PUC 1-2

Request:

Please provide the 10-Qs and quarterly reports to bondholders and shareholders for National Grid and the company for the years 2016 and 2017 as they become available.

Response:

Neither National Grid nor the Company filed 10-Qs for the requested years. However, the Company has provided the following quarterly GAAP filing documents for calendar years 2016 and 2017 as attachments to this response:

- Attachment PUC 1-2-1: June 2016
- Attachment PUC 1-2-2: September 2016
- Attachment PUC 1-2-3: December 2016
- Attachment PUC 1-2-4: June 2017

Prepared by or under the supervision of: Melissa Little

nationalgrid

The Narragansett Electric Company

Financial Statements

For the three months ended June 30, 2016 and 2015

(Unaudited)

THE NARRAGANSETT ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

JUNE 30, 2016
(unaudited)

I hereby certify that I am Vice-President, US Controller of The Narragansett Electric Company and that the enclosed financial statements for the three months ended June 30, 2016, have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, correct, subject to year-end audit adjustments and footnote disclosure. These financial statements should be read in conjunction with the audited financial statements for the year ended March 31, 2016.

SPartridge

Sharon Partridge, Vice President, US Controller

08/25/2016

Date

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2016	2015
Operating revenues:		
Electric services	**$ 197,181**	$ 199,530
Gas distribution	**74,726**	73,885
Total operating revenues	**271,907**	273,415
Operating expenses:		
Purchased electricity	**62,679**	74,562
Purchased gas	**24,634**	29,120
Operations and maintenance	**91,987**	78,971
Depreciation and amortization	**25,739**	23,496
Other taxes	**25,897**	26,952
Total operating expenses	**230,936**	233,101
Operating income	**40,971**	40,314
Other income and (deductions):		
Interest on long-term debt	**(10,847)**	(10,892)
Other interest, including affiliate interest	**231**	(1,327)
Other income, net	**680**	1,338
Total other deductions, net	**(9,936)**	(10,881)
Income before income taxes	**31,035**	29,433
Income tax expense	**11,016**	10,395
Net income	**$ 20,019**	$ 19,038

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2016	2015
Net income	**$ 20,019**	$ 19,038
Other comprehensive income (loss):		
Unrealized gains (losses) on securities	**48**	(24)
Change in pension and other postretirement obligations	**3**	2
Unrealized gains on hedges	**123**	124
Total other comprehensive income	**174**	102
Comprehensive income	**$ 20,193**	$ 19,140
Related tax (expense) benefit:		
Unrealized (gains) losses on securities	**$ (26)**	$ 13
Change in pension and other postretirement obligations	**(1)**	(1)
Unrealized gains on hedges	**(67)**	(67)
Total tax expense	**$ (94)**	$ (55)

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2016	2015
Operating activities:		
Net income	**$ 20,019**	$ 19,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**25,739**	23,496
Regulatory amortizations	**176**	176
Provision for deferred income taxes	**11,016**	2,454
Bad debt expense	**2,589**	(1,111)
Amortization of debt discount and issuance costs	**73**	73
Net postretirement benefits contributions	**(498)**	(14,604)
Net environmental remediation payments	**(786)**	(497)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**29,108**	99,626
Inventory	**(2,094)**	(2,357)
Regulatory assets and liabilities, net	**29,059**	20,072
Derivative instruments	**(16,667)**	(4,025)
Prepaid and accrued taxes	**(8,212)**	1,339
Accounts payable and other liabilities	**(4,393)**	(31,565)
Other, net	**2,735**	(4,111)
Net cash provided by operating activities	**87,864**	108,004
Investing activities:		
Capital expenditures	**(80,391)**	(67,935)
Changes in restricted cash and special deposits	**9,103**	1,778
Cost of removal	**(3,270)**	(4,320)
Other	**186**	74
Net cash used in investing activities	**(74,372)**	(70,403)
Financing activities:		
Preferred stock dividends	**(28)**	(28)
Affiliated money pool borrowing and receivables/payables, net	**(25,002)**	(48,134)
Net cash used in financing activities	**(25,030)**	(48,162)
Net decrease in cash and cash equivalents	**(11,538)**	(10,561)
Cash and cash equivalents, beginning of period	**14,410**	19,310
Cash and cash equivalents, end of period	**$ 2,872**	$ 8,749

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	June 30, 2016	March 31, 2016
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,872**	$ 14,410
Special deposits	**6,010**	15,113
Accounts receivable	**172,209**	196,654
Allowance for doubtful accounts	**(24,178)**	(25,404)
Accounts receivable from affiliates	**10,388**	18,689
Unbilled revenues	**43,585**	52,063
Inventory	**23,239**	32,458
Regulatory assets	**77,407**	105,176
Derivative instruments	**3,089**	1,316
Other	**28,065**	9,021
Total current assets	**342,686**	419,496
Property, plant and equipment, net	**2,642,603**	2,576,636
Other non-current assets:		
Regulatory assets	**530,126**	533,442
Goodwill	**724,810**	724,810
Derivative instruments	**2,962**	398
Other	**14,113**	14,605
Total other non-current assets	**1,272,011**	1,273,255
Total assets	**$ 4,257,300**	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	June 30, 2016	March 31, 2016
	(unaudited)	
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 124,554**	$ 127,141
Accounts payable to affiliates	**50,652**	29,109
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**33,000**	19,972
Customer deposits	**13,354**	13,496
Interest accrued	**9,461**	5,450
Regulatory liabilities	**69,652**	74,077
Intercompany money pool	**140,362**	195,208
Derivative instruments	**6,633**	18,154
Renewable energy certificate obligations	**6,522**	17,839
Other	**17,700**	20,031
Total current liabilities	**473,265**	521,852
Other non-current liabilities:		
Regulatory liabilities	**229,985**	222,710
Deferred income tax liabilities, net	**524,532**	513,737
Postretirement benefits	**178,872**	181,829
Environmental remediation costs	**133,826**	132,651
Derivative instruments	**1,480**	2,289
Other	**27,987**	27,192
Total other non-current liabilities	**1,096,682**	1,080,408
Capitalization:		
Shareholders' equity	**1,842,358**	1,822,188
Long-term debt	**844,995**	844,939
Total capitalization	**2,687,353**	2,667,127
Total liabilities and capitalization	**$ 4,257,300**	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	**$ 56,624**	**$ 2,454**	**$ 1,354,952**	**$ 857**	**$ 1,197**	**$ (4,166)**	**$ (2,112)**	**$ 310,506**	**$ 1,722,424**
Net income	-	-	-	-			-	19,038	19,038
Other comprehensive (loss) income:									
Unrealized losses on securities, net of $13 tax benefit	-	-	-	(24)	-	-	(24)	-	(24)
Change in pension and other postretirement obligations, net of $1 tax expense	-	-	-	-	2	-	2	-	2
Unrealized gains on hedges, net of $67 tax expense	-	-	-	-	-	124	124	-	124
Total comprehensive income									19,140
Share based compensation	-	-	6	-	-	-	-	-	6
Preferred stock dividends	-	-	-	-	-	-	-	(28)	(28)
Balance as of June 30, 2015	**$ 56,624**	**$ 2,454**	**$ 1,354,958**	**$ 833**	**$ 1,199**	**$ (4,042)**	**$ (2,010)**	**$ 329,516**	**$ 1,741,542**
Balance as of March 31, 2016	**$ 56,624**	**$ 2,454**	**$ 1,354,977**	**$ 795**	**$ 1,206**	**$ (3,672)**	**$ (1,671)**	**$ 409,804**	**$ 1,822,188**
Net income	-	-	-	-			-	20,019	20,019
Other comprehensive income:									
Unrealized gains on securities, net of $26 tax expense	-	-	-	48	-	-	48	-	48
Change in pension and other postretirement obligations, net of $1 tax expense	-	-	-	-	3	-	3	-	3
Unrealized gains on hedges, net of $67 tax expense	-	-	-	-	-	123	123	-	123
Total comprehensive income									20,193
Share based compensation	-	-	5	-	-	-	-	-	5
Preferred stock dividends	-	-	-	-	-	-	-	(28)	(28)
Balance as of June 30, 2016	**$ 56,624**	**$ 2,454**	**$ 1,354,982**	**$ 843**	**$ 1,209**	**$ (3,549)**	**$ (1,497)**	**$ 429,795**	**$ 1,842,358**

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at June 30, 2016 and 2015.

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The Narragansett Electric Company

Financial Statements
For the three and six months ended
September 30, 2016 and 2015
(Unaudited)

THE NARRAGANSETT ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED

SEPTEMBER 30, 2016
(unaudited)

I hereby certify that I am Vice-President, US Controller of The Narragansett Electric Company and that the enclosed financial statements for the three months and six months ended September 30, 2016, have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, correct, subject to year-end audit adjustments and footnote disclosure. These financial statements should be read in conjunction with the audited financial statements for the year ended March 31, 2016.

S Partridge
Sharon Partridge, Vice-President, US Controller

November 21, 2016
Date

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(unaudited, in thousands of dollars)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	**2016**	2015
Operating revenues:				
Electric services	**$ 239,085**	$ 247,095	**$ 436,266**	$ 446,625
Gas distribution	**57,363**	60,585	**132,089**	134,470
Total operating revenues	**296,448**	307,680	**568,355**	581,095
Operating expenses:				
Purchased electricity	**79,188**	90,464	**141,867**	165,026
Purchased gas	**18,353**	22,170	**42,987**	51,290
Operations and maintenance	**109,074**	96,977	**201,061**	175,948
Depreciation and amortization	**25,921**	23,813	**51,660**	47,309
Other taxes	**32,994**	30,044	**58,891**	56,996
Total operating expenses	**265,530**	263,468	**496,466**	496,569
Operating income	**30,918**	44,212	**71,889**	84,526
Other income and (deductions):				
Interest on long-term debt	**(10,959)**	(11,005)	**(21,806)**	(21,897)
Other interest, including affiliate interest	**(1,374)**	(92)	**(1,143)**	(1,419)
Other income, net	**499**	1,473	**1,179**	2,811
Total other deductions, net	**(11,834)**	(9,624)	**(21,770)**	(20,505)
Income before income taxes	**19,084**	34,588	**50,119**	64,021
Income tax expense	**6,723**	11,936	**17,739**	22,331
Net income	**$ 12,361**	$ 22,652	**$ 32,380**	$ 41,690

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands of dollars)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	**2016**	2015
Net income	**$ 12,361**	$ 22,652	**$ 32,380**	$ 41,690
Other comprehensive income (loss), net of taxes:				
Unrealized gains (losses) on securities	**70**	(86)	**118**	(110)
Change in pension and other postretirement obligations	**5**	6	**8**	8
Unrealized gains on hedges	**124**	123	**247**	247
Total other comprehensive income	**199**	43	**373**	145
Comprehensive income	**$ 12,560**	$ 22,695	**$ 32,753**	$ 41,835
Related tax (expense) benefit:				
Unrealized (gains) losses on securities	**$ (38)**	$ 46	**$ (64)**	$ 59
Change in pension and other postretirement obligations	**(3)**	(3)	**(4)**	(4)
Unrealized gains on hedges	**(66)**	(66)	**(133)**	(133)
Total tax expense	**$ (107)**	$ (23)	**$ (201)**	$ (78)

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Six Months Ended September 30, 2016	2015
Operating activities:		
Net income	$ 32,380	$ 41,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	51,660	47,309
Regulatory amortizations	353	353
Provision for deferred income taxes	17,740	11,753
Bad debt expense	6,736	5,426
Amortization of debt discount and issuance costs	147	147
Net postretirement benefits expense (contributions)	896	(13,708)
Net environmental remediation payments	(2,783)	(1,616)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	21,137	88,259
Inventory	(3,104)	(6,953)
Regulatory assets and liabilities, net	57,746	35,941
Derivative instruments	(13,298)	5,117
Prepaid and accrued taxes	(4,527)	4,771
Accounts payable and other liabilities	3,285	(33,069)
Other, net	1,590	(4,472)
Net cash provided by operating activities	169,958	180,948
Investing activities:		
Capital expenditures	(161,289)	(146,280)
Changes in restricted cash and special deposits	9,522	22,339
Cost of removal	(8,376)	(10,347)
Other	718	(222)
Net cash used in investing activities	(159,425)	(134,510)
Financing activities:		
Preferred stock dividends	(55)	(55)
Payments on long-term debt	(625)	(625)
Affiliated money pool borrowing and receivables/payables, net	(16,051)	(57,553)
Net cash used in financing activities	(16,731)	(58,233)
Net decrease in cash and cash equivalents	(6,198)	(11,795)
Cash and cash equivalents, beginning of period	14,410	19,310
Cash and cash equivalents, end of period	$ 8,212	$ 7,515

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	September 30, 2016	March 31, 2016
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,212	$ 14,410
Special deposits	5,591	15,113
Accounts receivable	179,109	196,654
Allowance for doubtful accounts	(22,450)	(25,404)
Accounts receivable from affiliates	24,476	18,689
Unbilled revenues	38,781	52,063
Inventory	27,416	32,458
Regulatory assets	73,823	105,176
Derivative instruments	1,588	1,316
Other	17,136	9,021
Total current assets	353,682	419,496
Property, plant and equipment, net	2,705,902	2,576,636
Other non-current assets:		
Regulatory assets	526,920	533,442
Goodwill	724,810	724,810
Derivative instruments	1,923	398
Other	14,969	14,605
Total other non-current assets	1,268,622	1,273,255
Total assets	$ 4,328,206	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	September 30, 2016	March 31, 2016
	(unaudited)	
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 137,429	$ 127,141
Accounts payable to affiliates	59,926	29,109
Current portion of long-term debt	1,375	1,375
Taxes accrued	25,890	19,972
Customer deposits	13,381	13,496
Interest accrued	5,348	5,450
Regulatory liabilities	87,598	74,077
Intercompany money pool	154,127	195,208
Derivative instruments	7,130	18,154
Renewable energy certificate obligations	8,973	17,839
Other	17,828	20,031
Total current liabilities	519,005	521,852
Other non-current liabilities:		
Regulatory liabilities	238,328	222,710
Deferred income tax liabilities, net	531,227	513,737
Postretirement benefits	175,655	181,829
Environmental remediation costs	134,496	132,651
Derivative instruments	1,812	2,289
Other	28,354	27,192
Total other non-current liabilities	1,109,872	1,080,408
Capitalization:		
Shareholders' equity	1,854,903	1,822,188
Long-term debt	844,426	844,939
Total capitalization	2,699,329	2,667,127
Total liabilities and capitalization	$ 4,328,206	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)			Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
				Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity			
Balance as of March 31, 2015	$ 56,624	$ 2,454	$ 1,354,952	$ 857	$ 1,197	$ (4,166)	$ (2,112)	$ 310,506	$ 1,722,424
Net income	-	-	-	-	-	-	-	41,690	41,690
Other comprehensive (loss) income:									
Unrealized losses on securities, net of $59 tax benefit	-	-	-	(110)	-	-	(110)	-	(110)
Change in pension and other postretirement obligations, net of $4 tax expense	-	-	-	-	8	-	8	-	8
Unrealized gains on hedges, net of $133 tax expense	-	-	-	-	-	247	247	-	247
Total comprehensive income									41,835
Share based compensation	-	-	15	-	-	-	-	-	15
Preferred stock dividends	-	-	-	-	-	-	-	(55)	(55)
Balance as of September 30, 2015	$ 56,624	$ 2,454	$ 1,354,967	$ 747	$ 1,205	$ (3,919)	$ (1,967)	$ 352,141	$ 1,764,219
Balance as of March 31, 2016	$ 56,624	$ 2,454	$ 1,354,977	$ 795	$ 1,206	$ (3,672)	$ (1,671)	$ 409,804	$ 1,822,188
Net income	-	-	-	-	-	-	-	32,380	32,380
Other comprehensive income:									
Unrealized gains on securities, net of $64 tax expense	-	-	-	118	-	-	118	-	118
Change in pension and other postretirement obligations, net of $4 tax expense	-	-	-	-	8	-	8	-	8
Unrealized gains on hedges, net of $133 tax expense	-	-	-	-	-	247	247	-	247
Total comprehensive income									32,753
Share based compensation	-	-	17	-	-	-	-	-	17
Preferred stock dividends	-	-	-	-	-	-	-	(55)	(55)
Balance as of September 30, 2016	$ 56,624	$ 2,454	$ 1,354,994	$ 913	$ 1,214	$ (3,425)	$ (1,298)	$ 442,129	$ 1,854,903

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at September 30, 2016 and 2015.

The Narragansett Electric Company

Financial Statements

For the three and nine months ended

December 31, 2016 and 2015

(Unaudited)

THE NARRAGANSETT ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED

DECEMBER 31, 2016
(unaudited)

I hereby certify that I am Vice-President, NE Controller of The Narragansett Electric Company and that the enclosed financial statements for the three months and nine months ended December 31, 2016, have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, correct, subject to year-end audit adjustments and footnote disclosure. These financial statements should be read in conjunction with the audited financial statements for the year ended March 31, 2016.

George Carlin

George Carlin, Vice-President, NE Controller

2/21/17

Date

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(unaudited, in thousands of dollars)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	**2016**	2015
Operating revenues:				
Electric services	**$ 205,558**	$ 231,991	**$ 641,824**	$ 678,616
Gas distribution	**99,235**	97,122	**231,324**	231,592
Total operating revenues	**304,793**	329,113	**873,148**	910,208
Operating expenses:				
Purchased electricity	**67,839**	84,684	**209,706**	249,710
Purchased gas	**39,904**	39,524	**82,891**	90,814
Operations and maintenance	**97,602**	105,123	**298,663**	281,071
Depreciation and amortization	**26,177**	24,234	**77,837**	71,543
Other taxes	**30,018**	27,881	**88,909**	84,877
Total operating expenses	**261,540**	281,446	**758,006**	778,015
Operating income	**43,253**	47,667	**115,142**	132,193
Other income and (deductions):				
Interest on long-term debt	**(11,056)**	(11,101)	**(32,862)**	(32,998)
Other interest, including affiliate interest	**(657)**	1,101	**(1,800)**	(318)
Other income, net	**877**	1,861	**2,056**	4,672
Total other deductions, net	**(10,836)**	(8,139)	**(32,606)**	(28,644)
Income before income taxes	**32,417**	39,528	**82,536**	103,549
Income tax expense	**11,621**	13,593	**29,360**	35,924
Net income	**$ 20,796**	$ 25,935	**$ 53,176**	$ 67,625

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands of dollars)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	**2016**	2015
Net income	**$ 20,796**	$ 25,935	**$ 53,176**	$ 67,625
Other comprehensive income (loss), net of taxes:				
Unrealized (losses) gains on securities	**(99)**	76	**19**	(34)
Change in pension and other postretirement obligations	**5**	4	**13**	12
Unrealized gains on hedges	**123**	123	**370**	370
Total other comprehensive income	**29**	203	**402**	348
Comprehensive income	**$ 20,825**	$ 26,138	**$ 53,578**	$ 67,973
Related tax (expense) benefit:				
Unrealized losses (gains) on securities	**$ 54**	$ (40)	**$ (10)**	$ 19
Change in pension and other postretirement obligations	**(3)**	(2)	**(7)**	(6)
Unrealized gains on hedges	**(67)**	(67)	**(200)**	(200)
Total tax expense	**$ (16)**	$ (109)	**$ (217)**	$ (187)

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Nine Months Ended December 31,	
	2016	2015
Operating activities:		
Net income	**$ 53,176**	$ 67,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**77,837**	71,543
Regulatory amortizations	**529**	529
Provision for deferred income taxes	**24,362**	31,063
Bad debt expense	**11,997**	8,219
Amortization of debt discount and issuance costs	**221**	221
Net postretirement benefits expense (contributions)	**602**	(11,545)
Net environmental remediation payments	**(4,753)**	(2,360)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(19,876)**	80,244
Inventory	**(59)**	(6,515)
Regulatory assets and liabilities, net	**101,896**	38,212
Derivative instruments	**(28,555)**	3,981
Prepaid and accrued taxes	**(18,326)**	(11,919)
Accounts payable and other liabilities	**8,240**	(49,151)
Other, net	**(2,895)**	(4,153)
Net cash provided by operating activities	**204,396**	215,994
Investing activities:		
Capital expenditures	**(232,982)**	(191,539)
Changes in restricted cash and special deposits	**14,524**	21,685
Cost of removal	**(12,447)**	(14,475)
Other	**777**	(231)
Net cash used in investing activities	**(230,128)**	(184,560)
Financing activities:		
Preferred stock dividends	**(83)**	(83)
Payments on long-term debt	**(1,375)**	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**24,104**	(37,756)
Net cash provided by (used in) financing activities	**22,646**	(39,214)
Net decrease in cash and cash equivalents	**(3,086)**	(7,780)
Cash and cash equivalents, beginning of period	**14,410**	19,310
Cash and cash equivalents, end of period	**$ 11,324**	$ 11,530

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	December 31, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 11,324**	$ 14,410
Special deposits and restricted cash	**589**	15,113
Accounts receivable	**186,200**	196,654
Allowance for doubtful accounts	**(23,966)**	(25,404)
Accounts receivable from affiliates	**24,109**	18,689
Unbilled revenues	**68,958**	52,063
Inventory	**27,397**	32,458
Regulatory assets	**65,647**	105,176
Derivative instruments	**8,829**	1,316
Other	**7,466**	9,021
Total current assets	**376,553**	419,496
Property, plant and equipment, net	**2,754,669**	2,576,636
Other non-current assets:		
Regulatory assets	**521,312**	533,442
Goodwill	**724,810**	724,810
Derivative instruments	**4,249**	398
Other	**14,848**	14,605
Total other non-current assets	**1,265,219**	1,273,255
Total assets	**$ 4,396,441**	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	December 31, 2016	March 31, 2016
	(unaudited)	
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 129,311**	$ 127,141
Accounts payable to affiliates	**66,217**	29,109
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**704**	19,972
Customer deposits	**12,801**	13,496
Interest accrued	**9,616**	5,450
Regulatory liabilities	**110,759**	74,077
Intercompany money pool	**187,624**	195,208
Derivative instruments	**1,955**	18,154
Renewable energy certificate obligations	**9,706**	17,839
Other	**17,537**	20,031
Total current liabilities	**547,605**	521,852
Other non-current liabilities:		
Regulatory liabilities	**251,558**	222,710
Deferred income tax liabilities, net	**538,835**	513,737
Postretirement benefits	**172,479**	181,829
Environmental remediation costs	**133,232**	132,651
Derivative instruments	**1,297**	2,289
Other	**31,995**	27,192
Total other non-current liabilities	**1,129,396**	1,080,408
Capitalization:		
Shareholders' equity	**1,875,707**	1,822,188
Long-term debt	**843,733**	844,939
Total capitalization	**2,719,440**	2,667,127
Total liabilities and capitalization	**$ 4,396,441**	$ 4,269,387

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	$ 56,624	$ 2,454	$ 1,354,952	$ 857	$ 1,197	$ (4,166)	$ (2,112)	$ 310,506	$ 1,722,424
Net income	-	-	-	-	-	-	-	67,625	67,625
Other comprehensive (loss) income:									
Unrealized losses on securities, net of $19 tax benefit	-	-	-	(34)	-	-	(34)	-	(34)
Change in pension and other postretirement obligations, net of $6 tax expense	-	-	-	-	12	-	12	-	12
Unrealized gains on hedges, net of $200 tax expense	-	-	-	-	-	370	370	-	370
Total comprehensive income									67,973
Share based compensation	-	-	15	-	-	-	-	-	15
Preferred stock dividends	-	-	-	-	-	-	-	(83)	(83)
Balance as of December 31, 2015	$ 56,624	$ 2,454	$ 1,354,967	$ 823	$ 1,209	$ (3,796)	$ (1,764)	$ 378,048	$ 1,790,329
Balance as of March 31, 2016	$ 56,624	$ 2,454	$ 1,354,977	$ 795	$ 1,206	$ (3,672)	$ (1,671)	$ 409,804	$ 1,822,188
Net income	-	-	-	-	-	-	-	53,176	53,176
Other comprehensive income:									
Unrealized gains on securities, net of $10 tax expense	-	-	-	19	-	-	19	-	19
Change in pension and other postretirement obligations, net of $7 tax expense	-	-	-	-	13	-	13	-	13
Unrealized gains on hedges, net of $200 tax expense	-	-	-	-	-	370	370	-	370
Total comprehensive income									53,578
Share based compensation	-	-	24	-	-	-	-	-	24
Preferred stock dividends	-	-	-	-	-	-	-	(83)	(83)
Balance as of December 31, 2016	$ 56,624	$ 2,454	$ 1,355,001	$ 814	$ 1,219	$ (3,302)	$ (1,269)	$ 462,897	$ 1,875,707

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at December 31, 2016 and 2015.

nationalgrid

The Narragansett Electric Company

Financial Statements

For the three months ended June 30, 2017 and 2016

(Unaudited)

THE NARRAGANSETT ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

JUNE 30, 2017
(unaudited)

I hereby certify that I am Vice-President, NE Controller of The Narragansett Electric Company and that the enclosed financial statements for the three months ended June 30, 2017, have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, correct, subject to year-end audit adjustments and footnote disclosure. These financial statements should be read in conjunction with the audited financial statements for the year ended March 31, 2017.

George Carlin

George Carlin, Vice-President, NE Controller

8/22/17

Date

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2017	2016
Operating revenues:		
Electric services	**$ 211,735**	$ 197,181
Gas distribution	**81,635**	74,726
Operating revenues	**293,370**	271,907
Operating expenses:		
Purchased electricity	**64,725**	62,679
Purchased gas	**27,985**	24,634
Operations and maintenance	**98,328**	91,987
Depreciation	**26,122**	25,739
Other taxes	**28,952**	25,897
Total operating expenses	**246,112**	230,936
Operating income	**47,258**	40,971
Other income and (deductions):		
Interest on long-term debt	**(10,711)**	(10,847)
Other interest, including affiliate interest	**(1,087)**	231
Other income, net	**730**	680
Total other deductions, net	**(11,068)**	(9,936)
Income before income taxes	**36,190**	31,035
Income tax expense	**12,759**	11,016
Net income	**$ 23,431**	$ 20,019
Effective tax rate	**35.3%**	35.5%

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2017	2016
Net income	**$ 23,431**	$ 20,019
Other comprehensive income, net of taxes:		
Unrealized gains on securities	**68**	48
Change in pension and other postretirement obligations	**4**	3
Unrealized gains on hedges	**52**	123
Total other comprehensive income	**124**	**174**
Comprehensive income	**$ 23,555**	$ 20,193
Related tax (expense) benefit:		
Unrealized gains on securities	**$ (37)**	$ (26)
Change in pension and other postretirement obligations	**(2)**	(1)
Unrealized gains on hedges	**(28)**	(67)
Total tax expense	**$ (67)**	$ (94)

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Three Months Ended June 30, 2017	2016
Operating activities:		
Net income	$ 23,431	$ 20,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,122	25,739
Regulatory amortizations	176	176
Provision for deferred income taxes	12,816	11,016
Bad debt expense	1,463	2,589
Amortization of debt discount and issuance costs	73	73
Net postretirement benefits contributions	(9,626)	(498)
Net environmental remediation payments	(1,078)	(786)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	49,128	29,108
Inventory	(3,509)	(2,094)
Regulatory assets and liabilities, net	(17,623)	29,059
Derivative instruments	4,219	(16,667)
Prepaid and accrued taxes	3,742	(8,212)
Accounts payable and other liabilities	7,111	(4,393)
Other, net	885	2,735
Net cash provided by operating activities	97,330	87,864
Investing activities:		
Capital expenditures	(63,723)	(80,391)
Proceeds from restricted cash	2,384	14,764
Payments on restricted cash	(2,079)	(5,661)
Cost of removal	(6,672)	(3,270)
Other	1,226	186
Net cash used in investing activities	(68,864)	(74,372)
Financing activities:		
Preferred stock dividends	-	(28)
Affiliated money pool borrowing and receivables/payables, net	(27,632)	(25,002)
Net cash used in financing activities	(27,632)	(25,030)
Net increase (decrease) in cash and cash equivalents	834	(11,538)
Cash and cash equivalents, beginning of period	7,803	14,410
Cash and cash equivalents, end of period	$ 8,637	$ 2,872

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	June 30, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ **8,637**	$ 7,803
Restricted cash	**651**	956
Accounts receivable	**174,726**	212,572
Allowance for doubtful accounts	**(22,091)**	(25,192)
Accounts receivable from affiliates	**22,210**	6,354
Unbilled revenues	**41,971**	57,817
Inventory	**20,226**	24,216
Regulatory assets	**48,731**	52,446
Derivative instruments	**2,902**	6,189
Prepaid taxes	**21,815**	9,821
Other	**396**	1,805
Total current assets	**320,174**	354,787
Property, plant and equipment, net	**2,826,028**	2,785,811
Other non-current assets:		
Regulatory assets	**460,450**	464,135
Goodwill	**724,810**	724,810
Derivative instruments	**79**	167
Other	**12,951**	13,905
Total other non-current assets	**1,198,290**	1,203,017
Total assets	$ **4,344,492**	$ 4,343,615

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	June 30, 2017	March 31, 2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 119,732	$ 124,895
Accounts payable to affiliates	83,837	80,085
Current portion of long-term debt	1,375	1,375
Taxes accrued	45,360	29,624
Customer deposits	10,612	12,514
Interest accrued	9,505	5,434
Regulatory liabilities	80,776	106,788
Intercompany money pool	110,131	125,659
Derivative instruments	1,497	392
Renewable energy certificate obligations	4,522	11,841
Other	19,793	20,701
Total current liabilities	487,140	519,308
Other non-current liabilities:		
Regulatory liabilities	261,185	245,856
Asset retirement obligations	10,224	10,150
Deferred income tax liabilities, net	550,839	538,229
Postretirement benefits	106,595	121,799
Environmental remediation costs	134,715	135,529
Derivative instruments	963	1,224
Other	22,905	25,230
Total other non-current liabilities	1,087,426	1,078,017
Capitalization:		
Shareholders' equity	1,927,863	1,904,300
Long-term debt	842,063	841,990
Total capitalization	2,769,926	2,746,290
Total liabilities and capitalization	$ 4,344,492	$ 4,343,615

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	$ 56,624	$ 2,454	$ 1,354,952	$ 857	$ 1,197	$ (4,166)	$ (2,112)	$ 310,506	$ 1,722,424
Net income	-	-	-	-	-	-	-	19,038	19,038
Other comprehensive income (loss):									
Unrealized losses on securities, net of $68 tax benefit	-	-	-	(24)	-	-	(24)	-	(24)
Change in pension and other postretirement obligations, net of $633 tax expense	-	-	-	-	2	-	2	-	2
Unrealized gains on hedges, net of $266 tax expense	-	-	-	-	-	124	124	-	124
Total comprehensive income									19,140
Share based compensation	-	-	6	-	-	-	-	-	6
Preferred stock dividends	-	-	-	-	-	-	-	(28)	(28)
Balance as of June 30, 2015	$ 56,624	$ 2,454	$ 1,354,958	$ 833	$ 1,199	$ (4,042)	$ (2,010)	$ 329,516	$ 1,741,542
Balance as of March 31, 2016	$ 56,624	$ 2,454	$ 1,354,977	$ 795	$ 1,206	$ (3,672)	$ (1,671)	$ 409,804	$ 1,822,188
Net income	-	-	-	-	-	-	-	20,019	20,019
Other comprehensive income (loss):									
Unrealized gains on securities, net of $26 tax expense	-	-	-	48	-	-	48	-	48
Change in pension and other postretirement obligations, net of $1 tax expense	-	-	-	-	3	-	3	-	3
Unrealized gains on hedges, net of $67 tax expense	-	-	-	-	-	123	123	-	123
Total comprehensive income									20,193
Share based compensation	-	-	5	-	-	-	-	-	5
Preferred stock dividends	-	-	-	-	-	-	-	(28)	(28)
Balance as of June 30, 2016	$ 56,624	$ 2,454	$ 1,354,982	$ 843	$ 1,209	$ (3,549)	$ (1,497)	$ 429,795	$ 1,842,358
Balance as of March 31, 2017	$ 56,624	$ 2,454	$ 1,355,008	$ 905	$ 1,202	$ (3,201)	$ (1,094)	$ 491,308	$ 1,904,300
Net income	-	-	-	-	-	-	-	23,431	23,431
Other comprehensive income (loss):									
Unrealized gains on securities, net of $37 tax expense	-	-	-	68	-	-	68	-	68
Change in pension and other postretirement obligations, net of $2 tax expense	-	-	-	-	4	-	4	-	4
Unrealized gains on hedges, net of $28 tax expense	-	-	-	-	-	52	52	-	52
Total comprehensive income									23,555
Share based compensation	-	-	8	-	-	-	-	-	8
Preferred stock dividends	-	-	-	-	-	-	-	-	-
Balance as of June 30, 2017	$ 56,624	$ 2,454	$ 1,355,016	$ 973	$ 1,206	$ (3,149)	$ (970)	$ 514,739	$ 1,927,863

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at June 30, 2017 and 2016.

PUC 1-3

Request:

1-3 Please provide the prospectus distributed in anticipation of the most recent sale of any equity or debt by the Company and National Grid.

Response:

No debt has been issued in the last two years pursuant to a prospectus. The Narragansett Electric Company debt offerings that were closed occurred in 2010 and 2012. The Company has not issued any debt or equity under a prospectus since 2012.

Prepared by or under the supervision of: Josh Nowak

PUC 1-4

Request:

Please provide a list or index, or any document which contains a list or index of the Company's periodic reports (i.e. monthly, quarterly) used internally.

Response:

Please refer to the table below for the list of The Narragansett Electric Company's periodic reports used internally:

Report Name	Frequency
Operating Profit	Monthly
Revenue/Margin Report	Monthly
Functional Controllable Costs	Monthly
Capex Reports	Monthly
SAP Business Intelligence or Reporting Center Of Excellence Reports	Monthly
Monthly Performance Cadence Reports	Monthly
Quarterly Performance Review Pack	Quarterly

Prepared by or under the supervision of: Melissa Little

PUC 1-5

Request:

1-5 Please provide the following information for the Company for each month of the fiscal years 2015, 2016 and 2017:

(a) the budgeted and actual monthly income statements;
(b) a Statement of Cash Flows; and
(c) the short-term debt balance, short-term interest expense and rate as well as a comparison of the short-term interest rate to the contemporaneous prime rate.

Response:

(a) Please see Attachment PUC 1-5-1 for the actual monthly income statements for the Company for each month of the years 2015, 2016, and 2017. Please see Attachment PUC 1-5-2 for the budgeted monthly income statements for each month of the years 2015, 2016, and 2017.

(b) Monthly Statement of Cash Flows for the Company are not prepared. Annual Cash Flow Statements for the Company for the years 2015, 2016, and 2017 have been provided in the Annual Report, which is provided as Attachment PUC 1-5-3.

Quarterly Cash Flow Statements for the Company for the years 2015, 2016, and 2017 have been provided in Attachment PUC 1-5-4, Attachment PUC 1-5-5, and Attachment PUC 1-5-6, respectively.

(c) Please see Attachment PUC 1-5-7 for the short-term debt balance, short-term interest expense and rate as well as a comparison of the short-term interest rate to the contemporaneous prime rate for the years 2015 and 2016.

Prepared by or under the supervision of: Melissa Little

Narragansett Electric Company

ACTUAL - MONTH $M **GAAP**	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2015	February 2015	March 2015
Revenue	98.6	99.6	103.2	113.8	94.0	109.0	87.2	108.0	150.7	188.1	205.4	139.2
Total Pass Through Costs	(47.3)	(55.2)	(67.0)	(70.4)	(51.7)	(66.1)	(42.5)	(60.2)	(97.0)	(138.7)	(140.2)	(72.0)
Net Margin	51.3	44.4	36.2	43.4	42.3	43.0	44.7	47.8	53.7	49.3	65.2	67.2
Direct Opex	(5.4)	(8.0)	(7.8)	(5.9)	(7.0)	(6.4)	(7.4)	(4.9)	(6.3)	(6.7)	(7.4)	(10.6)
Indirect Opex	(8.0)	(8.0)	(0.7)	(4.5)	(7.0)	(6.3)	(10.2)	(4.1)	(5.5)	(1.1)	(7.9)	(12.1)
Other Benefits	(3.1)	(1.8)	(2.4)	(2.4)	(2.3)	(2.8)	(2.6)	(2.4)	(2.9)	(1.8)	(3.2)	(1.7)
Controllable Cost Target	(16.5)	(17.9)	(10.8)	(12.8)	(16.3)	(15.5)	(20.2)	(11.4)	(14.8)	(9.7)	(18.5)	(24.5)
Pension & OPEBs	(1.6)	(2.8)	(2.2)	(1.9)	(2.4)	(2.1)	(2.2)	(2.1)	(1.8)	(1.8)	0.6	(1.1)
Bad debt expense	(1.9)	(0.4)	(2.1)	(2.0)	(1.7)	(5.2)	(1.7)	(1.5)	(2.8)	(4.3)	(3.1)	(1.6)
Total Controllable Cost	(19.9)	(21.0)	(15.1)	(16.7)	(20.4)	(22.8)	(24.1)	(15.1)	(19.5)	(15.8)	(21.0)	(27.1)
Regulatory Assessments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	-	(1.0)	(0.5)
Environmental SIR Costs	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.7)	(0.3)	(0.3)	1.2	(0.2)	(0.3)	(0.3)
Allocated Depreciation	(0.4)	(1.5)	(0.8)	(0.9)	(0.8)	(0.9)	(0.6)	(0.9)	(0.9)	(0.9)	(0.7)	(1.1)
Storm Costs	(0.8)	(0.5)	(0.8)	(0.8)	(0.7)	(0.6)	(0.7)	(1.0)	(1.0)	(1.9)	0.3	(0.9)
Capital Related O&M	(0.7)	(0.8)	(0.7)	(0.8)	(0.4)	(1.2)	0.3	(0.1)	(0.6)	(0.9)	0.7	(0.8)
CTA	(0.1)	(0.2)	(0.0)	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)	(0.0)	(0.2)	(0.1)	(0.1)
Other	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.0)	(0.1)
Other Operating Costs	(3.0)	(3.9)	(3.3)	(3.4)	(3.0)	(4.1)	(2.2)	(3.2)	(2.0)	(4.4)	(1.0)	(3.9)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(7.5)	(7.5)	(7.5)	(7.5)	(7.5)	(7.6)	(7.6)	(7.7)	(7.6)	(7.5)	(8.0)	(6.2)
Operating Taxes	(4.1)	(4.2)	(4.1)	(6.0)	(8.5)	(4.9)	(6.5)	(5.6)	(5.3)	(4.7)	(5.1)	(8.9)
Operating Profit - Regulated	16.8	7.8	6.1	9.8	2.9	3.6	4.4	16.2	19.3	16.9	30.1	21.1
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	16.8	7.8	6.1	9.8	2.9	3.6	4.4	16.2	19.3	16.9	30.1	21.1

Narragansett Electric Company

ACTUAL - MONTH $M **GAAP**	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016	January 2016	February 2016	March 2016
Revenue	98.8	83.4	93.9	104.4	111.4	73.9	118.3	106.9	134.9	148.2	140.0	107.2
Total Pass Through Costs	(47.8)	(38.9)	(50.0)	(61.4)	(60.8)	(14.2)	(74.9)	(52.4)	(85.3)	(83.2)	(82.6)	(50.4)
Net Margin	51.1	44.5	43.8	43.0	50.5	59.7	43.4	54.4	49.6	65.0	57.4	56.8
Direct Opex	(7.7)	(6.4)	(3.8)	(5.7)	(5.6)	(9.4)	(2.1)	(6.1)	(6.3)	(6.2)	(9.3)	(8.4)
Indirect Opex	(4.8)	(6.4)	(8.1)	(5.6)	(1.7)	(12.6)	(2.8)	(6.6)	(4.3)	(7.1)	(7.2)	(14.0)
Other Benefits	(2.8)	(2.5)	(2.4)	(2.4)	(2.8)	(3.7)	(1.2)	(2.3)	(3.2)	(1.7)	(4.1)	(4.6)
Controllable Cost Target	(15.2)	(15.3)	(14.4)	(13.7)	(10.1)	(25.7)	(6.0)	(15.0)	(13.8)	(15.0)	(20.6)	(27.0)
Pension & OPEBs	(2.0)	(1.3)	(2.3)	(2.0)	(2.0)	(2.0)	(1.9)	(1.4)	(1.8)	(1.5)	(1.7)	(4.6)
Bad debt expense	0.5	(0.4)	1.0	(1.4)	(2.8)	(3.7)	1.5	(2.0)	(1.0)	(2.1)	(0.4)	2.2
Total Controllable Cost	(16.7)	(17.0)	(15.6)	(17.1)	(14.9)	(31.3)	(6.5)	(18.4)	(16.6)	(18.6)	(22.8)	(29.3)
Regulatory Assessments	-	(1.0)	(0.5)	(0.5)	(0.5)	(0.9)	(0.1)	(0.5)	(0.5)	(0.8)	(0.6)	(0.7)
Environmental SIR Costs	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.7)
Allocated Depreciation	(1.1)	(1.0)	(0.9)	(1.1)	(1.1)	(3.2)	0.9	(1.1)	(1.3)	(1.4)	(1.4)	(1.3)
Storm Costs	0.1	(0.5)	(1.2)	(0.3)	1.0	(4.4)	3.0	(2.8)	(0.5)	(1.6)	(1.8)	(1.6)
Capital Related O&M	(0.7)	(1.0)	(0.4)	(0.6)	0.6	(1.6)	0.2	(0.5)	(0.7)	(0.5)	(0.5)	(2.0)
CTA	(0.2)	(0.0)	(0.2)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	-	-	-	-	-	(0.0)	0.0	-	(5.8)	(0.0)	1.3	4.0
Other Operating Costs	(2.0)	(3.7)	(3.4)	(2.9)	(0.4)	(10.7)	3.8	(5.3)	(9.1)	(4.7)	(3.3)	(2.5)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(7.8)	(7.9)	(8.0)	(7.9)	(8.1)	(12.4)	(3.7)	(8.1)	(8.3)	(8.5)	(8.5)	(8.6)
Operating Taxes	(5.1)	(5.1)	(5.3)	(6.0)	(6.9)	(6.8)	(3.5)	(5.4)	(2.8)	(7.2)	(5.4)	(5.5)
Operating Profit - Regulated	19.4	10.8	11.6	9.1	20.3	(1.5)	33.5	17.3	12.8	26.1	17.4	11.0
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	19.4	10.8	11.6	9.1	20.3	(1.5)	33.5	17.3	12.8	26.1	17.4	11.0

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ACTUAL - MONTH $M **GAAP**	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2017	February 2017	March 2017
Revenue	90.1	80.0	100.2	101.7	101.2	92.6	85.5	88.9	140.5	127.7	129.0	114.1
Total Pass Through Costs	(41.4)	(36.9)	(48.3)	(51.3)	(54.0)	(41.3)	(35.4)	(41.8)	(71.4)	(70.6)	(64.0)	(55.2)
Net Margin	48.7	43.1	51.9	50.4	47.2	51.4	50.1	47.1	69.2	57.1	65.0	58.9
Direct Opex	(6.5)	(5.4)	(6.6)	(7.1)	(6.5)	(6.6)	(6.0)	(6.0)	(7.2)	(8.1)	(8.9)	(9.5)
Indirect Opex	(6.4)	(6.6)	(6.7)	(6.6)	(7.3)	(5.8)	(6.5)	(7.0)	(5.9)	(4.9)	(7.3)	(11.6)
Other Benefits	(2.6)	(2.7)	(3.1)	(2.3)	(2.8)	(3.1)	(2.6)	(2.6)	(3.0)	(2.7)	(2.9)	(3.2)
Controllable Cost Target	(15.5)	(14.6)	(16.3)	(16.0)	(16.6)	(15.5)	(15.1)	(15.6)	(16.1)	(15.7)	(19.0)	(24.3)
Pension & OPEBs	(2.4)	(1.1)	(1.5)	(2.3)	(2.3)	(2.0)	(1.8)	(2.2)	(2.3)	(2.3)	(2.1)	(12.5)
Bad debt expense	(0.5)	(0.7)	(1.5)	(1.0)	(1.9)	(1.3)	(1.3)	(1.3)	(2.7)	(1.6)	0.3	(0.8)
Total Controllable Cost	(18.3)	(16.3)	(19.3)	(19.2)	(20.7)	(18.8)	(18.2)	(19.2)	(21.1)	(19.5)	(20.8)	(37.7)
Regulatory Assessments	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Environmental SIR Costs	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.5)	(0.3)	(0.3)	(1.0)
Allocated Depreciation	(1.4)	(1.3)	(1.4)	(1.5)	(1.4)	(1.4)	(1.4)	(1.5)	(1.5)	(1.5)	(1.6)	(1.3)
Storm Costs	(1.7)	(0.6)	(0.9)	(0.8)	(0.4)	(0.8)	(0.5)	(0.5)	(1.2)	(0.8)	(1.9)	(2.9)
Capital Related O&M	(0.5)	(0.4)	(0.6)	(0.8)	(0.4)	(0.9)	(0.6)	(0.5)	(0.5)	0.0	(0.6)	(0.3)
CTA	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	(0.0)	(0.0)	(0.0)	0.1	(0.0)	0.1	(0.0)	(0.0)	0.1	(0.0)	(0.0)	0.1
Other Operating Costs	(4.6)	(3.4)	(3.8)	(4.0)	(3.2)	(4.1)	(3.4)	(3.4)	(4.4)	(3.3)	(5.0)	(6.1)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(8.6)	(8.6)	(8.7)	(8.7)	(7.8)	(9.6)	(8.8)	(8.8)	(8.8)	(8.8)	(8.7)	(8.7)
Operating Taxes	(5.4)	(5.3)	(5.0)	(7.3)	(6.6)	(5.6)	(5.9)	(5.6)	(5.8)	(5.9)	(5.8)	(5.8)
Operating Profit - Regulated	11.7	9.5	15.1	11.2	8.9	13.3	13.9	10.1	29.1	19.6	24.6	0.6
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	11.7	9.5	15.1	11.2	8.9	13.3	13.9	10.1	29.1	19.6	24.6	0.6

