make the ability to challenge more focused and of course there's proposals for things like community benefits. There's also been a recent amendment actually to shorten the statutory consultation process that again could potentially take about a year out of the planning process in the UK. So we're very supportive of all of that. And in my speech I referenced the fact that it will help to de-risk I think some of the ASTI projects and some of the legislation will absolutely do that, but most of the ASTI projects were already in train. So as you've heard our six projects that are phase one are already have planning under in construction. We've got eight consultations running this year. So by the time the legislation goes through, we would've been through the majority of our ASTI projects in terms of the planning process. So I think it really helps us as we move into the 2030s and beyond.

Pavan Mahbubani: Thank you.

John Pettigrew: Okay, thanks Pavan. I'll go to Mark next and then Ahmed from Jeffries. So Mark, would you like to ask your questions?

Mark Freshney: Hey John. No. So firstly, congratulations on the shareholder returns you've generated over the last nine or 10 years and looking forward to seeing where you move on to once you retire from National Grid. But I have two questions, one for you John, one for Andy, John EGL1 which you haven't mentioned, is 16 months late, very early on in the project. It's a £2.5 billion project. And I think Ofgem's minded from their wording in their document, they’re clearly minded to give you and your partners a penalty for that. Given you speak a lot about the framework agreements and booking out the supply chain, but the supply chain is struggling, so how can we be sure that we're not going to see other further delays like this 16 months delayed to EGL1? My second question for Andy is just on community wind. When we spoke previously, my understanding was National Grid has certain protections to put the project back to your partner's RWE. You've written off what would seem most if not all of it today, is there any chance of you recovering some of the cash somehow from that? Or is that £300 million completely a sunk cost and now an impaired cost? Thank you.

John Pettigrew: Thanks Mark, and thanks for your comments as well. I mean, in terms of EGL1, I don't think you should infer anything about the other ASTI projects when you look at EGL1. EGL1 actually has quite a long history and a lot of it was developed under the LOTI process rather than the ASTI process and all the regulatory frameworks that we put in place around that. Having said that, at the point of which we were asked to take the project forward, because there was a debate about whether it was going to be put out to competition or not, we immediately went out to the market to see what was available in the supply chain and the reaction from the supply chain was they could support it but in a slightly different timeframe. You've seen the consultation for Ofgem in which they've said that they're not minded to give us the extension, but one of the things they say in the consultation is that they don't feel that we provided sufficient evidence on what the worldwide supply chain looks like.

So that consultation is still live. As you can imagine, we are going back to Ofgem, we believe we have significant evidence to demonstrate that actually there was a limitation in terms of the timescales that that supply chain could deliver at the point at which we were asked to take that project forward. For the other ASTI projects, as you know, we've got an awful lot of things in place including advanced procurement mechanisms and also license ability associated with the supply chain. So I don't think you should read anything across from EGL1 for the other projects. We'll talk a lot more about this afternoon at our event, but our focus at the moment is providing that data to Ofgem and the evidence to Ofgem that they require to get them comfortable that actually making a move in the date is an appropriate thing to do. Andy.

Andy Agg: Yeah, morning Mark. Thanks for the question. I guess just to remind you what I said in the presentation this morning, we've worked very closely and continue to work very closely with our partner RWE on both the short-term decisions around the pause in our development activity on community offshore wind, but also continue to be alive to how that may evolve in the future and very much looking to continue to see options to take forward that commercial opportunity. So what we've announced this morning is very much an accounting impairment given the short-term uncertainty created by some of the recent pronouncements and other activities in the Northeast. From an accounting perspective, we believe it's appropriate to impair the value. To your question, we fully impaired our investment down to zero with the £303 million that we've disclosed this morning. But as I said, and John said in his remarks, I think we continue to view that there are likely further energy needs in the Northeast and to the extent that means this project comes back on, we will be very close working with RWE to pursue that. In terms of the protective rights, I think we've always said that yes, we do have them, but they're attached to particular milestones through the course of the project and of course that will therefore be dependent on whether those projects go ahead as to whether those rights come into play.

Mark Freshney: Okay, thank you very much gentlemen.

John Pettigrew: Thank you, Mark. So I'll go to Ahmed now at Jefferies and then perhaps Deepa at Bernstein. So Ahmed.