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BUDGET - MONTH $'m **GAAP**	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2015	February 2015	March 2015
Revenue	96.8	83.3	93.4	111.8	99.4	99.5	91.3	101.0	136.7	153.0	169.6	109.6
Total Pass Through Costs	(49.8)	(40.7)	(52.5)	(67.3)	(60.4)	(47.1)	(51.9)	(58.4)	(86.4)	(96.5)	(85.4)	(64.8)
Net Margin	48.6	41.4	41.5	43.9	45.7	43.0	38.7	44.3	51.9	55.7	58.5	57.6
Direct Opex	(6.1)	(5.8)	(7.3)	(6.2)	(6.3)	(5.3)	(4.1)	(6.6)	(4.4)	(3.0)	(6.5)	(7.4)
Indirect Opex	(5.9)	(5.9)	(6.0)	(6.0)	(6.0)	(5.9)	(5.9)	(5.9)	(5.5)	(5.9)	(5.9)	(6.6)
Other Benefits	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
Controllable Cost Target	(14.4)	(14.1)	(15.6)	(14.6)	(14.7)	(13.6)	(12.4)	(14.9)	(12.3)	(11.3)	(14.8)	(16.4)
Pension & OPEBs	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Bad debt expense	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Total Controllable Cost	(18.1)	(17.7)	(19.3)	(18.2)	(18.4)	(17.3)	(16.1)	(18.6)	(16.0)	(15.0)	(18.4)	(20.1)
Regulatory Assessments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Environmental SIR Costs	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allocated Depreciation	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)
Storm Costs	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Capital Related O&M	(0.5)	(0.5)	(0.6)	(0.7)	(0.6)	(0.6)	(0.8)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)
CTA	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other Operating Costs	(3.4)	(3.4)	(3.5)	(3.6)	(3.5)	(3.5)	(3.7)	(3.5)	(3.6)	(3.7)	(3.7)	(3.9)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(7.2)	(7.2)	(7.5)	(7.5)	(7.5)	(7.6)	(7.6)	(7.6)	(7.6)	(7.7)	(7.7)	(7.7)
Operating Taxes	(4.6)	(4.6)	(4.6)	(4.9)	(5.0)	(5.2)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)
Operating Profit - Regulated	15.3	8.4	6.6	9.7	11.3	9.5	6.5	9.9	19.9	24.7	23.9	21.1
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	15.3	8.4	6.6	9.7	11.3	9.5	6.5	9.9	19.9	24.7	23.9	21.1

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BUDGET - MONTH **GAAP**	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016	January 2016	February 2016	March 2016
Revenue	107.7	88.8	101.3	114.7	101.6	95.5	93.2	109.5	171.5	181.7	164.7	141.5
Total Pass Through Costs	(56.0)	(44.1)	(57.7)	(67.1)	(55.2)	(48.7)	(49.7)	(63.5)	(112.1)	(122.0)	(105.2)	(83.2)
Net Margin	51.7	44.7	43.7	47.6	46.4	46.8	43.5	46.0	59.4	59.7	59.5	58.3
Direct Opex	(7.6)	(6.6)	(6.8)	(7.0)	(6.0)	(6.3)	(6.6)	(6.2)	(7.1)	(7.7)	(7.8)	(8.5)
Indirect Opex	(6.6)	(6.4)	(6.6)	(6.4)	(6.4)	(6.5)	(6.5)	(6.5)	(6.6)	(6.6)	(6.5)	(7.3)
Other Benefits	(2.9)	(2.6)	(2.7)	(2.8)	(2.6)	(2.6)	(2.7)	(2.6)	(2.8)	(2.8)	(2.7)	(2.9)
Controllable Cost Target	(17.1)	(15.7)	(16.0)	(16.2)	(15.0)	(15.5)	(15.9)	(15.3)	(16.5)	(17.1)	(17.1)	(18.8)
Pension & OPEBs	(2.0)	(1.8)	(1.8)	(1.9)	(1.7)	(1.8)	(1.9)	(1.7)	(1.9)	(1.9)	(1.9)	(2.1)
Bad debt expense	(1.9)	0.2	(0.6)	(2.4)	(1.0)	(3.9)	(1.3)	(0.7)	(3.5)	(4.5)	(1.8)	(1.8)
Total Controllable Cost	(21.0)	(17.3)	(18.5)	(20.5)	(17.7)	(21.2)	(19.0)	(17.7)	(21.9)	(23.5)	(20.8)	(22.7)
Regulatory Assessments	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Environmental SIR Costs	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allocated Depreciation	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)
Storm Costs	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Capital Related O&M	(0.6)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)
CTA	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Costs	(3.4)	(3.5)	(3.5)	(3.4)	(3.4)	(3.4)	(3.4)	(3.5)	(3.3)	(3.4)	(3.4)	(3.4)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(7.8)	(7.8)	(7.9)	(7.9)	(8.0)	(8.0)	(8.0)	(8.1)	(8.1)	(8.1)	(8.2)	(8.2)
Operating Taxes	(5.1)	(5.1)	(5.4)	(6.8)	(5.4)	(7.2)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)
Operating Profit - Regulated	14.4	11.0	8.4	9.0	11.9	7.0	7.4	11.1	20.5	19.1	21.5	18.5
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	14.4	11.0	8.4	9.0	11.9	7.0	7.4	11.1	20.5	19.1	21.5	18.5

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BUDGET - MONTH $'m **GAAP**	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2017	February 2017	March 2017
Revenue	103.1	87.8	90.7	100.5	98.3	93.9	90.7	107.0	139.4	151.5	145.5	121.4
Total Pass Through Costs	(50.7)	(41.5)	(45.6)	(52.7)	(50.2)	(45.6)	(46.6)	(59.3)	(76.8)	(87.5)	(82.0)	(63.7)
Net Margin	52.4	46.3	45.2	47.8	48.0	48.3	44.1	47.7	62.6	64.0	63.5	57.7
Direct Opex	(6.0)	(6.0)	(6.9)	(6.5)	(6.3)	(6.8)	(6.7)	(6.5)	(7.2)	(6.8)	(7.5)	(8.2)
Indirect Opex	(6.5)	(6.6)	(6.5)	(6.9)	(6.6)	(6.7)	(6.6)	(6.7)	(5.3)	(8.3)	(6.9)	(7.9)
Other Benefits	(2.7)	(2.7)	(3.3)	(2.8)	(2.8)	(3.4)	(2.8)	(2.8)	(3.5)	(2.8)	(2.8)	(3.5)
Controllable Cost Target	(15.2)	(15.3)	(16.7)	(16.2)	(15.7)	(17.0)	(16.2)	(16.0)	(16.0)	(17.8)	(17.2)	(19.6)
Pension & OPEBs	(1.7)	(1.6)	(1.8)	(1.7)	(1.7)	(1.8)	(1.7)	(1.7)	(1.9)	(1.7)	(1.7)	(1.9)
Bad debt expense	0.4	(0.3)	(1.0)	(1.1)	(2.6)	(2.8)	(0.7)	(2.6)	(4.2)	(3.8)	(2.5)	(1.3)
Total Controllable Cost	(16.5)	(17.3)	(19.4)	(19.0)	(19.9)	(21.6)	(18.5)	(20.2)	(22.1)	(23.3)	(21.3)	(22.8)
Regulatory Assessments	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Environmental SIR Costs	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allocated Depreciation	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)
Storm Costs	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Capital Related O&M	(0.6)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)
CTA	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Costs	(3.4)	(3.5)	(3.5)	(3.4)	(3.4)	(3.4)	(3.4)	(3.5)	(3.3)	(3.4)	(3.4)	(3.4)
Cost of Removal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization	(8.5)	(8.6)	(8.6)	(8.6)	(8.7)	(8.7)	(8.7)	(8.8)	(8.8)	(8.8)	(8.7)	(8.8)
Operating Taxes	(5.4)	(5.4)	(5.6)	(6.3)	(5.6)	(6.4)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
Operating Profit - Regulated	18.4	11.6	8.1	10.5	10.5	8.3	7.8	9.6	22.7	22.8	24.4	17.1
Operating Profit - Other	-	-	-	-	-	-	-	-	-	-	-	-
Business Performance Operating Profit	18.4	11.6	8.1	10.5	10.5	8.3	7.8	9.6	22.7	22.8	24.4	17.1

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating activities:			
Net income	**$ 78,209**	$ 78,563	$ 60,696
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**90,746**	85,048	79,377
Regulatory amortizations	**(1,145)**	706	5,737
Provision for deferred income taxes	**16,949**	49,690	81,938
Bad debt expense	**28,269**	27,582	16,648
Allowance for equity funds used during construction	**(347)**	(2,536)	488
Amortization of debt discount and issuance costs	**293**	273	224
Net postretirement benefits expense (contributions)	**2,435**	1,051	(11,394)
Net environmental remediation payments	**(283)**	(8,042)	(1,930)
Share based compensation	**18**	1,375	-
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(63,582)**	(64,084)	(56,548)
Accounts receivable from/payable to affiliates, net	**-**	-	(241)
Inventory	**(725)**	6,480	3,150
Regulatory assets and liabilities, net	**(59,701)**	(25,950)	(60,929)
Accounts payable and other liabilities	**37,807**	(27,531)	51,200
Other, net	**68,443**	47,580	(16,658)
Net cash provided by operating activities	**197,386**	170,205	151,758
Investing activities:			
Capital expenditures	**(286,421)**	(224,461)	(235,100)
Changes in restricted cash and special deposits	**(14,615)**	(5,211)	32,298
Affiliated money pool investing and receivables/payables, net	**153,189**	(153,189)	-
Cost of removal	**(13,260)**	(13,026)	(17,360)
Other	**(163)**	847	343
Net cash used in investing activities	**(161,270)**	(395,040)	(219,819)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Proceeds from long-term debt	**-**	-	250,000
Affiliated money pool borrowing and receivables/payables, net	**222,142**	(22,048)	(170,975)
Advance from affiliate	**(250,000)**	250,000	-
Payment of debt issuance costs	**-**	-	(1,875)
Net cash (used in) provided by financing activities	**(29,343)**	226,467	75,665
Net increase in cash and cash equivalents	**6,773**	1,632	7,604
Cash and cash equivalents, beginning of year	**12,537**	10,905	3,301
Cash and cash equivalents, end of year	**$ 19,310**	$ 12,537	$ 10,905
Supplemental disclosures:			
Interest paid	$ (42,887)	$ (43,908)	$ (35,968)
Income taxes (paid) refunded	(17,111)	25,234	26,091
Significant non-cash items:			
Capital-related accruals included in accounts payable	26,872	22,865	8,515

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 99,408**	$ 67,682	$ 78,319
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**96,914**	90,746	85,048
Regulatory amortizations	**706**	(1,145)	706
Provision for deferred income taxes	**48,106**	23,489	49,559
Bad debt expense	**8,480**	28,269	27,582
Amortization of debt discount and issuance costs	**294**	293	273
Net postretirement benefits (contributions) expense	**(13,738)**	8,518	(3,182)
Net environmental remediation payments	**(3,058)**	(283)	(8,042)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**74,882**	(63,582)	(64,084)
Inventory	**(2,662)**	(725)	6,480
Regulatory assets and liabilities, net	**35,873**	(63,805)	(25,198)
Derivative instruments	**(6,897)**	21,319	7,248
Prepaid and accrued taxes	**(3,490)**	41,190	51,450
Accounts payable and other liabilities	**(46,328)**	36,357	(49,565)
Other, net	**(9,143)**	4,634	(11,369)
Net cash provided by operating activities	**279,347**	192,957	145,225
Investing activities:			
Capital expenditures	**(278,050)**	(281,992)	(199,481)
Changes in restricted cash and special deposits	**29,385**	(14,615)	(5,211)
Affiliated money pool investing and receivables/payables, net	**-**	153,189	(153,189)
Cost of removal	**(17,959)**	(13,260)	(13,026)
Other	**376**	(163)	847
Net cash used in investing activities	**(266,248)**	(156,841)	(370,060)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(16,514)**	222,142	(22,048)
Advance from affiliate	**-**	(250,000)	250,000
Net cash (used in) provided by financing activities	**(17,999)**	(29,343)	226,467
Net (decrease) increase in cash and cash equivalents	**(4,900)**	6,773	1,632
Cash and cash equivalents, beginning of year	**19,310**	12,537	10,905
Cash and cash equivalents, end of year	**$ 14,410**	$ 19,310	$ 12,537
Supplemental disclosures:			
Interest paid	**$ (42,683)**	$ (42,887)	$ (43,908)
Income taxes refunded (paid)	**71**	(17,111)	25,234
Significant non-cash items:			
Capital-related accruals included in accounts payable	**26,990**	16,028	10,572
Share based compensation	**25**	18	1,375

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2017	2016	2015
Operating activities:			
Net income	**$ 88,142**	$ 95,158	$ 66,797
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**103,923**	96,914	90,746
Regulatory amortizations	**714**	706	(1,145)
Provision for deferred income taxes	**27,470**	45,818	23,013
Bad debt expense	**14,105**	8,480	28,269
Amortization of debt discount and issuance costs	**293**	294	293
Net postretirement benefits expense (contributions)	**3,886**	(10,559)	10,310
Net environmental remediation payments	**(4,889)**	(3,058)	(283)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**(35,989)**	74,882	(63,582)
Inventory	**4,330**	(2,662)	(725)
Regulatory assets and liabilities, net	**97,822**	39,235	(64,237)
Derivative instruments	**(23,469)**	(6,897)	21,319
Prepaid and accrued taxes	**5,418**	(3,490)	41,190
Accounts payable and other liabilities	**19,284**	(46,330)	36,357
Other, net	**(1,827)**	(9,144)	4,635
Net cash provided by operating activities	**299,213**	279,347	192,957
Investing activities:			
Capital expenditures	**(295,621)**	(278,050)	(281,992)
Proceeds from restricted cash	**58,044**	73,370	73,151
Payments on restricted cash	**(43,887)**	(43,985)	(87,766)
Affiliated money pool investing and receivables/payables, net	**-**	-	153,189
Cost of removal	**(17,883)**	(17,959)	(13,260)
Other	**1,250**	376	(163)
Net cash used in investing activities	**(298,097)**	(266,248)	(156,841)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(6,238)**	(16,514)	222,142
Advance from affiliate	**-**	-	(250,000)
Net cash used in financing activities	**(7,723)**	(17,999)	(29,343)
Net (decrease) increase in cash and cash equivalents	**(6,607)**	(4,900)	6,773
Cash and cash equivalents, beginning of year	**14,410**	19,310	12,537
Cash and cash equivalents, end of year	**$ 7,803**	$ 14,410	$ 19,310
Supplemental disclosures:			
Interest paid	**$ (42,574)**	(42,683)	(42,887)
Income taxes refunded (paid)	**63**	71	(17,111)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**15,775**	26,990	16,028
Share based compensation	**31**	25	18

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2014	2013
Operating activities:		
Net income	**$ 13,085**	$ 15,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**22,260**	18,666
Regulatory amortizations	**176**	176
Provision for deferred income taxes	**7,034**	7,400
Bad debt expense	**4,331**	6,360
Allowance for equity funds used during construction	**(333)**	9
Amortization of debt discount and issuance costs	**64**	56
Net pension and other postretirement expense	**2,271**	1,572
Net environmental remediation recoveries (payments)	**1,610**	(796)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**58,662**	37,146
Inventory	**(8,476)**	(6,873)
Regulatory assets and liabilities, net	**3,279**	(8,604)
Accounts payable and other liabilities	**(33,267)**	(37,843)
Other, net	**1,824**	11,474
Net cash provided by operating activities	**72,520**	43,903
Investing activities:		
Capital expenditures	**(55,240)**	(55,923)
Changes in restricted cash and special deposits	**(923)**	(5,147)
Affiliated money pool investing and receivables/payables, net	**(20,935)**	-
Cost of removal	**(2,326)**	(1,902)
Other	**999**	(1,679)
Net cash used in investing activities	**(78,425)**	(64,651)
Financing activities:		
Dividends paid on preferred stock	**(28)**	(28)
Affiliated money pool borrowing and receivables/payables, net	**-**	20,139
Net cash (used in) provided by financing activities	**(28)**	20,111
Net decrease in cash and cash equivalents	**(5,933)**	(637)
Cash and cash equivalents, beginning of period	**12,537**	10,905
Cash and cash equivalents, end of period	**$ 6,604**	$ 10,268

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Six Months Ended September 30,	
	2014	2013
Operating activities:		
Net income	**$ 18,518**	$ 25,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**44,718**	39,857
Provision for deferred income taxes	**11,984**	15,328
Bad debt expense	**11,397**	10,903
Allowance for equity funds used during construction	**(631)**	(474)
Amortization of debt discount and issuance costs	**135**	121
Net pension and other postretirement expense	**5,395**	(469)
Net environmental remediation recoveries (payments)	**561**	(3,091)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**73,163**	53,948
Inventory	**(3,315)**	(9,064)
Regulatory assets and liabilities, net	**(6,971)**	(7,375)
Accounts payable and other liabilities	**(5,002)**	(53,112)
Other, net	**1,340**	(931)
Net cash provided by operating activities	**151,292**	71,621
Investing activities:		
Capital expenditures	**(131,196)**	(96,782)
Changes in restricted cash and special deposits	**(3,036)**	(9,395)
Affiliated money pool investing and receivables/payables, net	**13,783**	-
Cost of removal	**(6,587)**	(6,310)
Other	**229**	(58)
Net cash used in investing activities	**(126,807)**	(112,545)
Financing activities:		
Dividends paid on preferred stock	**(55)**	(55)
Payments on long-term debt	**(625)**	(625)
Affiliated money pool borrowing and receivables/payables, net	**-**	38,740
Advance from affiliate	**(25,000)**	-
Share based compensation	**3**	-
Net cash (used in) provided by financing activities	**(25,677)**	38,060
Net decrease in cash and cash equivalents	**(1,192)**	(2,864)
Cash and cash equivalents, beginning of period	**12,537**	10,905
Cash and cash equivalents, end of period	**$ 11,345**	$ 8,041

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Nine Months Ended December 31,	
	2014	2013
Operating activities:		
Net income	**$ 28,156**	41,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**67,571**	63,231
(Benefit from) provision for deferred income taxes	**(1,434)**	33,024
Bad debt expense	**19,759**	22,124
Allowance for equity funds used during construction	**(185)**	(1,091)
Amortization of debt discount and issuance costs	**390**	186
Net postretirement benefits expense (contributions)	**23**	(8,807)
Net environmental remediation recoveries (payments)	**144**	(5,517)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**19,881**	(13,147)
Inventory	**(13,114)**	(5,301)
Regulatory assets and liabilities, net	**(32,239)**	13,674
Derivative contracts	**29,384**	(716)
Prepaid and accrued taxes	**31,629**	20,448
Accounts payable and other liabilities	**18,215**	(64,589)
Other, net	**6,368**	790
Net cash provided by operating activities	**174,548**	95,791
Investing activities:		
Capital expenditures	**(221,158)**	(151,063)
Changes in restricted cash and special deposits	**(12,454)**	(4,398)
Affiliated money pool investing and receivables/payables, net	**93,428**	(156,081)
Cost of removal	**(9,763)**	(10,410)
Other	**617**	(86)
Net cash used in investing activities	**(149,330)**	(322,038)
Financing activities:		
Dividends paid on preferred stock	**(83)**	(83)
Payments on long-term debt	**(1,375)**	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**-**	(22,048)
Advance from affiliate	**(25,000)**	250,000
Share based compensation	**-**	1,389
Net cash (used in) provided by financing activities	**(26,458)**	227,883
Net (decrease) increase in cash and cash equivalents	**(1,240)**	1,636
Cash and cash equivalents, beginning of period	**12,537**	10,905
Cash and cash equivalents, end of period	**$ 11,297**	12,541

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating activities:			
Net income	**$ 78,209**	$ 78,563	$ 60,696
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**90,746**	85,048	79,377
Regulatory amortizations	**(1,145)**	706	5,737
Provision for deferred income taxes	**16,949**	49,690	81,938
Bad debt expense	**28,269**	27,582	16,648
Allowance for equity funds used during construction	**(347)**	(2,536)	488
Amortization of debt discount and issuance costs	**293**	273	224
Net postretirement benefits expense (contributions)	**2,435**	1,051	(11,394)
Net environmental remediation payments	**(283)**	(8,042)	(1,930)
Share based compensation	**18**	1,375	-
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(63,582)**	(64,084)	(56,548)
Accounts receivable from/payable to affiliates, net	**-**	-	(241)
Inventory	**(725)**	6,480	3,150
Regulatory assets and liabilities, net	**(59,701)**	(25,950)	(60,929)
Accounts payable and other liabilities	**37,807**	(27,531)	51,200
Other, net	**68,443**	47,580	(16,658)
Net cash provided by operating activities	**197,386**	170,205	151,758
Investing activities:			
Capital expenditures	**(286,421)**	(224,461)	(235,100)
Changes in restricted cash and special deposits	**(14,615)**	(5,211)	32,298
Affiliated money pool investing and receivables/payables, net	**153,189**	(153,189)	-
Cost of removal	**(13,260)**	(13,026)	(17,360)
Other	**(163)**	847	343
Net cash used in investing activities	**(161,270)**	(395,040)	(219,819)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Proceeds from long-term debt	**-**	-	250,000
Affiliated money pool borrowing and receivables/payables, net	**222,142**	(22,048)	(170,975)
Advance from affiliate	**(250,000)**	250,000	-
Payment of debt issuance costs	**-**	-	(1,875)
Net cash (used in) provided by financing activities	**(29,343)**	226,467	75,665
Net increase in cash and cash equivalents	**6,773**	1,632	7,604
Cash and cash equivalents, beginning of year	**12,537**	10,905	3,301
Cash and cash equivalents, end of year	**$ 19,310**	$ 12,537	$ 10,905
Supplemental disclosures:			
Interest paid	$ (42,887)	$ (43,908)	$ (35,968)
Income taxes (paid) refunded	(17,111)	25,234	26,091
Significant non-cash items:			
Capital-related accruals included in accounts payable	26,872	22,865	8,515

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2015	2014
Operating activities:		
Net income	**$ 19,038**	$ 13,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**23,496**	22,260
Regulatory amortizations	**176**	176
Provision for deferred income taxes	**2,454**	7,034
Bad debt expense	**(1,111)**	4,331
Allowance for equity funds used during construction	**75**	(333)
Amortization of debt discount and issuance costs	**73**	64
Net postretirement benefits (contributions) expense	**(14,604)**	2,271
Net environmental remediation (payments) recoveries	**(497)**	1,610
Share based compensation	**6**	-
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**99,626**	58,662
Inventory	**(2,357)**	(8,476)
Regulatory assets and liabilities, net	**20,072**	3,279
Accounts payable and other liabilities	**(31,565)**	(33,267)
Other, net	**(6,878)**	1,824
Net cash provided by operating activities	**108,004**	72,520
Investing activities:		
Capital expenditures	**(67,935)**	(55,240)
Changes in restricted cash and special deposits	**1,778**	(923)
Affiliated money pool investing and receivables/payables, net	**-**	(20,935)
Cost of removal	**(4,320)**	(2,326)
Other	**74**	999
Net cash used in investing activities	**(70,403)**	(78,425)
Financing activities:		
Preferred stock dividends	**(28)**	(28)
Affiliated money pool borrowing and receivables/payables, net	**(48,134)**	-
Net cash used in financing activities	**(48,162)**	(28)
Net decrease in cash and cash equivalents	**(10,561)**	(5,933)
Cash and cash equivalents, beginning of period	**19,310**	12,537
Cash and cash equivalents, end of period	**$ 8,749**	$ 6,604

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Six Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	**$ 41,690**	$ 18,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**47,309**	44,718
Regulatory amortizations	**353**	353
Provision for deferred income taxes	**11,753**	11,984
Bad debt expense	**5,426**	11,397
Allowance for equity funds used during construction	**(586)**	(631)
Amortization of debt discount and issuance costs	**147**	135
Net postretirement benefits (contributions) expense	**(13,708)**	5,395
Net environmental remediation (payments) recoveries	**(1,616)**	561
Share based compensation	**15**	-
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**88,259**	73,163
Inventory	**(6,953)**	(3,315)
Regulatory assets and liabilities, net	**35,941**	(7,324)
Accounts payable and other liabilities	**(33,069)**	(5,002)
Other, net	**5,987**	1,340
Net cash provided by operating activities	**180,948**	151,292
Investing activities:		
Capital expenditures	**(146,280)**	(131,196)
Changes in restricted cash and special deposits	**22,339**	(3,036)
Affiliated money pool investing and receivables/payables, net	**-**	13,783
Cost of removal	**(10,347)**	(6,587)
Other	**(222)**	229
Net cash used in investing activities	**(134,510)**	(126,807)
Financing activities:		
Preferred stock dividends	**(55)**	(55)
Payments on long-term debt	**(625)**	(625)
Affiliated money pool borrowing and receivables/payables, net	**(57,553)**	-
Advance from affiliate	**-**	(25,000)
Other	**-**	3
Net cash used in financing activities	**(58,233)**	(25,677)
Net decrease in cash and cash equivalents	**(11,795)**	(1,192)
Cash and cash equivalents, beginning of period	**19,310**	12,537
Cash and cash equivalents, end of period	**$ 7,515**	$ 11,345

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Nine Months Ended December 31,	
	2015	2014 (Revised)
Operating activities:		
Net income	**$ 67,625**	$ 36,559
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**71,543**	67,571
Regulatory amortizations	**529**	529
Provision for (benefit from) deferred income taxes	**31,063**	(35)
Bad debt expense	**8,219**	19,759
Allowance for equity funds used during construction	**(1,754)**	(185)
Amortization of debt discount and issuance costs	**221**	390
Net postretirement benefits (contributions) expense	**(11,545)**	23
Net environmental remediation (payments) recoveries	**(2,360)**	144
Share based compensation	**20**	4
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**80,244**	19,881
Inventory	**(6,515)**	(13,114)
Regulatory assets and liabilities, net	**38,212**	(36,766)
Derivative contracts	**3,981**	29,384
Prepaid and accrued taxes	**(11,919)**	34,754
Accounts payable and other liabilities	**(49,151)**	18,215
Other, net	**(2,419)**	6,364
Net cash provided by operating activities	**215,994**	183,477
Investing activities:		
Capital expenditures	**(191,539)**	(221,158)
Changes in restricted cash and special deposits	**21,685**	(12,454)
Affiliated money pool investing and receivables/payables, net	**-**	84,499
Cost of removal	**(14,475)**	(9,763)
Other	**(231)**	617
Net cash used in investing activities	**(184,560)**	(158,259)
Financing activities:		
Preferred stock dividends	**(83)**	(83)
Payments on long-term debt	**(1,375)**	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(37,756)**	-
Advance from affiliate	**-**	(25,000)
Net cash used in financing activities	**(39,214)**	(26,458)
Net decrease in cash and cash equivalents	**(7,780)**	(1,240)
Cash and cash equivalents, beginning of period	**19,310**	12,537
Cash and cash equivalents, end of period	**$ 11,530**	$ 11,297

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 99,408**	$ 67,682	$ 78,319
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**96,914**	90,746	85,048
Regulatory amortizations	**706**	(1,145)	706
Provision for deferred income taxes	**48,106**	23,489	49,559
Bad debt expense	**8,480**	28,269	27,582
Amortization of debt discount and issuance costs	**294**	293	273
Net postretirement benefits (contributions) expense	**(13,738)**	8,518	(3,182)
Net environmental remediation payments	**(3,058)**	(283)	(8,042)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**74,882**	(63,582)	(64,084)
Inventory	**(2,662)**	(725)	6,480
Regulatory assets and liabilities, net	**35,873**	(63,805)	(25,198)
Derivative instruments	**(6,897)**	21,319	7,248
Prepaid and accrued taxes	**(3,490)**	41,190	51,450
Accounts payable and other liabilities	**(46,328)**	36,357	(49,565)
Other, net	**(9,143)**	4,634	(11,369)
Net cash provided by operating activities	**279,347**	192,957	145,225
Investing activities:			
Capital expenditures	**(278,050)**	(281,992)	(199,481)
Changes in restricted cash and special deposits	**29,385**	(14,615)	(5,211)
Affiliated money pool investing and receivables/payables, net	**-**	153,189	(153,189)
Cost of removal	**(17,959)**	(13,260)	(13,026)
Other	**376**	(163)	847
Net cash used in investing activities	**(266,248)**	(156,841)	(370,060)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(16,514)**	222,142	(22,048)
Advance from affiliate	**-**	(250,000)	250,000
Net cash (used in) provided by financing activities	**(17,999)**	(29,343)	226,467
Net (decrease) increase in cash and cash equivalents	**(4,900)**	6,773	1,632
Cash and cash equivalents, beginning of year	**19,310**	12,537	10,905
Cash and cash equivalents, end of year	**$ 14,410**	$ 19,310	$ 12,537
Supplemental disclosures:			
Interest paid	**$ (42,683)**	$ (42,887)	$ (43,908)
Income taxes refunded (paid)	**71**	(17,111)	25,234
Significant non-cash items:			
Capital-related accruals included in accounts payable	**26,990**	16,028	10,572
Share based compensation	**25**	18	1,375

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Three Months Ended June 30,	
	2016	2015
Operating activities:		
Net income	**$ 20,019**	$ 19,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**25,739**	23,496
Regulatory amortizations	**176**	176
Provision for deferred income taxes	**11,016**	2,454
Bad debt expense	**2,589**	(1,111)
Amortization of debt discount and issuance costs	**73**	73
Net postretirement benefits contributions	**(498)**	(14,604)
Net environmental remediation payments	**(786)**	(497)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**29,108**	99,626
Inventory	**(2,094)**	(2,357)
Regulatory assets and liabilities, net	**29,059**	20,072
Derivative instruments	**(16,667)**	(4,025)
Prepaid and accrued taxes	**(8,212)**	1,339
Accounts payable and other liabilities	**(4,393)**	(31,565)
Other, net	**2,735**	(4,111)
Net cash provided by operating activities	**87,864**	108,004
Investing activities:		
Capital expenditures	**(80,391)**	(67,935)
Changes in restricted cash and special deposits	**9,103**	1,778
Cost of removal	**(3,270)**	(4,320)
Other	**186**	74
Net cash used in investing activities	**(74,372)**	(70,403)
Financing activities:		
Preferred stock dividends	**(28)**	(28)
Affiliated money pool borrowing and receivables/payables, net	**(25,002)**	(48,134)
Net cash used in financing activities	**(25,030)**	(48,162)
Net decrease in cash and cash equivalents	**(11,538)**	(10,561)
Cash and cash equivalents, beginning of period	**14,410**	19,310
Cash and cash equivalents, end of period	**$ 2,872**	$ 8,749

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Six Months Ended September 30, 2016	2015
Operating activities:		
Net income	$ 32,380	$ 41,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	51,660	47,309
Regulatory amortizations	353	353
Provision for deferred income taxes	17,740	11,753
Bad debt expense	6,736	5,426
Amortization of debt discount and issuance costs	147	147
Net postretirement benefits expense (contributions)	896	(13,708)
Net environmental remediation payments	(2,783)	(1,616)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	21,137	88,259
Inventory	(3,104)	(6,953)
Regulatory assets and liabilities, net	57,746	35,941
Derivative instruments	(13,298)	5,117
Prepaid and accrued taxes	(4,527)	4,771
Accounts payable and other liabilities	3,285	(33,069)
Other, net	1,590	(4,472)
Net cash provided by operating activities	169,958	180,948
Investing activities:		
Capital expenditures	(161,289)	(146,280)
Changes in restricted cash and special deposits	9,522	22,339
Cost of removal	(8,376)	(10,347)
Other	718	(222)
Net cash used in investing activities	(159,425)	(134,510)
Financing activities:		
Preferred stock dividends	(55)	(55)
Payments on long-term debt	(625)	(625)
Affiliated money pool borrowing and receivables/payables, net	(16,051)	(57,553)
Net cash used in financing activities	(16,731)	(58,233)
Net decrease in cash and cash equivalents	(6,198)	(11,795)
Cash and cash equivalents, beginning of period	14,410	19,310
Cash and cash equivalents, end of period	$ 8,212	$ 7,515

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(unaudited, in thousands of dollars)

	Nine Months Ended December 31,	
	2016	2015
Operating activities:		
Net income	**$ 53,176**	$ 67,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**77,837**	71,543
Regulatory amortizations	**529**	529
Provision for deferred income taxes	**24,362**	31,063
Bad debt expense	**11,997**	8,219
Amortization of debt discount and issuance costs	**221**	221
Net postretirement benefits expense (contributions)	**602**	(11,545)
Net environmental remediation payments	**(4,753)**	(2,360)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(19,876)**	80,244
Inventory	**(59)**	(6,515)
Regulatory assets and liabilities, net	**101,896**	38,212
Derivative instruments	**(28,555)**	3,981
Prepaid and accrued taxes	**(18,326)**	(11,919)
Accounts payable and other liabilities	**8,240**	(49,151)
Other, net	**(2,895)**	(4,153)
Net cash provided by operating activities	**204,396**	215,994
Investing activities:		
Capital expenditures	**(232,982)**	(191,539)
Changes in restricted cash and special deposits	**14,524**	21,685
Cost of removal	**(12,447)**	(14,475)
Other	**777**	(231)
Net cash used in investing activities	**(230,128)**	(184,560)
Financing activities:		
Preferred stock dividends	**(83)**	(83)
Payments on long-term debt	**(1,375)**	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**24,104**	(37,756)
Net cash provided by (used in) financing activities	**22,646**	(39,214)
Net decrease in cash and cash equivalents	**(3,086)**	(7,780)
Cash and cash equivalents, beginning of period	**14,410**	19,310
Cash and cash equivalents, end of period	**$ 11,324**	$ 11,530

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2017	2016	2015
Operating activities:			
Net income	**$ 88,142**	$ 95,158	$ 66,797
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**103,923**	96,914	90,746
Regulatory amortizations	**714**	706	(1,145)
Provision for deferred income taxes	**27,470**	45,818	23,013
Bad debt expense	**14,105**	8,480	28,269
Amortization of debt discount and issuance costs	**293**	294	293
Net postretirement benefits expense (contributions)	**3,886**	(10,559)	10,310
Net environmental remediation payments	**(4,889)**	(3,058)	(283)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**(35,989)**	74,882	(63,582)
Inventory	**4,330**	(2,662)	(725)
Regulatory assets and liabilities, net	**97,822**	39,235	(64,237)
Derivative instruments	**(23,469)**	(6,897)	21,319
Prepaid and accrued taxes	**5,418**	(3,490)	41,190
Accounts payable and other liabilities	**19,284**	(46,330)	36,357
Other, net	**(1,827)**	(9,144)	4,635
Net cash provided by operating activities	**299,213**	279,347	192,957
Investing activities:			
Capital expenditures	**(295,621)**	(278,050)	(281,992)
Proceeds from restricted cash	**58,044**	73,370	73,151
Payments on restricted cash	**(43,887)**	(43,985)	(87,766)
Affiliated money pool investing and receivables/payables, net	**-**	-	153,189
Cost of removal	**(17,883)**	(17,959)	(13,260)
Other	**1,250**	376	(163)
Net cash used in investing activities	**(298,097)**	(266,248)	(156,841)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(6,238)**	(16,514)	222,142
Advance from affiliate	**-**	-	(250,000)
Net cash used in financing activities	**(7,723)**	(17,999)	(29,343)
Net (decrease) increase in cash and cash equivalents	**(6,607)**	(4,900)	6,773
Cash and cash equivalents, beginning of year	**14,410**	19,310	12,537
Cash and cash equivalents, end of year	**$ 7,803**	$ 14,410	$ 19,310
Supplemental disclosures:			
Interest paid	**$ (42,574)**	(42,683)	(42,887)
Income taxes refunded (paid)	**63**	71	(17,111)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**15,775**	26,990	16,028
Share based compensation	**31**	25	18

The accompanying notes are an integral part of these financial statements.

Month	Borrowing Balance	Int Expense	Int Rate	Prime Rate
April-14	191,695,658.51	39,547.35	0.25%	3.25%
May-14	209,437,562.67	42,927.73	0.24%	3.25%
June-14	168,950,549.04	37,569.30	0.23%	3.25%
July-14	154,125,767.04	33,687.20	0.24%	3.25%
August-14	124,942,174.97	30,535.70	0.24%	3.25%
September-14	126,446,780.57	24,048.35	0.24%	3.25%
October-14	130,852,898.89	26,452.32	0.24%	3.25%
November-14	89,652,703.48	23,394.70	0.27%	3.25%
December-14	63,783,586.90	23,368.01	0.30%	3.25%
January-15	(171,331,742.90)	17,730.59	0.46%	3.50%
February-15	(196,769,350.96)	83,024.74	0.67%	3.50%
March-15	(237,202,985.84)	110,289.01	0.67%	3.50%
April-15	(179,538,086.30)	130,059.04	0.84%	3.50%
May-15	(153,586,268.77)	95,475.40	0.69%	3.50%
June-15	(197,313,640.82)	69,596.20	0.53%	3.50%
July-15	(186,679,345.04)	98,905.87	0.65%	3.50%
August-15	(194,724,853.10)	112,848.75	0.72%	3.50%
September-15	(181,858,463.23)	99,340.27	0.64%	3.50%
October-15	(164,289,687.81)	87,922.82	0.61%	3.50%
November-15	(155,770,460.67)	85,155.92	0.67%	3.50%
December-15	(199,446,802.06)	106,611.08	0.66%	3.50%
January-16	(177,221,818.74)	132,119.26	0.90%	3.75%
February-16	(179,323,945.68)	118,412.17	0.93%	3.75%
March-16	(195,355,228.87)	146,812.69	0.97%	3.75%
April-16	(153,040,338.49)	118,606.27	0.87%	3.75%
May-16	(128,389,649.53)	126,976.37	1.12%	3.75%
June-16	(140,361,914.09)	101,909.52	0.96%	3.75%
July-16	(161,641,417.62)	153,162.75	1.16%	3.75%
August-16	(150,972,865.15)	160,414.03	1.18%	3.75%
September-16	(154,126,985.34)	99,558.69	0.75%	3.75%
October-16	(157,587,655.66)	101,576.79	0.82%	3.75%
November-16	(178,938,131.70)	127,980.53	0.97%	3.75%
December-16	(187,623,519.30)	162,310.69	1.09%	3.75%
January-17	(170,186,872.89)	184,851.29	1.32%	3.75%
February-17	(132,967,933.96)	147,389.24	1.35%	3.75%
March-17	(125,658,929.33)	133,030.75	1.28%	4.00%

PUC 1-6

Request:

Please provide the following information for the fiscal years 2012 through 2017:

(a) capitalization table for each of the affiliates of the Company showing the outstanding balances of capital, the capital ratios, and the costs of capital; and
(b) the annual balance sheets and income statements for each of the affiliates of the Company.

Response:

(a) Please see Attachment PUC 1-6 for the capitalization tables for each of the Company's affiliates showing the outstanding balances of capital, the capital ratios, and the costs of capital.

(b) For annual balance sheets and income statements for each of the Company's affiliates, please refer to the Company's response to Data Request PUC 1-1 part (h) and Attachments PUC 1-1-26 through PUC 1-1-30 for the consolidating statements for the years 2012 - 2016.

Prepared by or under the supervision of: Melissa Little

THE NARRAGANSETT ELECTRIC COMPANY AND AFFILIATES
CAPITALIZATION TABLE FOR THE FISCAL YEARS 2012 THRU 2017

NARRAGANSETT CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	843,365	41.69%	5.05%	2.11%
Pfd Stock	2,454	0.12%	4.50%	0.01%
Com. Eq[1]	1,177,036	58.19%	9.50%	5.53%
	2,022,855	100.00%		7.64%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,289,074	47.05%	5.39%	2.54%
Pfd Stock	2,259	0.08%	4.44%	0.00%
Com. Eq[1]	1,448,474	52.87%	9.90%[2]	5.23%
	2,739,807	100.00%		7.77%

NANTUCKET CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	50,507	55.26%	1.14%	0.63%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	40,891	44.74%	9.90%[2]	4.43%
	91,398	100.00%		5.06%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,761,833	44.27%	3.79%	1.68%
Pfd Stock	2,454	0.04%	3.66%	0.00%
Com. Eq[1]	3,473,974	55.69%	9.30%	5.18%
	6,238,261	100.00%		6.86%

NARRAGANSETT CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	846,314	43.54%	5.05%	2.20%
Pfd Stock	2,454	0.13%	4.50%	0.01%
Com. Eq[1]	1,094,924	56.33%	9.50%	5.35%
	1,943,692	100.00%		7.56%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	792,563	39.35%	5.94%	2.34%
Pfd Stock	2,259	0.11%	4.44%	0.00%
Com. Eq[1]	1,219,169	60.53%	10.35%[2]	6.27%
	2,013,991	100.00%		8.61%

NANTUCKET CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	50,473	58.83%	0.65%	0.38%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	35,317	41.17%	10.35%[2]	4.26%
	85,790	100.00%		4.64%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,759,926	45.70%	3.72%	1.70%
Pfd Stock	2,454	0.04%	3.66%	0.00%
Com. Eq[1]	3,276,635	54.26%	9.30%	5.05%
	6,039,015	100.00%		6.75%

NARRAGANSETT CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	847,464	45.78%	5.06%	2.32%
Pfd Stock	2,454	0.13%	4.50%	0.01%
Com. Eq[1]	1,001,366	54.09%	10.57%	5.72%
	1,851,284	100.00%		8.04%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	797,806	40.08%	5.94%	2.38%
Pfd Stock	2,259	0.11%	4.44%	0.01%
Com. Eq[1]	1,190,538	59.81%	10.35%[2]	6.19%
	1,990,603	100.00%		8.58%

NANTUCKET CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	51,665	62.67%	0.60%	0.38%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	30,774	37.33%	10.35%[2]	3.86%
	82,439	100.00%		4.24%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,854,456	48.20%	3.66%	1.76%
Pfd Stock	2,454	0.04%	3.66%	0.00%
Com. Eq[1]	3,065,173	51.76%	9.30%	4.81%
	5,922,083	100.00%		6.58%

NARRAGANSETT CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	848,614	47.88%	5.06%	2.42%
Pfd Stock	2,454	0.14%	4.50%	0.01%
Com. Eq[1]	921,454	51.99%	9.50%	4.94%
	1,772,522	100.00%		7.37%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	797,717	43.72%	5.95%	2.60%
Pfd Stock	2,259	0.12%	4.44%	0.01%
Com. Eq[1]	1,024,521	56.15%	10.35%[2]	5.81%
	1,824,497	100.00%		8.42%

NANTUCKET CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	51,995	66.71%	0.62%	0.41%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	25,941	33.29%	10.35%[2]	3.44%
	77,936	100.00%		3.86%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,554,363	46.86%	3.50%	1.64%
Pfd Stock	2,454	0.05%	3.66%	0.00%
Com. Eq[1]	2,894,196	53.09%	9.30%	4.94%
	5,451,013	100.00%		6.58%

NARRAGANSETT CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	849,765	50.18%	5.28%	2.65%
Pfd Stock	2,454	0.14%	4.50%	0.01%
Com. Eq[1]	841,079	49.67%	9.50%	4.72%
	1,693,298	100.00%		7.38%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	817,628	44.72%	5.82%	2.60%
Pfd Stock	2,259	0.12%	4.44%	0.01%
Com. Eq[1]	1,008,456	55.16%	10.35%[2]	5.71%
	1,828,343	100.00%		8.32%

NANTUCKET CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	52,300	69.41%	0.83%	0.58%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	23,054	30.59%	10.35%[2]	3.17%
	75,354	100.00%		3.74%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,599,916	49.83%	3.50%	1.74%
Pfd Stock	2,454	0.05%	3.66%	0.00%
Com. Eq[1]	2,614,889	50.12%	9.30%	4.66%
	5,217,259	100.00%		6.41%

NARRAGANSETT CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	604,339	46.91%	5.39%	2.53%
Pfd Stock	2,454	0.19%	4.50%	0.01%
Com. Eq[1]	681,494	52.90%	9.80%	5.18%
	1,288,287	100.00%		7.72%

MASSACHUSETTS CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	817,539	45.13%	5.78%	2.61%
Pfd Stock	2,259	0.12%	4.44%	0.01%
Com. Eq[1]	991,772	54.75%	10.35%[2]	5.67%
	1,811,570	100.00%		8.28%

NANTUCKET CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	52,575	71.53%	0.53%	0.38%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	20,922	28.47%	10.35%[2]	2.95%
	73,497	100.00%		3.33%

NIAGARA MOHAWK CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,399,727	47.56%	3.87%	1.84%
Pfd Stock	2,454	0.05%	3.66%	0.00%
Com. Eq[1]	2,643,149	52.39%	9.30%	4.87%
	5,045,330	100.00%		6.71%

[1] *Common Equity Net of Goodwill*

[2] *Allowed Return on Equity reflects Massachusetts and Nantucket consolidated*

THE NARRAGANSETT ELECTRIC COMPANY AND AFFILIATES
CAPITALIZATION TABLE FOR THE FISCAL YEARS 2012 THRU 2017

BOSTON CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	606,674	36.90%	5.15%	1.90%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,037,635	63.10%	9.75%	6.15%
	1,644,309	100.00%		8.05%

COLONIAL CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	123,641	25.36%	6.30%	1.60%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	363,960	74.64%	9.75%	7.28%
	487,601	100.00%		8.87%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,194,532	50.53%	4.47%	2.26%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,169,252	49.47%	9.00%	4.45%
	2,363,784	100.00%		6.71%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/17

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,222,018	38.42%	3.96%	1.52%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,958,669	61.58%	9.00%	5.54%
	3,180,687	100.00%		7.06%

BOSTON CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	616,402	38.78%	5.18%	2.01%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	973,027	61.22%	9.75%	5.97%
	1,589,429	100.00%		7.98%

COLONIAL CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	123,494	26.16%	6.30%	1.65%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	348,493	73.84%	9.75%	7.20%
	471,987	100.00%		8.85%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	597,126	35.34%	5.81%	2.05%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,092,466	64.66%	9.80%	6.34%
	1,689,592	100.00%		8.39%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/16

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	2,028,803	57.10%	4.68%	2.67%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,523,980	42.90%	9.40%	4.03%
	3,552,783	100.00%		6.70%

BOSTON CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	631,000	41.27%	5.20%	2.15%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	897,916	58.73%	9.75%	5.73%
	1,528,916	100.00%		7.87%

COLONIAL CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	125,000	27.18%	6.30%	1.71%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	334,928	72.82%	9.75%	7.10%
	459,928	100.00%		8.81%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	600,000	37.49%	5.81%	2.18%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,000,377	62.51%	9.80%	6.13%
	1,600,377	100.00%		8.30%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/15

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,040,500	42.76%	4.76%	2.04%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,392,587	57.24%	9.40%	5.38%
	2,433,087	100.00%		7.42%

BOSTON CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	633,000	42.36%	5.21%	2.21%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	861,264	57.64%	9.75%	5.62%
	1,494,264	100.00%		7.83%

COLONIAL CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	125,000	28.01%	6.30%	1.76%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	321,326	71.99%	9.75%	7.02%
	446,326	100.00%		8.78%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	600,000	38.79%	5.81%	2.25%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	946,597	61.21%	9.80%	6.00%
	1,546,597	100.00%		8.25%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/14

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,040,500	44.83%	4.75%	2.13%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,280,431	55.17%	9.40%	5.19%
	2,320,931	100.00%		7.32%

BOSTON CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	643,000	44.23%	5.26%	2.33%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	810,681	55.77%	9.75%	5.44%
	1,453,681	100.00%		7.76%

COLONIAL CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	125,000	29.01%	6.31%	1.83%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	305,857	70.99%	9.75%	6.92%
	430,857	100.00%		8.75%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	600,000	39.72%	5.81%	2.31%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	910,732	60.28%	9.80%	5.91%
	1,510,732	100.00%		8.22%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/13

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,040,500	46.66%	4.95%	2.31%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,189,256	53.34%	9.40%	5.01%
	2,229,756	100.00%		7.32%

BOSTON CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	653,000	46.91%	5.23%	2.45%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	738,951	53.09%	9.75%	5.18%
	1,391,951	100.00%		7.63%

COLONIAL CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	125,000	30.20%	6.18%	1.87%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	288,950	69.80%	9.75%	6.81%
	413,950	100.00%		8.67%

KEYSPAN GAS EAST CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	600,000	34.57%	5.78%	2.00%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,135,425	65.43%	9.80%	6.41%
	1,735,425	100.00%		8.41%

BROOKLYN UNION CAPITAL STRUCTURE 3/31/12

	$ AMOUNT	% OF TOTAL	COST	WTD COST
L.T.Debt	1,040,500	46.44%	4.63%	2.15%
Pfd Stock	0	0.00%	0.00%	0.00%
Com. Eq[1]	1,199,871	53.56%	9.80%	5.25%
	2,240,371	100.00%		7.40%

[1] *Common Equity Net of Goodwill*

[2] *Allowed Return on Equity reflects Massachusetts and Nantucket consolidated*

PUC 1-7

Request:

Please provide a copy of any and all management, organizational, construction, and performance audits of any kind of the Company and any of its affiliates performed by company personnel, contractors, consultants, any regulatory body, or any organization or individual whatsoever for the most recent five years.

Response:

The Company is providing a summary below of internal audits performed from October 1, 2012 through October 1, 2017 that fit the criteria listed above. The audits are based on work related to, or associated with, the Company and its affiliates, including the Service Company. Audits of the Company, Narragansett Electric only, or Narragansett Gas only, are so indicated below.

Please see Attachment PUC 1-7-1 (Confidential) for copies of the audit reports associated with the Company, Narragansett Electric only, and Narragansett Gas only. Please see Attachment PUC 1-7-2 (Confidential) for copies of the audit reports associated with the Service Company.

I. Audits Related to the Company, Narragansett Electric only, and Narragansett Gas only

Internal Audit Reference No.	Audit Name	Related to	Audit Report Date
1438	Customer Billing Verification - Rhode Island	The Company	5/31/2013
1557	Development of Gas Capital Work Plan	Narragansett Gas only	9/9/2013
1542	Construction Materials Management	Narragansett Electric only	12/12/2013
1631	Billing Exception Reporting	Narragansett Gas only	1/31/2014
1612	Energy Efficiency loan program	Narragansett Electric only	3/11/2014
1654	Effective Implementation of Job Briefs - Electric Distribution	Narragansett Electric only	5/30/2014
1679	Energy Settlements - New England	Narragansett Electric only	7/22/2014
1710	Energy Procurement and Hedging	The Company	7/23/2014
1754	Financial Controls over Energy Supply Company (ESCo) Processes	Narragansett Gas only	8/22/2014
1713	Contributions in Aid of Construction (CIAC) - New England Gas	Narragansett Gas only	9/3/2014

Prepared by or under the supervision of: Melisa Little

Internal Audit Reference No.	Audit Name	Related to	Audit Report Date
1753	Commercial Meter Process Review - Rhode Island	The Company	9/8/2014
1678	Commercial Customer Billing in Customer Service System (CSS)	The Company	11/13/2014
1775	Cost Recovery of Emergency Response and Repair - New York and New England Electric	Narragansett Electric only	1/30/2015
1755	Customer Order Fulfillment	The Company	2/24/2015
1843	Infrastructure, Safety, and Reliability (ISR) Reporting - Rhode Island (Ungraded Memo)	Narragansett Gas only	5/20/2015
1851	Customer Collection Process - Follow-Up	The Company	11/3/2015
1806	Safety Health Environmental Occupational Competency Requirements within Customer Meter Services (CMS)	The Company	1/8/2016
1774	Capital Spending - Vendor Invoice Management (Gas)	Narragansett Gas only	4/22/2016
1906	Gas Records - Rhode Island	Narragansett Gas only	6/10/2016
2024	Rhode Island Gas Infrastructure, Safety, and Reliability (ISR) Workplan Adherence	Narragansett Gas only	6/30/2016
1842	Capital Spending - Accrual Process (Gas & Electric)	The Company	8/9/2016
2075	Lobbying Controls and Compliance	The Company	1/17/2017
1977	Management of Inactive Gas Services (Rhode Island)	Narragansett Gas only	7/28/2017
2081	Operating Company Segmentation Reporting	The Company	8/25/2017

II. Audits related to the Service Company

Internal Audit Reference No.	Audit Name	Audit Report Date
1435	Plant Accounting (Follow-Up Review)	10/24/2012
1441	Property Tax	3/4/2013
1484	Energy Trading (Gas) - Anti-Market Manipulation	3/5/2013
1448	Customer Complaint Escalation Process	6/4/2013
1461	Energy Efficiency - Vendor Management	6/18/2013
1509	Income Tax - Filing Compliance	8/6/2013
1573	Fleet Maintenance	9/4/2013

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Internal Audit Reference No.	Audit Name	Audit Report Date
1436	Allegro Trading and Risk Management System - Post Implementation Review	9/5/2013
1562	Sole / Single Source Vendors	9/6/2013
1571	Energy Procurement - Governance / Credit	11/26/2013
1524	PeopleHub Human Resource System - Post Implementation	11/27/2013
1560	Payroll Controls - New Union Agreements (Governance Review)	12/6/2013
1581	Payroll Controls - New Union Agreements (Payroll Testing)	12/6/2013
1612	Energy Efficiency Loan Program	3/11/2014
1565	Delegation of Authority (US)	3/14/2014
1589	Account Reconciliation Process	3/17/2014
1600	Sarbanes-Oxley Compliance	3/18/2014
1707	US Recruitment Process	6/3/2014
1611	Program Assurance - SAP Stabilization Release 3 (R3) Design and Build Phase Review	6/11/2014
1782	Program Assurance - SAP Release 3 Preliminary Testing and Business Readiness Review	7/16/2014
1710	Energy Procurement and Hedging	7/23/2014
1613	Contract Controls Code-C3	8/28/2014
1596	Receipting of Goods and Services in SAP	9/3/2014
1778	Counterparty Administration (Gas Suppliers)	7/30/2015
1931	Energy Efficiency Reconciliations	1/28/2016
1901	Intercompany Controls	4/4/2016
1952	Direct Vendor Purchasing Relationships	5/11/2016
1900	Customer Quotations of Contributions in Aid of Construction	5/20/2016
2000	Finance Transition and Remediation Governance	7/27/2016
1898	Top Side and Post Submission Adjustments	8/19/2016
2051	Natural Gas Indices Reporting	10/19/2016
2052	Energy Efficiency - Third Party Management	12/22/2016
2014	Property Tax Process	12/28/2016
2002	Work Order Set-Up	1/3/2017
2075	Lobbying Controls and Compliance	1/17/2017
2086	Employment Documentation Retention - Eligibility Verification	2/6/2017
2123	Assessment of Risk Registers	2/24/2017
2016	Unbilled Revenue Accrual Process	2/28/2017
2107	Daily Cash Clearing Accounts	2/28/2017
2111	Benefits Admin-Empyrean	5/5/2017
2102	Management of Property Leases	5/8/2017
2078	Finance Transition (Follow-up to Audit 2000)	5/22/2017
2122	Employment Tax Withholding Process	6/30/2017
2148	Vendor Master Data - Sensitive Fields	7/7/2017

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Internal Audit Reference No.	Audit Name	Audit Report Date
2088	Employee Separation Process	7/17/2017
2263	Ethics Investigation Process	8/30/2017
2280	Telecommunication Billing Process	8/30/2017

Prepared by or under the supervision of: Melissa Little

Attachment PUC 1-7-1 – REDACTED INFORMATION

Attachment PUC 1-7-1 is comprised of 24 confidential audit reports associated with the Company, Narragansett Electric only, or Narragansett Gas only. The Company has requested protective treatment of these reports in their entirety.

Attachment PUC 1-7-2 – REDACTED INFORMATION

Attachment PUC 1-7-2 is comprised of 47 confidential audit reports associated with the Service Company. The Company has requested protective treatment of these reports in their entirety.

PUC 1-8

Request:

Please provide copies of all speeches made by National Grid to its shareholders from March 1, 2016 to the present.

Response:

Speeches supplied by National Grid and the Company to its shareholders are available to the public through the National Grid investor website:

http://investors.nationalgrid.com/

Below is a list of the relevant materials provided with this response as attachments:

- Attachment PUC 1-8-1: National Grid Investor Teach-In Other Activities & Joint Ventures - Final Transcript
- Attachment PUC 1-8-2: National Grid Full Year Results Presentation - Transcript 2016/2017
- Attachment PUC 1-8-3: National Grid Half Year Results Presentation - Transcript 2016/2017
- Attachment PUC 1-8-4: National Grid Half Year Results - Transcript 2017/2018
- Attachment PUC 1-8-5: National Grid Full Year Results Presentation - Transcript 2015/2016
- Attachment PUC 1-8-6: National Grid - New York Teach-In Question and Answer Sessions
- Attachment PUC 1-8-7: National Grid - New York Teach-In - London - Transcript - presentation only

Prepared by or under the supervision of: Timothy F. Horan

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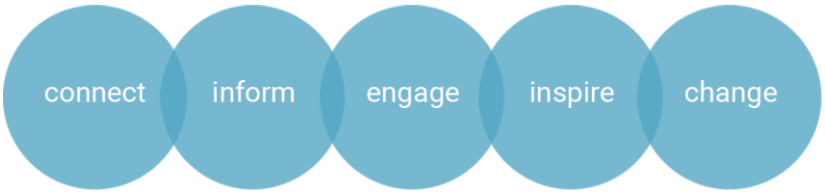

National Grid

Investor Teach-In - Other Activities & JVs

29th September 2016

NATIONAL GRID

Aarti Singhal, Director - Investor Relations

Andrew Bonfield, Chief Financial Officer

Phil Edwards, Head of National Grid Real Estate

Alison Dowsett, Berkeley Group

Simon Culkin, Head of UK LNG, National Grid

Maxine Long, Head of Domestic Metering

Kerri Matthews, Head of Smart Metering

Ian Graves, Director, European Business Development

Nick Sides, Head of Interconnectors

Nigel Williams, Construction Director, NSL

John Flynn, SVP, US Business Development

QUESTIONS FROM

Mark Freshney, Credit Suisse

Fraser McLaren, Bank of America / Merrill Lynch

Mr Murphy, Bank of America / Merrill Lynch

Iain Turner, Exane BNP Paribas

Jenny Ping, Citigroup

James Brown, Deutsche Bank

Dominic Nash, Macquarie

Rui Dias, UBS

Gus Hochschild, BEIS

Deepa Venkateswaran, Bernstein

Edmund Reid, Lazarus

Ashley Thomas, Societe Generale

Introduction

Aarti Singhal, Director - Investor Relations
Good morning, I'm Aarti Singhal, the Director of Investor Relations for National Grid. Welcome to our Teach-In.

As always safety comes first, there are no planned fire alarm tests this morning, so if you hear an alarm please make your way through the fire exits, which are by the tea and coffee area. Also make note of the cautionary statement, which is in your packs.

This morning we've got ten presenters and we've grouped them mainly in twos and threes. So please keep your questions to the end of each group.

Finally, a quick reminder to turn your phones or other devices off, before I introduce to you our CFO, Andrew Bonfield, Andrew, over to you.

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Opening Remarks

Andrew Bonfield, Chief Financial Officer
Thank you Aarti and good morning everybody. National Grid has a strong portfolio of businesses and we deliver value for shareholders by maintaining and attractive combination of growth and yield. Our other activities and joint ventures are an important contributor to this portfolio approach. They comprise adjacent businesses that are a natural extension to our core activities of transmission and distribution in electricity and gas. And they play to our core skills of engineers, asset management and project delivery.

They are also businesses where we have either developed world class expertise, such as interconnectors and LNG, or where we have a unique opportunity to drive value from legacy assets, such as in the case of metering and property.

While these businesses may appear to be diverse, they fit naturally with our model of owning and operating long term assets that have a low risk profile and stable cash flows.

This morning the leadership teams from these businesses will give you more insight into the drivers of their performance and a sense of the attractive growth opportunities they are pursuing.

In addition we've invited John Flynn who heads our US business development activities to update you on US Transmission opportunities and to discuss some of the new growth areas that arise from exciting changes in our industry.

Over the last three years, Other Activities has delivered an average annual EBITDA of around half a billion pounds per annum. A level of EBITDA that would be comparable to companies at the lower echelon of the FTSE 100.

As we have highlighted before, the performance last year was particularly strong, reflecting the strength of the French interconnector revenues, significant sales in our Property business and some favourable one off asset disposals.

BritNed, our other joint venture Interconnector also performed well, although its results are reflected in the JV line.

We have guided you to expect performance to more normal levels this financial year.

As we look to the future we expect these high quality businesses to continue to provide a solid platform of earnings and cash flow, complemented by some attractive growth prospects for this financial year.

Our priorities for these activities are clear. First and foremost is safe, reliable and cost efficient operations for customers. Second, as you'll see from today's presentations our teams are focused on continually driving value from these assets.

But in addition to these projects we have a broad portfolio of high quality development opportunities. On growth our near term focus is on delivering the new Interconnector projects, they are large projects and National Grid takes pride in its strong engineering capability and construction management expertise.

We also have a huge opportunity in building new Transmission capability in the US. However, it isn't just about big complex engineering. We are excited about our St William JV with Berkeley Group. As the team will discuss we are also looking at ways to increase the value of Grain LNG and potentially expand it. And in Metering we are running a pilot programme for smart meters.

We have opportunities spread across each business area. However, we will only pursue those that meet our strict investment criteria. We are not targeting a given level of capital spend, but will only allocate capital to those opportunities that drive the most shareholder value.

As we will hopefully demonstrate to you today we have excellent teams in each of the businesses. They are experience leaders with the right skills and commercial acumen required to deliver the opportunities presented to them.

These businesses have grown considerably over time and this is due to the energy and the quality of our teams and their deep understanding and strong relationships with all stakeholders from customers to contractors.

Unfortunately, as you may be aware we are relatively busy at the moment in National Grid, there are other things that are reported in the media that we are working on, so unfortunately I won't be able to stay with you for the whole time. But I do hope today will actually help you get a better understanding of all the opportunities we have had in Other Activities and this has been an area where we have actually tried to set up this seminar for a while. And I really hope you do get some really great benefit from the day.

First up we do have Property. As you'll hear shortly we're unlocking value from developing our industrial legacy sites, in parts through our JV with Berkeley Group. And I'm delighted to welcome Alison Dowsett from Berkeley who is the Managing Director of the St William JV with us today. But first let me introduce you to Phil Edwards, Head of National Grid Property. Thank you and I hope you find today's sessions informative.

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Property

Phil Edwards, Head of National Grid Property
Thank you Andrew and good morning. In this session I'm going to talk about the National Grid Property business and provide an overview of the portfolio, our strategy and St William, our joint venture with Berkeley Group.

I'm a Chartered Surveyor and Chartered Management Accountant and I joined the company 20 years ago as a graduate, just when it was setting up the Property business to deal with the challenge of probably the largest portfolio of surplus urban land in the UK.

Later on during this presentation, as Andrew has mentioned, I'll introduce you to Alison Dowsett. Alison is the Managing Director of St William and will give you some further insight into our newly formed joint venture and talk about some of our achievements and successes to date.

Today, National Grid's surplus property portfolio consists of around 350 sites, totalling 2,000 acres located throughout the UK. The portfolio is predominantly made up of former gasworks and it's very diverse in nature, with sites of varying sizes, some with high potential value for development and others less so.

Our strategy is straightforward, we identify and then realise add value opportunities across the portfolio, whilst at the same time we manage the risks and constraints presented by what is redundant and contaminated land.

As I have mentioned the portfolio is spread throughout the UK. Though perhaps most significantly we own over 30 sites, 340 acres of land in Greater London and the Southeast of England. All of these sites have potential for new housing and they are the focus of our St William joint venture.

The Property business has been managing the legacy portfolio for 20 years and over this time has consistently made a positive financial contribution to Group profits. Last year the Property business generated £56m of operating profit. This included significant property sales at Tottenham and Ebbsfleet, a number of lower value site sales throughout the UK, a collection of rent from interim lettings and there are opportunities moving forward to both sustain and maintain this level.

Now some history to help you understand why this business exists. The National Grid's Gas business actually dates back to the 19th century. At this time the gas industry was very much a manufacturing process, with gas derived from heating coal. Every town and city of the UK featured a gasworks; indeed the industrial heartlands of the countries and those areas with high populations often featured several gasworks. They range from small to some even over 100 acres in size.

Now a typical town gasworks would consist of two principal parts, the manufacturing or process area which made the gas and the gasholders which stored the gas. Those are those large metal cylinders which I'm sure you're all familiar with. Back then typically the gasworks, this industrial process, would have been located in the industrial quarter of a town or city.

The discovery of natural gas in the 1960s changed the industry and marked the end of the gas manufacturing process and as a result significant parts of the old gasworks become redundant. However, most of these sites were still dominated by those large gasholder structures and to some extent this limited the sites redevelopment potential.

By the early 1990s, National Grid Gas realised that those years of gas manufacturing activity had left behind a contaminated land legacy. And the ownership of a large redundant estate brought with it both significant risk and liability. In response National Grid made the strategic decision to sell the surplus estate to its Property business. This would provide two distinct benefits to National Grid Gas, the reduction of risk and land management costs, together with the transfer of liabilities, whilst promoting a clear focus on the day to day operational gas business. All surplus National Grid property at the time was sold to the Property business, who were then tasked with managing the contaminated land legacy and other property risks, while seeking to identify value opportunities across the portfolio.

Leading up to the 2013 RIIO settlement it was agreed that gasholders were no longer required as part of the UK storage capacity, making the holder portfolio both redundant and surplus. National Grid Gas again took the decision to sell the holder portfolio to its Property business, transferring all the risks and liabilities of site ownership.

Now as I said earlier one of the main responsibilities of the Property business is land clean up or if you prefer the more technical term land remediation. This process has evolved significantly over the

last 20 years and during this time we've become an industry leader, both shaping government policy and driving innovation.

Over those 20 years National Grid Property has cleaned up the equivalent of 1,000 football pitches, driven by both value opportunities and the need to address environmental risks. Wherever possible we recover value by selling this land for redevelopment. We've sold land to the organisations shown here and many, many others. Our land has been developed for residential, commercial and retail purposes. In fact I struggle to identify a use one of our sites hasn't been turned into.

In other cases we've donated sites to communities to be used as local parks. But in all cases we've taken land that was otherwise sitting idle or under used and deployed it for positive uses.

Now we've worked with the Berkeley Group on many projects over the years. Most recently in 2013 when we completed the sale of Southall, a 90 acre site in West London.

Over that time we've developed a strong working relationship with an organisation we feel are market leaders in property development and regeneration.

It was in November 2014 that we first announced our joint venture with the Berkeley Group. There were many benefits to this partnership. Firstly, the opportunity to really leverage value from a scarce resource, residential development land, and access downstream profits. The JV also provides access to a market environment with strong core fundamentals; we simply need to build more houses to meet demand.

It presents the chance to work with the Berkeley Group, a financially strong market leading company with a successful track record of corporate JV experience, with the likes of Thames Water and the Prudential. When selecting a partner it was these characteristics which we felt set them apart from their industry peers.

The JV will make excellent use of now a legacy asset, every St William development will open up idle or under-utilised sites that have been closed to the public for decades. And finally the JV has scale. We have over 30 sites that could potentially form part of the business. In total these 30 or so sites could deliver 17,500 new homes, including 5,500 affordable homes, as well as new public open space, schools and create over 10,000 jobs. So far seven sites are in the JV and currently we're in negotiations on a further 11.

So how does the JV work? Put simply National Grid supplies the land into the joint venture and manages site remediation, holder demolition and operational plant relocation activities. The Berkeley Group contributes the day to day development expertise, from initially securing planning consent, all the way through to onsite construction, marketing and sales.

The JV is funded 50% by equity, with up to 50% bank finance. Our equity share is effectively the value of the land, which in term is matched with Berkeley cash. So to be clear from the National Grid standpoint the cash requirement from the JV will be no greater than its land receipts. Or put another way, no new money from National Grid is required by the joint venture.

The JV Board is made up with equal representation from both National Grid and Berkeley, reflecting the true 50/50 nature of the relationship.

At this point I'd now like to pass over to Alison.

Alison Dowsett, Berkeley Group
Thank you Phil. Good morning, I'm Alison Dowsett, I work for the Berkeley Group and I'm the Managing Director of St William. I've been with Berkeley for just over 12 years and for most of that time have worked for St James, which was originally formed as a joint venture with Thames Water.

I'm very pleased and proud to be part of St William to be talking to you today about our joint venture with National Grid.

The Berkeley Group is a publically owned FTSE 250 company with over 40 years of experience. We build nearly 4,000 homes a year, employing over 12,000 people in our business and on our construction sites.

I'd like to begin by telling you a bit about Berkeley; about what makes us different and how we think. Firstly, we build safely, our primary responsibility is to the people that work on our sites and the public who live and walk beside them.

We are passionate about the quality and detail of each development and how to create places where people really want to live, work and play. We work collaboratively with councils and communities, because in reality it's working in partnership that unlocks delivery.

We also work sustainably to make a lasting contribution to the landscape and the communities we create. Our business is about place making and not just house building. We continually innovate to ensure that all Berkeley home are useful, beautiful and suited to the ever changing needs of society.

We pride ourselves on our customer service, our net promoter score is not just the best in our sector, but higher than John Lewis and Apple.

Our strategy is based on adding value; Berkeley is not a volume business. We invest more to make more and everything we set out to do is long term.

So what makes St William so exciting? It is its scale and breadth and as you can see from the map on the screen of our potential sites. As Phil said we're proactively working on 18 sites, with the intention to increase this to over 30.

The portfolio provides a wide range of opportunities including high value sites at Battersea and Fulham that we're going to talk to you about in more detail in a moment, larger regeneration schemes like Beckton in East London that could deliver a new urban quarter overlooking the River Thames, providing homes for thousands of Londoners. Smaller regional sites in Borehamwood and Watford and urban infill sites like the 44 unit scheme with National Grid Electricity Transmission in Highbury.

All of these will contribute to ease the housing crisis in London and the Southeast by bringing forward redundant brownfield land to provide homes, jobs and communities.

There will be a wide range of product and price range across the schemes, including homes for first time buyers, the trade down market, and luxury apartments, as well as affordable housing, including social rent and shared ownership.

What the majority of these sites have in common is that they are technically demanding and complex. Berkeley has the technical skills and unrivalled development expertise to optimise the development solution and add significant value.

St William is set to become one of the ten largest house builders in the UK by turnover within the next ten years.

I'd just like to touch on the property market. We believe that the long term outlook for the residential market remains strong, underpinned by robust underlying demand and constrained supply. In the

Berkeley Group full year results announcement in June we reported that reservations were around 20% lower in the first five calendar months compared to the same period last year, as customers adjusted to the higher property taxes and the uncertainty around the EU referendum.

Supported by a record forward sales position Berkeley launched little new product into the market in this period. After a hiatus either side of the referendum the market in August, traditionally a quiet month, has returned to the relative levels of the first five months of the year.

Importantly throughout 2016 site visitor numbers and enquiries have been at similar levels to last year, demonstrating the strength of underlying demand. And although customers are taking longer to commit pricing has remained resilient.

The depth and breadth of the St William portfolio, together with the increased speed of bringing forward National Grid's surplus land through the joint venture means that St William are ideally placed to provide a significant number of new homes into an undersupplied market.

So moving on to our site at Fulham, the former Fulham gasworks is the most high profile St William site in an established residential area on the Fulham/Chelsea border. It extends to over 17 acres and presents an excellent opportunity for a high quality masterplan which will create a new mixed use community in the heart of a prime area of London. Some of the key features are the retention of listed buildings, structures and war memorials to add heritage, authenticity and a focal point to the masterplan. The opportunity to connect into surrounding amenities including the River Thames and the Kings Road and good transport links with Imperial Wharf Station and Fulham Broadway tube station within a few minutes walk.

St William submitted planning application to the London borough of Hammersmith and Fulham in June 2016 for a residentially mixed use scheme - sorry a residentially lead mixed use scheme, including 1,375 homes and 140,000 square feet of commercial floor space. The application includes 23 new buildings, including a 27 storey tower. The project will create over a hectare of new public space in the form of a village square and a public park in the centre of the scheme. The park will include the Grade II listed gasholder which is the oldest in the world as a central feature.

So pending approval of the application and following the National Grid infrastructure works we expect to be onsite in 2018. This will allows us to deliver the first homes in the early 2020s and complete the site around ten years later.

The next site I'd like to talk to you about is Prince of Wales Drive in Battersea. This five acre site is on the south side of the river and at the western gateway of the Nine Elms regeneration area and just a short walk from Battersea Park.

The site already had excellent transport links which will further improve in 2020 following the completion of the new zone 1 tube station at Battersea Power Station, just five minutes walk away. The site will also benefit from the improved infrastructure and amenities being delivered at Battersea Power Station. This is the first St William site to start construction and launched for sale.

Planning consent was achieved in September 2015 for 839 homes, of which 638 are for private sale and 201 are affordable. These are all within 12 buildings, ranging in heights from 2 to 26 storeys. The development branded as Prince of Wales Drive was designed by world renowned architects Squire and Partners.

In common with all St William sites we have taken a landscape led design approach to ensure that we deliver quality open space. The National Grid sites give us the chance to open areas that have been closed to the public for many years and reconnect them with their surrounding communities. As a result we've chosen to include a landscape focus as one of our core values and quality open space will therefore be a recurring theme on all St William developments.

There will also be other uses at Prince of Wales Drive, including public piazza, offices, a gym, a crèche, a food store, and a café. The gym has been designed into a second level of basement inside one of the old gasholder walls.

Following completion of the National Grid work St William took position in August of this year and construction has begun. We fitted out a marketing suite using space in a nearby Berkeley scheme at Chelsea Bridge Wharf; this includes a show apartment and an interactive model. And we are taking reservations, so please do come down and have a look.

The site was formally launched for sale just two weeks ago and to date there has been strong interest and a number of reservations taken. The first homes will be delivered for occupation in 2019.

So Fulham and Battersea are the two premier opportunities in the portfolio, but we do have sites of all shapes and sizes. The third scheme that I'm going to present today is in Rickmansworth in Hertfordshire and still within the M25. This will be the next St William site to go into production, starting onsite in spring 2017.

The site is relatively small and surrounded by residential properties, which naturally give rise to a lot of concern about any new development. Both the St William and National Grid teams worked extremely hard to mitigate the objections to enable planning permission to be granted locally. For example the retained gas equipment has been located below ground to eliminate noise and visual intrusion.

The scheme will provide 48 two and three bedroom apartments which have been designed to appeal to the trade down market. These are just three examples to give you an idea of what we do.

Thank you and I'll now hand you back to Phil to conclude.

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Phil Edwards, Head of National Grid Property
Thank you Alison. Now turning to matters financial. The process to add a site to the joint venture has a series of steps. Firstly, National Grid and the Berkeley Group having agreed in principle that St William was to develop a particular site negotiate the commercial terms for the site's purchase. This will include price, which is the market value of the site with planning consent and any other acquisition conditions.

It's important to understand there is no obligation upon National Grid to offer the site to St William, or indeed agree commercial terms. Similarly St William is not compelled to acquire any site that it is offered. The key principle is that for a site to be successfully acquired by St William the parties must negotiate and agreed mutually acceptable price and terms.

So let me now illustrate with an example of how a site enters the JV and how profits are recognised. Let us assume the parties agree a price of £50m for a site. National Grid will begin work to remediate the site, to address the legacy of previous industrial use. This process typically takes somewhere between four and twelve months, depending on the specific characteristics of a site. We will progress with gasholder demolition which could we expect take somewhere between six and nine months, again depending on their number and their complexity. And where necessary we'll instigate operational gas plant relocation, which depending on the complexity of the project can take somewhere between six and twelve months. At the same time St William will work to secure planning permission.

Once National Grid and St William have both carried out these contractual obligations the sale is completed and the property is legally transferred into the joint venture.

At this point National Grid Property business recognises half the uplift in land value as operating profit. So using our example where the market value of the land was £50m and the land had an historic cost of say £10m, we would recognise £20m or half the £40m difference. Remember these properties have been on our Group books for a very long time, so the historic cost we're referring to is very low and therefore the uplift is almost equivalent to the market value.

Next the site is developed, this can take anywhere between a year or two for a small site like Rickmansworth that Alison has described, or up to 10 or 15 years for a larger site where there will be numerous phases, such as Fulham perhaps. Sales of the units will begin during the development phase and we would gradually recognise income in two ways. Firstly we would need to recognise the other 50% of land profit. We do this by assigning a proportion of the remaining land profit to each unit sold. As sales progress we recognise the land profit as EBIT through the Property business.

Secondly, we recognise our share of the joint venture development profit - sorry secondly we recognise our share of joint venture development profit, through the profit after tax through our JVs line.

At the same time we will continue working with the rest of the portfolio as we always have done, addressing constraints, driving short term income from lettings and conducting both low and high value sales.

As I said earlier last year the Property business produced £56m of operating profit. This year we expect the value of property sales to be similar year on year and this will include 50% of land profits from the sale of Battersea to St William, but with no downstream profits contributed from the JV just yet. In financial year '19 we expect to see an increase of this level due to the legal transfer of our largest site, Fulham, to St William.

Beyond that operating profits from our traditional Property activities, combined with our operating profit and post tax profits from St William collectively have the potential to contribute around twice current levels.

As already mentioned there are seven sites currently in the St William joint venture and one of these sites, Battersea, has now formally transferred and is in the construction phase, with the first units to be completed in 2019. As you can see we'll be legally transferring the remaining sites over the next two years, with some of the smaller developments actually completing around 2019 and 2020.

Moving forward we will continue to add additional sites into the joint venture, as well as assessing opportunities in the broader portfolio.

So in summary the property business has a diverse and significant portfolio of sites of varying sizes and values throughout the UK. Our St William joint venture in particularly presents an exceptional value add opportunity for the portfolio, with the potential to deliver over 17,500 much needed new homes in London and the Southeast over the next 10 or 15 years. Thank you.

I'd now like to open up the session for Q&A.

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Property - Questions and Answers

Deepa Venkateswaran, Bernstein
Thank you. I had two questions, could you just give us an idea - what is the book value of property that you have transferred to St Williams and what's the rest? And what's the market value of these properties today?

And the second question is in FY'19 when you have the Fulham property, what's your - you know the 100% of the profit, you've not particularly talked about what level it would be, so it is the 2X or it is substantially more?

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Phil Edwards, Head of National Grid Property
So in answer to your first question the book value of the profits - so the historical Group book value is very low because we've owned these assets for a long, long time. The value in the Property business accounts is the transfer value between internal companies, so that's around half a billion pounds, £500m that was alluded to in earlier presentations.

In terms of the value assets are transferring from National Grid to ST William, that's commercially kind of sensitive, so we're not disclosing that today?

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Deepa Venkateswaran, Bernstein
And do you have an idea what's the market value of your property portfolio overall?

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Phil Edwards, Head of National Grid Property
Well we've said that half a billion pound figure, so that's the number we're sticking to at the moment in terms of the value of the portfolio.

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Mark Freshney, Credit Suisse
Good morning, just to confirm that half billion portfolio is just the pipeline that you're working on with Berkeley homes; it doesn't include the stuff away from London and the Southeast?

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Phil Edwards, Head of National Grid Property
The half billion pound figure was the - just to go back that was the kind of fair value, the transfer value of assets from various National Grid businesses into National Grid Property, that's everything. So that number is slightly historic, but that's the number that we're referring to.

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Mark Freshney, Credit Suisse
Okay, and just two further questions. Firstly on when you actually receive the cash flow in, which you know you don't have much cash outflow up front for the site preparation, but then the cash actually is very much backend loaded, so can you give us some colour on the cash flow profile?

And just secondly, I understand with these gasholders that it's the - you know the swimming pool underneath if you like, which is where the nasty contaminants are, have those all been cleaned up under Gas Distribution ownership, or is that something you still have to contend with, because I understand that's the really expensive bit?

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Phil Edwards, Head of National Grid Property
Okay, taking your first question about the cash flow, you're right about the cash flow, the cash flow is back ended and I'm not in a position to disclose how that kicks in, but it's fair to say it kicks in after we've paid out any debt first. So it comes towards the end of the development programme.

Secondly, in relation to gasholders, typically actually gasholders are not where most contamination lies in gasworks is actually in the gasworks site, that's where most of the contamination was. So whilst it is a constraint for us to address we've got a lot of experience of doing it, it's a challenge we're more than comfortable solving, it's not over - we can overcome it, it's not excessively expensive, but it is a cost we have to incur and manage.

Dominic Nash, Macquarie
Hi there, the £500m number can you confirm is that gross or is that net of the environmental liability number, is that in the Property division as well as that being kept in another division?

Phil Edwards, Head of National Grid Property
I will refer back to IR on that one, just to confirm rather than me mislead.

Dominic Nash, Macquarie
Okay, and then secondly on the Progress with St William chart on page 27, is that a chart - a pre-Brexit chart, that sort of a tentative schedule, or is that liable to - have you had any conversation …

Phil Edwards, Head of National Grid Property
Sorry can we just flip back to slide 27?

Dominic Nash, Macquarie
It's that one there when things are going to complete and transfer, when did you construct that chart and have there been any conversations recently about sort of holding off until you get more clarity on Brexit?

Phil Edwards, Head of National Grid Property
That chart is how we see things today, so it's a current reflection on our expectations of when those sites will complete and when those projects will complete.

Fraser McLaren, Bank of America / Merrill Lynch
Good morning. You've got a whole range of sites in your portfolio; I just wanted to check that none are eligible for any form of regulatory clawback please?

Phil Edwards, Head of National Grid Property
I'm not really the best person to answer questions relating to Ofgem. All I can say in relation to that is Ofgem understand the rationale behind transferring property out of the regulated business into the Property business. It removes that risk, it removes that distraction and those properties have been transferred in a very transparent way, we've got externally third party valuations to shift them across.

And indeed other DNs are doing exactly the same thing. So I can give you that factual answer, that's the process, they understand why we've done it and they understand and support that. Beyond that I can't really say. Again, I would reference that one back to my colleagues in IR.

Andrew Murphy, Bank of America / Merrill Lynch
Morning, I just wondered what you can say about the conversations you may or may not have had with the Mayor's office and whether the 5,000 of 17,000 units being social is likely to see that figure increase and whether that changes your thought process and the value of course in terms of the whole project?

Phil Edwards, Head of National Grid Property
We have had a number of discussions, both historically and currently with the Mayor's office, I think first and foremost they've been delighted that we're doing something with the legacy of brownfield land across London and beyond. It all generates new houses and I think there's a kind of coming together of agendas about delivering more houses in London and the Southeast.

When it comes down to how many affordable houses are delivered by specific sites, that really does depend on the characteristics of that site, its viability, its challenges, what else it's having to provide in terms of Section 106 contributions, SIL and other things. So like all things it's a bit of a negotiation to deliver a viable development, but above all it's about delivering new houses for London and the Southeast.

Iain Turner, Exane BNP Paribas
Thanks. I guess one of the options you would have with the development site would be to clear it to get outline planning permission and then just to auction it, which given the way that the property market sometimes runs might be a way of maximising value. Why do you think your approach is a better way of doing it than just tendering the sale?

Phil Edwards, Head of National Grid Property
Well that's the approach we've kind of pursued for many, many years and it's an approach that we still pursue with the rest of the regional UK portfolio. What St William provides us the opportunity with is accessing downstream profits in a way we couldn't do ourselves. So what you then end up doing is negotiation with good advisors, with the Berkeley Group that entry price into the joint venture.

So that ends up being a hard negotiation I think Alison would probably concur, that's the principal point of tension in our relationship, what value do you attribute to the sites going into the joint venture. Now that's at development value, you're assuming the site has got planning consent, it's free of constraints and it's developable. So we think we're getting the right price of the site going into the joint venture, but with that added uplift of accessing that downstream profit which is so attractive to us.

Jenny Ping, Citigroup
Just on that point of downstream profits can you give us a feel in terms of margins, or margins per site, or per acre on how much - you know you've given us the illustration in terms of the profitability and the timing, but in terms of the amount you'll be recognising in the JV can you give us a sense of how we should be looking at that?

Phil Edwards, Head of National Grid Property
I think I've disclosed as much as I'm able today on how we see it ramping up into a couple of years time. So on that level I'm probably limited. I guess what will happen is the contribution from St William will rise going into the future as you would expect into the 2020s as we start producing more and more units. I think I said in the presentation that we expect current level to roughly double going into the 2020s and that's probably as far as I can go today.

Orlando Finzi, M&G
Maybe I missed it, but just in terms of how the JV is funded, I think you indicated also that cash outflows don't occur until debt is paid down, is that on a site basis, or on a JV basis? And maybe just with that in terms of if there is borrowing within the JV how much leverage it takes and on a development when do you start paying down debt, is that normally when it's completed, or once units start being sold?

Phil Edwards, Head of National Grid Property
We manage the joint venture very much at a corporate level so rather than a project by project basis. All the projects are in the same pot together and the JV sort of raises debt at a St William corporate level if you wish and then pays down that debt on that level. That's answering your first question.

Did you ask our sort of equity in the joint venture is our land as I said, that's matched by Berkeley cash? We've agreed at the outset that we will gear the joint venture up to 50% if we feel we need to. Now we're not at that level at the moment, though we have now got our first facility in place to help fund the development of Battersea and beyond.

Orlando Finzi, M&G
And just to check on that, does it mean in terms of cash distributions from the JV that won't occur until the growth phase has started maturing for St William?

Phil Edwards, Head of National Grid Property
The cash distribution back is back loaded correct because we would have paid out - the principle being pay down the debt before we start giving dividends back to shareholders.

James Brown, Deutsche Bank
I just had a question on how the market value assessment was made originally. Is that a kind of market value for land that doesn't have any planning permission, or do they take some kind of probability weighted approach where they think about what it might potentially be worth to you?

Phil Edwards, Head of National Grid Property
Are you referring to the entry price of the asset into the joint venture?

James Brown, Deutsche Bank
No I'm referring to the original transfer price into National Grid Property?

Phil Edwards, Head of National Grid Property
So that was done at the market value of the property at the time, so those sites typically would not have had planning consent at that moment, but you know there would be a prospect of planning consent so that would be factored into those valuations.

James Brown, Deutsche Bank
Okay, thanks.

Phil Edwards, Head of National Grid Property
Okay, if there are no further questions we'll call an end to it there and I'd now like to pass onto my colleagues from Grain LNG and from Metering.

Aarti Singhal, Director of Investor Relations
Just before you begin Simon, a couple of questions were about the £500m. I just want to add that that was a historic figure as Phil mentioned earlier. What I hope we've done with the presentation today is given you enough building blocks, more detail about the sites, about the future profitability so that you have everything you need to be able to come up with your own assumption on valuation, I just wanted to point out that the 500 was a historic number, absent the hopefully additional information that you've had today. So with that over to you Simon.

Grain LNG

Simon Culkin, Head of UK LNG, National Grid
Thanks Aarti. Good morning everyone, my name is Simon Culkin, as Head of National Grid's UK LNG business I'm responsible for the operations at our liquefied natural gas facility on the Isle of Grain. I've overseen ten years of market change and expansion at the terminal.

Grain has been developed through £1bn of investment over three phases since we first commissioned in 2005, with each phase adding additional capacity. This slide demonstrates to you the scale of the operation, my team now runs the largest terminal in Europe and the eighth largest in the world.

We offer one million cubic metres of storage space that enables us to provide 20BCM, 20 billion cubic metres of delivery capacity into one of Europe's most liquid hubs. This equates to enough gas to provide 20% of the total UK gas demand.