Ahmed Farman: Yes, thank you John. And firstly, again, best wishes from my side as well. I have three questions, actually, just coming back to the comments you made about affordability in the New York region. I saw some press commentary from the New York Governor yesterday, which talks about the affordability and how the bill rises coming through from rate reviews, and that's obviously coming despite the measures that you have highlighted. So how should we think about, particularly around the NIMO process from here? Is there something more to be done? Could the process be longer from here or does there need to be better engagement between the stakeholders on what's actually getting implemented? So that's my first question. My second question is, I would be interested in your perspective on the other big debate of zonal pricing in the UK, particularly if you think that could play a big role in defining transmission investments into the 2030 period in the UK. And then finally, one for Andy, the guidance for this year seems to be ahead of where consensus expectations are. Is there anything specifically you would call out where you see the outlook better versus consensus? Thank you.

John Pettigrew: Thanks Ahmed. I mean in terms of, I'll start with the affordability and then zonal and then Andy can talk about guidance. In terms of the affordability, I mean, I'll just reiterate I think what I've said, which is we work very closely, not just with the PSC but with the Governor's office to make sure we get the balance right. I was pleased that the joint proposal that we put forward was one that enabled us to be able to make those investments. It's about five and a half billion across the three years, both electricity and gas, but with a single digit increase in bills. And we didn't see any intervention from the Governor in the same way as that's happened with other utilities, to be blunt. So I think we've tried to get the balance right, recognising what's going on in New York and as I said, there's quite a major investment in supporting vulnerability with the $290 million as well, which has been supported by PSC staff.

So I think we're in a reasonable shape, but we are very conscious around that. In terms of zonal pricing, look, I mean we spend a lot of time thinking about zonal pricing. It doesn't immediately impact on National Grid to be honest. And people are talking about implementation because it is incredibly complex over a five year period. So it's something for the early 2030s. So it's not going to impact on our £60 billion capital investment program. Lots of debate in the industry as everybody's aware. I mean we can see that there are potential advantages for zonal pricing in terms of things like price discovery, locational signals and resolution of operational constraints. But at the same time we can also see there's just a huge amount going on in the industry at the moment with retail reform, connections reform, the rollout of smart meters, the scale of investment right across the industry that requires a degree of stability and certainty so that people are comfortable with that. So I think the bar for any incremental change on top of what's already going on should be very, very high. And my sense at the moment is that now is probably not the right time for introducing a major reconstruction of how the market operates through zonal pricing and that in the 2030s the networks will look very different. And I think maybe that's the time when you might potentially look at the advantages of zonal pricing. But to do it today, I think it just doesn't feel like the right time. Andy?

Andy Agg: Yeah, and morning Ahmed, thanks for the question. Yeah, as you'll be aware, this is the first time we're giving formal in year guidance for FY26. Previously, we've obviously given our five-year frame where we've guided to the 6 to 8% CAGR over the five years. And I think previously we said that there was no reason we wouldn't expect things to be relatively linear. So no real surprises for us. As you see, we've guided to being within the 6 to 8% range next year or in FY26, albeit towards the lower end with the impact of the dollar move. That will continue to come from investment driven growth in our businesses and obviously some of the new rate cases coming in the US as John's mentioned as well. So continued asset growth in the UK and asset and rate case growth coming from our US businesses.

Ahmed Farman: Thank you.

John Pettigrew: Thanks Ahmed. So let me go to Deepa at Bernstein and then after Deepa I'll go to Marcin of Bank of America. So Deepa.

Deepa Venkatswaran Thank you so much. Congratulations John and thank you so much for your leadership. The two questions that I had, one was on ED underperformance, so you're now guiding the outperformance is lower. Obviously this year you have the storm impact, but could you walk through what exactly is the cost item that's deviating on the RPE's and is there any sort of read across to RIIO-T3, could something similar kind of pop up there and what mechanisms will you use for that? And my second question is on your RIIO-T3 plan, out of the £35 billion of totex, roughly £9 billion or so is unconfirmed projects. So I was just wondering, given everything else you've been seeing with the connections reform and 2030 clean plan, do you expect a substantial chunk of that £9 billion to also get implemented during RIIO-T3? And I do recognise that your five-year frame and the T3 frame is off by a couple of years, right? So where would you see that £35 billion realistically being delivered in RIIO-T3? Thank you

Andy Agg: Okay, sure. Yeah. Morning Deepa. Thanks for the question. So as we said this morning, I think we've seen two headwinds flowing through the electricity distribution ROE for the year. One obviously due to storm Darragh where we've seen pretty much unprecedented, certainly in recent memory, severity of the storm's impact. And that's flowed through both in terms of direct costs but also in terms of how it impacts the incentive, the customer incentive performance and connections incentives. That's about half of the impact. And then the other half has come through from the RPE's. And the issue there, again, as I said in my presentation, is the way the indices are set up within ED2 means that effectively they're more generic indices and what they've done is the performance of those indices hasn't really tracked the cost experience that we've seen. I think we view this as a sector-wide issue if you look across some of the other DNOs and it is definitely something that we would look to take forward into the conversations with Ofgem around ED3.