LNG itself is stores at minus 160 degrees C, an extremely low temperature that reduces the gas volume by 600 times.

The primary function of the terminal and the principal way we make our return is to provide regasification services, sometimes simply called regas, which means receiving LNG ships, holding the LNG in our tanks and when requested by our customers turning it back to a gas and pushing it into the national transmission system.

We receive gas from all over the world and Grain is unique in being equipped to treat and blend LNG from a range of sources.

You can see our customers on this slide, all have signed long term take or pay contracts with National Grid which profit Grain a certainty of stable revenues irrespective of terminal utilisation. Our performance against these contracts as been consistent, delivering around 130 of EBITDA per annum for each of the last three years.

Our customers are central to our continued success; they require efficient and effective operations from a facility that's already ready for them to sell gas into the National Balancing Point, the NBP, at less than an hours notice. This is unique business within the National Grid portfolio and it's in a unique location on the Southeast cost of the UK. And being just 20 miles from us here in London it is close to the UK's biggest demand centre.

Its size brings inherent flexibility, flexibility that our customers use to hedge against worldwide markets or use to trade directly into the UK.

The ongoing success of our operation is underpinned by a passion for safety, this is not an afterthought for an LNG business, we focus proudly on our site's world class safety record, and even with an injury frequency rate of zero we drive to continue to improve on behalf of our customers, our colleagues and the communities that we serve.

In these next slides some of the information you will have seen before and perhaps some of the information you will not. Hopefully though there may be some thought provoking questions based on how we see the LNG and the gas market developing and what this means for Grain LNG as a business going forward.

Grain is a fascinating business to lead and one of the reasons I enjoy my job is its exposure to international markets. Events that happen in Russia, China, America all affect our short term deliveries and our opportunities for growth. LNG has turned into a global commodity, traded all over the world and traders exploit that markets and react to world events, making very quick changes in demand.

Subsequent increases in supply though take longer to develop, but more of that in a moment.

If you take yourself back to the spring of 2011, the tragic tsunami that hit Japan and subsequent nuclear incident at Fukushima caused a shock in the global LNG market that is still felt today. Very quickly, post Fukushima due to the nuclear shutdowns the LNG market expected to be supporting Japan with the increased quantities of energy. However, Japanese industry just didn't restart at the expected levels leading to a global surplus of LNG. This left traders to find new destinations for this oversupply and the summer of 2011 turned into Grains busiest period in terms of utilisation.

The reason I bring up this event is important for two reasons, firstly it demonstrates the UK and our Isle of Grain facility is a great destination of this surplus or spare gas. And secondly and more importantly the tsunami in Japan was a catalyst to support gas at a price that led to a wealth of new LNG projects being developed with an almost gold rush mentality in Australia and America, all seeking to monetise gas for sale into Asia.

This is not unusual, it's just economics. The potential increase of LNG production is shown in the bottom left hand graph. While not all projects will come online a number of these future additional projects will take American shale gas, convert it into LNG to be put on ships in the Atlantic basin from the supplier.

So the question is where is this spare LNG going to do, that answer could be Europe. While Grain LNG has secure long term income from its existing infrastructure, this oversupply of LNG offers a future opportunity for additional regas capacity at the terminal to meet the market's needs. The market does need an easy home for this spare LNG and we could provide it.

Looking ahead within Europe, COP 21 and other legislation is driving the phase out of coal, which means the demand for gas is expected to grow. There are also future potential applications in terms of marine fuel and HGV transportation which I'll touch on later.

In summary Europe is directly referencing LNG as a clean and strategic fuel of choice which offers essential security of supply. But I'll ask the question again, what is all this LNG going to go? I've already mentioned Europe and whilst there is spare regas capacity across Europe there are just two leading hubs which will really attract this spare supply, these are the Dutch TTF and the UK's National Balancing Point, the NBP. Other countries and markets across Europe are both difficult to enter and importantly less connected to other large demand centres.

Each July National Grid's system operator publishes the future energy scenarios that set out our four credible futures, created through engagement with industry stakeholders, including this one - slow progression. Slow progression principally meaning that the development of renewable energy sources will be slower than expected. This scenario predicts the UK will need to source 90% of its gas from imports by 2036, due to the continuing decline in North Sea production.

In this and the no progression scenario it is suggested that gas will play a key role in meeting the UK's carbon reduction targets.

If the supply is available and if the demand for imported gas is there, LNG will find its way to Europe and importantly to the UK. As mentioned at the beginning of this presentation at Grain LNG we are well positioned to deliver that additional capacity when the market needs it from a variety of global sources. With our available infrastructure we are uniquely equipped to blend and treat a wide variety of LNGs to meet the UK's tight specification.

At Grain we continue to seek avenues for growth. We have demonstrated a desire to find new markets, customers and products as well as driving efficiency for our operations. An example of a new product is our reload facility. This is where we take LNG from a storage tank and reload it back onto a ship. We developed this service in conjunction with our customers and have seen the facility carry out four reloads this financial year, improving the ability of our customers to respond to changes in the LNG market.

Also in recent years we've been talking to the transport sector about the advantages of LNG, it's a clean fuel with less NOx and CO_2 and importantly virtually no particulates. It's ideally suited to heavy goods vehicles as they're just too big for batteries. LNG powered engines can pass an emissions test without adjustment and in real world conditions. We're seeing manufacturers such as Volvo and Mercedes releasing new LNG powered engines, and in fact China has now over 250,000 LNG powered HGVs.

Responding to market demand last year we opened a road tanker loading facility to fuel tankers, providing onward supply to HGV fuelling stations and off grid users. We see this market sector as an important growth area for LNG in the coming years and have been very pleased with the uptake at Grain.

We believe our next growth areas is through the application of LNG as a marine fuel, this market has potential for larger volumes than road transport, but basically responds to the same green drivers such as European and world emissions guidance that is driving a reduction in CO_2. These changes will force ship owners to either install expensive scrubber units or purchase new ships with LNG or another fuel powering its engines. We have recently seen Carnival order its 7th new build cruise liner powered by LNG. So the real opportunity for Grain here is in developing a break bulk service for smaller vessels to facilitate onward distribution.

Other industry players such as Shell and Engie have been active in starting this market and we are working to find an anchor customer to cover the required investment for this service.

As I said earlier with the LNG market at a point of potential oversupply we do see capacity expansion as a credible requirement for the UK. We already have the infrastructure that can be integrated into any future plant and depending on what the market signals a Phase IV at Grain could deliver up to 40% increase in the site's capacity. But this depends on the market and we continue to discuss this opportunity with existing and potential industry players.

So to wrap up, it's a stable, solid business and the current infrastructure is underpinned by secure, long term, take or pay contracts. As I said the LNG market has the potential to expand with new supply looking to enter Europe and we look to growth with a desire to implement disciplined customer led growth opportunities.

So thank you, that's all from me. Metering is another interesting and important part of our portfolio of Other Activities. So please let me introduce to you Maxine Long to begin the session.

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Metering

Maxine Long, Head of Domestic Metering
Good morning, as Simon said I'm Maxine and I lead the Domestic Gas Metering business. I've been with the organisation since the start of last year and prior to joining I've held a number of large leadership roles responsible for driving operational efficiency and improving customer experiences. And that's in both regulated and non-regulated businesses.

So you have some context I'm going to start with a general overview of our Gas Metering business and then move on to the specific trends and outlooks for each of our divisions.

The Metering business has performed solidly over the last three years, delivering around £240m EBITDA per annum. Our sharp focus on efficiency and measured levels of investment has also lead to consistently strong business cash flow generation.

The business has two divisions who contribute to this performance, Domestic Gas Metering whose end consumers are individuals or households and Industrial and Commercial Gas Metering whose end consumers range from high use manufacturing plants, multi-site retailers, small to medium sized enterprises right through to micro businesses such as your local chip shop.

Both divisions provide bundled MAP and MAM services, meaning they are mutually inclusive. As a MAP, a Meter Asset Provider we finance the purchase of meters and ancillary assets that enable a safe and effective installation. As a MAM, Meter Asset Manager we provide meter work services for these assets, such as the installation and maintenance. However, we discharge this activity through National Grid Gas Distribution in the retained distribution network and to commercially appointed service partners in all other regions. We derive our revenue by charging for the provision of these services.

So who are our customers and how do our markets operate? Our customers are largely gas suppliers, ranging from the big six household names such as British Gas, right through the relatively new market entrants such as Bulb Energy.

In the domestic and micro business market Ofgem perceive us to be dominant. What this means is that where customers choose to sign up the regulatory contracts those meters are subject to tariff caps. Those tariff caps are set by Ofgem. All other meter rentals are subject to commercial terms, which in some cases include upfront charging.

The services we provide are charged through annual rentals and gas suppliers pass these on via the bill to their customers. Across our diverse portfolio these costs average 2% of end consumers' total bill.

So hopefully that has helped to provide some context, I'll now move and give you a flavour of the trends we're seeing in each of the Metering divisions and some insight into the future outlooks.

So starting with Domestic Metering, as you know the government remains committed to rolling out gas and electricity smart meters to domestic and small industrial and commercial end consumers by the end of 2020. This will lead to the erosion of the Domestic division over time. How quickly will depend on the success or otherwise of the smart meter rollout. The primary obligation for rollout is on the domestic energy suppliers. And so far rollout has been much slower than expected.

In the last two and a half years our portfolio has only reduced from 13.9 million assets to 12.8 million. Ofgem and DECC as was, retain the target to achieve a 95 to 100% smart rollout success rate, which would leave a maximum of one million legacy assets in the market. It is however plausible to suggest that the success rate is likely to be lower and that we could see a higher number of assets left in our legacy portfolio at the end of 2020.

It is also worth noting that under our regulatory arrangement we are the UK's national meter manager. This means that where we are not the incumbent service provider gas suppliers are able to ask us to purchase their legacy disparate assets. Once aggregated, not only would these help provide density for our existing portfolio, they'd also help to offset the rate of decline.

We have a strong heritage in Metering; our capability, our performance and the strength of our relationships mean that we continue to deliver for our customers. This is demonstrated by our industry leading satisfaction scores, routinely above 80% and our recommendation scores, routinely greater than plus 50 in an industry where negative scores are typical.

So this reputation ultimately gives us the platform to evolve the business into that of an aggregate service provider, offering a range of specialist services that are scarce in the market and with tariff caps and regulation falling away in 2020 this business would move to a full commercial arrangement able to explore all opportunities.

So now moving on to the Industrial and Commercial division, this business currently has 560,000 meters in its portfolio, of which approximately 284,000 are domestic sized meters installed in micro businesses. These small meters are subject to all the same requirements as meters in the domestic business. The remainder of this portfolio is diverse and subject to commercial terms, with some annual rentals being in excess of £40,000 per annum.

The non-domestic gas metering market was open to competition in 2004 and the impact of this has been a reduction in the portfolio. Primarily in the smaller, simpler and more commoditised commercial space, where our engineering and technical expertise is less valued.

Year on year our customers satisfaction scores have improved, with 80% achieved in our last survey, with the majority of our customers suggesting they would strongly recommend our business to others. It is this and our strong reputation for safety that is helping us arrest the portfolio decline and in some cases even win back business; especially where service and quality delivery is a differentiator for gas suppliers.

We are also helped by our comprehensive coverage of the non-domestic gas supplier markets, so as end consumers switch from the big six gas suppliers to commercial specialists we are able to retain their business.

Furthermore Industrial and Commercial end consumers are proactive when it comes to their consumption data, with multi-site, high volume consumers employing their own energy optimisation managers. So the offer of a retrofit solution to enable the provision of metering data in respect of larger I&C meter assets not only helps the stickiness of our portfolio, as end consumers build historical data in our systems, it also creates a new revenue stream for this business moving forward.

So to summarise the future outlook. Both National Grid Metering divisions understand and are responding to the demands in their markets. With mass smart meter rollout not yet underway future opportunities for legacy meters are being assessed for scale within the domestic division. In the meantime all waste and non-value adding cost is being removed from the business to improve efficiency, deliver a strong EBITDA and ensure continued strong cash generation for the Group.

In the Industrial and Commercial division the drive for smarter metering on larger assets is being met by a retrofit solution, which is compatible with the existing portfolio. This means that this portfolio will continue to meet customer demand well beyond 2020.

So having provided you with an update on National Grid Metering, which has also highlighted the impact of Smart Metering, I will now hand over to Kerri Matthews who will give you an update on National Grid's activity in relation to this. Thank you.

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Kerri Matthews, Head of Smart Metering
Thanks Maxine. Hello, I'm Kerri Matthews and I'm leading a team in Solihull to determine National Grid's future involvement in the Smart Metering rollout. In terms of my experience I've been in the utility industry for over 20 years, working in both National Grid and its predecessors in a wide range of commercial and customer centric roles.

As Maxine mentioned earlier, although the Smart Metering programme has experienced some delays the government remain committed to the rollout of smart meters to all domestic and small industrial and commercial users by the end of 2020.

The obligation to offer and install the Smart Metering lies in the licence conditioning of in excess of 100 energy suppliers. Most of these energy suppliers have taken the decision to discharge that obligation by contracting with third party meter financiers, logistics partners, and installation companies. This then allows them to focus on their core retail proposition.

There are a large number of organisations operating in this fully competitive market, some more mature than others. However contracting opportunities are still available and there are a number of areas that National Grid can leverage to become a credible partner.

The first of which is brand, we're recognised as a very safe and trusted pair of hands. Our heritage, we've been involved in metering for a very long time and know more than most in the UK. Capability, we have a proven track record of both financing and effectively managing a variety of meter assets. And finally customer, our metering businesses have industry leading customer satisfaction scores and recommendation scores of over 80% and plus 50 respectively.

We have been actively engaging with a number of energy suppliers over the last 12 months to understand their needs and to consider how the National Grid's smart proposition may help them meet their supplier obligations. We've determined that there is a growing interest for our unique national, scalable, end to end dual fuel proposition, of meter asset financing, consumer engagement, installation and future maintenance.

We initially targeted the mid level independent energy suppliers who essentially lack the economies of scale in their supply chain. However, interest is now being shown from some of the larger suppliers as their initial contracts appear not to be delivering as they expected.

So National Grid Smart is beginning a small scale pilot with a mid level independent supplier to fund and install 50,000 assets in order to build both experience and credibility in the marketplace and to help us evaluate future growth opportunities. We're very much in the early stages, but we'll keep the market informed as we progress. Thank you.

Now ladies and gentlemen can I now invite questions on both the Grain and Metering sections.

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Grain LNG & Metering Questions and Answers

Rui Dias, UBS
Morning. Just two questions. A question on the LNG contracts that you have. If you can give us some detail on that, if it's index linked, if you have some negotiations coming, if you have any for example pass through mechanism for actual maintenance and costs?

And then on the Metering side, when you mention revenue opportunities from metering data services what do you mean by that exactly? If you can give us some examples, thank you.

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Simon Culkin, Head of UK LNG, National Grid
So to answer the LNG question without getting myself into any contractual difficulties, we have long term take or pay contracts as I've mentioned with those six customers that sit behind us. There is some RPI protection within the contracts over the 20 years which is good. And we have an awful lot of pass through for LNG as it's delivered through the terminal, so power for instance is passed through back to our customers; some of the gas blending cost is passed through to our customers. Maintenance is not, we take that risk, but most of the other stuff works itself back.

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Maxine Long, Head of Domestic Metering
Okay and in terms of industrial and commercial data revenue streams, so essentially obviously there is a drive for smarter metering within the industrial and commercial markets. So essentially what we are looking at now is the retrofit solution that enables customers to collect data and then kind of keep a record of that within our systems. And essentially obviously that is a chargeable service and that is just kind of being worked up now within the business.

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Gus Hochschild, BEIS
If I may, a question for Simon, a very broad and thematic one if I may. Given the growth of LNG, given the growth of regasification, therefore the traditional storage facilities we have in the UK doesn't that make them largely redundant?

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Simon Culkin, Head of UK LNG, National Grid
That is a very broad thematic question. Conceptually an LNG facility isn't a storage facility, it could be empty as well as it could be full. So you can't really make that direct comparator that an LNG plant provides that. And regulatory wise you'll notice how it doesn't quite fit in the same regulatory format.

As we go forward, as storage reduces let's see, let's see how this starts to be conceived by the market and how that works. I can't give you any more than thematic answers to a thematic question.

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Gus Hochschild, BEIS
No sure, but just given the rise in the trade and so forth?

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Simon Culkin, Head of UK LNG, National Grid
If you look beyond our shores into Europe and other places it's certainly something we're seeing more of aren't we are as floaters - floating regas units get deployed out there, that's certainly adding to a change in the global dynamic of where the gas goes.

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Mark Freshney, Credit Suisse
I have two questions. Firstly on the pilot scheme and Smart Metering there was I recall a smart metering business in National Grid which was sold to Macquarie some years ago. How is what you're doing now different and why would you look to get back into a business so soon after selling out?

And just secondly on the Grain facility you talk about £200m of revenue index link, the 130 EBITDA at Grain, most of that is contracted and a drop through on the take or pays, but how much EBITDA are you currently making from the non-contracted parts, the add ons, and where could it go to? Things like the Grain heat pipe, things like the reload facilities and the road tankers, what is the EBITDA opportunity there?

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Kerri Matthews, Head of Smart Metering
I'll pick up the Smart Metering question. So yes we had a company called OnStream back in the day so we divested that in 2011 so over five years ago now. The market has changed quite a lot since OnStream were operational. We had the data communications company that is now established, the legislation - it's in primary legislation now that this is going to be rolled out which is why it's now in supplier licence obligations. We have a very clear timeline, we know who's accountable and we actually have a meter spec. We didn't have any of that when OnStream were operational, we do now and this is why we think this is a good time to get back in the market.

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Simon Culkin, Head of UK LNG, National Grid
So how much are the other activities earning within the other activities which Grain takes part of? It's reasonably modest, don't get too excited about what reload or road tankers will make on the back of that £130m. The marine sets could offer us a bit more but it's not going to get you guys incredibly excited I would suggest, not prejudging what you think. But we're an asset, an infrastructure owner and we're not involved in the commodity, and it's the commodity guys that are making the big money out of these plays, we just offer these slots, we offer some asset and we get a reasonable return on the investment that we make.

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Mark Freshney, Credit Suisse
Just to follow up, the reload facilities which - or the reload product that you offer, my understanding is that that helps buyers of LNG capture some diversion rights. Is it the case that when you price the reload which is taking the gas off and putting it back on again, when you price that do you take into account differentials, i.e. if there was a major diversion differential would you be able to price up that and capture the economics?

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Simon Culkin, Head of UK LNG, National Grid
Well that's a lovely idea isn't it but no we don't. So we priced ourselves - we have some immediate competition around us so the Fluxys terminal at Zeebrugge and the Gate terminal at Rotterdam are also offering these services. We've priced ourselves at a similar rate today. That's not to say we wouldn't do something different later, but with the market the way it is we are putting our toes in the

water and trying this stuff out and pricing a very obvious, easy way to our customers. Let's see as we go forward, if this becomes the main way that we're doing business maybe we'll look at that differently. It's not within our existing GTCs, we could actually negotiate that if we wanted to.

Deepa Venkateswaran, Bernstein
I have two questions. So on the Metering would you be able to split your £240m EBITDA into I&C and domestic just to give an idea of what would happen once the smart meter rollout is completed?

And secondly, for Metering if you are thinking of an expansion what kind of hurdle rates would you look at? Obviously if it's backed by a contract, just the range of hurdle rates? Thank you.

Maxine Long, Head of Domestic Metering
Okay so in terms of I guess the split of the financials across the Domestic and the Industrial and Commercial business, I mean essentially we look at the business as a whole so we don't break those figures out or report those figures separately, but I think given the size of the Domestic portfolio which is reasonable to assume that obviously that is weighted towards the Domestic business.

Kerri Matthews, Head of Smart Metering
And in terms of new business opportunities in the Metering space we are running a pilot for a reason, to understand the costs and everything around that so we haven't got that figure to hand at the moment.

Dominic Nash, Macquarie
Two questions please. Firstly again on I&C metres. Could you just let us know what your market share is on the 560,000 and the 284,000 of which are Domestic scale? And have you got any contracts with the retailers to get those replaced? So you've given us the glide path for Domestic but could you also give us what the glide path would be for I&C because I don't think from memory you've got any contracts with any retailers in that area?

And secondly on Grain when is the next contract up for renegotiation with the shippers? And if it was renegotiated today do you think you would get a similar tariff as you negotiated all those years ago?

Maxine Long, Head of Domestic Metering
Okay so it's kind of starting with I&C then. So I guess fundamentally in terms of the 284,000 Domestic size meters, those would be subject to the - I guess fundamentally the same kind of glide path of Domestic. And until obviously mass smart kind of rollout gets underway that's obviously very, very difficult to predict, but obviously we continue to monitor that situation, obviously are prepared to respond to that in a number of ways.

In terms of market share, so that again is split between obviously the small meters and the larger assets. I think what I'll do is obviously refer back to IR for us to kind of respond and give you a precise breakdown in terms of market share across the two elements.

Simon Culkin, Head of UK LNG, National Grid
So for Grain the first of our contracts is due to expire mid to late 2020s. There are lots of options available to us as we approach that period, we can re-life the assets, we can consider selling another long term contract or maybe short term spot, let's see what we get to and what the market looks like. But remember I came back to those slides in the middle there that looked at this sort of glut of LNG and that lasts for a period of time if this comes right. So market projections could be that we're in a good space at the end of that contract that we go to renegotiate so let's wait and see.

Deepa Venkateswaran, Bernstein
Sorry just a follow up to my previous question, I wanted the hurdle rate for LNG expansion, not smart meters.

Simon Culkin, Head of UK LNG, National Grid
I didn't hear that question, sorry.

Deepa Venkateswaran, Bernstein
So my question was what is the hurdle rate that you're thinking of if you want to do an expansion of your LNG facility?

Simon Culkin, Head of UK LNG, National Grid
I'm not able to reveal the hurdle rate that we'd work to for the site, that's something we'd go back to IR, if they wanted to let you know that they'd let you know.

Aarti Singhal, Director - Investor Relations
Deepa just in terms of returns for this and other businesses that you hear about today, the plan is to target returns that reflect the level of regulatory protection and the level of contracted - how much of the income is contracted. So you should expect to see slightly higher returns to what we get for our base business to reflect that lower level of regulatory protection in these businesses. But we're not giving a specific range or a number. Thank you.

Fraser McLaren, Bank of America Merrill Lynch
Good morning. Can I just check what the utilisation rate please is at Grain over the last year or two? And then over the years you've often indicated that you're speaking to shippers about new capacity and many of those discussions have resulted in expansion of the sites. How many of those sort of conversations are you having recently and how much space do you have for expansion at the site?

And then just one on Metering if I may, given the previous Metering sale are there any contractual restrictions on what you can do in relation to offering new products in the market?

Simon Culkin, Head of UK LNG, National Grid
Okay so Fraser I've got - I think I remember two bits of that question, let's see if I answer everything. So we're at 5% today utilisation, it's very low, been very low over the last 12 months. And that might not matter when it comes to selling this commodity or this - not commodity, this service, enhanced

service into the market. As I said in my presentation whilst there's spare regas capacity across Europe there's only a few that are tapped into the markets that really people want to occupy and play in and we're fortunate that Grain is one of them. I've been talking to the market for a while now about this option and this coming forward, I won't pretend I haven't, and for a while it was reasonably quiet. These things change though and the conversations that I've been having to potential market players they're now having to us. So I'm not going to start to say it's a cert, but there's some interesting stuff going on.

Kerri Matthews, Head of Smart Metering
If I can pick up the - if there's any restrictions. When we sold OnStream there was a one year restriction where we weren't allowed to play in the market. But there are no restrictions now; this is a fully competitive and commercial market. We've engaged with Ofgem to tell them what we're doing and they're fully supportive so no.

Edmund Reid, Lazarus
Two questions. The first one is on mass rollout of smart meters. Do you see DCC go live as the catalyst for that mass rollout and when would you expect it to be?

And then the second question is on US liquefaction. Do you think that will mostly come to Europe? I mean so far it seems to be going to South America despite pricing not being particularly attractive. Why do you think that's happening?

Kerri Matthews, Head of Smart Metering
So I'll pick up the first question again about Smart Metering, DCC go live, good question. It's been delayed a few times, that's no secret. Mass rollout they're hoping to finish their release 1.2 and 1.3 by December of this year which then should trigger the mass rollout obligations for the energy suppliers. There are some challenges in testing, there may be a little bit more of a delay but that doesn't stop the industry rolling out smart meters. We can still install some SMETS1 meters, there's an element of interoperability that we need to deal with but they will fundamentally count towards the rollout targets. So it will just change the split between SMETS1 and SMETS2 meters. But we keep a watching brief on it.

Simon Culkin, Head of UK LNG, National Grid
So Ed I'm not one to obsess over where all these cargoes are going but of the 26 cargoes that have left Sabine Pass half of them have gone down to South America, a lot to Chile, Brazil, we've seen stuff come across to Europe into Portugal. It's a bit too early to say I think is the obvious answer. You can speak to Wood Mackenzie and other commentators who all talk about Europe being the sink for all this spare gas. I happen to agree with them but let's see where we get to, you know other things can happen in the Far East and attract that supply. You guys know this more than I do right so. But certainly if you're thinking about a safe port in a storm the UK NBP could be a really good one. So if you've got somewhere you want to send it, send it to Grain.

James Brown, Deutsche Bank
Just had a question effectively around credit quality for those shippers that have signed up long term contracts with you. Obviously a lot of the names that you've shown on your slide are pretty high quality companies but could you just talk around how you've kind of taken into account that risk

around credit quality, either when you kind of signed up the original contracts and kind of how you think about it now?

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Simon Culkin, Head of UK LNG, National Grid
Well you can see the names and the nature of the companies. We've got cover for all of those companies through their contractual liabilities. We don't see it as a significant issue, their credit ratings. The contract remains, they're blue chip companies most cases and they pay their bills. There's not much more to add.

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James Brown, Deutsche Bank
When you say cover the contract, what do you mean?

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Simon Culkin, Head of UK LNG, National Grid
No I can't tell you more about how we've managed that but we are comfortable with what we've got with our customers.

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Iain Turner, Exane BNP Paribas
Could I just ask about the timing of any fourth terminal at Grain, when you think that might be? And I remember we had a very interesting trip down there a few years ago and I think there was a suggestion that there was a physical limit in the amount of gas you could actually get off the island and into the network and how that would - whether that would need to be overcome to allow a fourth terminal?

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Simon Culkin, Head of UK LNG, National Grid
Yes and that was a bit of Fraser's question, wasn't it? Yes have I got space to expand, yes I have got lots of space to expand. If you remember there was a beautiful bit of countryside all round us that we could occupy, pretty flat, old refinery land, brownfield that we could use there. Timing wise it depends on the market, simply we'll be ready, when the market wants us to build something we can do so. And then onto getting the gas away from the Isle of Grain there's plenty of options to increasing pressure of the main or do some other stuff to get increased deliverability away from the Isle of Grain. So I don't see that as being a hurdle that we can't get over.

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Kerri Matthews, Head of Smart Metering
Okay, thank you ladies and gentlemen, I think we are now going to take a coffee break. Thank you very much.

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Simon Culkin, Head of UK LNG, National Grid
Thank you.

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Interconnectors

Ian Graves, Director European Business Development
Good morning everybody, I hope you enjoyed the coffee break and had a chance to Google St William. So welcome back, my name is Ian Graves and I'm the Director of European Business Development for National Grid. Prior to my current position I was a Director at Costain and before that I worked for Eon in power generation and transmission and distribution roles. I now oversea the various new opportunities that fit into National Grid's UK and European business development agenda.

Today I'm joined by Nick Sides, who is our Head of Operational Interconnector Business and Nigel Williams who is the Construction Director for NSL, the North Sea Link, one of our Interconnector projects.

The plan for the next 45 minutes or so is that I will provide a brief introduction and talk about the rationale for Interconnectors, Nick will then take you through the current business activities, and after that Nigel will show you the progress to date on NSL, both in Blyth and in Norway. Finally I'll talk about that I takes to develop a new interconnector and our opportunities for growth and then we'd be happy to take any questions you may have.

Fundamentally interconnectors connect the electricity transmission systems in two countries to allow power to be imported and exported, taking advantage of any price difference. The chart on the right of this slide shows electricity prices in a number of different countries in Europe which help to explain the business case for these projects.

Now these numbers are the average day ahead price per megawatt hour in euros over the last 12 months. The important thing to note is the relatively high UK price compared to the other countries. Now this is mainly due to commodity prices, the generation mix, including the level of renewables and also government policy.

For example in Denmark and Norway energy prices are reduced due to the higher levels of low cost hydroelectric generation. France benefits from relatively low cost nuclear generation. It is these differences that we seek to exploit for the benefit of British consumers.

Now there are also a number of other benefits through a greater level of interconnection. Aside from simply lowering the average cost, interconnectors provide the opportunity to increase security and diversity of suppliers, including providing greater access to alternative sources of low carbon electricity. They also help to balance intermittency that is increased on our network as a consequence of higher levels of renewable generation. All aspects of the energy trilemma that you've all heard so much about in the past are helped and supported by these assets.

The UK government is therefore supportive of additional levels of interconnection and that's a point I will come back to at the end of today's presentation.

Now before I move on I would like to briefly address the UK's recent vote to leave the European Union. We do not expect the dynamics of the interconnection market to substantially change as a result of this vote, therefore we would expect there to be continued opportunities to benefit from price arbitrage for the foreseeable future.

Now I would like to hand over to Nick Sides who will talk you through our existing business. Thank you.

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Overview of Current Business

Nick Sides, Head of Interconnectors

Thank you Ian and good morning everybody. So I'm head of Interconnectors, I look after IFA and BritNed and also business readiness for our new ones. So IFA is our oldest and largest interconnector, it has a capacity of two gigawatts and it connects the GB and French transmission systems between Sellinge in the UK and Les Mandarins in Calais in France.

IFA was commissioned in 1986 and has been in operation for 30 years this year. It's structured as an unincorporated joint venture between NGIC which is a subsidiary company of National Grid and RTE the French electricity transmission operator.

We also have BritNed which is a one gigawatt link connecting the GB and Dutch transmission systems between the Isle of Grain in the UK and Maasvlakte near Rotterdam in the Netherlands. BritNed was commissioned in 2011, so it's five years old this year, and it's structured as an incorporated joint venture between National Grid and TenneT the Dutch electricity transmission operator.

There are also two non-National Grid interconnectors in the UK, these are Moyle in Northern Ireland owned by Mutual Energy which is 450 megawatts and also East West the Republic of Ireland owned by EirGrid, which is 500 megawatts.

So there are currently a total of 4 gigawatts of interconnectors in the UK, 3 gigawatts of which is owned and operated by National Grid and our partners. We therefore have a significant level of expertise in this area.

If we turn to the financial performance of IFA and BritNed you'll see that performance has been strong, particularly over the last couple of years. In the most recent financial year, EBITDA for IFA increased to £128m, £21m greater than the previous year. This increase was mainly due to the high power price differential between France and the UK which increased the revenues generated from interconnector capacity auctions.

BritNed's increase in profitability over the last three years has also been higher due to higher arbitrage between the GB and Dutch markets and also strong ancillary service sales.

Looking forward as we have previously indicated we expect profitability to reduce in our existing interconnector businesses mainly driven by lower commodity prices. We also expect a small impact from the new French carbon tax, which will increase the price of French power generated from coal. However, given the significant level of nuclear power generation in France the impact in arbitrage is going to be relatively limited.

The IFA sharing mechanism will also impact on operating profit from this financial year onwards. This will be more than offset by NEMO and NSL, where we can expect to begin earning revenues in fiscal years 2020 and 2023 respectively.

You'll also see that we have started to invest in our two new interconnection projects, NSL and NEMO which I'll talk about shortly.

So interconnectors make money by selling three products, our main product is capacity, which customers use to trade electricity between countries. The value of this capacity is directly linked to the difference in energy prices between the UK and the connected country, the arbitrage. And this currently generates about 80 to 90% of revenues.

There are three main variables that impact on capacity revenues. So firstly, the price difference between the two markets, which is affected by commodity prices, government policies, foreign exchange rates and the weather. Secondly, technical availability of the assets. And thirdly the type and mix of products that we sell.

We also sell a number of ancillary services to system operator such as frequency response to National Grid which helps them to manage the frequency in their system. And then more recently interconnectors have been allowed to participate in the GB capacity market, so this is where interconnectors and generators get paid a fee to guarantee capacity during times of system stress.

So just going back to capacity for a minute, European regulations have set out a target model which includes a blend of long term and day ahead products. Our current mix is approximately 80/20. And this is designed to deliver maximum value. We run auctions to sell the capacity in different blocks of duration from annual products to multiday products. And the type and mix of these products is again designed to maximise value.

The actual value we get is mainly determined by the expected arbitrage for the block of capacity we are selling and for National Grid locking in value in advance provides better visibility of earnings. We currently have 35 customers on IFA and 24 customers on BritNed and they're all a mix of energy generators and commodity traders.

On regulation IFA and BritNed are regulated differently but operate in similar regulatory environments. So two important points are the Electricity Act requires business separation which is achieved through separate interconnector licenses and interconnectors are designated as transmission system operators, and therefore have to comply with EU network codes. These are born from the Third Energy Package, which aimed to speed up the creation of the internal energy market across Europe.

In terms of specific regulation IFA is subject to a new regulatory arrangement which we agreed with Ofgem last year to ensure compliance with European Regulations on use of revenues. The arrangement involves annual sharing of net cash flows and the amount of cash shared is phased, so it starts at 10% this year and then increase by 5% each year, up to 50% by 2025.

BritNed is subject to a cap of 1% above the internal rate of return in the original business plan and if this is exceeded, BritNed has two options. It can invest to increase capacity until the original IRR is met, or it could accept that profits above the cap are used to finance the regulatory asset bases in the UK and in the Netherlands.

In addition to IFA and BritNed we have started construction of two new interconnectors. So NEMO is a one gigawatt link between the UK and Belgium with an estimated National Grid investment of €350m. It's structured as an incorporated joint venture between National Grid and Elia the Belgian transmission company and we expect completion around 2019.

NSL is a 1.4 gigawatt link between the UK and Norway with an estimated National Grid investment of €1bn. It's structured as an unincorporated joint venture between National Grid and Statnett the Norwegian transmission company and we expect completion around 2021.

You'll see that the NEMO investment is lower than that of NSL; the main reason for this is the greater distances and technical challenges involved in connecting to the Norwegian grid. The lower energy prices in Norway make the investment economic and of course we're also protected by the cap and floor mechanism.

So NEMO and NSL have both been awarded cap and floor regulatory arrangements by Ofgem. Application of the cap and floor regime for NEMO is being developed by ourselves, our joint partner Elia and the Belgian regulator CREG. This framework will form the basis for the current range of new interconnector projects that have regulatory approval and the NSL regime will therefore be very similar to NEMO.

The principle of the regulation is based on revenue being returned to Belgium and UK consumers if they exceed a cap and then recovered by consumers if revenues fall below a floor. Cap and floor revenue levels are calculated using allowed returns set by Ofgem, plus depreciation, opex and tax

allowances. These allowances were set based on estimates, but will be updated once the construction phase has been completed.

Incentives are also available, based on a targeted level of interconnector availability. The cap and floor revenue levels are fixed in real terms for 25 years, so they will increase with inflation this year and revenues are assessed against the cumulative cap and floor levels every five years.

For NEMO and NSL the nominal return on equity is capped, but we are able to earn up into the mid teens on a nominal basis. And this compares favourably with the regulatory returns on equity that we've been earning in the UK and the US businesses.

So for National Grid these are attractive regulatory deals with returns that appropriately reflect the level of regulatory protection. Interconnectors are long term investments and annual profits are difficult to predict, particularly four or more years out.

But we do expect average profits for NEMO and NSL to be broadly in line with IFA and BritNed before the exceptionally high profits of the last two years.

I'll now hand over to Nigel Williams who will talk more about the NSL project. Thank you.

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Case Study on NSL

Nigel Williams, Construction Director, NSL
Lovely thanks Nick and good morning everyone. So I'm here to talk to you about building the longest interconnector in the world and for me it's just a wonderful project and I'm really proud to be part of it. We've been in construction for 12 months now at the Norwegian end and we've recently started making the cable, so the project is really well in progress. There's some heavy civil work going on in Norway including blasting through granite and building avalanche walls.

The picture here shows the prep site works in Norway ready to construct the converter station. We have a strong safety focus and I'm pleased to say that in the first year we've had zero lots time injuries, which is pretty good considering the nature of the work we're doing.

Let me show you a video of the project that will hopefully convey the scale of what we're doing and the works.

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Video Played

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Nigel Williams, Construction Director, NSL
Okay, I hope you enjoyed that. So as you've heard then North Sea Links capacity is 1.4 gigawatts, which can approximately feed cities the size of Newcastle, three Newcastles actually on a cold peak winter's day, three Newcastles. At 720 kilometres it will be the longest interconnector in the world and consists of two cables laid separately side by side connecting Blyth in the UK into Kvilldal in Norway. The link will allow bidirectional powerful. However the make-up of the Norwegian power network is 98% hydro, with lots of spare hydro capacity and given that the power prices are very much lower in Norway than in the UK it is expected that the UK will predominantly import power.

The project addresses the three elements of the energy trilemma. Firstly, it will enhance the security of supply to both the UK and Norway, adding capacity from external sources. Secondly, it will enhance competition in the UK and utilise low cost energy from Norway to lower UK power prices.

And thirdly it will enable utilisation of sustainable green energy from Norway's hydro capacity and allow any excess UK wind to be exported into Norway.

Meeting the 2021 commissioning date is strongly dependent upon manufacturer and laying of the cable. These are critical path activities. We need to manufacturer over 1400 kilometres of cable and we have contracted world leading companies, Prysmian and Nexans who will both manufacture and install portion of the cable. The cable is a standard mass impregnated type which has been in use now for over 100 years.

A typical marine HVDC cable consists of a copper conductor which carries the power. This is built up in strands, enough to circumvent the world three times. This is covered by an insulation material to maintain the 525 KV insulation between the core and the outer sheath. Outside this we have protection layers to protect against water and corrosion and then finally strength layers, basically steel armouring for tensile strength.

The Prysmian cables are now in production in Naples and this factory line will be busy manufacturing for us 24/7, 365 days a year for the next three and a half years. Both the Prysmian and Nexans factories are on the quayside. Each turntable on the cable laying vessel can accommodate 130 kilometres of cable, which weighs 7,000 tonnes. The cable is spooled directly from the factory onto each turntable.

The marine part of the project is the most challenging as we're exposed to the weather and sea conditions of the North Sea and also to seabed conditions. As assets that we wish to remain in good health for over 40 years they have to be well protected under the seabed. For NSL our marine programme will take place over four cable laying seasons from April to October starting in 2018 and completing in 2021.

There are only two specialised cable laying vessels that can accommodate a 7,000 tonne turntable and have stability control for deep ocean cable works, especially as the Norwegian fjords are 600 metres deep. The ships are equipped with the latest dynamic position in system technology and along with pre-lay survey data and cameras on the remote operating vehicles they can lay cable to an accuracy of less than half a metre at these depths.

Once the cable laying vessel arrives at the target location there are two key activities. Firstly laying the 130 kilometre cable onto the seabed and in good conditions they can take about ten days. Secondly is the burial and protection of this cable. A remote operating vehicle with caterpillar wheels sits over the cable and lowers two parallel arms into the seabed. The arms have multiple nozzles, each of which injects high pressure sea water into the sediment in order to fluidise the seabed to make a small trench between one and three metres deep. The ROV moves slowly forward and the cable rests in the trench which is then backfilled. The ROVs can deploy cutters in rocky conditions if need be.

We are aware of 92 third party crossings over seabed pipes and cables, two thirds of these are at the Norwegian end, mainly smaller telecoms and electricity cables. Generally to protect our cables, we will deploy rock placement, which allows a rock bridge to be built over the third party assets.

This marine activity is a do it once and do it well type thing, sea repairs are very time consuming and very costly.

Kvilldal presents a dramatic geographic landscape with deep fjords, steep hills and mountain lakes. The fjords have very narrow pinch points which are challenging for cable laying. Our converter site is some four kilometres from the fjord and the cable route there is very challenging. Extensive civil works have been in progress for 12 months now to create a flat site ready for the ABB contractors.

We have also started to protect the site from snow and rock fall and are midway through building three avalanche walls, each up to 15 metres high. The cable route needs a tunnel which is 2.3 kilometres long and this now over 50% complete.

The cable then has to be laid across a 250 metre keep mountain lake, which will require us to build a sizeable cable barge and jetty for cable laying. Both Statnett and Nexans have lots of experience in this terrain.

In contrast Blyth is as good as it gets, it's flat, it's close to the sea and the converter is a brownfield site which strong connections to the power grid.

So in summary National Grid has another five years to run, the project is well in progress and we have all the capabilities we need to deliver a successful outcome. So I hope you've got more of a feel for it now and the go live is on track at the end of 2021. Thank you.

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Development Opportunities

Ian Graves, Director, European Business Development
Thank you Nigel. So as you've seen we've already had some success in developing new interconnector projects with NSL and NEMO. And currently the only two interconnector projects that are under construction in the United Kingdom are these projects.

We're also actively looking for new projects and the process for taking an interconnector scheme from the early stage of development through to successful implementation and operation is extremely complex. We've developed significant experience in this space over the last 30 years of designing, building and operating interconnectors.

We start by identifying a project that is economically attractive, this requires expert knowledge or regulatory regimes in both the UK and Europe, so that we can develop and attractive proposal that benefits investors and customers alike.

Part of this process is negotiating suitably regulatory frameworks and mechanisms that balance the incentive with the risk. As you may imagine a strong relationship with regulators like Ofgem is very important. To date our interconnectors have been built in partnership with a company that operates the electrical transmission network in the connected country. So we've developed a wide range of networked contacts in those companies and markets over many decades. This allows us to execute these projects successfully once a suitable proposal has been identified.

As you've seen from Nigel's presentation these are large and complex projects, but when it comes to safe, on time delivery this is something that National Grid has a great deal of experience in and we're proud to say we do on a regular basis.

The final step is to set up a process and systems and build customers relationships in each country that allow us to operate the asset efficiently. This is where Nick and his team step in. The work starts as the project development is underway, so that we are ready to operate the business as soon as the interconnector is commissioned.

Now we are also exploring the opportunity of a number of other schemes and I'm going describe two of those to you now. We're at an advanced stage with both IFA 2 and Viking. IFA 2 is a one gigawatt connection - second link to France. The current plan is for National Grid and RTE to approve the final investment later this year. If this is successful we would expect to begin construction in 2017, with an expected commissioning date of 2020.

IFA2 will increase our connection to France, allowing further access to significant levels of cheap nuclear generation and also allow for the exchange of renewables.

Viking is a 1.4 gigawatt link to Denmark with final investment decision planned for 2018 and commissioning expected in 2022. Interconnection with Demark allows the UK market direct access to Scandinavian hydropower, as well as exchange of renewables with Denmark. Both IFA 2 and Viking will operate using the same cap and floor mechanisms that have been designed for NSL and NEMO.

So finally to return to the point that I made in my introduction. There are many benefits to UK consumers for there being a greater level of interconnection between the United Kingdom and Europe. There are also of course benefits to the wider European markets as well. We expect that there are significant levels of further growth opportunities for our interconnector business.

Now our own internal view which was published in the Future Energy Scenarios Report indicates a total of 23.3 gigawatts expected by 2040. Other industry bodies such as the European Network of Transmission System Operators for Electricity expect up to 20.3 gigawatts in their latest ten year development plan. And the Red Point Report indicated up 19 gigawatts of interconnection would be desirable.

Now all of these levels are maximum levels of interconnection. So it may be reasonable to expect that between 15 and 20 gigawatts of interconnection over the next few decades could be developed.

So if we take the 4 gigawatts of interconnection that we currently have, with NSL and NEMO under construction total interconnection would rise to about 6 gigawatts, with a further 2.4 gigawatts should we proceed with Viking and IFA 2.

Now we recognise that there are competitors in this market and other people that would wish to develop projects as well. And whilst it's not for me to comment on their probability of success, to date no other projects have started construction. Regardless, with 4 gigawatts currently connected and between 15 to 20 gigawatts of total interconnection predicted there is a significant growth opportunity available to us in this market.

So to summarise we have a large existing interconnector business, a pipeline of new investment opportunities and returns that are higher than our regulated core business. And with that I thank you and my colleagues and I would be happy to take your questions.

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Interconnector Questions and Answers

Jenny Ping, Citigroup
I just would be interested in some of your thoughts about the potential impact to power prices if carbon price floor were to be removed, and what that would do to the power pricing subsequently to the interconnection business?

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Nick Sides, Head of Interconnectors
So the current arrangements show that the carbon price point in the UK will continue until 2020 and we've built some assumptions about phasing it out then in the business cases for our new interconnectors. For the ones that are operating there will be a small impact on the arbitrage, so the arbitrage will narrow as the UK prices reduce. But at the same time we're increasing activity and innovation in ancillary service sales and the capacity market which we would expect to offset some of those losses.

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Dominic Nash, Macquarie
For the interconnectors that you're building or anticipate building that have a cap and floor, I presume that they're obviously then regulated and the regulators have got to give you the - I presume is it Ofgem or would it be DECC who will give you the final go ahead as to whether these interconnectors should get built? And the question I've got is do they do a cost benefit analysis or how do they look at what the advantages and costs associated with building these things are and what should we be looking out for as to whether or not this is going to be something that's going to be 20 gigawatts or four gigawatts?

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Nick Sides, Head of Interconnectors
So I think first of all it's important to say that government are very supportive of interconnection for many reasons including benefits to consumers in the UK, benefits to the UK in terms of hitting carbon targets and also security of energy benefits. So we do get wide support from government and Ofgem. I mean the cap and floor arrangement is available for new interconnectors, so there are certain windows that are open for developers to apply for cap and floor arrangements within those windows and they enable developers to get some regulated protection, but also obviously there's a cap on revenues. So it enables developers to have some certainty about the area where they're operating in terms of revenues.

I mean in terms of the business case, I mean that really is up to each developer to work out and calculate is it a justifiable business case for their business model. There's a clear business case for the UK as a whole I think because you know we're bringing - interconnectors are bringing lower price electricity into the UK that's benefiting the UK as a whole.

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Dominic Nash, Macquarie
So is it Ofgem that provides those windows or is it DECC?

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Nick Sides, Head of Interconnectors
It's Ofgem yeah.

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Dominic Nash, Macquarie
Because if you do the cost benefit it has - you're saying it benefits consumers and it's government supported for the three reasons you said, but is it government policy that's driving the high cost UK power? So do they take that into account when they do the cost benefit for consumers because it does seem a bit odd to want to raise prices with the carbon floor and blah, blah, blah, and then just sidestep it by importing it from somewhere else?

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Ian Graves, Director, European Business Development
I'm not sure we've got time this morning to cover all aspects of government energy policy but I think in summary to respond to the question we're seeing that and BEIS the new department that's responsible for this and Ofgem working very closely to safeguard UK consumers moving forward with the trilemma agenda. In fact both departments jointly hosted a workshop of all the interconnector developers on Tuesday this week and National Grid attended and we were able to speak and engage with the supply chain and some of our competitors as well.

And I think you're right, it's important that the mechanism for each individual project is constructed in such a way that it provides the right incentive whilst at the same time giving some clarity to consumers that we're getting the right deal. And that's of course Ofgem's day job. So Ofgem are very much leading that. I think it's helpful that the British government have come forward and said they see this as an important part of the future and that gives some confidence to the market in both the supply chain and developers such as ourselves. So at the moment we're seeing everybody working together and I'm confident that future policies will be equally supportive of what we might need.

Mark Freshney, Credit Suisse
Two questions. Firstly can you explicitly lay out the cap and floor on returns, what they are on a project level nominal basis? And I guess further to that when you undertake investment decisions do you take into account any impact of the new interconnectors on profitability of the older ones?

And I guess my second question is just on the costs. My understanding is that cables, the supply chain, the slots you can take have always been very tight. ABB have recently sold out to a competitor which has further consolidated the industry. What's happening to costs in the supply chain?

Ian Graves, Director, European Business Development
I think if I take your last two questions first and then hand the first one to Nick to help you with.

So with respect to cable the key element of the sale that ABB conducted recently was that what they sold to their competitor was very much a complementary business. So the submarine cables is what we're predominantly looking for in these types of activities and that was something that the company that bought that cable division didn't have high expertise in and a large capacity for. So we don't feel that the market for submarine cable has dramatically changed following the announcement of that transaction last week, and we look forward to working with all of the supply chain both in Europe and the rest of the world to feed the projects that we're currently trying to construct.

In terms of the investment cases and the analysis that we carry out internally we absolutely do model the existing network, the activity of our competitors and what we might like to do ourselves, and all of that is taken into consideration when we're having investment discussions internally. So we have quite a rigorous process for that and we're updating that model all the time as circumstances change. As you may expect the details of that model are something that we probably wouldn't want to talk about today but I can reassure you that that does take place. And Nick the point on cap and floor?

Nick Sides, Head of Interconnectors
Yeah so I think it's important to say that the cap and floor regime is actually a policy and the way it's applied to each individual interconnector is different and subject to consultation, collaboration between partners and either end of the link. So I'm not in a position to give you the detail of the actual cap and floor returns for each of the new interconnectors that we develop in the future. They're being developed at the moment as part of the process with Ofgem and with partners.

Mark Freshney, Credit Suisse
Would it be fair to assume 2% to 15% [? No microphone] returns on capital on average across the industry?

Nick Sides, Head of Interconnectors
I think it would be better to pick the detail of that question up later with our IR team.

James Brown, Deutsche Bank
Just a bit of kind of follow up in terms of assumptions you have to make when making investments. I presume that the future trajectory of the carbon tax in the UK after 2020 could be one of the key assumptions in making some of your investment decisions. What do you assume for that and have you had any kind of discussions with government about what might happen to the tax after 2020 because it seems like there's a bit of uncertainty over that potentially with some kind of guidance given in the not so distant future?

Ian Graves, Director, European Business Development
We have a complex model that looks at not only that but access to other market mechanisms, activity in the country to which we're connecting and some of the local policy decisions that they might take as well. So there's multiple levels to the model which all affect things. And one attribute is not necessarily more important than others and of course they change over time as well. So it's an extremely complex model.

But I think the key thing is that we're in constant dialogue with government and regulatory stakeholders in both our country and in other countries where we're looking to develop so that they understand the implications of policy changes that they may wish to make and how it might affect our market. And that was something that was raised at the workshop on Tuesday, not just by National Grid but by other people that are developing as well to say that if you give us uncertainty then it makes this decision making more awkward, particularly for those projects that are perhaps at the early stages of development without the market and regulatory expertise that we have.

Deepa Venkateswaran, Bernstein
I have one question and one clarification. So you mentioned that many of your competitors haven't yet started building anything although they also can avail of this cap and floor, so what might explain their reluctance to hold back whereas you've proceeded?

And the second question is on the IFA sharing mechanism. Is it fair to then assume that IFA profits would gradually reduce by 10% this year and then by 50% by 2025 versus a normalised level of IFA profitability?

Nick Sides, Head of Interconnectors
I'll take the IFA one first then. So yes, so the IFA sharing mechanism is based on cash flows and the sharing mechanism is 10% this year, so it starts this year, this is the first year of application, and 10% of net cash flows are shared with consumers this year. That sharing then increases by 5% each year up to a maximum 50% by 2025 and it stays at 50% then going forward. So yes that will have an impact on revenues going forward.

Ian Graves, Director, European Business Development
And in terms of our competitors many of them have exciting and interesting projects. It's fair to say that not all of them are cap and floor regulated, some are operating in a market model space but I can't comment on why they've not started construction yet. I think they're all making positive progress on what they're doing so far and we wish them all the best.

Question
Two questions about ancillary services. So firstly will the existing and the new interconnectors be able to participate more actively in ancillary services? I'm thinking particularly around Black Start capability which is becoming more important.

And then secondly with regard to ancillary services, in terms of arm's length arrangements how do you manage that given you are essentially negotiating with yourself as a company?

Ian Graves, Director, European Business Development
In the spirit of so far we'll do it reverse order. So I can absolutely assure you as a relatively new member of the National Grid team that the ring-fenced and business separation obligations are taken extremely seriously to the degree that I'm probably at a disadvantage compared with some of my competitors when we're doing things because we're so anxious not to have any mistakes or any impropriety that we probably take it to the extremes of what would be sensible. So and we find the system operator just as challenging to negotiate with as anybody else.

From an opportunities point of view I think we're excited about all of those products that you mentioned aren't we?

Nick Sides, Head of Interconnectors
Yeah so we're already providing ancillary services from our existing interconnect IFA and BritNed. It's somewhat limited by functionality of the assets, particularly on IFA because IFA is 30 years old so it's not got all the functionality to deliver the full range of ancillary services. And we're building that functionality into the new ones at the design stage. But yeah and we have to compete, you know, with all other suppliers of ancillary services in a competitive market.

Ashley Thomas, Societe Generale
Just two questions on the capped market. Obviously your Esso colleagues each year will de-rate your connectors. From your point of view how do you sort of view that availability assumption particularly relative to other forms of generation?

And the second question, could you give us a feel for whether you've tendered either IFA2 or NSL in the 2020/'21 capped market?

Nick Sides, Head of Interconnectors
We have won contracts; IFA and BritNed have won contracts for participation in the 2015 capacity mechanism for a delivery year of '19/'20. Won those contracts last year. The de-rating factors were agreed between National Grid and DECC, that's the way the process works based on a methodology which we're not - it's fair to say we've challenged some of the methodology. So the de-rating factor for IFA is 52%, for BritNed it's 69%, it's based on a number of things, asset availability, resilience of the transmission system in the connected country, flows, and that gets fed into quite a complex calculation and a de-rating factor comes out.

We're continually working with BEIS the new department and Ofgem and National Grid to make sure those de-rating factors are accurate going forward because they do change. So as our links become more reliable and more available, as flows change, they need regularly updating and we're in

dialogue all the time with that. In fact the de-rating factors for the next delivery year which we're currently going through the process of participating in, the de-rating factors have been uplifted because of the dialogue that we've had.

So I can confirm that for IFA2, for BritNed and for NEMO, because NEMO will be ready, we are going through the process of registering to participate in the 2021 delivery year and that's happening right now. For other interconnectors beyond that they won't be ready for that delivery year so decisions will be made next year.

Ian Graves, Director, European Business Development
The importance is that you have to be certain that you're able to deliver, so the advisory boards of each of the projects is very careful and very prudent about whether or not we're going to be commissioning and going to be good to go. So we take a project by project based decision on that sort of thing.

Fraser McLaren, Bank of America Merrill Lynch
You've experienced some issues in the past with suppliers letting you down on the delivery of cables. What arrangements are in place should there be a delay in the delivery of these cables, who pays? It sounds like the suppliers are already working pretty much flat out.

And you mentioned at the beginning that you didn't expect there to be any impacts on the business from Brexit yet I spotted at the end of the video a little EU logo. To what extent is the EU involved in the Norway link please?

Nigel Williams, Construction Director, NSL
Thanks for the question I was feeling left out just then.

Laughter

In terms of cables you're quite right the market is quite constrained for the mass impregnated type of cable. And we've got two suppliers, Prysmian and Nexans. That provides a little bit of cover in terms of interchange of capacity. When we run the procurement event we interrogated their factory capabilities and we made sure there was an allowance in there for downtime. So there's contingency built into the plan. You're right, it's a risk but I think it's under control and I think we have an ability to put new factory lines on in the Prysmian factory, or interchange and put some capacity from one supplier to the other.

Ian Graves, Director, European Business Development
And from the point of view of the European logo on the slides, we've been very fortunate to secure European funding for the development of our projects to date and indeed Viking received I think just over €40m of funding, and we were awarded that after the Brexit vote. So it goes to show that, as Theresa May would say if she were here, it's very much business as usual at the moment and we are still enjoying the support of the European Union for the projects that we're doing and that will continue. And then once the Brexit process and we get more clarity about what that will mean for all aspects of our activities I'm sure we'll plan accordingly.

Nigel Williams, Construction Director, NSL
I'm getting the wink to say we've timed out, so we're going to hand over to John Flynn from the US Business Development.

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US Business Development

John Flynn, SVP, US Strategy and Business Development
Thank you gentlemen, good morning all. My name is John Flynn and I am Senior Vice President of US Strategy and Business Development, I've been with National Grid for about two and a half years. And prior to joining National Grid I held senior level commercial and financial roles with Eversource, Progress Energy and American Electric Power.

I really appreciate the opportunity to be here today to give you some insight into the exciting growth opportunities that we have in the US through business development. We have a comprehensive strategy in the US across the entire spectrum of industry sectors. Today we're going to focus on two of those specific sectors, the first being Electric and Gas Transmission and the second being emerging opportunities in Distributed Generation and Storage, both of those sectors of which have strong catalysts for growth in the US.

Clearly National Grid in both the UK and in the US possesses a strong competitive skill set in the planning, construction and operation of both electric and gas transmission. That is, at the end of the day, who we have been and will continue to be for a number of years. We believe that skill set positions us very well for success both within and outside of our US service territory.

While the bulk of our near term opportunities for growth in the US are within those two sectors, we are also focused on ensuring that we position National Grid for emerging opportunities in the distributed energy sector.

In 2015 the Brattle Group published a detailed analysis that projected investment of between $120bn and $160bn in electric transmission through 2030 in the United States, with a significant portion of that transmission being competitively sourced.

Primary drivers of that growth are - number one, aggressive greenhouse gas reductions which are driving the need to import renewables, integrate and interconnect new renewables and continue the shutdown of older goal and oil fired generating plants.

The second is the continued need to build out and reinforce the regional backbone AC grid in the United States. Not surprisingly most of the near term opportunities that we are pursuing are in regions of the country that are most aggressively pursuing those greenhouse gas reduction goals. Those include New England, New York, or more broadly the Northeast and California and the Western United States.

The transmission projects that we are developing in the US typically fit one of two regulatory recovery models. One, projects that will be sourced under what's called FERC Order 1000 of which I'm sure many of you are familiar and recovered through formula rates, and we'll discuss those in a little bit more detail in a bit. And the second is contracted projects that will be recovered through long term power contracts with customers. All of these projects, as well as the projects that we are pursuing in the other sectors, are, as Andrew said, subject to rigorous investment criteria that factor in the relative risk of the project.

As many of you are well aware FERC regulation remains extremely attractive as FERC continues to incentivise the construction of backbone transmission as a vehicle to enable competitive energy markets. Not only are FERC allowed returns attractive, but the formula rate structure itself, which

eliminates regulatory lag and provides full recovery of annual revenue requirements with a true up mechanism, provides for extremely strong cash flow metrics.

In 2015 our FERC business was roughly $2.5bn in rate base, averaged an 11.4% return on equity. We strongly believe we have the opportunity to double that rate base in the near to medium term.

As I mentioned the other method for recovering the cost of large scale transmission projects, which will most likely be the model for HVDC projects, like our Vermont Greenline project is long term contracts with customers. These contracts, which will be approved by FERC, provide us with the opportunity to earn returns comparable to the 11.4% I just referenced.

We've talked broadly about broadly about the catalyst for growth in the transmission sector. Now I'd like to narrow the focus a little bit and talk about what is driving the growth, that growth in both electric and gas transmission sectors in our service territories in the Northeast.

Like other areas of the country the Northeast has an aggressive agenda to reduce greenhouse gas emissions. As older fossil fuel plants in New England and New York are retired, policymakers are increasingly calling up development of significant amounts of utility scale renewable generation, much of which will be imported from outside of the region.

In New England the import of renewables is the catalyst behind both our Vermont and Greenline projects, a trend that we believe will continue well into the next decade. In addition to important terrestrial renewables, Massachusetts is leading the region in efforts to develop significant blocks of offshore wind, which we'll discuss in a few moments.

In New England there is also a singularly unique convergence of electric and gas supply. Gas import capability into the region is severely constrained, at the same time that the electric generation portfolio shifts dramatically towards gas fired plants. To give you a sense of the impact that this is having on the region in the winter of 2013/2014 affectionately referred to as a polar vortex winter, affectionately if you weren't living in New England at the time, electricity customers in New England paid in excess of $3bn more for electricity than they would have had there been adequate gas supply into the region.

In New York the importation of renewables to address greenhouse gas reductions is also a catalyst for transmission investment, as is the need to eliminate north/south congestion that will allow energy to flow from Upstate New York, where most of the generation is located, to Downstate New York through the population centres of New York City and Long Island.

Given the compelling catalyst for growth, combined with our incumbent presence in the region it's probably no surprise that we have a significant pipeline of opportunities in the Northeast.

I'd like to spend the next few minutes calling out three specific projects and discussing each of them in a bit more detail. The first is our Vermont Greenline project which as I said is focused on importing hydro and wind into the New England market. The second is our recently completed Sea2shore project interconnecting offshore wind off of Rhode Island into the New England Grid. And Lastly our Access Northeast project which is intended to relieve the gas bottlenecks that I referred to and ease the acute issues of electric and gas supply convergence.

Vermont Greenline is a uniquely designed project, both in terms of its size and its resource mix. At 400 megawatts, slightly smaller than some of the competitor projects, it is uniquely sized to meet a variety of RFP structures. And by combining hydropower from Hydro Quebec with wind from Northeast New York, the project will deliver what's called a firm energy product into the New England region, which is both operationally and economically attractive.

As we discussed previously the project will be fully contracted on a long term basis and will provide us with the opportunity to earn returns comparable to those in our FERC business.

As I mentioned New England is moving rapidly towards including offshore wind as a component of its generation resource mix. National Grid recently completed a 20 mile undersea cable off of Block Island, which connects Deepwater Wind's 30 megawatt windfarm to the grid in Rhode Island. And while certainly not the scale of the efforts that the last panel talked about, the project clearly demonstrates National Grid's capabilities, and positions us favourably as the region moves more towards offshore wind. Recently passed legislation in Massachusetts calls for an additional 1600 megawatts of offshore wind in the near to medium term and that we believe our demonstrated success in connecting the Rhode Island project provides us with an advantageous position as those projects develop.

As I mentioned there is a singularly unique challenge in New England due to severely constrained gas supply into the region, which negatively affects both electric and gas customers. This constraint not only costs the regions electricity customers billions of unnecessary dollars every winter but it also threatens electric reliability on cold peak days. During the polar vortex winter which I mentioned, the CEO of the New England electric system operator opined that had to lost one of the regions two large nuclear facilities, either Millstone 3 or Seabrook, both about 1200 megawatt facilities in a cold peak winter day we would have had a reliability event in England.

Our Access Northeast project, a joint venture between National Grid, Eversource and Spectra Energy, the actual pipeline developer is specifically designed to relieve these contrasts for the benefit of the region's electricity customers, not just gas customers.

As many of you are probably aware a recent Massachusetts Supreme Court decision dealt a slight setback to the project. Many read that is a death nail for the project, but as Mark Twain famously quipped, *"Reports of my death have been greatly exaggerated."* The Court decision, which I said is no doubt a setback to the project, simply means that the joint venture partners need to find an alternative method to secure contracts for the roughly 30% of the project that Massachusetts Electric customers had previously executed. We are actively engaged in finding a workaround, which may include contracts with the regions gas customers.

So with a large pipeline of opportunities in New England why do we feel that we're competitively positioned for success? The most obvious advantage that National Grid possesses in the Northeast, both New England and New York, is of course our incumbency. The incumbency includes deep working knowledge of the region, a valuable network of relationships with key stakeholders and policymakers as well as hundreds of miles of electric and gas rights of way.

Incumbency of course is not in and of itself enough, however, combined with the competitive skill set around planning, constructing and operation we believe that we are optimally positioned to compete successfully in the region for years to come.

While there are certainly significant development opportunities in the Northeast as I just spoke about, we are keen to expand our development horizons to other parts of the United States. As we look to do so we look of course for regions of the country that have comparable catalysts for growth. I previously mentioned that we see California and more broadly the Western United States as a region that presents significant opportunity.

Given the dynamics of the market, a market with the most aggressive greenhouse gas reduction targets in the country there will inevitably be significant investment opportunities in utility scale renewables, electric transmission and utility scale storage over the coming decade. We also view California as a leading market, which will likely be emulated as other regions begin to more aggressively address a clean energy agenda, thus the lessons learnt by actively participating there will provide a platform for longer term success.

When we discussed the skills and attributes that we think will make us successful in the Northeast we pointed noticeably to incumbency as one of those. Clearly that is something that we don't organically possess in California or in other parts of the country. Successful market entry into regions outside of

our existing footprint will likely be predicated in a strategic partnering strategy, something on which we spend a great deal of time as a development team in the US.

Beyond that need to develop relationships and select good partners with complementary skill sets, we believe that the same technical capabilities around the planning, construction and operation of electricity transmission and other utility infrastructure which we continue to hone will be critical to our ability to successfully complete on a national scale.

We talked a great deal about competing successfully in what we consider to be our core areas or our sweet spot as a company, but as I mentioned it's equally important that we focus on positioning National Grid to be successful in an ever emerging distributed energy future. Inside of our service territory we have over 3 million distribution customers, which provides us with a fantastic platform to begin to deploy capital in regulated, pilot and demonstration projects, which are not only beneficial to customers, but also provide the company with an excellent opportunity to better understand customer behaviour and the impact of distributed technologies on the grid.

As this sector evolves however we recognise that our opportunities in the traditional regulated space to deploy capital in these kinds of technologies will be limited, because regulators are already looking to the market to provide many of these technologies and services.

As a company we have committed to making small, incremental investments, entering into strategic partnerships and taking other informed steps as appropriate to ensure that we continue to learn and shape the future as this sector evolves.

One step that we have already taken is to invest $50m with a fund called Energy Impact Partners. Energy Impact Partners is focused on developing and deploying advanced technology for the benefit of both our core business and our longer term commercial aspirations. Our partners in that fund include companies like Southern Company, Xcel Energy and Oncor, strategically like-minded companies that are committed to helping shape the evolving energy future.

I'd like to take the next few minutes to briefly touch upon three examples of how are taking what I referred to as those small incremental steps. The first is around piloting smart grid technology, the second is around storage, and lastly around solar.

In Massachusetts we currently have a smart grid pilot which offers 15,000 distribution customers the opportunity to combine smart metres, in home management technology and variable use rates that incentivise customers to manage their energy use, customer response has been excellent and the company has gained a number of key insights, which will prove beneficial as we seek to further develop and deploy smart grid technology.

While storage deployment in the US, either at a utility scale or at a distributed level is currently a relatively small market we expect the pace of development to increase significantly, if not exponentially. As you're all well aware renewable resources, whether wind or solar are inherently intermittent, this intermittency presents significant operational challenges for the grid. For the US to reach its greenhouse gas reduction goals storage will been to develop on a coincident curve with renewable generation.

In Massachusetts National Grid is exploring a regulated 500 kilowatt by two hour battery installation. We expect our regulators in other states to embark on similar programmes.

On Long Island, through a joint venture that we have with NextEra Energy we have proposed two 5 megawatt by 8 hour batteries and are currently negotiating with the Long Island power authority on both of those installations.

And lastly we continue to consider a number of solar opportunities, both utility scale and distributed, like our approach to storage our initial steps will include small incremental investments, both within

the regulated and commercial spaces. In Massachusetts we have already deployed 5 megawatts of solar assets, which are included in our regulated rate base, and like storage we recognise that our opportunities to invest in rate base solar will also be limited, but they are nonetheless excellent opportunities for us to begin our journey into the sector.

In the commercial arena through our JV with NextEra we are also proposing a number of solar projects on Long Island, all of which will be backed by long term purchase power contracts, which could total as much as $100m. The solar market in the US continues to accelerate rapidly; in 2015 the US added 7.5 gigs of solar generation. In 2016 we expect that number to be 13 gigawatts of solar installations and by 2020 we expect a sustained level of at least 20 gigawatts per year of solar installations, that includes both utility scale and distributed.

So I hope I've given you a sense of the level and pace of opportunity in the US. We have a number of exciting opportunities and will continue to broaden our pipeline in the current years. There is no question that the market fundamentals and catalysts for growth present significant opportunities for National Grid to continue to grow through development with our core areas, as well as in emerging technology space. With that I'd like to thank you and I'll be glad to take any questions that you have.

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US Business Development Questions and Answers

Mark Freshney, Credit Suisse
On the bulk of the current existing transmission it's regulated under FERC regulation, can you talk about the returns there, because I understand over the last two to three years there have been some downwards adjustments. So can you lay out the landscape on returns?

And just secondly on potentially large transmission projects going to tender, can you talk about that please?

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John Flynn, SVP, US Business Development
Sure, you're all aware that there have been a number of different challenges across the country in the last couple of years to the FERC returns that arose out of the Energy Policy Act of 2005. The intent of the Energy Policy Act in 2005 was of course to incentivise the construction of transmission. And what it did offer was a number of different incentives to do just that.

What we've seen, even as these FERC cases have been decided, is that the returns that FERC offers have remained extraordinarily attractive, some of the incentives that have been available are harder to achieve, but at the end of the day those returns are still, from my perspective, as a premium level. And as I mentioned before, it's not just the returns within the FERC space, it's really the entire regulatory paradigm that provides such an attractive place to deploy capital.

In terms of projects going to competitive tender, at least under Order 1000, FERC Order 1000, I think what we've seen is the regional system operators, who are ultimately responsible for implementing those competitive processes and then ultimately adjudicating them have really struggled with how to get going. And so there have been limited opportunities and we still continue to see limited opportunities, a couple of which we've actually bid for, one in the PJM RTO and one in the Midwest system operator region.

Transmission is still necessary, so what the means is there's been a bit of a bow wave that's built up over the last couple of years and we expect that bow wave to break now that the RTOs have those processes in place and we expect significant development or significant opportunity to deploy capital over the next three to five years.

Jenny Ping, Citigroup
Just a question on the offshore wind connection business, presumably that's a bidding process as per normal auctions?

Secondly have you ever thought about - you know in the UK we've seen a lot of the offshore connections being sold off subsequently to financial buyers, is that something that could be replicated in the US for you?

John Flynn, SVP, US Business Development
I'll take your offshore question first. I'm not sure that the state of Massachusetts is exactly sure how they're going to run the tender for the offshore projects themselves. The good news for me is I don't have to worry about that because I won't be involved.

Exactly how the transmission for that will be built remains to be seen. Clearly we are working with a number of the different offshore providers who we know will be active in that market, we expect our competitors are as well. And so once a tender is put forward we will certainly participate in it.

It's also possible, frankly, that given our presence as a major infrastructure player in New England, along with Eversource that there's some kind of joint approach to constructing that infrastructure with another regional players.

Remind me of your second one sorry?

Jenny Ping, Citigroup
The potential to flip it once you've built it?

John Flynn, SVP, US Business Development
Well, from our perspective obviously we are a long term holder of you know infrastructure, but we do talk quite often with a number of different funds who are interested in either building projects on their own or participating with us in projects with the recognition that they wouldn't be a long term holder. But to date that model hasn't really replicated itself at any level of scale in the US.

Dominic Nash, Macquarie
Can I have a question on the storage development in the US please? I think you're saying that they're currently looking at being a rate base investment. Is it possible to sort of like quantify if the regulator starts to get comfortable with storage as a sort of utility asset, what sort of scale of investment do you think that we could be looking at in your area?

And then the follow on question from that is do you see that sort of cannibalising any other sort of potential growth opportunities out there as well?

John Flynn, SVP, US Business Development
Not to be a kill joy on your first question but I think at the end of the day there really are going to be limited opportunities to deploy in rate base, not surprisingly right. So we've talked to the regulators in New York, and Massachusetts and Rhode Island and what they're really looking for to some degree is

exactly what we're looking for in those first initial steps, is to understand how customers behaviour reacts to that technology and also how that technology affects the grid.

For example in New York State there's a processes underway called the REV Process, Redefining the Energy Vision, that's got a lot of these components to it, it's got storage, and solar, unique rate structures and other kinds of pilot projects that are trying to help the PSC shape the energy future for New York.

I honestly think storage in a regulated sense is going to be limited to those types of opportunities. And that's why I think it's really critical that we are involved both on the regulated side and the commercial side, because I think when we talk about moving to scale it's going to be on the commercial side.

And I think in the US, given the kind of fragmented regulatory structure and quick frankly the diverse regional needs some regions are probably going to focus more on distributed solar opportunities while other parts of the region are going to look to build utility scale storage. For example California, which has been very distributed, very forward leaning for a number of years is not recognising that from a grid operational perspective they need to think much more thoughtfully about whether in fact utility scale would be something that would help them both operationally and financially.

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Fraser McLaren, Bank of America / Merrill Lynch
I just wanted to check if any of these investment opportunities which you've alluded to are already included in the long term growth rate of between 5 and 7% which you've outlined previously please?

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John Flynn, SVP, US Business Development
That's a question I'd have to turn over to Aarti.

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Aarti Singhal, Director of Investor Relations
Yes, they are included, the 5 to 7 which includes these opportunities.

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Fraser McLaren, Bank of America / Merrill Lynch
Thank you.

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Edmund Reid, Lazarus
I was wondering if you can talk through the opportunities in LIPA, so it's on slide 72, but I don't think you mentioned it?

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John Flynn, SVP, US Business Development
Yes, so the joint venture that we have with NextEra which I did reference, initially was crafted to address the repowering of our existing generation units on Long Island. Long Island is a very unique place from a political perspective. New York is unique and Long Island is I guess you would say special. And what's become clear over the last couple of years is that Long Island's willingness at this point, given where the Governor of New York is with trying to kind of recraft his energy vision. Long Island has been unwilling to make large scale long term decisions around repowering existing fossil

units, where we're basically taking existing steam units, either oil and gas and moving those to combined cycle or gas fired peakers.

So along with NextEra we have proposed over the last year or so a number of different alternative energy ideas, like battery storage, we think we have the capability to build maybe as much as 20 megawatts by 8 hours of batteries on Long Island and a couple of different solar facility, one at the old Shoreham nuclear facility, which could be significant in scale, it would actually be the biggest in the Northeast. And so we expect that - that process with Long Island Power Authority to be at a smaller scale for the next year or two. At some point they are going to have to make a major resource decision because import capability to Long Island is also constricted. We just think it's downstream a little bit.

It looks like we're done, thank you so much for your attention. And I will turn it back over to Aarti.

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Conclusion

Aarti Singhal, Director of Investor Relations
Thank you for your questions and a very big thank you to all my colleagues for their presentations. Thank you.

Applause

It's been a pleasure to host you here and I hope that we've managed to give you more insight into these businesses. As Andrew said earlier they are a natural extension to our core operations and bring an attractive combination of yield and growth.

Today's presentations are available online and on the investor relations app. And we will be sending you a short email for some feedback and we'd be really grateful if you could share your thoughts with us.

So we'll see you next time on the 10th of November at the London Stock Exchange for our half year results. In the meantime my team and I are here to help you with any questions. Thank you and have a good afternoon. Thank you.

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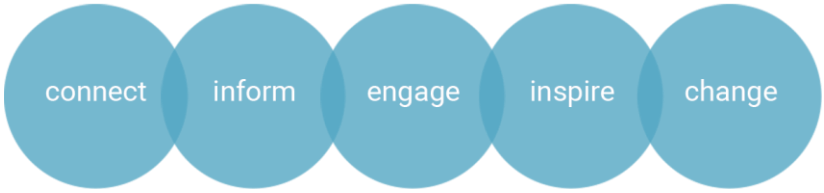

National Grid

Full Year Results Presentation

18th May 2017

NATIONAL GRID

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

Dean Seavers, US Chief Executive Officer

QUESTIONS FROM

James Brown, Deutsche Bank

Nick Ashworth, Morgan Stanley

Lakis Athanasiou, Agency Partners

Deepa Venkateswaran, Bernstein

Mark Freshney, Credit Suisse

Ajay Patel, Goldman Sachs

Dominic Nash, Macquarie

Unidentifiable Analyst

Iain Turner, Exane BNP Paribas

Christopher Laybutt, JP Morgan

Stephen Hunt, Barclays Capital

Sam Arie, UBS

Jenny Ping, Citigroup

Introduction

Aarti Singhal, Director - Investor Relations
Good morning, everyone and welcome to the National Grid's Full Year Results presentation this morning. I'd also like to welcome those of you who are watching this presentation online.

As always, safety first, and there are no planned fire alarm tests this morning, so if you hear an alarm, please make your way through these exits here to the end of the hall. Please also make note of the cautionary statement that's included in your packs.

As usual, after John and Andrew's presentations, there will be time for a Q&A, and all the material from this morning's session is on the National Grid website and on the Investor Relations app. So, thank you very much for your attention, and with that, I'd like to hand you over to CEO John Pettigrew.

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Presentation

John Pettigrew, Chief Executive
Thank you, Aarti, and good morning, everyone. As usual, Andrew and I are joined this morning by Nicola Shaw and Dean Seavers.

Before we discuss our financial results today, I'd like to start with our safety performance, which, as you know, is core to National Grid. Every year, we develop safety plans focusing on critical areas to improve performance. Through delivery of these plans, last year we achieved a lost time injury frequency rate of 0.09, which is considered as world-class safety performance.

Safety is embedded in our culture, it's part of our DNA, but metrics are not everything, and there's always room to improve. Last year, we had a stark reminder of this when one of our UK employees tragically lost his life. As you'd expect, we've undertaken a comprehensive investigation, and we are implementing a number of changes to ensure that our focus is always on making sure that our employees, our contractors, and the public are safe.

So, turning to our financial highlights for last year, I'm pleased to report strong performance. On an underlying basis, this is excluding the impact of timing. Operating profit increased by 5.4% to £4.3bn, and underlying earnings per share increased by 6.1% to 66.1 pence. In line with our dividend policy, the Board has recommended a final dividend of 29.1 pence per share, bringing the proposed full-year dividend to 44.27 pence, an increase of 2.1%, reflecting last year's average UK inflation.

We continue to make significant investment in critical infrastructure across the grid, and once again, we set a new record, investing £4.5bn, an increase of 5%, at constant currency. This capital spend, when combined with year-end inflation, drove asset growth of 5%, which is in line with our stated range of 5-7%. So, as you can see, it's been a strong year of financial performance.

As always, ensuring strong reliability of our networks is critical, and we continue to prioritise our capital investment, delivering the best results for our customers. Here in the UK, we continue to achieve near 100% reliability across our networks.

In the US, we made strong progress and successfully met all of our key reliability targets. However, the true test of reliability in the US is how we perform when the weather is at its worst, and this year we experience significant storm activity, particularly in Upstate New York. Our biggest test was in March, where, over the course of a week, a windstorm was followed by snow and freezing rain, with services to over 400,000 customers interrupted. National Grid was able to respond swiftly, restoring power to the vast majority of our customers within the first 24 hours. Our response has been well

received by key stakeholders, including the Governor of New York, who publicly praised National Grid's efforts.

Turning now to the key achievements and developments across the Group: last year was an important year in the evolution of National Grid. We had a very full agenda and significant commitments to deliver on. We successfully completed the UK Gas Distribution sale, a significant transaction with £4bn being returned to shareholders. We achieved a good outcome for our rate filings in the US, and in the UK, the mid-period review was completed, and we maintained strong performance within our eight-year price control, delivering significant customer savings.

So let me provide some colour on each of these. As you know, in March, we completed the sale of a 61% share in our UK Gas Distribution business. This concluded a long and complex process that involved separating Gas Distribution from the rest of our UK business, agreeing with pension trustees to split the scheme into three sections, and undertaking a major financing programme. The premium valuation we received reflected both the competitive auction process and the attractive financing we were able to achieve for the standalone business.

The process of returning £4bn to shareholders is now under way. We will return just under £3.2bn for a special dividend of just over 84 pence per share, and the remaining £835m will be returned by a share buyback programme. A general meeting to approve the necessary resolutions will take place tomorrow.

In addition, on the 31st of March, we announced that we have entered into an agreement for an option to sell a further 14%, on broadly similar terms, at any time between March and October 2019. So, overall, this transaction represents value realisation for our shareholders and strengthens National Grid's ability to deliver high-asset growth within our stated range of 5-7%.

In the US, the commencement of frequent rate filings has been a major step forward, and has put us on course for improved performance. The filing process itself went smoothly, with constructive engagement with our regulators and key stakeholders throughout. As you will recall, rates had remained unchanged since 2008 for KEDNY and KEDLI, and since 2010 for Massachusetts Electric.

We believe the outcome of the filings was fair, and, importantly, there was a clear recognition of the need for increased investment to modernise the networks. This was reflected in the approval of $3bn of capex for New York over three years, and a 46% increase to $249m per annum for Massachusetts Electric. These three businesses represent more than $7bn of rate base, and although the new rates were effective for only a portion of the year, they have already started to contribute to an improvement in performance, enabling us to achieve an ROE of 8.2%.

Moving to the UK: our businesses have continued to perform well, generating savings for customers and delivering value for our shareholders. We're now halfway through the eight-year price control, and have generated approximately £460m of savings, which will help to reduce bills over a number of years.

We've been able to achieve these savings through a combination of efficient delivery and innovation, which this year contributed to the 300 basis points of our performance above the base return. In addition, we've made significant progress on a number of regulatory topics. The mid-period review is completed, reaffirming Ofgem's commitment to the clarity and certainty offered by the eight-year price control. The review did result in some changes to specific outputs, but, as expected, there were no changes to the key financial parameters.

We also received further clarity on the Electricity System Operator role. Under the proposal, which is subject to ongoing consultation, the Electricity System Operator will be incorporated into a separate company, wholly owned by National Grid but with its own Board. The Electricity System Operator will carry out its existing functions as well as take on new responsibilities, including the promotion of smart

solutions. I am pleased that the government and Ofgem have recognised National Grid's vast experience and expertise in balancing the electricity system and ensuring the market runs efficiently.

So, overall, I'm pleased to report significant progress on our key priorities. But, as some of you will recall, this time last year I emphasised the importance of not just delivering on our stated priorities but also ensuring we don't lose sight of the pace of change in our industry. Since then, we have been taking incremental steps to evolve National Grid, and later I'll share with you what we've been doing to build a stronger foundation for the future, but first, over to Andrew to discuss the financial performance in more detail.

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Financial Review

Andrew Bonfield, Finance Director
Thank you, John, and good morning, everybody. As John has already highlighted, our financial performance was strong. The business has produced solid underlying results, and headline operating profit was enhanced by a number of events, including foreign exchange, timing, and the benefit of stopping depreciating our UK Gas Distribution assets.

As you know, we completed the Gas Distribution sale on the 31st of March. The accounting for this large transaction has added a layer of complexity to the results for the year. To help, I'll start by taking you through our total performance, including the results of Gas Distribution, before turning to the results of our continuing operations and our expectations for the next year.

Headline operating profit rose by 9% to £4.7bn, and, including the items I mentioned a moment ago, earnings per share increased to 73 pence. Capital investment was £4.5bn, an increase of £203m, or 5% at constant currency. Group return on equity was 11.7%, down slightly compared to a strong prior year. Importantly, our total regulated asset base, including Gas Distribution, grew by 5%, which led to a value added of £1.9bn. Together with our strong balance sheet, this supports our attractive total return.

Let me start by discussing the performance of each of our segments. Electricity Transmission had another strong performance, with a return on equity of 13.6%. We continue to focus on innovation and efficiency, to drive totex outperformance of 190 basis points. This was slightly down on the prior year, with increased spend to meet the required network output measures.

Other incentive performance, at 70 basis points, was mostly from the Balancing Services Incentive Scheme, which delivered £28m of operating profit. Additional allowances contributed 80 basis points of performance in line with the prior year. Headline operating profit of £1.4bn was up 17%, helped by a significant timing of £137m, together with inflationary increases and allowed revenues. Excluding timing, underlying operating profit was up 6% on last year.

Capital investment was just over £1bn, £57m lower than the prior year, as phase 1 of the London Power Tunnels and the Western Link neared completion. The reduction on these projects was partially offset by an increase in non-load-related spend to meet RIIO outputs. This investment, together with RPI, increased the year-end regulated asset value by 5% to £12.5bn.

Moving now to Gas Transmission, which recorded a return on equity of 10.8%. The returns were down on the prior year, reflecting the expected reduction in legacy allowances, and an increased spend on asset health to meet our RIIO T1 outputs. Other incentive performance remained strong, which enabled the business to slightly outperform its base allowed return.

Reported operating profit was up 5%, due to increases in allowed revenues and higher inflation. Excluding timing, underlying operating profit was up 7%. Capital investment increased by £28m to

£214m, reflecting investment on the Humber Pipeline Project and the step up in asset health spend. And the regulated asset value grew by 3% to £5.8bn.

In the last full year of ownership of UK Gas Distribution, the business maintained its strong performance, with return on equity of 14%, up 100 basis points on the prior year. Improved totex performance of 280 basis points was achieved primarily through capex efficiencies. Other incentive performance was 20 basis points higher, driven by the recognition of our performance from prior years. Headline operating profit of £898m was up 2%. The benefit of the lower depreciation by £96m following the announcement of the sale in December was partially offset by timing. Excluding these items, operating profit was down 3%. Investment increased slightly to £558m, and the regulated asset value increased to £9bn.

The overall return on equity in the US was 8.2% for the fiscal year, an improvement versus the 7.6% return for last year's comparable period. In New York, performance was up 70 basis points, reflecting the benefit of new rates in KEDLI and KEDNY, and the extension of the capital tracker Niagara Mohawk.

Performance in Massachusetts has started to improve as the new rates in the electric business came into effect. We expect to see a more significant impact on returns of these new rates next year. We saw low returns in Rhode Island from increased operating costs, principally due to storms and inflationary cost pressures. US headline operating profit of £1.7bn was up 45%, driven by weaker sterling and favourable timing. Excluding timing and foreign exchange, operating profit increased by £61m, which is a 4% increase.

Investment in our US networks rose to £2.2bn, or $2.9bn. The rate base grew by 6% to $19.3bn, and if you exclude the movement of working capital, the underlying rate base grew by close to 7%.

Operating profit in our portfolio of other activities was £173m. As expected, this is principally due to lower revenues from the French interconnector and last year's gain on the Iroquois gas pipeline transaction. Our Grain LNG and metering businesses both contributed consistent levels of profit. Operating profit in our property business increased to £65m as a result of further asset disposals, most notably the sale of our Battersea site. BritNed, our other UK interconnector, performed well. Its results are reflected in the JV line.

Corporate and other costs were around £11m higher than the prior year. This was due to a combination of one-off costs from delayed US business development projects and business change spend.

Post the disposal of Gas Distribution, National Grid is a smaller business, and we also need to recognise the pace of change in the industry. We have made a number of investments to ensure we are well positioned to meet our growth targets efficiently and, at the same time, build a stronger foundation for the future. John will elaborate more on this in a moment.

Capital investment in other activities increased by 42% at constant to £404m. This included spend on the NEMO and North Sea Link electricity interconnectors, and our investment in the solar partnership with Sunrun.

Financing costs increased by 6% to just under £1.2bn. This increase was due to the effect of RPI on index-linked bonds and higher average debt in the Group throughout the year. The effective interest rate increased slightly from 3.8% to 3.9%, reflecting the higher RPI. We raised almost £5bn in new long-term financing. This includes the record £3bn sterling bond which was issued in support of the Gas Distribution sale.

We continue to find innovative ways to fund our business: for example, the credit loans with the Italian and Swedish export credit agencies, which I mentioned at the half-year. The tax rate was 22.7%, 130

basis points lower than the prior year, reflecting a one-off settlement in the UK. Earnings increased to £2.7bn, and headline earnings per share increased to 73 pence.

Operating cash flow before exceptional items was £5.6bn, £108m lower than last year. Higher operating profits were offset by one-off pension contributions in the UK and US, and lower working capital inflows. Closing net debt was just under £19.3bn, reflecting the deconsolidation of the Gas Distribution debt and the fact that we hadn't distributed the net proceeds at year-end.

Let me explain the movements in net debt before returning to discuss our key credit metrics. As we've discussed at year-end, we hold US-denominated debt as a hedge against our US dollar assets. The weakening of sterling since the beginning of the year had the impact of increasing net debt by £2.4bn. This is offset by a corresponding increase in the sterling value of our US dollar assets.

Net debt also increased by £1.5bn from our normal business activities. The liability management exercise, together with the cost of disposal, contributed to a further £1.4m outflow. The deconsolidation of Gas Distribution debt and the receipt of gross proceeds on the 31st of March reduced total net debt by £11.3bn. All together, these movements resulted in the closing net debt of £19.3bn.

Looking now at our credit metrics: RCF to net debt was 15.8%, and 14.9% after reflecting the buyback of scrip. FFO to net debt was 23.3%, and interest cover was covered five times. Clearly, these metrics reflect the benefit of the lower level of net debt at the year-end. We have provided alternative metrics which adjust for this. As you can see, these are broadly similar to the prior year, and comfortably above the levels expected for an A- credit rating.

Gearing based on regulated asset base and adjusted for the impact of sale was 65% in line with the constant currency with the last year.