Obviously very early stages there. We will continue to look to offset that, you've seen in our guidance that we're guiding towards 50 basis points of outperformance next year and growing towards 100 by the end of ED2. In terms of your question around is there a read across to transmission? No. Everything we're seeing, the way the indices are set up in transmission is they much better relate to the types of spends that we have and the indices there demonstrating that the RPE mechanism is doing its job and making sure that there is sort of protection in the way allowances shift within the transmission business.

John Pettigrew: And in terms of RIIO-T3 Deepa, I mean I'd say that, I think I said in my speech that of the £60 billion, £23 billion is ET and we still believe that is our best view of what it's going to look like between now and 2029. Beyond that, we are still comfortable with the £35 billion that we set out in the RIIO-T3 business plan. I think one of the key things over the next 12 months that will give us a little bit more solidity at the back end of RIIO-T3 is the connections reform process. So as you know, Ofgem have now made the decision on connections reform moving from a first come first serve to a first ready and needed for CP 2030. Over the course of this year, NESO and the Electricity Transmission company, companies, including National Grid, have to now reorder the queue and it'll be done in sort of chronological order starting with 27, 28, 29, 30.

And that needs to be done by December of this year. So I think that will help to give us a better indication of the makeup of the RIIO-T3 plan. As you recall, the way it was submitted to Ofgem was in two parts, there was £11 billion that was absolutely certain, and then £24 billion that required some work to be done on it. So at the moment we're still comfortable with that, but I think the connections reform process will give us a bit more solidity at the back end and we'll be able to update once we've done that. So with that, I'm going to move to Marcin, which I think is the last question that we have. So Marcin, over to you.

Marcin Wojtal: Yes, thank you for taking my questions and congratulations on a very distinguished career with National Grid. So my first question is related to the risk of higher tariffs in the US. You mentioned that 95% of the supply chain is domestic, but could you give us some examples of what is included in that 5% that is not domestic? And what actions have you taken or you could be taking to mitigate any potential risks that could occur? And my second question is actually related to the guidance you have provided for the current financial year. So you are guiding for net financial expenses to be only increasing by 40 million I believe, whereas you expect net debt to increase by as much as 6 billion. So why such a limited increase in financial expenses despite significantly higher net debt? Thank you.

John Pettigrew: Okay, thanks Marcin. And I'll take the first and then I'll let Andy take the guidance question. I mean in terms of high tariffs, just to reiterate, we don't see it having a significant impact, partly because more than 90% of the products and services that we source in the US are domestic. I mean if you just go down a level, we do have supply chain for things like pole top transformers in Mexico and we do import some steel from other countries including India and Canada. But we have the opportunity, as I said, even at the aggregate level, it's not particularly material. And then there are mitigations both through regulation but also for looking for alternative sources as well. There are plenty of supply chain opportunities for things like pole top transformers in the US should we need to do that. So those are some of the examples. Andy?

Andy Agg: Yes, and again, thanks for the question. Yeah, so I think there's two things to factor into the thinking about the guidance we've given on overall financing costs. One is of course, as we continue to invest heavily in our capital program, that means that although there will be increased funding costs, there will be a degree of increasing capitalised interest as well, which offsets the gross impact from a funding perspective. And then secondly, and you'll have seen that we were very explicit that our net debt increase excludes the potential proceeds from our disposals, both the completion of the NG renewables business, but also the planned sale of LNG Grain. And therefore, effectively our guidance on the interest line does make a net assumption for the impact of those.

John Pettigrew: Thanks, Andy. There doesn't seem to be any more questions. So let me just say first of all, thank you everybody for your kind words and comments. I guess our key message today is there's been strong performance in the first year of our five-year plan. We're certainly seeing the benefits of the resilient business model we have here at National Grid, which delivers stable and predictable outcomes. And we're very well positioned with all the work that we've done in the first year to deliver on the five-year £60 billion capital investment plan. So with that, I'm going to thank everybody for joining us and I hope for those who are based in London, we'll see some of you this afternoon for our discussion in more detail on the capital investments both in the UK and in the US. Thanks very much everybody.