So, with our strong balance sheet position and good capital discipline, we are well positioned to invest over £4bn per annum and drive asset growth of 5-7% over the medium term.

Consistent with our policy, the Board is recommending a 2.1% increase in the total debt, based on average RPI for the year. This gives rise to a 2.7% increase in the final dividend, to 29.1 pence per share. We will continue to offer a scrip option and manage dilution.

Value added, which includes a full-year contribution from Gas Distribution, was strong at £1.9bn, or 51.6 pence per share. This is built from growth in Group assets of £1.7bn. Core assets grew by 5% despite the reduction in working capital and timing over recoveries in the year. Cash dividends and repurchased scrip totalled just over £1.7bn. There's a growth in net debt from our normal business activities of around £1.5bn. Our expectations for value added continue to support our commitment to sustainable dividend growth.

Before discussing our technical guidance, I want to take you through a more detailed look at this year's EPS and how this sets up for next year. As you know, headline earnings per share was 73 pence, including timing of 6.9p per share. Underlying EPS of 66.1p was split 49.5 pence per share from continuing operations and 16.6 pence from discontinued operations. However, discontinued operations includes 100% of Gas Distribution's performance despite the retention of the 39% stake. This means that, whilst all of Gas Distribution is deconsolidated from continuing operations in the current year, we will report at 39% share of profits from the associates in continuing operations next year. This is a quirk of accounting standards, so, for your benefit, we've calculated a pro forma continuing EPS for this year. Had we reported the 39% stake this year, it would have contributed approximately 5p to earnings per share.

The share consolidation and buyback is expected to reduce our weighted average volume of shares by around 300m shares in 2017/18, which will add just under 5p to earnings per share. For reference, we expect the full-year impact of this process to reduce the volume of shares by around 400 million

shares. Together, and excluding timing, the pro forma continuing EPS would have been 59.2p per share.

Again, you will see that this means the pro forma continuing EPS will be around 7p lower than the current year underlying EPS. There are three factors which drive this. First: stopping the depreciation of Gas Distribution assets added around 2p to underlying earnings per share for the year. Second: the timing of the share consolidating and share buyback means that next year's EPS will be 2p lower than it will be in the future, once the full weighted average reduction in shares is used in the EPS calculation. Finally: there is approximately 3p of the earnings dilution, as we've sold around 15% of earnings but only reduced the share count by around 11%.

As usual, we have included a technical guidance section to support you with modelling assumptions. Let me take you through some of the key points. In the UK, Electricity Transmission revenue is expected to decrease following lower allowed base revenue and increased MOD adjustments. Despite lower incentive opportunities in electricity transmission, and the removal of legacy allowances in gas transmission, we expect the UK regulator business to continue to deliver 200-300 basis points of our performance, and we expect the favourable UK timing inflow to reduce significantly next year.

In the US, returns are expected to continue to improve to around 90% of the allowed return. Headline revenues are expected to reflect the benefit of new rate cases that will be in part offset by the returning of timing recoveries from this year.

The overall contribution from our other activities and ventures will be higher, as the business change and business development costs won't recur.

Net debt is expected to increase following the return of capital and as we fund our normal business activities. And our continuing interest charge is expected to increase, reflecting higher net debt and the impact of RPI on our index-linked bonds.

So, to summarise: the financial performance across the Group has been strong. Our continuing capital investment has increased almost £4bn, a level we expect to increase again next year, and our financial position remains robust, with good operating cash flows and a strong balance sheet. With that, I'll hand you back to John.

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John Pettigrew, Chief Executive Officer
Thank you, Andrew. So, as I said at the start, we had a very full agenda last year, and I'm pleased to have reported the significant progress that we made. Our business is in great shape. However, it's important to recognise the pace of change in our industry, and also, following the Gas Distribution sale, we are a slightly smaller business.

We now have a folio that's shaped to deliver higher growth, and will invest around £4bn per annum over the medium term. A critical objective for me is that our organisation is able to take advantage of these changes. It's with this in mind that, in my first year, we made a number of investments in the organisation to enable us to meet our growth targets efficiently and to build a stronger foundation for the future. In particular, we worked on three overarching goals. First: to define our purpose, vision and values. Second: to ensure we have a clear strategic focus. And finally: to shape our portfolio for the long term.

I'm a strong believer that an organisation like National Grid needs to be a purpose-led organisation, because purpose matters to our customers, to our employees, and to the communities where we live and work. Our purpose, vision and values together guide the organisation in why we exist and what we stand for. This clarity is vital as we look to the future.

As an organisation, our purpose is to bring energy to life. So what does this mean? It means providing heat, light, and power that our customers rely on in their homes and businesses. It also means engaging and supporting communities where we live and work to find new solutions and contribute to the long-term sustainability of our environment. This approach will underpin how we run the business and our strategy for driving the business forward.

Our vision is to exceed the expectations of our customers, shareholders and communities today, and to make possible the energy systems of tomorrow. And our values are what we stand for. These are best captured by the words "Every day we do the right thing and find the better way." The simplicity and clarity of our purpose, vision and values will bring tangible benefits. We expected it to help us to attract and retain the best talent, and to deliver performance improvements. Engaging our employees to focus on our key stakeholders, and instilling in them a greater sense of social responsibility, will enable us to be a more progressive and successful organisation.

Our strategy is focused across three specific areas. First: we are finding new ways of optimising our operation performance to maximise value from our businesses and benefit the customer by improving affordability. Secondly: we are seeking opportunities to drive asset growth by investing in our core regulated assets, where we see strong potential. And thirdly: we are making changes to ensure that National Grid is evolving for the future.

We have brought together our other activities, which mainly comprise businesses that are adjacent to our core, to create a new division with its own leadership. It's called National Grid Ventures, and its objective will be to focus on the development and new growth opportunities, and to strengthen our commercial and partnership capabilities for the future. I am confident that it can drive considerable value, and I will describe more shortly.

Overall, our strategic focus is predicated on our customers. Their needs and their priorities must come first, and continued investment will enable us to provide an outstanding service that's safe, reliable and affordable. And it's important to recognise the context in which we are operating today, where affordability is right at the top of the agenda, from a customer, political, and policy perspective. As a responsible, purpose-led organisation, we must put into sharper focus the customers to whom we deliver, and that's exactly what we've been doing.

In the UK, in addition to driving savings through our RIIO mechanism, we've gone further. A recent example of this was our voluntary deferral of £480m of RIIO T1 allowances. This deferral will better align allowances with the likely timing of spends, and help to lower bills for customers in the near term. In addition, we took the opportunity to share with customers the success of the Gas Distribution sale, setting aside £150m from the proceeds.

And similarly, in the US, in our recent filings, we have applied our customer-first approach, including programmes that will provide high levels of customer service, assist the most vulnerable customers, and support economic development. We also structured the rate cases to reduce the bill impact, whilst allowing us to make the necessary investments in the networks. So, in both the US and the UK, we are proactively taking action, as we believe that ,by making decisions through a customer lens, it will enable us to deliver sustainable performance over the long term.

Now, turning to performance optimisation: under RIIO, we generate our performance by delivering efficiently. This efficiency results from process improvement and innovation that's building over time, and these improvements leverage our strong asset management capability. An example is the progress we made on our substation replacement project in Wimbledon. We've used a variety of technological innovations, such as a new type of switchgear and virtual modelling, to reduce the total cost of this project by 20%.

In addition, we continue to review opportunities to reduce our environmental impact. For example, we made good progress through trials in developing a low-carbon alternative to SF6, called 'green gas for grid'. It can deliver the same technical benefits, but at less than 2% of the global warming impact.

In UK Gas Transmission, as Andrew's mentioned, overall asset health investment is higher than anticipated, and so we are focussed on driving unit cost reductions and developing innovative solutions. For example, on our gas pipeline project under the Humber Estuary, we applied new construction techniques to lower our tunnelling costs, and at Aylesbury Compressor Station, we're installing catalytic converters to reduce carbon monoxide emissions, and just these two examples are expected to generate over £70m of savings.

In the US, one of the most important performance drivers is regular rate filings. As I mentioned earlier, we continue to make good progress, and we're starting to see the improvements in performance. This year, we'll see the full benefit of the filings from last year, and I believe that, for the US overall, we can expect to achieve 90% of the allowed returns in 2017/18.

Our objective for this year is to achieve a good outcome for our rate filing for Niagara Mohawk, which represents 30% of our US rate base. The filing made last year includes a revenue increase of $407m and capital expenditure $823m, enabling us to deliver the necessary investments to modernise the networks. We realise this is a significant request, so we've provided two additional years of data to facilitate a multi-year settlement. By next April, following the conclusion of the NiMO case, approximately 70% of our US rate base will be operating under new rates.

And, in addition, we expect to file the remaining distribution companies: Massachusetts Gas, and Rhode Island Electric and Gas, later this year, aligning the timing of these filings with key stakeholder goals and objectives. Regular filings are clearly important to achieving returns close to the allowed level, but we also need to be more efficient to offset inflation and keep costs down. We have a wide range of initiatives across the US, from process improvements to a strengthened procurement capability to a new capital delivery function focussed on improving our project management.

Moving on to our growth opportunities, starting with the UK: we are now halfway through the RIIO period, during which we've invested on average £1.3bn per year in the electricity and gas transmission businesses. And, as Andrew mentioned, during the second half of RIIO T1, we expect to maintain the spend at this level. In electricity transmission, the majority of our capital expenditure will be non-load-related, including the replacement of existing assets, system upgrades, and improvements to site safety and visual amenities.

The load-related spend mainly comes from the connection of new generation sources, although the majority of the work relating to the connections at Hinckley and Newgen is now expecting in RIIO T2. The gas transmission business is now expected to grow slightly faster, driven by projects like the Humber Estuary, together with spend on compressors to comply with environmental legislation, and we'll be reviewing our compressor strategy with Ofgem in 2018.

The existing price control concludes in March 2021, and Ofgem will start the RIIO T2 process with an open letter to the industry this summer, which will be followed by a strategy document in the first half of 2018. To ensure that we're ahead of the important process, we will already start to engage with stakeholders and undertake the necessary groundwork. In the context of the evolving energy system, we are excited about the range of opportunities and investment drivers that RIIO T2 will present.

In the US, regulated investment has been steadily increasing, reaching $2.9bn this year, and we expect this to increase again next year. More than half of this investment has been made in our Gas Distribution businesses, and it's driven by a combination of the need to replace aging infrastructure, such as leak-prone pipe, and by customer growth. We are now replacing 400 miles of leak-prone pipe per annum, compared to around 250 miles just four years ago.

On the customer growth side, we have less than 70% gas penetration across our territories. That means there are more than a million households that are still burning oil or another fuel, creating an opportunity for further investment.

And on the electric side, we are also seeing a strong level of investment, driven by the need to replace aging infrastructure and modernise the grid, and there is a potential for further investment if we transition to smarter networks.

Overall, as I've just outlined, there are multiple drivers for significant organic growth in our US business. With the capex plans that we currently have in place, together with the ongoing rate filings, we expect the US to deliver rate-based growth around 7% over the medium term.

Now, returning to National Grid Ventures, which I mentioned earlier: this division will be led by Badar Khan, who joined us in April as a member of my executive team. National Grid Ventures will comprise our Grain and metering businesses in the UK, our existing interconnectors and those that are under development, together with the distributed energy opportunities, including our partnership with Sunrun.

Although the asset base is currently quite small, the division is highly cash-generative, as evidenced by the EBITDA and dividends from the joint ventures, which together contributed over £400m last year. Through National Grid Ventures, we will enhance our growth by investing in projects that offer attractive returns with a regulatory underpinning.

We expect the contribution from National Grid Ventures to grow as we complete developing projects, such as the NEMO Link, which is expected to complete in 2019, and the North Sea Link, which will complete two years later. In addition, we recently made a final investment decision on a second 1GW interconnector to France, named IFA2. This will be a joint venture with RTE, requiring National Grid investment of just under £400m.

In the US, we have taken steps to become more active in distributed energy, partnering with the leading solar provider, Sunrun. In this partnership, we committed $100m in a portfolio of rooftop solar assets, which will allow us to better understand customer behaviour and the impact of distributed technologies on the network.

Separately, I should add that, given the different nature of the property business, it will remain within 'other activities'. This business continues to do well, and we're making good progress with Berkeley Homes on the St William joint venture. And last year, we started construction of nearly 1,000 homes at Battersea. So these are just some of the many opportunities that are under way, which will drive incremental growth and advance our portfolio.

So, in summary, we have delivered strong financial performance. We made significant progress on our priorities whilst creating a strong foundation to deliver value for our shareholders into the future. The UK regulator business is well positioned to deliver in the second half of RIIO T1, the US business is on track to improve returns, and National Grid Ventures is well positioned to take advantage of a pipeline of growth opportunities. And, with the completion of the UK Gas Distribution transaction, we have a strong portfolio underpinned by a robust balance sheet, that's positioned to deliver attractive long-term growth and dividends for our shareholders.

So thank you very much, ladies and gentlemen, for your attention. Andrew, I, Dean, and Nicola will be happy to take your questions.

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James Brown, Deutsche Bank
Three questions, if I may, please. Firstly, just on capital investment, you mentioned lots of different areas for capital investment in the US. I was wondering whether you could just give us a bit of a flavour for key areas where you're focussing investment in the US?

Second question: obviously, going into last winter, there was a lot of worry and a lot of speculation that we could have a very, very tight UK power market, and maybe the SBR might have to be used a

number of times, and we could see some very, very severe price spikes. So, obviously, we went through the winter and it was relatively uneventful, there were some price spikes - and there was a price spike yesterday - but I was wondering whether you could just give a bit of a review of how you felt the winter went, and how easy it was, whether it was as easy as it looked from the outside to manage the system?

And then, thirdly: as there has been a lot of talk about investment in storage technology in the UK, and Grid potentially having a role in that, I wonder if you could just tell us what you would like your role to be in developing storage technology in the UK, including batteries? Thanks.

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John Pettigrew, Chief Executive Officer
Okay, I'll start with the capital investment in the US. This year, we invested $2.9bn. As we look forward, our expectation is that that will increase to about $3bn, and will provide asset growth of around 7%.

If you look about where that investment is, slightly more than half of it is in Gas Distribution, so that's predominantly doing asset health and safety work such as leak-prone pipe. The recent rate filing we did in KEDLI and KEDNY was $3bn over three years, and a lot of that was driven by that asset health and leak-prone pipe investment.

As we look to NiMO, we've got significant investment needed on the gas side, but also, we continue to need to improve the asset health of our electricity distribution networks in NiMO. So you would have seen that, in our filing, we filed for $823m for the first year. Over the three years, there's about $2.7bn for NiMO, and that reflects a step up from where we are today, so if you look at today's investment, it's around about $650m for NiMO, so it's - slightly more than half is gas distribution, but there's a strong element of electricity distribution as well. Our expectation over the medium term is, it will continue to grow by about 7%.

In terms of the winter, it's a question I get asked a lot, actually, about SBR, so just to recap a little bit: as we looked at the winter last year, based on the plant margins that we were seeing, we took the decision with Ofgem and with BEIS to procure about 3.5GW of strategic balance reserve. You'll recall that gave us a plant margin of just around 6%, or just over 6%, which we would describe at National Grid as sort of tight but manageable. What we saw through the winter was milder weather, so the reason it wasn't called upon was that the weather was milder than average.

We actually did some post-event analysis to see what would have happened had we had average weather, or even cold weather, and we're very comfortable actually we would have had to call upon it. So I wouldn't describe the winter as comfortable, but we didn't need it because of the mild weather. And the way I would describe it is: it's an insurance policy. So it was an insurance policy against that cold weather, against unexpected breakdowns, and that's £1.50 per household, I think, as it works out, the £180m - then it seemed like a sensible investment against that risk.

In terms of storage technology, our position is quite clear, I think, which is: if you look at how storage costs have come down over the last two years, they clearly are coming down at quite a rate. They're sort of following a similar pattern to solar. I think people are expecting them to continue to go down by about 6-8% per annum. There is the opportunity for storage, to be used, obviously, for energy arbitrage, but also for balancing services, and as an alternative - particularly at the distribution level, but potentially at the transmission level - as an alternative to investment.

The position that we've taken is, given where it is, in the technology development phase, the most sensible thing is to make sure that the storage has got access to as many markets as possible, and by doing that, it's more likely to drive costs down quicker. We think that, therefore, the network should be able to use storage as one of the tools when thinking about infrastructure investment. By doing that, it allows you to then basically stack up the different revenue streams of arbitrage, balancing

services, and potentially as an alternative to infrastructure investment. We've laid that out in our responses to the consultation. I know there are other views in the market, but the logic of it is basically, we think - give storage as much access to the market as possible.

We'll go just behind, and then we'll come forward. I can't see who it is, sorry.

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Nick Ashworth, Morgan Stanley
Good morning, thank you. A couple of questions. Firstly, just to dig a bit deeper on US returns. I'm just looking at year over year, Mass Electric, which has had new rates and, I think, for the last six months now, returns still look a little bit disappointing. Up, year on year, but still not brilliant. Is there - should we still be expecting that to meet the allowed ROE in the next 12 months, or is something in place which means that it's going to be difficult to achieve?

On the flip side, KEDLI and KEDNY, which have had rates in there for a shorter period, KEDLI in particular looks like it's had a very good year. Is there something one-off in there, or is that something that we should expect to continue?

And then, secondly, in terms of other businesses in the US, I think part of the one-off that you mentioned this morning was to do with some of the investments in non-rate-based activities in the US. Can you talk a little bit about what's going on there, and whether we should be expecting any of this to come through in the next couple of years? Thank you.

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John Pettigrew, Chief Executive
I'll start with Mass Electric and Andrew can add anything he wants. So in terms of Mass Electric you're right, so we've seen a partial benefit of the rate filing. I think returns have gone up from 3.4% up 4.3% as a result of that. Our expectation is we will see a significant improvement in returns in Mass Electric next year. Because of the nature of the revelation in Massachusetts which is backward looking historical, there's always a real challenge to get to the allowed returns because even at the point which you've settled you're already out of date and you're fighting against inflation. But our aspiration is to get as close as we can to at least 90% of those low returns in Massachusetts.

In KEDLI and KEDNY it's very different because we can use a forecast for cost base and therefore our expectation this year is we're going to be much closer to those allowed returns. You will see an improvement in returns in the US next year both in Mass Electric and in KEDLI and KEDNY.

In terms of this year's performance it was down to really strong management in terms of managing the efficiencies within KEDLI and KEDNY. I think we had some benefits Andrew in terms of revenues, as a result of weather as well. So we got some benefits as a result of that but we just drove the performance quite well. But you can expect to see an improvement in KEDLI and KEDNY next year on the basis that we'll get the full year benefits of the late farming.

In terms of the other businesses and this is the costs associated I think you were talking about.

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Nick Ashworth, Morgan Stanley
It sounds like Access North East and some of these other projects you've talked about historically - there may be some delays there and I was just wondering what's going on and should we be thinking about any of these things in the next year or two?

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John Pettigrew, Chief Executive

So there are a couple of projects in particular that we decided to expense just based on the timing of when these projects will actually go forward is not entirely clear at the moment. So Access North East is one so this is a reinforcement of gas transmission pipelines into the North East. Recently there was a decision by the courts that actually electric customers cannot pay for gas capacity and therefore the mechanism and the regulatory approach for funding that project - we need to find a different way of doing that.

The need for increased gas in the North East hasn't changed and we saw the impact and we had the polar vortex in 2013 about what impact it can have. So there is still a desire to find a solution, we just need to find a regulatory and legal solution that works for everybody so we've taken the prudent decision to just expense the spend that we've had to date.

Similarly with Greenline we pay it forward for an RFP into Massachusetts, in the end the projects that were taken forward were solar projects rather than transmission projects. We still think it's a very viable project and we'll probably use it in one of the future RFP's that Massachusetts will run. But at this point we just decided to expense the cost.

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Lakis Athanasiou, Agency Partners
Hi just to follow on from that I don't think you've given an exact number on those write-offs but it seemed to be about £40m, however when you're looking at other activities the cost seemed to have gone from about £100m last year up to £200m this year, capex also an increase. So you seem to have an overall cost increase of about 190 capex and opex up to about 340, how one off is that, what should we expect going forward on an ongoing basis? I mean I know you need costs to support the group but what's happening there?

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Andrew Bonfield, Finance Director
I mean I think as I highlighted in my speech there are some one off investments we made at the central bay basically to get ready, that's people, process and systems for being National Grid. That's, A, first of all around making sure that as we shrink the size of the Group we actually shrink the size of the organisation accordingly. And then also make sure that as we're looking forward to the future we make some - investments and capability and process and systems basically to enable us to actually be more efficient and more nimble as we move forward so that's really where it is.

The cost element of that won't recur so about £60m in operating costs should not recur next year. Capex costs at the centre of May continue to be slightly higher than they have been historically and part of that is around IT infrastructure to enable us to actually be more flexible and work for good things like global procurement more efficiently and also things like a global HRIS system.

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Lakis Athanasiou, Agency Partners
I mean that sounds like ongoing costs coming back down, opex about £100m and the capex maybe over £100m, does that sound about right?

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Andrew Bonfield, Finance Director
That would be a fair assumption.

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Deepa Venkateswaran, Bernstein

I have two questions, basically one is on the mid-term review that you concluded with Ofgem. So I understand that you won't be spending on Avonmouth and Fleetwood, I understand that these are not projects that you have otherwise costed in anyway, so I just wanted to understand that these are not disallowances, these are just projects that are not needed so you won't be spending?

And the second question is really looking ahead to T2 I mean we're still four years to go but could you just give us an idea about the timing on when you need to submit your business plans, when you might get an indication of WACC from the regulator for instance?

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John Pettigrew, Chief Executive
So in terms of Avonmouth and Fleetwood so I'll separate the two out so in terms of Fleetwood we never had it in any of our forecasts so it's historically - it goes back a number of years, we never expected to receive those allowances and Ofgem did it outside of the mid period review and just tidied that up actually in terms of the allowances so it has no impact on our projections going forward.

Avonmouth it was part of the Gas Transmission mid period review so there was only one item that Ofgem raised about the mid period review which was a potential pipeline reinforcement in the South West on the back of the closure of the Avonmouth LNG site. Based on their assessments that they did they disallowed that allowance on the basis that although we'd met the outputs we'd met them in a way that didn't require the investment in the pipeline so it was around about £127m of allowances that were reduced. So that was part of the mid period review, it didn't have a huge impact in terms of the gas transmission business so it's clearly narrow but that was one that was disallowed. But the Fleetwood wasn't part of the mid period review and we hadn't counted it as part of our business plan.

In terms of RIIO T2, I mean effectively as I said in the speech the process starts from here so we are expecting an open letter from Ofgem this summer. What we expect that letter to include is basically a set of questions that they think should be asked in relation to what's gone well in RIIO T1 and some of the questions they'd like some thoughts on in RIIO T2. That will lead up to a more important strategy document in the Spring/Summer of next year so the focus will be around exactly what's in that document.

From our perspective we've started our stakeholder engagement to make sure that we're feeding into that strategy document in a timely fashion. I think the intention is around about the Spring of 2019 is when you'd expect the business plans to be submitted and then the process will be, as you are familiar with as all price controls going forward from there.

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Mark Freshney, Credit Suisse
Two corporate finance questions. Firstly on the natural investment hedging that you do, you hedge out some of the UK businesses with RPI debt and you hedge out and swap the US business debt into dollar - from sterling into dollars. What is the total breakdown by RPI debt and dollars for the net debt and how should we think about whether that hedging changes going forward?

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Andrew Bonfield, Finance Director
Okay, so let me answer that. RPI debt has historically been about 25% total Group debt, so even though we've shrunk the UK business actually it's stayed about the same because we couldn't actually novate much of the RPI debt into the Gas D business itself. So that's gone up from - historically it was around about a third of the UK assets or UK debt, it's now about 50% of the UK debt.

We will not be issuing a new RPI debt for a while, we'll actually try and grow our way and get that back down over time into a more balanced positon which would be around 30 to 35% of total debt as we move forward.

On the US dollar at the moment we hedge US dollar assets plus goodwill, that's been the historic since the KeySpan acquisition. One of the things we've looked at is whether we should hedge goodwill as well because although that is a non-real cash flow related item the issue is today I wouldn't, those hedges are $1.30 to sterling, some of those hedges were taken out earlier. So again we'll grow our way out of that and over time I would expect us just to only hedge our US dollar assets rather than our US dollar assets plus goodwill Mark.

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Mark Freshney, Credit Suisse
Thank you. And just secondly on the remaining stake in Cadent what is the way you think about that because I mean you've almost sold another 14% stake in 2019 so what is the way you think about that, when could you market that potentially and where would you look to put the proceeds to work, would it be in new ventures?

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John Pettigrew, Chief Executive
Could you ask the beginning of the question again Mark?

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Mark Freshney, Credit Suisse
So the 39% remaining stake in the Gas Distribution business which I understand has had a name change?

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John Pettigrew, Chief Executive
The 39% has had a name change or the gas distribution? The gas distribution business that's no longer the consortium is called Cadent so with regards to the 39% as I said we've agreed an option to potentially sell the 14% and we've got the ability to do that between March and October 2019. Similarly the consortium has the same option so they can exercise it or we can exercise it.

With regards to the remaining 25% there's been no decision about how we take that forward, it's part of the portfolio and we'll consider it as part of the portfolio going forward.

In terms of the return of funds on the 14% again no decision's been made, close to the time we'll decide what's appropriate and whether to return that to shareholders or to use it for further investment in National Grid.

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Ajay Patel, Goldman Sachs
Morning, I just wanted a little bit more clarity on the technical guidance on interest costs as in how different is the interest cost as a rate on the continuing business versus the discontinued - you kind of implied that maybe there was a slight increase on that rate maybe going into next year?

And then secondly in terms of your allowed returns the debt allowances are linked to a trading index of bonds, now given the rates have fallen quite a lot over the last eight years or so, how does that filter through as in do we expect the revenues to adjust as we go forward as that trailing index catches up to the current bond environment and what's your expectations on that?

Andrew Bonfield, Finance Director
Let me start with that first, I mean this year the bond index goes down from 2.3% real to 2.2% real on UK debt, effectively that will be adjusted in revenues this year and that's the revenue adjustment that goes through as part of the annual true up process.

Obviously you're right as time goes on the percentage above real will actually diminish and what we've always looked at as part of our treasury team is actually what they're issuing against the spot rate. Because ultimately at the end of the day if you issue over time against a spot rate there will be times obviously where you're going up and down against the allowed, but effectively you will outperform over time. So for example I think two years ago we gave the example of the Canadian dollar bonds which we issued actually at a below real rate of investment, EIB loan was marginally above real cost of debt. So there are things we do which will make sure that we continue to be able to outperform.

As far as the split of interest between continuing and discontinuing operations this has been a bone of contention within the company for the FT because part of what I've been challenging the team is how do we look at interest going forward. Because effectively this year we're actually issued very low cost debt into the Gas Distribution business. So actually what that has meant is it looks like the interest cost of the continuing operations is higher than it really should have been. But that is actually a reflection of actually what we did within the entity itself, so the 2.2% interest cost on the very large bond we issued for the Gas Distribution sale reflects into discontinued operations and that's part of the challenge.

So this year overall the overall interest rate increased by 3.8 to 3.9%, obviously within the split between continued operations effectively a lot of the liability management was older more expensive debt in Gas Distribution so that distorts that number a little bit as we move in. But as we look forward to next year, two factors, one which is RPI bonds which will increase with the average interest rate, two debt will rise from the 19.3. So as average debt rises effectively and that's part of the normal business cycle you will see increases in debt so those are the two factors.

Dominic Nash, Macquarie
Hi, a couple of questions please. Firstly I must say congratulations I've never seen so many EPS numbers reported, I think I'm now at eight. And on the presentation - there's no mention of the 73 pence per share adjusted earnings that you have in your headlines results, are you moving towards a new adjusted presentational number of an X timing number that us analysts should now start thinking about or will you still be reporting on the one to focus on the timing?

And a follow on question on that, on the value add earnings number, the 51.6 pence, how will you be treating Gas Distribution in the next year, would you be proportionally consolidating that or ignoring that?

And secondly, you're going to love this one Andrew, is that on a continual operation, a pro former, an underlying, timing adjusted basis?

Andrew Bonfield, Finance Director
Thank you Dominic for making me laugh during the middle of my speech as well so thank you. So yes so let me talk about earnings per share I mean part of the problem is as we know we're actually operating in an environment today where we are required to give details of alternative profit measures. So for us then to have added what I consider to be the real number for next year or the

base for the next year would have been too complex in the earnings release. So apologies for the complexity.

The number we're talking about effectively is the adjusted continuing ops, earnings per share excluding timing of the 59.2 that I was talking to, I think that really is the underlying base that you should be looking at that because that reflect effectively share buyback next year and the 39% stake in Gas D on an ongoing basis. So that would be my sort of base number to sort of work off.

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Dominic Nash, Macquarie
And just to confirm, the analyst community would be putting another 7 pence higher than that - so we probably will need to adjust our numbers to match yours next year - correct?

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Andrew Bonfield, Finance Director
Yes because with timing unfortunately is IFRS accounting, we have to account for it, it is as you've heard me say this is the one time IFRS does not work in a rate based regulated utility you have to recognise revenue in the income statement which is not your revenue. So that's why strip it out and highlight it to enable you to actually really see what the underlying is.

As far as the value add is concerned the value add going forward will include our 39% share of Gas D because that's part of effectively our regulator base going forward. This year it included 100% of Gas D, but obviously that also impacted our debt during the year as we move forward so that value add really reflects the dividend support and so forth and the number of shares. Next year obviously as we go forward asset growth will be based on the smaller business, but the number of shares which we pay the dividend on will be smaller and the debt increase probably as a result of that will be smaller, so that will be how you think about it. But it will comparable because it is a per share number.

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Dominic Nash, Macquarie
But the net debt number that you calculate the growth in it this year is cumulative of timing effects?

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Andrew Bonfield, Finance Director
The 1.5 includes timing because effectively timing comes off a rate base so just to add another layer of complexity to it. So timing is a deferral within the rate base, so the rate base is actually your growth is reduced as a result of timing being an offset against the RAV growth both in the UK and the US. I'm sure we could take you through it but it is one of the other complexities of this.

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Unidentifiable Analyst
Two questions, the first one is do you have any interests in investing in fast charging network either in the UK or the US, in terms of the UK how could you imagine that working?

And then the second question is on gas security of supply, given that Rough is likely to, or will be out for the entire winter do you think there are any issues around that, are you comfortable with the gas security supply going forward if Rough doesn't come back?

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John Pettigrew, Chief Executive

Okay so I'll answer the UK, I'll ask Dean to just update you on what we're doing on charging in the US. So in terms of fast charging I mean interestingly we've put a response in to the consultation for the industrial strategy recently just suggesting to government we think there is an opportunity to get the energy sector, technology sector, car manufacturers together to really think about whether creating a backbone of infrastructure in the UK to relieve the tension of sort of losing a charge when you're on long distances would be a sensible thing to do, if you believe that electric cars are going to a significant part of the transport solution going forward. And in terms of meeting some of the emission targets clearly electrification of transport is going to be a key component.

Recent forecasts we've seen people are talking about 20% of electric cars in the UK by 2030, to deliver that you would need a backbone infrastructure. And potentially if you're not fast charging you know one of the things that this is a very conceptualised idea but if you put fast charging at every service station in the UK, there's about 140 of them you could probably take that off the transmission system. So that it would enable that sort of tension people have about long distances to be removed.

So we've just got some early thoughts on it to be honest, but we've played them into the industrial strategy response to get people to start thinking about It, because there is I think a potential if you really want to push electric cars to make the backbone and infrastructure in place to relieve it. Yes we're actually doing some things in Massachusetts so Dean do you just want to mention what we're doing?

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Dean Seavers, US Chief Executive Officer
Let me start with New York as well I think there's a number of tests that we have on charging stations in New York, we actually have one in the annual report, I think we removed the photo of that one but we actually have one as we're doing in Buffalo Niagara medical camp is some of the early ones. And I think that the benefit is that we've got in early as they were doing construction and all that so I think it's part of the customer focus we have.

I think with Massachusetts both in terms of existing charging stations but also as we look at grid mod there's a huge opportunity for us to do more with electric charging stations whether it's residential, whether it's multi-unit, but clearly as we look at the backbone that John mentioned in the UK there's a big opportunity for us to do that. We're actually starting to put it in our rate cases as well.

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John Pettigrew, Chief Executive
And in terms of gas security, the simple answer is we set out in our summer outlook report you know given we know where we are, we have no concerns with gas security. So we've looked at the forecast and we continue updating, there will be another one in the winter outlook. But based on our understanding of how the markets are going to operate and what's available we don't have any concerns about gas security at the moment.

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Iain Turner, Exane BNP Paribas
Can I ask a couple of questions. One is talk about US tax reform, I'm not sure how much tax you pay in the US but what you think the indicators of that might be for you?

And secondly looking to RIIO T2 one of the things that I think people have been quite surprised by is the level of outperformance you've been delivering. I think certainly one of the things that was highlighted in the recent Ofgem transmission report was that there were some situations where for example you'd quoted to build a new transmission route and you actually were able to get away with re-conductoring and whether you think that sort of out performance is going to be deliverable in the future or whether Ofgem will get a bit wiser about it?

Andrew Bonfield, Finance Director
On US tax reform I mean I think obviously is it very early in the process. We do not pay US taxes because effectively bonus depreciation means effectively that offsets all the cash tax payment, but that goes against rate base. So net, net if we ended up through changes either paying taxes, either that would the reverse the preferred taxation would either impact customer bills positively, probably or impact us as far as actually cash tax payments are concerned, but effectively that would be offset by growth and rate base.

The big challenges in the US are talking about what is going to be on deductions and versus rate and I think that's still a long way to go before that is defined. So we're keeping an eye on it, obviously we're watching what happens, there's some possible regulatory impact on that as well so we just need to see how it pans out Iain but it's probably far too early where the process stands today.

John Pettigrew, Chief Executive
So in terms of just out performance first of all Iain, I mean we set out that we're able to do a 2 to 300 basis points of outperformance. I quote Alistair Buchanan quite often so when we set out on the journey of RIIO T1 Ofgem stated very clearly that - you know an official organisation that's delivering innovatively can deliver those levels of returns and that's what we've been doing. And with that of course we returned £460m to customers.

So as long as we can demonstrate that the outputs that we're delivering are being delivered and they're being done more efficiently my sense is that Ofgem are comfortable with that and I know that Gemma and Dermot are very keen on incentivisation for utilities going forward, so I would expect that feeling into RIIO T2.

In terms of your specific example I think it's a great example actually so RIIO T1 is about delivering a set of outputs which are effectively about in transmission it's about shifting the risk. So through much more detailed asset management processes, looking at specific components like towers, like fittings and then conductors and finding a way of replacing the conductors and re-lifing the towers and the fittings to give that line the same life extension it would have had through a replacement. This is exactly what I think RIIO was intended to do. So I'm very comfortable that we've got much more detail in asset management capacity and we have a much better understanding of the asset health of the components and we're applying that to deliver efficiencies for customers.

Christopher Laybutt, JP Morgan
Just two quick questions. The first just on stranded costs, is there an impact on stranded costs from the Gas Distribution sale? And secondly Dean one for you just in terms of the rate case coming up the PSE has a number of members who've recently left at Public Service Commission, is there any indication that we may see any delays in that race case coming through because of the changes at the commission level?

Andrew Bonfield, Finance Director
On stranded costs there will be no stranded costs, we are working to make sure we eliminate them completely.

Dean Seavers, US Chief Executive Officer

We don't see any delay in the rate case I mean clearly the staff are still there so we're progressing through the normal process. They've also nominated a new chairman recently so we see the rate case progressing according to plan.

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Stephen Hunt, Barclays Capital
With respect, obviously you talk about Ofgem and their letter expected in terms of kicking off the RIIO T2 and GD2 rate cases. Ofwat has been talking quite aggressively in terms of cost of equity into their next regulatory period, have you had any preliminary discussions with Ofgem on how they are looking at this?

And obviously we've seen some very high recent valuations, most notably your own gas distribution state sale in terms of premium to RAV and how do you actually, you know do you believe your actual cost of equity has come down markedly in the current regulatory period and how do you see that evolving going forward? Or is this more a sort of a macro short term play, you don't think it's any sustained basis in terms of potentially lower cost of equity to justify some of those recent high valuations?

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John Pettigrew, Chief Executive
In terms of the RIIO T2 process it's literally just starting so the answer is we haven't engaged with Ofgem yet about what's an appropriate cost to capital going into RIIO T2. There is still four years to go. For those that have been around long enough you'll know this is like year one of a price control you know when we had a five year price control. So there's still plenty of time but we want to get ahead of it.

I think the strategy document that will come out next summer will give a good indication I think of how they're thinking about it and obviously you've got the online team to feed into that. From a Gas Distribution perspective, Ofgem - in terms of the sale Ofgem were very supportive through the whole process of making sure we were able to do that. But we didn't get into a conversation around what does it mean in terms of cost to capital.

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Andrew Bonfield, Finance Director
Okay so a couple of things, one which is on Gas D sale, a couple of things that helped the premium to RAV that was reported, one which was the financing was incredibly low cost, remember we financed this vehicle from scratch. We took the cost outside in National Grid as part of the cost of sale but effectively because of the liability management exercise this had a very low cost of debt, £3.6bn of new debt raised at 2.2% interest rate compared to regulatory allowance so that's part of the RAV multiple.

Secondly, and as Ofgem made clear as part of the sale process, and in fact in their letter to all potential bidders, Ofgem's obligation was to fund the RAV only but also to fund the regulatory gearing ratio. Effectively that means that anybody who's putting gearing above effectively gets the benefit of leveraging their return on that and that's what people pay for and that also drives RAV multiples. So I think that is very clearly still within the regulatory construct

On our weighted average cost of capital actually there's been marginal benefit but that's mostly due to lower interest costs. Actually from a return of cost of equity perspective your people like Mark Carney are getting up and saying actually throughout the financial crisis the actual cost of equity has not diminished and the equity risk premium is actually the same as it was pre-crisis. One of the facts that's drawing out is actually it's extracting money into pension liabilities so effectively his concern is that you see asset growth and pensions actually not growing as fast as you see the diminution

effectively as a result of the liability increases. That's why he's very focussed on this and he's actually talking about equity risk premiums staying around the same level of 7%.

So I think there are other people that have other views, I think that will be part of what we will have to present as part of the overall RIIO T2 process and also there's another four years to go before we get there so I think we just need to see what happens, we're starting to see tick up of bond rates, we'll see what happens over the next couple of years.

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Sam Arie, UBS
Hi, I think I remember last time I was here just mentioning how I'm always impressed that National Grid keeps very well out of the political spotlight. And I've just noticed that in today's discussion we've hardly talked about there being an election or that one of the party's has a manifesto that seeks to return national infrastructure into public ownership over time. So I just wondered if it's maybe worth giving your thoughts on those proposals and how you're reacting to them?

And if I could squeeze a second question in quickly, the other thing that has been arising in the news recently is cyber security and risks for infrastructure companies and I'm sure you're monitoring cyber-attacks or attempts to breach your systems, can you comment if you've seen any increase in that over the last year and what you think about that one going forward?

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John Pettigrew, Chief Executive
Let me start with the political spotlight, our focus on the UK and the manifesto, so I clearly haven't seen the Conservative manifesto, I think it's coming out literally in the next hour or so. But one of the topics that relates to the sector of course is the price cap. I think from our perspective we understand why politicians would be thinking about energy prices it's a large part of consumers disposable income, so it's not a surprise that people like Teresa May would be focussing in on it.

I think from our perspective we just remind people as a transmission business in the UK we represent 3 to 5% of the bill so of the typical £700 or £800 for gas and electricity we're £26 of the bill for electricity transmission and £19 for gas transmission. And our mind set and focus is very much around driving efficiency. And I think in the last 12 months we've demonstrated that with the £460m that we've saved over the first four years. And in fact we put a voluntary allowance back to Ofgem for £480m. So I understand why they're doing it but from a National Grid perspective we're focused on reminding people we're 3 to 5% of the bill and very much focussed on driving efficiency.

In terms of the Labour manifesto and renationalisation now I actually started in National Grid a couple of months after privatisation so I remember going right back to the type of organisation that we were then being government owned. And over those 20 odd years the innovation and the efficiency that's been driven in the transmission businesses in the UK has been phenomenal, it's around about 40% reduction in real terms. And at the same time we're world renowned for our safe and reliable networks and we're actually transforming the networks at the moment with the new energy that's coming on.

So to spend tens of billions of pounds of taxpayers' money on renationalisation doesn't look sensible and I don't think it's in the interest of energy consumers either. So we'll work with whoever is in government, that's the role that we play, we're at the heart of the energy sector in the UK and in the US and we always work with the governments but clearly nationalisation we do not think it's a good idea.

In terms of cyber I mean it's a great question, I think everybody is focussed on cyber just from the events over the weekend, I mean fortunately that event did not have an impact on National Grid. And over the last few years we've continued to ramp up our investment both in terms of looking after our

real time systems which are really critical in terms of the delivery of our energy. And we've introduced continuous monitoring, we have a control room that's constantly monitoring all our real time systems.

We're now starting to think about more remote areas of the business in terms of operational technology sat in sub stations and compressor stations and making sure we've got the protection of that as well as our business systems.

We've got about 120 people who are focussed purely on cyber and we will continue to make sure that we're trying to stay ahead of the process. It's a risk like any other. You can't solve the cyber problem but we are seeing more activity, you're seeing it internationally and you're seeing it in the UK and we keep focussed on that. We're well connected as you'd expect us to be as a company like National Grid with the government services both in the UK and in the US and we get access to information that allows us to make sure that we can put the right protections in place.

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Jenny Ping, Citigroup
Firstly just on Cadent I just wondered whether there is a financial operational benefit to keep a financial stake in the Gas Distribution asset?

And then secondly on the US, obviously having seen quite a bit consolidation and acquisitions in the US and regulated utilities, there seems to be quite a lot of focus from US investors on further consolidation. I just wanted to hear your latest thoughts. Obviously you've got the organic growth piece but I'd be interested to hear the inorganic piece, thanks.

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John Pettigrew, Chief Executive
In terms of the US over the last five to six years there's been considerable consolidation in the utility sector. But from our perspective we do start from a position where our focus is very much on our core businesses, as I've said this morning our US business is growing at 7% per annum, our UK business is growing 5% per annum and we've got some great opportunities in the pipeline through National Grid Ventures as well. So we're not in a position where we're dependant on needing to do something like M&A in order to deliver the growth that we set at 5 to 7%.

However, like any organisation like National Grid you would expect us if there's an opportunity to look at it and we would look at our opportunity if it was right, but we're not dependant on it and we would only do it if it was in the interests of shareholders and in the interests of our customers. So we're in a very fortunate positon I think that with the rebalancing of the portfolio we can deliver the growth that we've set out as well as continue to support the dividend policy as we have. But you'd expect a company like National Grid to have a look if there was an opportunity but we would only do it if it was in shareholder's interests.

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Andrew Bonfield, Finance Director
And then going back to the Gas Distribution business. If you remember part of the reason why we only sold a majority stake was because we believed that would maximise value to shareholders through the process by maximising competition and we think that outcome does reflect that.

As far as the 39% remaining stake effectively that actually is still producing a very attractive return and so at this stage it fits well in the portfolio as far as actually unless you have something else to deploy the capital into. So at this stage as John said I think it just becomes a financial investment and will be evaluated against - like we will evaluate all our financial investments in our other businesses as well, just on the ongoing portfolio review.

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John Pettigrew, Chief Executive
With that I'd like to say thank you very much everybody. As I finished off in my speech I think with the rebalanced portfolio we're in good shape to deliver the 5 to 7% and continue to deliver on the dividend policy. So thank you for your questions.

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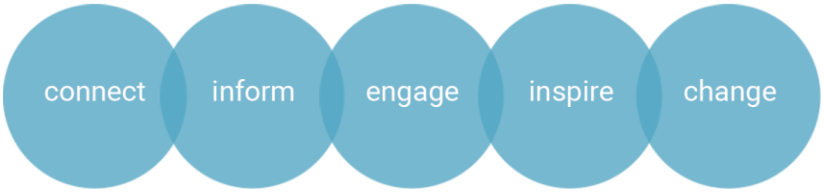

National Grid

Half Year Results Presentation

10th November 2016

NATIONAL GRID

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

QUESTIONS FROM

Iain Turner, Exane BNP Paribas

Mark Freshney, Credit Suisse

Deepa Venkateswaran, Bernstein

Ashley Thomas, Societe Generale

Jenny Ping, Citi

Dominic Nash, Macquarie

Ed Reid, Lazarus

Maurice Choy, Royal Bank of Canada

Chris Laybutt, JP Morgan

Sam Arie, UBS

Introduction

Aarti Singhal, Director - Investor Relations
Good morning, I'm Aarti Singhal, the Director of Investor Relations for National Grid. Welcome to our Half Year Results presentation and welcome to those who are watching this via webcast as well.

So this morning we're going to start as always with safety, there are no planned fire alarm tests, if you hear an alarm please make your way through these exits to the end of the hall. In your packs there is the cautionary statement, please take note of that as well.

As usual this morning after John and Andrew's presentations there will be time for Q&A and everything is available on the website and on the National Grid Investor Relations app and obviously the team and I are here if you've got questions later on today. So with that I'd like to hand you over to John. Thank you.

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Presentation

John Pettigrew, Chief Executive
Thank you Aarti and good morning everyone. So before I start I'd like to introduce Nicola Shaw who is with us today who joined National Grid in July as our Executive Director for our UK business. So Nicola has extensive background in running infrastructure businesses and also brings strong regulatory experience and I'm delighted she's part of the team.

So now to the results. So when we were together in May I outlined both our short term priorities for the coming year, as well as the key drivers for our long term success. So today I'd like to update you on the progress we've made on both these areas. But first let me turn to our financial performance over the first six months.

As you can see it's been a good start to the year. Headline operating profit of £1.9bn and an earnings per share of 28.2 pence are in line with last year, which as you will recall benefitted from an unusually strong contribution from our other activities.

In line with our dividend policy the interim dividend will increase by 15.17 pence per share, representing 35% of last year's total dividend.

We continued to make significant investment in critical energy infrastructure across the Group. In the first half of this year investment increased by 12% to £2.2bn with a change in the foreign exchange rate accounting for around half of the increase.

As always our top priority is providing safe and reliable service to our customers and I'm pleased to say we've had a strong first six months. Across the Group our injury frequency rate of 0.1 represents world class safety performance. Of course this doesn't mean that we can be complacent and our teams will continue to work hard to further improve this performance in the second half of the year.

Across both our US and UK networks reliability has remained strong, demonstrating the benefits and significant investment made in recent years. For example this summer in the US we had a severe storm that interrupted service to more than 50,000 customers in Upstate New York. Through the investments that we've made and together with quick mobilisation of resources we were able to restore power to customers in less than 24 hours.

Looking towards the winter in the US we're well prepared for the challenges it may bring. And in the UK despite concerns over tight electricity margins, our system operator is also well prepared and has the tools in place to balance the system.

So let me now review the key achievements and developments across the Group starting with the US. As you know updating old rate plans and being able to file on a more regular basis is a key priority for us. And I'm pleased to say that this is progressing well and we're now starting to see positive outcomes.

In September for the first time since 2010 we secured a rate order for our Massachusetts Electric business, increasing revenues by just over $100m. This included a 9.9% allowed return on equity and over 90% of our requested increase to operating expenses. The new rates also increase the level of allowed capital investment by $79m to $249m per annum, whilst also updating the rate base to include all previously unremunerated capital expenditure.

With the new rates effective from the 1st of October this plan will allow us to significantly improve our returns for Massachusetts Electric.

Also in September we filed a joint proposal for our Gas businesses in Downstate New York, called KEDNY and KEDLI. The proposal was developed with the Public Services Commission and whilst we don't expect the final decision until December or January, we believe the terms put forward represent a fair outcome for our customers and for National Grid.

The proposal is for a three year plan that includes phased revenue increases across calendar years '17, '18 and '19. The plan proposes a 9% return on equity and gives us 85% of the requested increase in operating costs and KEDLI and 87% for KEDNY. It also includes a series of incentive mechanisms that will allow us to earn incremental revenue for exceeding performance targets.

Importantly the joint proposal provides for a $3bn capital programme over three years, reflecting the continued high levels of gas mains replacement and providing a clear opportunity for us to grow our asset base through organic investment. The level of capex will grow the rate base by around 9% per annum.

In addition it also allows us to progress four gas demonstration projects under the New York Reforming the Energy Vision plan, known as REV, and these projects will help to assess the viability of new technologies on the network, which is key to ensure that we remain at the forefront of new developments.

And in all our service territories it's absolutely critical that we work collaboratively with our regulators to explore, and where appropriate, implement new technologies that provide benefits to our customers.

So with three major filings substantially complete and representing 40% of our US business we made good progress on our regulatory strategy. And this progress also demonstrates that we now have the right systems and the right processes in place that enable us to file on a more regular basis across our US entities.

Next year we plan to file for the Niagara Mohawk businesses and the Massachusetts Gas business. We're also considering the timing of the filing for Rhode Island, potentially in last 2017 or early 2018.

Once these are complete around 90% of our US business will be operating under new agreements, supporting us in our drive to achieve returns as close as possible to the allowed level. And of course whilst we progress these filings and await new rates to come into effect, the US business will continue with its drive for efficiency to keep costs down and help to offset the impact of inflation.

So turning to the UK, starting with the progress that we've made on the separation of the Gas Distribution business ahead of the sale of the majority stake. I'm pleased to say that our work to separate Gas Distribution from the rest of the UK is nearing completion. This process has been

complex given the scale of the business, and has covered a wide range of areas, including HR, IT, pensions, regulation and finance.

One major achievement has been securing attractive financing arrangements for the new entity. In September we raised the larger ever sterling bond for a non-financial institution of £3bn, as well as a 750 million Eurobond at an average rate of 2.2%.

We're also pleased to have reached agreement with the pension trustees to split the pension scheme into three sections. As part of reaching this agreement we'll bring forward some future contributions to the non-regulated section of the scheme in the form of a £250m cash payment to be made in early 2017.

The sale transaction itself is now at the advanced stage of the bidding process. We're pleased with the level of buyer interest and the process is on track to complete in early 2017. And as we indicated when we first announced our plans we expect to return substantially all of the net proceeds to our shareholders following completion of the sale.

So this will put the portfolio in a strong position to support higher growth and to continue to deliver attractive dividends whilst maintaining a healthy balance sheet.

So moving on to the main regulatory developments in the UK. We continue to work closely with the Department for Business Energy Industrial Strategy and with Ofgem to consider how to evolve our role as the system operator to meet the needs of the changing energy market.

We understand that there must be confidence that the role is performed independently of our TO activities, such that any perceived conflicts of interest are mitigated. And in doing so we believe it is vital that there is no disruption to the pivotal role that National Grid plays as the system operator in balancing the system. And we'll hope to hear from the government shortly.

Turning now to the mid period review where in August Ofgem its minded to position for the RIIO-T1 price control. National Grid welcomes Ofgem's continued commitment to the clarity and the certainty offered by the RIIO framework which is delivering important benefits for our customers. As expected the scope of the review was narrow and there were no changes to the financial parameters. It related to specific outputs in gas and electricity transmission with the changes expected to be implemented from April 2018.

And finally on regulatory developments I wanted to mention onshore competition. We remain supportive of competition where it's in the interests of the consumers. And we will do all that we can to ensure that the costs, the benefits, and the risks of competition are properly understood. We will continue to play an active role in helping Ofgem develop the regime and we're currently chairing a working group to develop and early tendering model as part of our overall contribution to the process.

One project that's likely to be considered for competition is the connection of the nuclear station on the Northwest Coast. Ofgem intend to run a consultation later this year to explore whether this project meets the criteria for contestability.

I believe if it is put out to competition our track record of delivery, our expertise, and our understanding of the needs of local communities, together with our customer commitment means we'll be well placed to be successful in competing for this project and for other projects.

So overall I'm pleased to report good first half results and significant progress on our key priorities for this year. I'll now hand over to Andrew who'll discuss the financial performance in more detail.

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Financial Review

Andrew Bonfield, Finance Director
Thank you John and good morning everyone. As John highlighted our financial performance was good, particularly as we were running against a very strong first half of last year. Our businesses delivered solid performance with operating profit benefitting from sterling weakness and favourable timing.

Total operating profit of £1.9bn and earnings per share of 28.2 pence per share are in line with last year. Capital investment was £2.2bn a 6% increase in constant currency.

Our balance sheet and credit metrics remain strong and we're on track to deliver good overall returns and value added for the year.

So let me start by giving you an update on each business segment and an indication of where we expect returns to be at the end of the year. Starting with Electricity Transmission operating profit was £697m, up 14% compared with the first six months of last year. Excluding timing operating profit was £33m, or 6% higher due to additional allowances reflecting the increase in the REV. Capital investment of £586m was £72m higher as non-load related spend increased to ensure the business meets its RIIO outputs.

Overall we expect returns to be slightly down to last year's very strong performance. We expect to deliver another strong year of totex, albeit down on last year. And the business is on track to deliver slightly more from other incentives and a similar contribution from legacy allowances.

For Gas Transmission, operating profit was flat on a headline basis at £159m, which included £7m lower timing benefits. Gas Transmission stepped up capital investment to £116m in the first half, an increase of 27% over last year. This included spend on a large pipeline replacement project under the Humber Estuary and accelerated investment in asset health. As a result we expect a marginal overspend on totex.

Good performance in other incentives will continue but will be slightly lower in the prior year. And as I have discussed previously our legacy allowances will continue to decrease. This year they will fall by about 100 basis points and conclude by the end of next year, we therefore expect overall Gas Transmission returns to be lower.

Operating profit for UK Gas Distribution was £403m, down 6% and this included adverse timing of £19m. Operating profit, pre timing, was 1% lower due to increased depreciation. Capital investment was £268m, down £18m on last year.

Moving to totex the business expects to deliver a consistent level of performance reflecting continued efficiency in the repex programme. We expect a good outturn under annual revenue incentive schemes and our additional allowances are expected to be similar to last year. As a result we expect a slight improvement in overall returns.

Now moving to the US. Headline operating profit of £435m was up 12% at constant currency, including favourable timing. Excluding timing and foreign exchange movements operating profit was down £61m. This reflects higher healthcare costs and operating taxes and the write off of some old construction work in progress balances.

The benefit of the new rates in Massachusetts and New York will start in the second half, so expect underlying profit, excluding timing and the strengthening dollar to be slightly higher for the full year.

Capital investment was just over £1bn, up £39m in constant currency. This was primarily driven by increased spend on mains replacement. As we've previously indicated our overall return for the US is expected to be around 8% for the full year and from this year we will report our US returns on a fiscal basis to align with the rest of the Group.

We're often asked about US regulation and why we are happy to accept a 9% allowed return in the US when returns in the UK are in the low teens. So I want to take a few minutes to explain the differences in the cash and economic returns that we earn from our UK and US businesses.

Let me start by looking at the regulatory frameworks on each side of the Atlantic. In both the UK and the US there is need for significant investment in aging infrastructure to repair, replace and modernise the networks.

Our regulators understand this and in both geographies the objectives of regulation are aligned, first to act in the consumer interest and second to balance the regulatory risk and reward framework to encourage investment.

However, the UK and US methods for delivering this are - these objectives are different. Nominal regulation in the US benefits cash flow and real regulation in the UK benefits growth, both of which are important to value creation. This can be looked at by looking at a simple example.

This slide compares both the economic return and the cash return on the notional £1,000 of investment in our regulated UK businesses to the returns proposed in the new rate plans for KEDNY and KEDLI.

You can see that the 48% equity ratio in the US helps provide a greater cash return than the 38% equity in the UK. In this example we would receive £43 of cash in the US, compared to £35m in the UK. When added to post tax debt allowances in total the US returns £13 more cash than the UK. This difference is important for us as we need to maintain strong cash flow metrics to fund growth in our business.

Obviously in the US we do not have the benefit of inflation protection, which is a key feature of the UK regulatory system. In the UK inflation is returned through an uplift to the RAV and returned over the life of the assets, which keeps the company whole. For reporting purposes we use the long term average 3% RPI, even though actual inflation rates have been below this for the past few years. By adding the UK inflation to the total you can see that this tips the total return on an economic basis in favour of the UK, as shareholders are being compensated for accepting less cash from customers today.

As a reminder many of the UK incentives benefit the customer through sharing mechanism, and these have helped us generate £330m of savings for customers in the first three years of RIIO. Again, this is a very high level example of the economic impact of the key differences of our UK and US regulatory frameworks. Of course the key is to make sure that we deliver against these Downstate New York rate plans and we are confident we can do this.

I also appreciate that there are other differences, for example deferrals in the US and fast/slow money in the UK which I've ignored for purposes of this example. However, the fundamentals remain, the mix of cash and growth within each geography enables us to deliver both growth and yield which is important for delivering shareholders value.

UK customers defer some of the bill payments through indexation, which also supports the higher regulatory gearing ratio. In the US nominal regulation is attractive because it provides National Grid with a faster cash return. We believe this mix of cash and economic returns supports the balance in the portfolio between the UK and the US.

Looking at our other activities, I'm pleased that so many of you were able to join the seminar in September where we provided greater insights into these businesses.

As expected, half year operating profit of £157m was lower, reflecting decreased revenues from our French interconnector business and last year's gain on Iroquois gas pipeline.

Our metering and Grain LNG businesses continue to provide a good steady level of profit and we expect this to continue for the remainder of the year.

Operating profit in our traditional property business is down year on year as we had some significant site disposals in the first half last year. We expect overall profitability to be similar for the full year. And as discussed at the seminar, St William, our joint venture with Berkeley Homes continues as planned.

Finance costs of £523m were up 6%, mostly due to exchange rates. Excluding foreign exchange finance costs were down £4m. Our effective interest rate increased by 20 basis points to 3.9% including higher RPI. The effective tax rate was 21.7%, down 30 basis points from last year due to the lower proportion of US profits and earnings per share were flat at 28.2 pence per share.

Operating cash flow for the half year was £2.3bn; this was lower than last year as warmer winter weather in the US led to a lower receivable balance for collection in the first half of the year. As a reminder we typically see greater levels of cash generation in the second half, and we expect cash flow, excluding foreign exchange and Gas Distribution related activities, to be broadly flat for the reminder of the year.

Net debt increased by £3.9bn to £29.2bn, the stronger US dollar increased net debt by £1.8bn, which is offset by the revaluation of US dollar denominated assets. Net debt also increased by £0.7bn from debt buybacks which I'll talk more about in a moment.

In the first year we've raised over £4.5bn of new long term financing. In August our US operating companies KEDLI and Massachusetts Electric issued new debt of $700m and $500m respectively. And we continue to find innovative ways to fund our business. For example we have agreed around $750m in the form of credit loans for the Norwegian interconnector with the Italian and Swedish export credit agencies.

Our Treasury team has also been active in making sure that the financing for the new Gas Distribution company is substantially complete. As John mentioned we completed the record £3bn sterling bond and a further 750 million bond at an average cost of 2.2%.

Alongside funding the Gas Distribution entity we are also focused on managing leverage in the retained National Grid businesses. We have bought back debt with a book value of £2.1bn including swaps, for a total consideration of £2.8bn. This early repayment has resulted in a £718m exceptional charge, reflecting the acceleration of future interest payments. This is NPV positive, with the economic cost of the buyback being offset by avoiding the costs to carry on excess cash and expected proceeds from the sale of the majority stake in the UK Gas Distribution business.

Consistent with our policy the Board is recommending an interim dividend of 15.17 pence, representing 35% of our prior year full year dividend.

Scrip take up in August was approximately 14% and we will again offer a scrip option for the interim dividend. We will continue to manage dilution whilst keeping a close eye on the need to finance growth within our current credit metrics.

As normal we have included technical guidance to support you with modelling assumptions. The key points are we expect the UK to deliver 200 to 300 basis points of outperformance, with reduction in totex and legacy incentives in UK Gas Transmission.

In the US returns are expected to be around 8% for this year, ahead of the full year benefit of new rates in Massachusetts and New York.

And we expect our other activities for the year to return to more normal levels of performance.

So let me summarise, the financial performance across the Group has been good. Our capital investment has increased again. Funding for the new Gas Distribution business is almost complete and our financial strategy remains robust.

With that I'll hand you back to John.

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Priorities & Outlook

John Pettigrew, Chief Executive
Thank you Andrew. So turning now to the priorities and the outlook. In May you might recall I shared with you four drivers that I believe are absolutely critical to the continued long term success of National Grid.

First our customers, every action we take must consider their interests as this will enable us to create value over the longer term. This is particularly important now when customers' needs are evolving and I'm focused on ensuring our customer first approach underpins everything that we do at National Grid.

Turning to performance optimisation in the business let me give you a good example from the UK. At the full year results presentation I shared with you an example of how we're optimising performance through our circuit breaker replacement programme, saving over £100m. Over the last few months we've applied the same principles to our transformers by reviewing our end to end replacement process. This has included challenging our approach to engineering design, how we undertake procurement, our contracting strategy and installation methodology.

This has resulted in opportunities to lower the unit cost by up to 30% and to reduce the timescales for replacement from over 20 weeks to just 12. Over the remaining RIIO period this is expected to save £140m with around 50% of it being shared with our customers.

In addition this approach has the added benefit of reducing the number of outages on the network and therefore also improving reliability for our customers.

Moving on to our near term growth opportunities as you know our aim is to grow our asset base by 5 to 7% per annum, assuming UK inflation of 3%. To meet this aspiration we're focusing on two key areas. Firstly, we'll continue to invest in our core regulated assets where we have strong growth potential. Over the past three years we've invested more than £10bn in these networks. And this year we expect to invest around £4bn.

The investment is needed to deliver asset health, network expansion and modernisation and we expect the current levels of spend to continue over the medium term. Ultimately all of these investments will enable us to deliver safe, reliable and affordable service to our customers.

And secondly, we're also looking for opportunities to increase the level of investment in our other activities segment. As we outlined to investors in September we see a number of opportunities, such as the additional 2.4 gigawatts of interconnector capacity, with two new interconnectors to France and to Denmark. A pipeline of commercial transmission opportunities at various stages of development associated with connecting renewable energy. And developing our surplus property portfolio, including the St William JV, where we expect to complete the sale of Fulham in 2018 which will significantly boost the profitability of our property division.

In addition we're also considering further investments to smart meters, solar and storage. It's clear to me we must take incremental steps today to maximise value for the long term. And whilst we have

several opportunities outside our regulated asset base we'll only allocate capital to those opportunities that drive the most shareholder value.

Finally let me update you on the evolving role of networks and the steps that we're taking to best positon National Grid for the long term. As you know over the last decade the drive for cleaner energy has led to significant investment in renewables. And this has resulted in much improved economies for distributor generation and more recently for storage. As the International Energy Agency has reported, renewables have now overtaken coal as the world's largest source of installed power capacity.

In addition, as I said earlier the needs of our customers are also changing. They are much more engaged and at the heart of our energy system, not at the end of the value chain.

So what does all this mean for our networks? Well I believe it creates clear opportunities. Just taking Electricity for example where change if most prevalent, significant investment will be needed to reinforce and modernise the distribution networks to cope with dynamic power flows and also to add intelligence to the network which is critical for enabling much of the innovation at the customer end.

And similarly in Electricity Transmission will also require investments with new sources of grid scale renewable power being connected and further interconnection is established between markets.

National Grid is responding to all of these changes, for example in our role as the system operator in the UK we're always seeking to find new ways to optimise the system and adapt to changing demands, whilst delivering savings for our customers.

In August we entered into contracts to supply split second power to the electricity system using battery storage. These were the largest contracts of their kind in Europe, helping to address the challenges created by the growth of renewables.

The contracts provide about 200 megawatts of enhanced frequency response at less than half the cost of the alternatives and are expected to generate significant savings of around £200m.

We're also at the forefront of developments in the US where we have a large distribution business that’s close to the end customer. One example is our growing distributor generation connections programme in Massachusetts which has made us one of the top ten utilities in the US for facilitating solar connections.

In addition our proposed New York and Massachusetts modernisation plans, which are designed for investment in technology upgrades ranging from smart meters to system automation, could result in over a billion dollars of investment.

So overall as you've heard we’re actively engaged in responding to these changes but we need to do more in order to keep pace with developments. To achieve this we’re enhancing our innovation and technology developments and capabilities through direct initiatives and partnerships such as our investment in Energy Impact Partners, a utility backed venture capital fund which brings us closer to entrepreneurs at the leading edge of the industry. So with our focus on the key drivers for long term success of putting the customer first, performance optimisation and growth, we’re taking the necessary steps across the Group to ensure that National Grid is strongly positioned to evolve for the future.

So in summary we delivered good financial performance and we made significant progress with our near term priorities. In the second half we will continue to focus on these priorities as we work to finalise KEDNY and KEDLI rate filings, to complete the sale of a majority stake in our Gas Distribution business of course subject to value, whilst we continue to seek new opportunities to grow the business.

So thank you very much ladies and gentlemen for your attention and Andrew and I will be happy to take any questions.

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Questions and Answers

Iain Turner, Exane BNP Paribas
Can I just ask what the capital structure of the Gas Distribution business will actually look like when it comes to sale? You may have given us enough detail in what you've said but can you just summarise what it will look like and does the business have a name yet?

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Andrew Bonfield, Finance Director
At the moment it is National Grid Gas Distribution so a very creative name. At the moment the entity itself will have a 65% structure because that's what the regulatory gearing is. Obviously some buyers will look at different gearing options but they will be at a higher level within the ownership structure and that would depend on the individuals who may or may not be interested. So at this stage the entity itself will be geared around the regulatory level.

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Iain Turner, Exane BNP Paribas
Is that an external debt ...?

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Andrew Bonfield, Finance Director
In the entity itself that is where we've raised most of the £3.6bn and there is other debt being transferred in as we speak and going through that process. So most of that will be externally funded. There will be some bank debt in there as well.

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Mark Freshney, Credit Suisse
I have two questions. Firstly on the bond buyback which post tax net proceeds or net cost is half a billion pounds. The benefit will mostly I guess appear in the sale price for the Gas Distribution business so when you get a higher price, all else equal, will you return those net equity proceeds, i.e. are you keeping the half billion benefit - cost on balance sheet and returning the proceeds to shareholders?

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Andrew Bonfield, Finance Director
Let me explain the first part. So obviously because we're only selling a majority stake first of all the £500m you're referring to, some of that actually is within the entity itself so a portion of that will be reflected in the sale price for the 51%, but we're not selling 100%, you won't get full reflection because some of that will flow through in the 49% minority stake we continue to hold Mark.

There is also some of the buyback was in National Grid Electricity Transmission so some of that will be reflected in lower interest payments going forward rather than purely in the prices.

When we look at what we will do obviously we will take into account the costs incurred in the transaction, effectively doing the debt buyback is a part of the cost so we will reflect some of that but it will be the proportion relating to the 51%.

Mark Freshney, Credit Suisse
Okay thank you. And secondly on the electricity system operator, negotiations with the government or discussions should I say seem to be prolonged, can you give us any colour as to what the preferred options are for increased system operator independence and what you think will happen in the outturn?

John Pettigrew, Chief Executive
So let me pick that out Mark. So the process is continuing Mark, so as we talked about previously, as the role of the system operator has evolved and developed there has been a recognition that we have to demonstrate independence in the market. But we've always taken putting the control - we've always taken seriously having the right controls in place. Over the last few months we've had discussions with the regulator and Ofgem. I've personally made it very clear that I don't think moving to an independent system operator is the right thing at this stage in terms of the evolution of the energy sector with so much going on but we'll continue those discussions and I'm hopeful, as I said in my speech, that we'll come to a conclusion relatively soon.

Mark Freshney, Credit Suisse
Thank you.

Deepa Venkateswaran, Bernstein
I have two questions. The first one is on the foreign exchange devaluation. Just wanted to understand what percentage of your UK capex is euro based or dollar based to the extent that you're - I guess nothing much is manufactured in the UK, and how hedged are you and should we then start seeing that dip into totex performance, I don't know, three years hence?

And the second question which is more broad for the UK in your role as the SO, so this winter we're obviously seeing big spikes partly because of some plans being in SPR and the French situation. Looking forward if these SPR plans partly come back to the market because of capacity markets but then there'll be equally be some diesel peakers and gas peakers as well which you'll include in your firm capacity, so what kind of a system are we look a year out? Again would these diesel peakers be actually selling prices in a few hours or how do you think about that?

John Pettigrew, Chief Executive
So let me pick up briefly on the first and Andrew can add to it. So in terms of our capital investment plans, so first of all with the exchange rate reduction that we've seen we've not seen any increases in prices coming through yet. We generally don't hedge our capital investment plan apart from our major projects. So where we've got some of our major projects such as interconnectors quite often we do hedge that exchange rate risk, but we're not seeing that price effect coming through at this stage.

Andrew do you want to …?

Andrew Bonfield, Finance Director

Well also I mean obviously some of this will flow through into higher inflation which will effectively we get real price effects anyway so we will have to wait and see, but obviously depending on what we can do from a procurement angle as well.

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John Pettigrew, Chief Executive
So in terms of the system operator role, so the current position is, as we set out in our winter outlook report, is the expected margins across this winter are 6.6%, that compares with 5.1% last year. So we've described that as tight but manageable. We have we believe the right tools to be able to balance the system. Clearly we've seen some volatility recently, that's partly explained by I think the events that are going on in France, so we're very aware and I've talked to our counterparties in France about their plans to do the safety checks on the nuclear plant.

They've told us that their intention is to phase that so there's no more than three to four gigawatts of French plant out at any one time, so we've looked at that in terms of the impact in the winter and we would expect the French interconnector to flow broadly over the course of the winter in normal weather. There may be circumstances when it's cold here and cold in France where actually we see a reduction in flows on the interconnector, but actually that's where SPR does come in. So SPR is effectively an insurance policy and we've got 3.5 gigawatts of strategic balance reserve for this winter that we can call upon if we see either a reduction in the flow on the interconnectors or indeed we see a reduction in availability of domestic generation.

Looking forward to 2017/18 I think the answer to your question is really dependent on what's the outcome of the capacity market auction in January. So obviously the government has announced that there is going to be a capacity auction for '17/'18. National Grid in its role of system operator will facilitate that but as yet we don't know what the outcome of that will look like and exactly what generation will make itself available.

Given that though we shouldn't be expecting to see strategic balancing reserve in '17/'18 winter. You know it was always intended to be an interim product and with the capacity market coming forward in '17/'18 we shouldn't need it.

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Ashley Thomas, Societe Generale
Two questions, one on EFR and the other one on capped market demand. On EFR John you highlighted and you suggested the cost is half of the alternative. Simplistically it looks like sort of £9 per kilowatt and I assume the alternative is FFR at about £40 per kilowatt, so to me that sort of seems materially below half. Is there another alternative or is there another way to think of it and could battery storage basically replace FFR in the future, i.e. could that £40 go down in the future?

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John Pettigrew, Chief Executive
So let me just give a bit of the background to the fast frequency response. So as the network has evolved and we've seen more intimate generation the system operator is continuously looking for new products to be able to balance the system efficiently. We identified a need for a really fast acting frequency response service so we put a tender out. We received about 1.2 gigawatts of responses to that tender against a need for around about 200 megawatts. So what we've ended up doing is contracting for about nine different parties for the 200 megawatts.

The price that was bidded, so it was very competitive, was a very strong price that means we identified the opportunity to save about 200 million for customers. How we calculated that saving is really to look at what would be the alternative if we needed to provide it from other than the battery storage. And the reality is it's not a one for one, so actually because it's fast frequency response, in

order to have the same capability from traditional frequency response you probably need to buy about four times as much, and therefore that drives the value for us as well as the unit prices were quite competitive as well.

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Ashley Thomas, Societe Generale
Great thank you. And the second question is just on capped market targeted demand. You recommended a 900 megawatt sort of reduction to the earlier demand level and the government decided on just a 300 megawatt reduction for the 2020/'21 T-4. What was the main sort of difference in view? I think it's down to embedded generation not in the capacity market and is that difference in view just sort of one off for 2020/'21 or is there a sort of more sustained difference in view?

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John Pettigrew, Chief Executive
No nothing was sustained; I think it was just an update reflecting better information. I don't think it was anything more complicated than that so we'd done our analysis, we'd submitted the information, there was some new information that came in that was updated and they reflected that. So I don't think there was anything fundamental to it.

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Ashley Thomas, Societe Generale
But you're just taking a more - they're taking a more conservative view than you are?

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John Pettigrew, Chief Executive
No I think they just had some additional information that they then reflected in the same analysis that we'd done. So I don't think there's any difference in view.

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Jenny Ping, Citi
Two questions. I know it's early days yet but I was just wondering whether you can give a sort of feel of where your thoughts are post the US elections? Clearly there's a lot of moving parts and not all of us know what actually the new President-elect actually thinks about various policies but just to give us a feel what level of the capex and the RAV growth are set within the federal levels presumably mostly versus at the top level? And also on the - from a big picture corporate level whether there's any tax, corporate tax changes which you would expect that to come through?

And then secondly Andrew just for clarification, so when you come through to give us a RAV premium number on the day you announce your disposals for the Gas Distribution assets, will that include or exclude the 700 million buyback? Thanks.

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John Pettigrew, Chief Executive
Shall I start with the question on the new President, President-elect in the US? So I think, to be fair it's early days I think we'd say in terms of doing our assessment of what exactly it means. I mean it was interesting yesterday I think that there was quite a positive statement that came out from the Trump administration in terms of infrastructure in the US and the need for infrastructure in the US so that's positive for us as well as other sectors as well. But I think we need to see what the detailed policies are to get a really good understanding of exactly what it means. It's worth remembering that the vast majority of our business in the US is Electricity Distribution and Gas Distribution. Gas

Transmission makes up about 10% I think. And therefore state regulation and state political relationships are really important and I'm going to ask Dean to possibly say a few words on that.

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Dean Seavers, President, National Grid US
Good morning. One, I agree that the infrastructure comments are encouraging but I'd echo the piece that John said about the local business. I mean our business model is basically non-partisan, so our business model starts with the customers. So for us it really, while we've got the federal relationships and they're strong, this really is at the state level in terms of policies and we think about what's going on Massachusetts with the clean energy RFP coming out as well as New York with the reforming the energy vision that John talked about, we've got great relationships there. So we're still encouraged about what we're doing for our customers.

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Andrew Bonfield, Finance Director
As far as the RAV premium is concerned I think we will give you information which will enable you - whether it's allocated as a cost or part of the reduction in premium. I don't think it really matters, it's what's the net proceeds is ultimately what shareholders are going to be interested in, but it will be part of the - it will be reducing part of the net proceeds so that will be part of how we would look at it.

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Dominic Nash, Macquarie
Two questions please. Firstly going back to the exchange rate and sterling, that obviously will impact RPI at some point and it should also impact your COPI I think you alluded that with an earlier question. Is there any protection in place if the two numbers start to diverge where you either have like high RPI low COPI or high COPI low RPI that you can either claw back from customers or customers can claw back from you?

And secondly going back to this debt refinancing and also wrapping it into the iBoxx index, do you think the ten year iBoxx index is actually fit for purpose within your structure? As we go to the end of the review I think we're going to get a negative iBoxx number, it's starting to looking increasingly likely. And if you're having to refinance debt in order to try and keep up with it or is that a strategy that you should do or should you be pushing for a longer iBoxx index along the lines of say the water sector is moving down?

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John Pettigrew, Chief Executive
Do you want to do iBoxx first?

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Andrew Bonfield, Finance Director
I was going to say on the iBoxx what we try to do Dominic and we've said consistently is actually measure against the spot, that's really what we've got to measure against on the issuance date you can actually measure it, so over time that should then give you performance which is at least in line or better than the index. So if you issue under the spot, even though at points in time the average may be above or below where you are, over time you should equalise up against that. So I think it's more - we're very focused on that.

As to whether the iBoxx is fit for purpose I think that's a decision that Ofgem will need to make and think about whether it does track correctly. I mean there are some differences obviously between our rating, the rating in the index, the length of tenure of our debt, the length of tenure of the index itself. So I think anything that just encourages companies to try and actually manage the liabilities better

across - is good, so if it was - I would probably agree with longer term financing if we can because ultimately that does drive stability in the business over time which is what we're trying to get because this is a long term business model. But that will be an Ofgem decision.

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John Pettigrew, Chief Executive
And in terms of your first question Dominic, I mean RIIO is designed to provide clarity and certainty over that eight year period. So there are certain elements that do adjust and RPI is one of them. There are certain ones that were a part of the overall package effectively that we're signed onto in terms of this is the cost and these are the outputs, so there isn't an adjustment for exchange rates or import inflation through construction and things like that. You know there are real price effects assumed in the real model and that was part of the eight year price control that we accepted back in 2013.

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Dominic Nash, Macquarie
What proportion roughly could you give us - quantify of your capex is imported?

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John Pettigrew, Chief Executive
I haven't got the number to hand, I don't know if you've got the number to hand?

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Andrew Bonfield, Finance Director
No.

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John Pettigrew, Chief Executive
We can come back to you on that Dominic, exactly what it is. But as I said we're not seeing evidence of increasing costs coming through to date.

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Andrew Bonfield, Finance Director
And there still are other things we can do then ultimately at the end of the day around for procurement which can help you create innovation, and back to the things that John was talking about as far as the transformer is a great example of that where it's a mixture of both performance from a procurement perspective and also looking at the engineering and leaning out the processes much better.

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Ed Reid, Lazarus
I think in the past Grid has talked about potentially a doubling of BSUoS costs over the next five years. I was wondering whether the outcome of the EFR has changed your view or you still think that is likely?

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John Pettigrew, Chief Executive
I mean it links back to what I was talking about in terms of what's going on in terms of balancing the system. So it's clear, I mean I quite often quote that 2015 was the last year that we operated the system in the way that we've operated over the last 50, and that just reflects the amount of

intermittent generation we're seeing, the amount of solar we're seeing on the network. And therefore the products and services that we're having to develop to make sure that we can maintain frequency and voltage are shifting, we're having to develop new products and services. And also as we've seen in the last year the generation market is also looking to balancing services as a source of revenue as well.

So our expectation is that it will continue to increase. Things like the tender are good news, you know they're good news for customers because they came in at a price that I think was very competitive and perhaps a little bit surprising. We have a process with Ofgem where we have to assess those costs on an either annual or every other year basis and we will do an update in the next few months actually in preparation for the next BEIS scheme. But we are seeing increased BSIS costs, there's no doubt about it.

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Ed Reid, Lazarus
Thank you.

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Analyst - Mark
Two detailed questions. The first thing is on the 5% to 7% asset growth aspiration can you confirm if that still only applies to the regulated grids or whether it would also apply to some of the other non-regulated investments such as the interconnectors?

And secondly on the change in reporting date for US returns. I think previously you've reported as at December, now you're hoping to move to a fiscal yearend. What would the comparator have been for last year?

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John Pettigrew, Chief Executive
So in terms of the first one, the 5% to 7% relates to our total growth so it does include our non-regulated businesses as well.

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Andrew Bonfield, Finance Director
Yeah as far as we will give you both pieces of information Mark. The reason to do this actually is to save the CEO and CFO having to explain to every investor the difference between calendar and fiscal year every time we get into a meeting on what the ROEs are. It actually means we can actually do it now on a consistent basis, but we'll give you the information. We will probably - the point to note, and I know that some people are saying well is this is an issue about what happened in the fourth quarter of last year on a fiscal basis, we did see returns low in the US and that was because of the mild winter weather. So we did still have non-decoupled revenues in KEDLI and KEDNY, because of the mild winter we did see a lot tick down. So you will see it slightly lower than the 8% than we talked about on a calendar year for a fiscal year basis for 2015/16.

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Maurice Choy, Royal Bank of Canada
Two questions from me. If I recall correctly two years ago there were some discussions about introducing a RIIO styled regime in the States, and if I recall correctly National Grid perhaps might have sent a team to help educate and discuss that with some of the PUCs in the States. I wonder whether if you could help us understand if that discussion is still ongoing, and given Andrew's discussion about a balance between growth and cash between UK and US regulation, if there is a

RIIO style regulation in the States would that be in the best interests of National Grid assuming it's value neutral to the customers?

Second question is just a quick question on the SO. If you could just help us understand what asset base if any this business has? Thank you.

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John Pettigrew, Chief Executive
So in terms of the price controls and rate filings in the US I mean our focus has been very much to get ourselves in a position where we can do them on a regular basis and have a drumbeat. So we have had conversations with the regulators both in Massachusetts and downstate New York as part of doing the rate filings. And although we're not in a RIIO style environment in the US, actually we have agreed with the regulator, particularly in downstate New York, some new incentives which are linked to outputs. So I mentioned in my speech that there are some incentives in KEDLI and KEDNY that actually give us some upside of potentially 0.3 to 0.4 basis points to outperform on our replacement programme or the unit costs and also to reduce the amount of leakage that we have on our networks.

So although there hasn't been a substantial shift in terms of the way that the US regulators think about it, they are actually putting in some incentives which are outputs based which is very much based on RIIO. From our perspective the principles of RIIO we feel are very strong because it aligns the utility and what we do with customers, and therefore we continue to promote the principles of RIIO both in the UK and the US.

The second question so it was on the SO.

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Maurice Choy, Royal Bank of Canada
Asset base of the SO.

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Andrew Bonfield, Finance Director
The asset base it's about £250m.

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Chris Laybutt, JP Morgan
Just one question on yesterday's asset sale process which we discovered SSE retained around 20% of the funds that they received in terms of equity funds. Could you give us a guide as to what you deem to be substantial at this stage in terms of the return of funds to investors please?

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Andrew Bonfield, Finance Director
Substantial means substantially, it means the vast majority. I think we haven't defined that. I mean one of the things we will be doing is actually engaging with shareholders through the next few weeks as to how we're going to do it. So there's a mechanism issue that we need to determine and also actually to get what they think because there are some shareholders for example that actually don't want us to distribute anything, so we will actually go through that dialogue process. But it will be substantially all.

Laughter

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Sam Arie, UBS
I just wanted to move to a question on I guess the UK political/policy background. And I think many of us would have the assessment that National Grid has done an amazing job in recent years of keeping out of the limelight in a period where the media and politicians have focused intensely on the supply part of the value chain. But going forward as you said systems getting more expensive to manage and consumption has been coming down so grid costs are increasing as a proportion of the bill. Do you have any sense of the sort of political environment for you in the UK becoming tougher or what more generally are your expectations in the next few years?

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John Pettigrew, Chief Executive
So I think one thing that's really important to remember is that the real principles that we've put in place and have worked on really do align the work that we do as a utility with customers' interests. So if you look over the first three years of RIIO then actually because of the way that that's structured we're able to return about £330m to customers through innovation and outperforming on the outputs. So I think in terms of the overall environment in which affordability is incredibly important, our focus to make sure that we're driving down the efficiency - driving the efficiency of our business to minimise the impact on customer bills is something that, as I said in my speech, is running through the DNA of the organisation.

So I think the fact that we're able to articulate that and explain that to people is important and we'll continue to do that. We've established very good relationships with BEIS, you know I was very pleased to see that they brought together energy with industrial strategy, I think that's the right thing to do and we've got good engagement with ministers and with civil servants on all aspects of the changing energy environment.

Okay if there are no more questions; okay in which case thank you very much for attending today. As I said in my speech a good first six months and we'll look forward to seeing you all in May.

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END

National Grid

Half Year Results 2017/18

9 November 2017

National Grid

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

Questions From

Mark Freshney, Credit Suisse

Jenny Ping, Citigroup

Nick Ashworth, Morgan Stanley

Dominic Nash, Macquarie

Iain Turner, Exane BNP Paribas

James Brand, Deutsche Bank

Fraser McLaren, Bank of America Merrill Lynch

Verity Mitchell, HSBC

Introduction

Aarti Singhal, Director of Investor Relations
Welcome to the National Grid half year results presentation. Good news no changes to my speech this morning, we will begin with safety and no planned fire alarm tests. If you hear an alarm please leave this room through the doors to my right here. Also make note of the cautionary statement that's in your packs. And as usual after John and Andrew's presentations we'll have time for Q&A, all the material is on our website and I now hand you over to our CEO, John Pettigrew. Thank you.

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Highlights

John Pettigrew, Chief Executive Officer
So thank you Aarti and good morning everyone. So as usual Andrew and I are joined this morning by Nicola Shaw and Dean Seavers who will be on hand to assist with any questions.

So let me start the review of our performance in the first half of '17'18. It's been a busy period for the group and I'm pleased to report we've made good progress. On the underlying basis, that is excluding the impact of timing, operating profit increased by 2% to £1.4bn reflecting new rates in the US for Massachusetts Electric and Downstate New York Gas businesses.

Underlying earnings per share were 20.4 pence, 1.8 pence below last year's EPS on a like for like pro forma basis, mainly driven by higher interest charges on our index linked debt.

In line with our dividend policy the Board has recommend an interim dividend of 15.49 pence per share representing 35% of last year's total dividend.

Our investment in critical infrastructure continue to increase in the first half of this year to £2bn up 4% of constant currency.

Our outlook for the year remains unchanged from what we set out in May driven by our expectations for a stronger second half mainly due to the seasonality of our US profits.

So it's been a positive first half and this performance continues to support our investment proposition to shareholders where that offers an attractive combination of yield and asset growth in the 5-7% range.

So moving now to our safety and reliability performance, as you know safety is core to National Grid and I'm pleased to say we've had a good first six months. Our focus on ensuring we have the right safety plans and procedures underpins our world class safety performance with the lost time injury frequency rate of 0.09.

Across with our US and UK networks reliability has remained strong. In the US we continued to see the benefits of investments to improve network resilience. Last week we responded to one of the most severe storms in recent years affecting all of our jurisdictions and impacting over 400,000 customers. We provided a strong response and we're assisted by other utilities and as is normal practice with these events we'll carry out a post storm review to see how we can improve our response in the future.

In the UK our system operator has been working hard to ensure we have the right tools in place to efficiently balance the system. This winter will be the first year under the new capacity market rules which has contributed to a significant improvement in the capacity margin, up from 5.7% to 10.3%.

Turning now to our key achievements and developments in the first half across the Group. I want to start with the US because as many of you heard at our New York seminar in September we see strong growth potential. In the coming years we expect significant investment opportunity driven by the need to replace ageing infrastructure and to modernise the networks.

As you know rate plans pay a key part in ensuring our capital plans are fully funded. And over the last six months we continue to make good progress on our rate filing programme with our Niagara Mohawk Gas and Electricity businesses and still in discussions with the New York PSC staff.

To remind you NIMO represents over 50% of our New York rate base. Our rate filings requested $331m of incremental revenue with capital investment of over $800m and return on equity of 9.79%. The PSC staffs initial response agreed with the vast majority of our capital investment plans and around half of our revenue requests, this is encouraging at this stage in the process.

We worked hard to improve the quality of our engagement with the New York PSC and are hopeful that a reasonable settlement will be reached before the end of December with rates coming into effect from April 2018. This means we'll have new rates for over 70% of our US rate base contributing to an improvement in performance and allowing us to achieve returns as closely allowed as possible.

Turning next to the UK regulated businesses. With the sale of a 61% share in our UK Gas Distribution business last year we've reshaped our portfolio to strengthen National Grid's ability to deliver higher asset growth.

As you know in June we returned around £3.2bn via the special dividend of just over 84 pence per share and to date we've returned 60% of the total £834m via the share buyback programme.

Both our electricity and gas transmission businesses continue to deliver high levels of performance. Under RIIO we generate outperformance by delivering efficiently. Ongoing process improvements and further innovation increase our efficiency over time lowering the cost of delivery which is shared with our customers.

A case in point is St Fergus our northern most gas transmission site and largest terminal importing gas onto the national transmission system. Due to the coastal location this site is exposed to harsh environmental conditions resulting in corrosion. We've developed innovative techniques for dealing with corrosion on pipework as it transitions below ground, this technique provides a full excavation reducing the cost per valve by 85%.

The projected savings of St Fergus alone through the adoption of this technique is around £10m and we intend to use this across the national transmission system for some repairs in future.

And this is just one of many great examples of how the RIIO framework is working for customers, driving process improvement and innovation to reduce the cost and work that we do and of course customers directly sharing the benefit of this efficiency. As of March this year RIIO had generated £460m of such savings for customers.

Moving on to our UK system operator role, in August following extensive consultation Ofgem announced the changes and the funding we'll receive to evolve our electricity system operating business. We continue to work to ensure we're ready for April 2019 when the electricity system operator, while still fully owned by National Grid, will operate as a legally separate company with its own Board and licence.

So turning now to National Grid Ventures, I'm pleased to say we made good progress in all areas including the interconnectors that are currently under construction. We have completed seabed surveys for Nemo our interconnector with Belgium, construction work on the converter stations is progressing well and the project is on target for completion in 2019.

On the North Sea Link our 1.4GW interconnector with Norway, we successfully completed all the civil works on the Norwegian side last month and the project's on target for completion in early 2022. National Grid's share of investment in these two projects is expected to be around €1.2bn.

For IFA 2 the second interconnector with France we've commenced the offshore surveys and we're now progressing the design and permit work as planned.

I'm also pleased that in June we were awarded preferred bidder status for the Shetland energy solution, the contract's expected to be signed in December. So this is a 60MW, 260 km interconnector between the Shetland Islands and Scotland and demonstrates our ability to be successful in a competitive environment and the link should be operational by 2021.

In the near term interconnectors are a major feature of National Grid Ventures but as I set out in May National Grid Ventures was created to explore growth opportunities to reinforce our technological expertise and strengthen our commercial capabilities as we continue to evolve for the future. And I'll touch on these broader initiatives later.

So overall I'm pleased to say we made good progress across the group on our key priorities. In the US we've continued to deliver on our regulatory strategy. In the UK we continued with our focus on efficiency and innovation. And in National Grid Ventures we made significant progress on our new development projects. I'll talk more about each of these project later but first over to Andrew to discuss the Group's first half financial performance in more detail.

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Financial Performance

Andrew Bonfield, Financial Director
Thank you John and good morning everybody. Before I go into the results I would like to point out that both John and I are using the pro forma 2016/'17 comparatives. These are the numbers we use to measure our performance both internally and externally. As a reminder the pro forma numbers for last year include an estimate of 39% share of UK gas distribution, now called Cadent, and adjust the share count to reflect the impact of the share consolidation and buy back.

Obviously the comparisons to last year are made more complex by the accounting for the disposal and this is exacerbated by the impact of timing on our statutory numbers. We've tried to be as clear as we can within the limitations imposed on us by financial reporting regulations, however I do realise this may be confusing.

First half performance has also been impacted by the change in business mix which means the seasonality of US gas operations has a greater impact on the first half, second half split.

So now to the first half results. Headline operating profit of £1.3bn and earnings per share of 18.5 pence per share were both down on last year mainly reflected the expected reversal of timing differences. Excluding timing and foreign exchange operating profit was £25m higher than the first half of last year and was in line with our expectations.

Underlying earnings per share of 20.4 pence per share is 1.8 pence lower than last year mainly due to higher RPI accretions on our index linked bonds.

Capital investment was £2bn, a 4% increase at constant currency, this reflects the continued investment in our core regulator businesses as well as the ramp up of spend on our interconnector projects.

Our balance sheet remains strong and we are on track to deliver good overall returns and value added for the year.

As usual I will start with Electricity Transmission. Operating profit was £542m down 22% compared to the first six months of last year. Excluding timing operating profit was £70m or 11% lower primarily due to lower reduction in base allowed revenues and lower BSIS income.

We invested £515m on the reinforcement of our networks and new connections; this was £71m lower than last year reflecting the lower spend on the Western Link. Looking ahead to the full year we expect to deliver Totex performance close to last year. The contribution from legacy allowances will also be consistent but as a result of the reduction of the BSIS opportunity currently our incentive performance will be lower, overall though we expect good outperformance for the year.

For Gas Transmission total operating profit was £33m lower than the prior period with £29m higher excluding timing. This underlying increase reflects higher revenues due to allowances for the Avonmouth pipeline. As you know these revenues will be returned next year when the outcome of the mid period review is put through the price control model. This will reduce operating profit next year by approximately £85m; this is simply how the Ofgem adjustment flows through our IFRS revenue; however this will have no impact on returns as the allowances have been excluded from those calculations.

Gas Transmission capital investment increased by £41m to £157m, this included spend on the Humber pipeline project and investment in asset health. We expect Totex performance to be similar to last year as we continue to make the necessary investments in the system. This is to ensure we meet the network output measures even though this is above our allowances.

We expect the good performance on other incentives to continue and as I've discussed previously our legacy allowances have ceased. Overall the return on equity will be around the allowed return of 10%.

Now turning to the US. Headline operating profit of £433m was in line with last year with the benefit of foreign exchange offsetting adverse timing. Excluding timing and foreign exchange operating profit was up £59m due to higher revenues from new rates in Massachusetts Electric and our Downstate New York gas businesses.

Capital investment was £1.1bn which at constant currency is in line with the high level of spend last year. We expect full year investment to be higher than last year.

As we've previously indicated we expect the US return on equity to be 90% of the allowed, this reflects the improved performance we expect under our new rate plans.

Over the medium term our US operating profit excluding timing is expected to increase in line with asset growth of around 7% per annum.

We are now showing National Grid Ventures as a separate part of other activities. Our existing interconnector Grain LNG and metering businesses continue to perform well delivering similar levels of profitability to the prior year.

Capital investment has increased significantly to £180m compared to £87m last year reflecting the investment in our interconnector projects that John mentioned earlier.

The full year operating profit contribution from NGV is expected to be in line with the prior year.

Other activities include our St William joint venture with Berkeley Homes, our residual property business and certain central costs. At the half year operating profit was £26m, £13m higher than last year reflecting the timing of property transactions.

The share of post tax earnings from our remaining 39% stake in Cadent was £55m compared to £71m on a pro forma basis; this reduction is mainly due to adverse year on year timing. The contribution from Cadent for the current year and for our pro forma results includes the impact of a proportionate shareholder loan from National Grid to Cadent. This means £15m of interest income is recognised as a credit in the interest line but is an equivalent reduction in our share of Cadent's profits.

Before I move on to talk about our interest charge for the first six months I thought it would be helpful to step back and look more broadly at how rising inflation and interest rates affect the group's operating results. In the UK inflation on our asset base is managed through an uplift to the regulated asset value and recovered over the life of the assets. By deferring the impact of RPI into the RAV the regulator keeps the costs to consumers lower in the short term but rewards shareholders over the longer term.

We've particularly hedged this by issuing RPI linked debt. Higher RPI is economically positive as the indexation of £19bn of RAV is far greater than the indexation on £7bn of RPI linked debt. 100 basis point increase in RPI would therefore represent a net total of £120m of incremental asset value.

However, in the short term the current higher inflationary picture decreases UK earnings as the impact on our interest charge is greater than the amount that was used to determine our 2017/'18 revenues. It will be two years before the impact of higher inflation is trued up in revenue.

The cost of debt allowance in the UK is updated annually based on the ten year iBoxx tracker. This mechanism has a lagged impact but protects the company in a rising interest rate environment. The key as I have discussed before is comparing the costs of new debt issue against the spot rate on the index.

In the US nominal regulation builds in the recovery of an assumed level of inflation in the year in which it occurs. This provides a faster cash return which means that the rate base is reduced quicker and therefore is not affected as much by inflation. Our rate filing programme is designed to adjust the cost of service and the return on equity to reflect increases arising from inflation although the speed and recovery obviously varies by jurisdiction.

The key to managing this is timing rate cases to mitigate the impact on returns. US regulators take into account the cost of debt and provide for a straight pass through of these costs to customers, this is why most of this debt is fixed rate, long term debt.

So turning back to performance for the first half, finance costs with £527m up 23% on a pro forma basis. We have now cycled through a full year of RPI increases so we expect this to have a much lower impact in the second half.

Our effective interest rate was increased by 80 basis points to 4.7% again due to higher RPI.

The effective tax rate before join ventures was 20.8% down 200 basis points from last year mainly due to the lower UK corporate tax rate.

Earnings per share were 18.5 pence, 6.5 pence lower than last year on a pro forma basis mainly due to adverse timing of 4.7 pence.

Operating cash flow was £2bn, this was higher than last year primarily due to lower pension contributions.

Net debt increased by £3.8bn to £23.1bn, the increase includes the return of £3.6bn of the gas distribution proceeds to shareholders and an increase of £1.4bn related to business requirements. These factors have been partially offset by stronger sterling and other non-cash movements which decreased net debt by £1.2bn.

In the first half of the year we raised over £1bn of new long term financing. Consistent with our policy the Board is recommending an interim dividend of 15.49p per share representing 35% of our prior year full dividend. The return of the £4bn of gas distribution proceeds is well advanced as both John and I have mentioned. The remaining buybacks are expected to be completed in the second half. The capital distribution is designed to maintain our per share measures, this will reduced the average share count by 300 million shares this year and a full year impact of around 400 million shares next year.

Underlying performance to the Group excluding timing is expected to remain consistent with the full year guidance we provided in May.

The two areas to highlight are, first our share of Cadent performance will reflect an incremental £22m annual depreciation charge associated with purchase price adjustments from the fair value exercise carried out by the new owners. This wasn't reflected in the pro forma EPS we provided in May as it wasn't available at that time. Adjusting for this our 2016/17 pro forma EPS will be 58.6 pence per share rather than the 59.2 pence per share we discussed in May.

And second in the US despite the outflow and timing the first half we continue to over recover revenues associated with the NYSERDA funding programme. The over recovered balance at September was $358m and over recoveries are expected to continue until November at which time the balance will begin to be repaid at the rate of approximately $10m per month.

So let me summarise, the financial performance across the Group as a whole is in line with our expectations. We expect a significantly stronger second half as a result of cycling through UK RPI increases and increased seasonality due to a greater proportion of our businesses being represented by US Gas.

Our capital investment has increased, supporting asset growth in line with our stated range of 5 to 7%. And our financial position remains robust. With that I'll you back to John.

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Priorities & Outlook

John Pettigrew, Chief Executive
So thank you Andrew. As I said at the start we've had a busy first six months and I'm pleased with the progress that the Group has made. So turning now to our priorities for the second half where I'll cover our key areas of focus and also provide some context on the environment in which we operate and I'll start with the UK.

So since privatisation National Grid has made significant progress, our electricity transmission costs today are 30% below that of privatisation levels. In the last ten years we've invested about £14bn in transmission infrastructure and today our electricity and gas transmission costs represent just 3% of the average household bill. And under RIIO we'll continue to invest and drive efficiency through the types of initiatives I discussed earlier.

Anyone following the energy sector in the UK in the last six months can be in no doubt from a customer, political and regulatory perspective the cost of energy remains top of the agenda. There's been wide ranging discussion and commentary on the functioning and ownership of the UK's energy sector and whether it's delivering value for customers. In effect we're seeing ever greater pressure to deliver higher quality services whilst simultaneously reducing costs.

But as I just outlined this is not a new area of focus for National Grid as the regulatory framework that we operate within incentivises us to achieve precisely this. National Grid is a responsible organisation and we'll continue to work closely with local and national governments to ensure we're able to deliver world class services whilst responding to customer needs.

So turning now to regulation, at the end of August Ofgem released a consultation for the needs case and options for delivery for Hinkley Seabank. This is a significant project with expected Capex of almost £1bn. Ofgem were consulting on three models of the delivery of this important connection. We've responded to this and we await Ofgem's decision. Ultimately our overarching goal is to remove the regulatory uncertainty so that we can focus on the timely connection of the power station. We expect the needs case to be published in December along with the consultation on the preferred delivery model which will be confirmed in 2018.

And now I'd like to touch on RIIO T2. In July Ofgem issued an open letter setting out their key principles for the future framework. We're pleased to see that many of their principles are consistent with our view including putting the customer at the heart of decision and ensuring infrastructure is built as efficiently as possible.

We firmly believe that with these shared principles Ofgem should be able to create a regulatory framework that ensures efficient delivery of needed capital investment whilst providing investors with certainty and confidence in the utility sector.

As you can see from the timetable on this slide we're still three and a half years away from the start of RIIO T2 and the exact financial parameters won't be known for some time. And 2018 will be an important year in the establishment of the overall framework for the price control.

Ofgem's high level timetable indicates a framework decision around the middle of next year with the company specific consultations beginning after this. We'll certainly be updating you along the way to 2021. However, we don't intend to respond to every piece of communication from Ofgem but will provide updates when it makes most sense.

Ultimately there are of course a number of parameters that make a successful price control from base returns, levels of investment, outperformance incentives to speed of cash. We've got a good track record of collaborating to achieve successful regulatory frameworks and being able to deliver against our price controls for our customers and for our shareholders.

As for our near term priorities in the US the first is to reach a settlement for the ongoing NIMO rate case with the new rates coming into effect in April 2018.

We also intend to submit rate case filing from Massachusetts Gas and Rhode Island Gas and Electric businesses this month, together these two businesses represent around 20% of our US business.

The Massachusetts Gas filings is the first since 2010 and will enable us to update revenues to more closely reflect our current cost of service and to allow us to earn returns closer to the allowed levels.

The Rhode Island Gas and Electric filing will be the first since 2013. Whilst Rhode Island regulation includes capital trackers it's important that we reset our operating expenses to ensure that we can earn a fair level of return.

In addition to rate filings over the next six months we have a number of priority initiatives to optimise the performance and evolve the US organisation to deliver significant increase in capex.

As we mentioned in September we now have a US capital delivery function that is responsible for the majority of our US capital spend and will emulate the UK capital delivery function with clear end to end accountability.

This approach is key for some of our major capital projects that are in the early stages of development like the Metropolitan Reliability Infrastructure project in Brooklyn which is a $250m five year gas project aimed to support the long term system demand in New York City. And the North West Nassau project on Long Island which is a six year, $280m project that involves installing eleven miles of gas mains and replacing older sections of the transmission network.

Together both of these projects funded through our rate plans represent more than half a billion dollars of investment and given the scale of the projects the end to end process work should have a real impact at reducing risk and driving the overall success of these projects.

At National Grid we're at the forefront of technology and innovation and we know it's a key driver for our long term success. So before I talk about National Grid Ventures I want to pick up on two areas of technological development that are increasingly important in the near term where we're actively pursuing opportunities.

Starting with renewables where we've seen continued reduction in the costs, in the UK offshore wind has been developed at prices unheard of only a short time ago. Similarly if we look at solar in the US we've seen the costs falls by 85% since 2009. The reducing price for renewables is creating growth opportunities for National Grid for example we've connected the US's first offshore wind farm in Rhode Island and recently we won a project on Long Island for 23MW of utility scale solar.

Looking forward we're also working with offshore wind providers to bring more renewable generation into Massachusetts. Therefore I believe renewables will continue to bring opportunities for National Grid at multiple points along the supply chain.

The second area is storage with further reduction of lithium battery costs by 73% since 2010 batteries are increasingly becoming an important component in the energy mix. I'm pleased to say that next year we'll start the construction of our first large scale battery energy storage system in the US. On the island of Nantucket this solution which has been developed in tandem with Tesla will provide the additional capacity needed on the island. Although this is a relatively small project I highlight it because it demonstrates our storage solutions and one of a number of options we can use to respond to customer needs.

And finally as you know we've seen the continued development in electric vehicles. Although it's early days I'm excited about the role we're already playing. For example in the US we're proposing 1200 charging stations, in Massachusetts and in the UK we're in discussions with the government on how to develop needed infrastructure to support the adoption of EVs.

So turning now to our near term priorities for National Grid Ventures. As I discussed earlier we already have a good pipeline with new interconnectors under construction and there are further opportunities too. For example last week the Danish Government announced its backing for the 1.4GW Viking Link between the UK and Denmark. A final investment decision is to be taken next March with completion planned for 2022.

In the US we have a growing pipeline of business development opportunities including competitive transmission, battery storage and electric vehicle infrastructure. In the second half of this year we'll continue to develop these opportunities whilst also taking small steps to better understand the impact of distributed technologies on the networks.

And one particular area of focus will be the transmission projects Granite State power link and North East Renewable link. In July we submitted bids to bring renewable energy to Massachusetts through both of these projects, the results of the tender process will be known in January 2018 and if successful these will represent over $1bn of new capital investment.

So overall I'm pleased to report good progress in all of our businesses and I'm confident this momentum will continue. In the second half we'll continue to focus on our priorities as we work to finalise the NIMO rate

filings, continue our engagement with Ofgem on RIIO T2 and Hinkley Seabank and seek opportunities to grow the business whilst remaining focused on performance optimisation and keeping pace with the evolution of our industry.

As I said earlier we're operating in a dynamic environment but National Grid has strong fundamentals that underpin our ability to great value over the long term. We have a high quality asset portfolio, a strong balance sheet, access to solid growth opportunities driving asset growth and yield and excellent teams that are motivated to deliver enhanced performance. I'm confident that we're well positioned for attractive growth and good shareholder returns.

Thank you for your attention ladies and gentlemen and Andrew and I will be happy to take any questions.

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Questions and Answers

Mark Freshney, Credit Suisse
Hi you seem more than ever to be talking about National Grid Ventures and proactively going after growth rather than taking growth in your rate bases. Can you talk about the returns in National Grid Ventures and what kinds of returns you see and how those compare to the core businesses?

Secondly, just on capital deployment within the Group, it seems that National Grid is moving from being 70% of EV in the UK to you know well over 50% in North America in just a few years. Can you talk about where you see that going and whether you'd be able to find the growth in North America?

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John Pettigrew, Chief Executive
If I start with the first question in terms of National Grid Ventures and actually as I set out in there our focus is very much in three areas. In our UK core regulated businesses, our US core regulated businesses and also as the industry continues to develop we want to take advantage of opportunities which we're focussing through National Grid Ventures.

So the US is growing as we said in September at around 7% per annum in terms of the regulated asset base, we've got strong growth there. In the UK we're expecting the capital investment to be at a similar level to what we've seen in the first four years of RIIO which is about £1.3bn per annum.

But National Grid Ventures is an opportunity and as I said the initial focus is very much on the construction of the interconnectors. This year the capital investment is around about £400m and we've got some good opportunities as I've set out in my speech going forward. So it's not more of an emphasis, it's more about making sure that we're focussing on all three areas going forward.

In terms of the overall shape, I mean the overall shape was impacted by the successful sale of 61% of our gas distribution business last year so with the growth rates that we're seeing over the medium term in the US and the UK then naturally the overall shape is going to head towards a 50/50 split between the UK and the US. Our medium expectation is that the US will grow at around 7% and the UK by about 5%.

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Mark Freshney, Credit Suisse
And returns in Ventures?

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John Pettigrew, Chief Executive
So returns in Ventures you know the focus at the moment is on our interconnectors business so any investment we make on an interconnector on any project with National Grid we've got a very disciplined approach. Our expectation as we said before for the interconnectors is that they're likely to earn returns based on scenarios that we've tested at slightly higher than you expect to see on the onshore transmission businesses in the UK. And of course they're protected with the cap and collar that we've got in place for the new interconnectors going forward as well.

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Jenny Ping, Citigroup
Thanks very much. I just wondered whether you have any comments on the back of the Helm Review, some of the issues that's raised in terms of networks and the profitability there?

And then secondly you talk about EV infrastructure discussion with UK government, can you just give us an update there as to where you are, what the potential structure could look like and the potential spends there? Thanks.

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John Pettigrew, Chief Executive
So in terms of the Dieter Helm Report I think it's fair to say it was comprehensive and ambitious given the timescales that Dieter had to do it. And I think there are some interesting concepts in there particularly around simplification and transparency that he's promoting.

From a networks perspective I don't agree with his analysis on RIIO, I think when you look over the last four years with National Grid then it's clear that we've delivered about £460m of savings through actually delivering projects more efficiently using innovation whereas Dieter has sort of focussed in on the assumptions that were set out at the beginning of RIIO T1.

So you know the government this week has opened up the opportunity to respond to that with a call for evidence that's due just after Christmas so we'll look at the detail now and we'll respond accordingly to it.

In terms of EVs as part of the response to the Industrial Strategy that came out a few months ago, National Grid set out a concept really about how do you address the key issue of range anxiety. And one of the ideas around that is potentially creating a network of service stations that have access to fast charging so the simplistic concept is you know you can charge your car in the time it takes to get a Costa Coffee. And if you were to do that then you potentially need quite a significant amount of power potential of the transmission system. So we've been exploring that concept both with service station providers, car manufacturers and the government to see whether there's an opportunity to create a backbone for infrastructure in EV as part of the government's broader ambitions to rollout electric vehicles.

In terms of potential investment opportunity then it would be several hundred million to connect all the key service stations in the UK. But it's very, very early days and this is the concept at the moment and we've got a lot more work to do to think about the impact on networks and how best you address issues like range anxiety.

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Nick Ashworth, Morgan Stanley
Thank you, morning. Firstly can you give us an indication around how much money is being spent on the interconnectors? I think both of you talked about it in you presentations so it would be good to know how much has gone into that already?

Secondly where will net debt be by the end of the year, looking at the technical guidance it seemed to be pointing towards £24bn but I just wanted to make sure that I'd read that correctly?

And then finally in the US you're talking about targeting 90% of the allowed returns, does that mean that you think you will get there this year, what are the risks arounds that and just have a bit more colour on that would be helpful? Thank you.

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John Pettigrew, Chief Executive
Shall I take the first and third and I'll hand the second to Andrew. So in terms of interconnectors against the projects that we've got in construction at the moment and potentially including Viking, then the overall capital investment would be around £2.2bn.

I mean currently this year we're probably going to spend a couple of hundred million so it's going to ramp up over the next two to three years quite significantly to get the projects complete. So NIMO is due to be complete in 2019 so it's further advanced and NSN is due in 2021 and if we take Viking forward that would be in 2022 and IFA 2 in 2021. So actually over the next four or five years it will be quite a ramp up in capital investment in interconnectors.

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Nick Ashworth, Morgan Stanley
But in terms of how much has already been spent today or this year it will be …?

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John Pettigrew, Chief Executive
It's probably something around about £400m Andrew?

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Andrew Bonfield, Financial Director
Yes, somewhere around £400m I would guess.

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John Pettigrew, Chief Executive
In terms of allowed returns so as you said in your question so we've set a target to achieve 90% of allowed returns this year. So clearly we get the benefit of the KEDLI and KEDNY settlement that we did last year as well as Massachusetts Electric. So at the half year stage we remain confident that we're going to hit that target.

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Andrew Bonfield, Financial Director
And on net debt we've estimated about another half a billion of business related spend, there's about another half a billion of potential gas distribution so somewhere around £24bn is constant currency so currency is the big swing factor.

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Dominic Nash, Macquarie

Hi two questions please. Firstly I see that your developing this 23MW of solar on Long Island, are you actually the owner operator of this renewable generation?

And a follow on question from that is the scale of opportunities for renewables in the US is obviously huge, is it something that if it work and you could actually potentially rollout at a magnitude or two greater?

And my second proper question is how are the negotiations going with the DSO versus TSO debate on who's going to be sort of controlling the lower voltage networks, will you be the people sort of controlling that?

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John Pettigrew, Chief Executive
So in terms of the first question the solar opportunity on Long Island - so this is actually a JV that we're in with NextEra, so that it's a relatively modest investment, around about $30m and we're currently in negotiations with Long Island Power Authority for a long term PPA.

But as an opportunity to your second question, and one of the reasons that we created National Grid Ventures was to look for opportunities where you know the type two investments have similar characteristics that we believe we have in terms of the infrastructure energy. So infrastructure energy that requires good engineering, good asset management, low risk with regulatory characteristics are things that we would look to explore through National Grid Ventures and renewables clearly is one of those opportunities.

In terms of the TSO, DSO, we're making good progress actually through the work that the ENA has set up to really establish a clearer framework for transferring data and understanding where the constraints are in the systems. And that particular work is going well, it's focussed very much with UK power networks at the moment because there's some real constraints in their network and we're identifying where they are and working to see what the whole system solution is. So that work is progressing well I think.

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Dominic Nash, Macquarie
When you think we'll get clarity on that?

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John Pettigrew, Chief Executive
I think it's an ongoing thing rather than it's a point in time. Dominic I think as the networks continue to evolve I think the role of the system operator and its interaction with the DSO is going to have to continue to evolve. So I'm not sure there's a deadline but you know it will continue to ramp up as the networks continue to evolve and the challenges change.

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Iain Turner, Exane BNP Paribas
Can I just ask about the accounting implications of the NYSERDA thing and it looks as if you ex that out you're actually under recovering by more, there's more under recovery on the ex NYSERDA performance, there isn't a headline figure is that right?

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Andrew Bonfield, Financial Director
Yes so we actually did continue to over-recover by about $10m a month through the first half of the year so the balance I think has gone up from somewhere about $270m to $350m in the first half of the year so that

was a contra to the other. But if you remember we did have quite a significant time imbalance in the US at the end of last year which is part of what we've handed back.

NYSERDA is unfortunately one of the quotes of IFRS accounting, we have this discussion often, I notice the Chairman smiling in the front row about the fact that we actually have to recognise revenue which is probably not ours and we then have to give it back over time. That is part of the reason why we highlight timing as an issue. So effectively the under GAAP it would have just been the deferral and you wouldn't have seen it through the P&L, under IFRS we count as revenue and the give back through revenue. So it's just going to have a legacy impact on us going forward probably for a couple of years now.

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Iain Turner, Exane BNP Paribas
So it's basically a switch from over recovering to paying it back …?

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Andrew Bonfield, Financial Director
Yes eventually it will not just be effectively taking what we continue to take through bills, we'll actually then start passing on to NYSERDA as well, so you'll lose the 120 overall recovery and move to 120 over recovery unfortunately.

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James Brown, Deutsche Bank
Two questions both on the US. Firstly I was wondering whether you could give just a view on what the impact of US tax reform might be on you if it goes through somewhere in line with the current proposals?

And secondly obviously I guess one of the other focuses of Trump has been infrastructure spend and the need for a massive infrastructure investment programme. And when you have rate reviews in the US there's always been a bit of a trade-off between infrastructure spend requirements and affordability. I was wondering whether you could give us an update on whether it's becoming any easier for you to convince regulators of the need for investment and whether that trade-off between affordability and investment is moving a bit closer to facilitating more investment than in the past?

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John Pettigrew, Chief Executive
Shall I do the second you do the first?

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Andrew Bonfield, Financial Director
So US tax reform obviously there is the draft bill that we've seen, a couple of things of interest for you. Obviously one which is the fact that they seem to indicate that interest deductibility for utilities will remain which is important. The other key factor which we were interested in was obviously around property tax deductions, deductibility because that is obviously key.

The other factor that's there is obviously the elimination of bonus depreciation for utilities again which is quite good. Because effectively at the moment we do have this situation where all our investment is depreciated in year one and we're building up a very large deferred tax liability against RAV and that's actually been a break of RAV growth over that period of time.

So obviously there's still a long way to go, there are a number of things in the legislation which we don't particularly like so we'll be working to look at those particularly around Hold Cos and what that means from an interest deductibility perspective and so forth. So there are some things and obviously there's a long way to go before we can actually give you the real picture of what it is.

I think the interesting thing which I think is one which leads into the second part of the question is potentially there is some actual headroom because effectively if you have a significant reduction in the tax rate effectively there is a give back potentially to customers. And can that be used then to actually invest more, give you a bit more bill headroom to do some more of the interim structure and investment which we think is necessary.

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John Pettigrew, Chief Executive
And in terms of the infrastructure so I guess we're keen to see when any legislation or thoughts come forward in terms of infrastructure. So we're certainly part of the initial key policy areas but we're waiting to see and potentially that's a positive thing.

But for our US business you know state is really important as well so in terms of the infrastructure drivers. If you look at our Downstate Gas businesses last year we set out the requirements for investing both for safety, resilience, reliability and to start to adapt the networks. We asked for $3bn over three years and effectively that's what the regulator supported us with.

If you look at NIMO in Upstate New York the affordability issue is more of an issue in Upstate New York just in terms of demographic. But in the initial response from staff against our capital investment proposals which are again driven by safety, resilience, reliability, as well as some grid modernisation their initial view was to accept about 92% via electricity transmission capex and about 82 of our gas. So from a starting point that's a very high level.

When we put our rate filings in place we're very cognizant of affordability so obviously in recent years we've had the benefit of commodity prices coming down so there's been some headroom.

But we also look to shape our rate fillings to mitigate the initial impact. So if you look at our KEDLI and KEDNY last year for example we smoothed the revenue impact over three years rather than the customer seeing a significant increase in year one. And we have the same engagement and discussions with the regulators in Upstate New York as well.

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Fraser McLaren, Bank of America Merrill Lynch
Good morning. Just two questions please. You seem to be expecting NIMO to complete by the year end, that's a little earlier than you thought might be the case, does that mean that things are going particularly well and is that therefore related to your expectation of a reasonable outcome?

And finally just on tax guidance, notwithstanding the definition used in the statement versus the full year, is the underlying rate now higher than your previous indications and if so why is that the case?

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John Pettigrew, Chief Executive
I'll do the first and Andrew can do the second. I mean in terms of NIMO the positon hasn't changed massively from where we were in September at the seminar. So following the staff's initial response to our filing we agreed to enter into settlement discussions. Those discussions are going well and you know our hope and

expectation is that we could potentially come to a conclusion towards the end of the year. But those discussions are ongoing as we speak.

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Andrew Bonfield, Financial Director
And on tax guidance yes it is slightly higher but that does reflect the mix of profits we're expecting for the full year so don't forget obviously the differentiation between UK profitability and US profitability has quite a significant impact on the swing so the mix of profits is the major driver.

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Analyst, HSBC
Just a quick question with your system operator hat on. There's been quite a lot of comment about perhaps the de-risking or reduction in grid volatility because of battery storage or a more stable system. Given that one of your responsibilities is keeping the lights on and balancing the system, how do you see that evolving with battery storage and new other solutions, are you more confident about the stability of the grid going forward?

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John Pettigrew, Chief Executive
Yes thank you for the question. I think over the least three or four years the system operator has been consistently looking at developing new products and services that allow us to balance the systems as efficiently as possible, reflecting the new challenges that intermittent generation brings.

So I think it was at the full year results we talked about the fact that some of the new products we put in place have included what's called fast frequency response. It wasn't technology specific but things like storage are really well placed to be able to provide those services where you need to have response from generation in sort of milliseconds. We put a tender out, we got a huge response, I think it was over 1,000MW actually response and we bought 200MW which is what we needed for the system operator.

Every year we set out our strategy for how we're going to operate the system and at the moment we're looking at what we can do to simplify the products we've bought historically so that we've got the right products and services going forward. And that will continue as we see more and more intermittent generation coming on and I think storage will be an important part of the types of tools that the system operator will need to use.

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Analyst, HSBC
Are you more optimistic about the ability of the system to be balanced?

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John Pettigrew, Chief Executive
So I'm very confident the system operator will be able to forecast how the requirements are changing, we'll be able to buy the products and services it needs to balance the system.

The challenges are changing; we've reported this year we've had the first summer daytime demand that's been below the night time demand. We've had periods where we've seen no fossil fuel generation on the network. So the network is evolving all the time and we are confident that we can develop the products and services we need to meet those challenges.

Okay if there are no more questions can I thank everybody for coming today. As I finished, I think we're confident that we're in a great position in terms of the asset portfolio we've got and it's good to see you all. Thank you very much.

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National Grid

Full Year Results Presentation
19th May 2016

National Grid - Full Year Results Presentation - 19th May 2016

NATIONAL GRID

Aarti Singhal, Director of Investor Relations

Sir Peter Gershon, Chairman

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

QUESTIONS FROM

Mark Freshney, Credit Suisse

Bobby Chada, Morgan Stanley

Dominic Nash, Macquarie

Deepa Venkateswaran, Bernstein

Edmund Reid, Lazarus Partners

Iain Turner, Exane BNP Paribas

Lakis Athanasiou, Agency Partners

Verity Mitchell, HSBC

James Brown, Deutsche Bank

Peter Atherton, Jefferies

Analyst, Bloomberg Intelligence

National Grid - Full Year Results Presentation - 19th May 2016

Introduction

Aarti Singhal, Director of Investor Relations
Good morning everyone. I'm Aarti Singhal, the Head of Investor Relations for National Grid. It is my pleasure to welcome you to our full year results presentation. As always we're going to start with safety. If you hear a fire alarm it's not a test, it's for real. In case of emergency please use the front exits, turn left and go to the end of the hall. The other important thing to take note of is the cautionary statement which is included in your packs.

For those of you who are joining on the web thank you for watching the webcast. All the material is available on the website or the Investor Relations app.

So thank you very much for your attention. I'd now like to hand you over to our first speaker, our Chairman, Sir Peter Gershon. Thank you.

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Sir Peter Gershon, Chairman
Thank you, Aarti. At the half year results presentation last November I said a few words about CEO succession, and said that Steve isn't going yet and still has the second half to deliver.

The results we are announcing today mark a strong finish to Steve's leadership of National Grid. Steve stepped down at the end of March as CEO and handed the baton on to John Pettigrew. Steve has made an outstanding contribution to the Group over his fifteen year career with National Grid, including over nine years as its Chief Executive. The Group composition has changed significantly over that time with outstanding total shareholder return delivered during his tenure as Chief Executive.

To my mind the real test of a CEO is the quality of the team and the business that they leave behind. The results today should give you confidence that the business is in great shape and the Board and I are delighted with the strength of the leadership team that we have in place to take this business forward.

John Pettigrew has spent his whole career at National Grid in key roles throughout the group both here in the UK and in the US, and I am confident he will prove to be a great successor to Steve.

As you will have seen, we have also announced that Nicola Shaw will be joining to head the UK business on 1st July. Nicola brings with her enormous experience in the fields of regulation and infrastructure investment, and alongside Andrew and Dean completes a very strong team of executive directors.

So many thanks to Steve for his hard work, his commitment, his drive and focus which have not only created great value for shareholders but also for his leadership which has made National Grid the trusted and responsible company it is today.

Now that is quite enough from me. So over to you, John.

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Presentation

John Pettigrew, Chief Executive
Thank you, Sir Peter. Good morning everybody. Let me start by adding my own thanks to what Sir Peter has already said in just recognising Steve's tremendous contribution to National Grid over the last ten years. I am very proud to be taking over a business that's in such good shape, as demonstrated by the results that we've announced this morning.

Let me pick up on the main highlights of those results. So as you can see here it's been another year of strong performance. Headline operating profit of £4.1bn is up 6% from last year, driving earnings per share up 63.5 pence and group return on equity increasing by 50 basis points to 12.3%. In line with our dividend policy we're recommending a final dividend of 28.34 pence per share, bringing the proposed full year dividend to 43.34 pence, an increase of 1.1% reflecting last year's average inflation.

We continue to invest significant capex in infrastructure across the UK and the US. Last year we had the highest level of capital investment for the group, £3.9bn, up £364m from the prior year. Looking ahead we expect to maintain the high level of investment in existing and new assets.

Overall despite the low level of inflation last year's capital spend resulted in our combined RAV and rate based growing by 4%.

Safety and reliability remain our top priorities, and I'm pleased to say we've had one of our best years for safety performance across the Group. In the UK we have improved our key measures including our employee incident frequency rate, which at 0.07 benchmarks as world class. In the US we continued a positive trend. This year we saw a double digit of over 20% in most of our key safety metrics, and this has been achieved despite a higher level of operational activity. Moving forward our aim is to build upon this positive momentum with safety continuing to be at the heart of every activity we undertake.

As for reliability across our networks, this has remained strong throughout the year. In the US our electricity distribution network delivered solid performance with continued recognition of our storm response. And in the UK despite the ongoing concerns over tightening electricity margins our system operators managed these challenges extremely well.

So let me now review the key achievements and developments across the group, starting with the UK.

We have successfully maintained our strong track record of operational and financial performance. We reached major milestones on construction projects such as the London Power Tunnels where we commissioned the first high voltage sub-station in London for over 20 years.

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Financially the UK businesses performed very well, with another good year of totex outperformance. This was achieved by our continued ability to find innovative and less expensive ways of delivering on our commitments. We also earned over £100m in incentives for outperformance against our key reliability, environmental and customer service targets.

One example I'd like to highlight where innovation has reduced costs for customers is our circuit breaker replacement programme where we piloted a new approach. Through a combination of lower procurement costs and a new engineering design we are now able to carry out circuit breaker replacements in half the time, and at half the cost. So far we've successfully completed ten trials, and overall we expect to generate future savings in excess of £100m through this new approach.

It's important to note that our achievement benefits our customers as well, as around 50% of those savings are shared with them. To date under RIIO the customer share savings is under £330m with '15/'16 being the first year when customers started to see those benefits.

Moving on to our other activities, as we outlined at the half year results our interconnector, property and other businesses have performed strongly, demonstrating the growing importance of these businesses for our Group. We have started the construction of new interconnectors to Belgium and Norway, and we're in advance stages of considering two further projects with France and with Denmark. I believe these interconnectors, together with metering, LNG, and property, present attractive opportunities for National Grid.

So turning now to regulation. As you know, Ofgem recently announced a mid-term review. As expected the scope of this review was narrow, with no change to key financial parameters. We welcome Ofgem's continued commitment to the clarity and the certainty offered by the eight year RIIO framework. Ofgem will run a consultation process this summer with any changes to be implemented in April next year.

The other important area Ofgem is consulting on is the extension of competition in electricity transmission. We have been very clear in our responses to Ofgem’s consultations that any changes need to be in the interests of customers. We will continue to use our experience to inform this debate and strive to ensure that any proposals implemented are robust and can deliver value.

In addition we have been working with DECC and with Ofgem to consider how we evolve the current system operator model to make it more independent whilst remaining cost effective. In doing so we believe it's vital that there is no disruption to the pivotal role that National Grid plays as system operator in balancing the network.

Finally we are starting the process of separating the UK Gas Distribution business to prepare for the sale of a majority stake. This process is now on track with completion expected in early 2017. I will discuss it in more detail in the second part of my presentation.

So let me now turn to our US business which has delivered returns in line with expectations. Our team is concentrating on efficiency improvements which will help to manage our cost base ahead of new rates coming into effect. Overall total investment was a record £1.9bn contributing to a US rate based growth of 7.5% excluding movements in working capital. The higher level of investment reflects the strong growth potential of our US business driven by the need to replace gas mains and reinforce the electric systems across our regions.

The $100m Brooklyn Queens Interconnector is a project that is a great example of the type of investment completed last year. This project addresses long term gas supply issues in the New York City region. In addition last year we started construction of a $150m transmission project. This project will connect the first US offshore wind farm to the mainland in Rhode Island and is due to be in service later this year.

And as you know we've also made significant progress with major rate filings and extensions. Currently we have Massachusetts Electric, KEDLI, KEDNY and Niagara Mohawk all under review.

Improving terms in the US is a key focus area for me, and I will discuss the specifics of the rate filings in more detail later.

So overall last year was another strong year for National Grid, and I believe we're well positioned for the future. I'll now hand over to Andrew who'll discuss the financial performance in more detail.

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Financial Review

Andrew Bonfield, Finance Director
Thank you John and good morning everybody. As John has outlined, our financial performance in 2015/'16 was strong. Our regulated businesses delivered solid results which were enhanced by the strong contribution from other activities.

Total operating profit increased by 6% to £4.1bn, a 4% increase at constant currency. And earnings per share rose by 10% to 63.5 pence per share. Importantly, Group return on equity - a key measure of performance - increased by 50 basis points to 12.3%. Despite low inflation our regulated assets grew by 4% with value-added of £1.8bn and our balance sheet remains strong.

Now let me walk you through the performance of each of our segments. Starting with UK Electricity Transmission which continued to perform well with a return on equity of 13.9%. Overall the business delivered 370 basis points of our performance. Through our continued focus on innovation and efficiency we met our network output measures and this contributed 210 basis points of totex outperformance. Other incentive performance at 80 basis points benefited from the balancing system incentive scheme which delivered £27m of profit.

Additional allowances contributed 80 basis points of our performance, broadly in line with the previous year. IFRS operating profit was £1.2bn, slightly down on last year as

the business started to return prior year efficiencies, and as last year benefited from a one-off legal settlement.

Capital investment totalled £1.1bn and the year end regulated asset value increased by 4% to £11.8bn.

Moving now to UK Gas Transmission which delivered a return on equity of 12.5%. The returns were down from last year, reflecting the expected reduction in additional allowances and the end of the gas permits scheme. Despite the impact of these items, incentive performance was strong and enabled us to outperform the allowed basis return by 250 basis points.

Operating profit was up 11% on a headline basis primarily due to timing. Excluding timing underlying operating profit was down due to the loss of income from gas permits.

Capital investment was similar to last year at £186m, and the regulated asset value was flat at £5.6bn.

UK Gas Distribution delivered another strong performance, delivering return on equity of 13%, 310 basis points above the allowed return.

The business earned 200 basis points from totex savings, primarily from the mains replacement programme. Other incentive performance at 100 basis points is ahead of last year, reflecting improved exit capacity incentives.

Operating profit of £878m is up 6% benefitting from high allowances following a change in the tax treatment of repex. Investment increased by £51m to £549m, and the regulated asset value increased to £8.7bn.

In the US the return on equity of 8% was lower than last year but in line with our expectations whilst we wait for new rates to come into effect. As normal our US ROEs are reported on a calendar year basis. In 2015 our New York businesses were impacted by adverse winter weather which led to higher repair costs and increased bad debt expense. In Massachusetts the electric business continues to face - a rolling returns - due to increased costs.

As you know we took the first steps to improve returns with the filings we've made with Massachusetts Electric in November and KEDNY and KEDLI in January. John will cover the progress we've made on these rate filings later on.

Our Rhode Island and FERC continue to perform well, achieving attractive rates of return.

Headline operating profit of £1.2bn is down 5% driven by timing, reflecting the warmer end to this year's winter. Excluding timing operating profit was £45m higher than the previous year.

We invested $2.7bn in our US networks and the rate base grew by 6% to $18.3bn. Excluding the movements to working capital the rate base grew by 7.5%.

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Our portfolio of other activities delivered operating profit of £374m, almost doubling compared to the previous year. This increase in profitability was led by a strong year for our French interconnector, significant sales in our property business and a favourable one-off gain of £49m on exchange of the Iroquois investment. We also saw lower costs as we completed the US financial system implementation in the first half of last year. BritNed, our other interconnector, also performed well but its results are reflected in the JV line. Total investment in other activities was £271m.

Financing costs were 6% lower than last year in constant currency at just over £1bn. The effective interest rate fell from 4.3 to 3.8% as we refinanced debt at lower interest rates and benefitted from lower RPI increases in the UK.

We continued to be innovative in our approach to funding the business. During the year we raised about £1.8bn of new financing by issuing nine new bonds, including a cash settled convertible bond. We also continued to draw down on the EIB loan to fund capital investment. In KEDNY we've issued $1bn of debt, securing attractive low cost financing for 10 and 30 years.

Tax was in line with expectations. The effective rate of 24% was 20 basis points lower than the previous year and gave rise to a charge of £753m. Earnings increased to £2.4bn, and as you've heard before earnings per share increased to 63.5 pence.

Operating cash flow was £5.7bn, around £350m higher than the last year due to increases in profits and favourable movements in working capital. Our key credit metrics are comfortably above the levels expected for an A- rating. RCF to net debt was 11.5%, and 10.5% after reflecting a full cash dividend. FFO to net debt was 16.7% and interest was covered 5.5 times.

The strengthening of the US dollar had an impact of around £0.5bn on net debt, but no impact on gearing which fell by 1% to 62%.

Last year we invested £3.9bn, a record for the Group. Starting with the UK we invested £1 [audio jumps] bn in our regulated operations. Just over £1bn of that was in electricity transmission, of which over half was non-load related. In gas distribution, capex increased by £51m due to a step-up in the mains replacement programme. We replaced about 1,900km of pipes last year, up almost a quarter.

In gas transmission most of our capital investment relates to asset health and emissions programmes. Both of these are expected to increase next year.

Looking now at the US where investment increased significantly to $2.7bn, or £1.9bn. The majority of this spend was in Gas Distribution, principally on the replacement of leak-prone pipe and to a lesser extent on converting new customers from oil to gas. We also made significant investment in Electricity Distribution where around $900m was invested, reinforcing the network, and connecting to a growing customer base. And $400m was invested, spent on improving and growing our US Transmission networks and other FERC related activity.

Finally the increase in investment in other activities was due to construction starting on the North Sea Link and Nemo interconnectors. This investment also covered projects such as the Road Tanker loading facility at Grain. As John has said, this segment presents the Group with interesting new opportunities.

As you can see from the chart our capex has risen, reflecting our focus on growing the portfolio through high quality organic investment. In the UK we are currently expected to invest around £16bn in the RIIO 1 period with around £10bn of this being investment in Electricity Transmission. Over the remainder of RIIO around two thirds of our investment in Transmission relates to non-load activity.

In respect of our load investment we are in consultation with Ofgem on the introduction of on-shore competition. Current proposals relate to strategic wider works, with anticipated capital spend in excess of £100m. We have two projects within RIIO 1 that could fall within the new arrangements. These are the connections for Hinckley Point and NuGen Moorside, which together represent about £1bn of capex. If Ofgem decides it is in the best interests of customers to make these important projects contestable, we are well positioned to bid competitively.

So with our UK capex projections and the growth potential that we see in the US, we expect to sustain a significant level of capex in the coming years. This supports our long run growth target to achieve 5 to 7% asset growth assuring UK RPI inflation of 3%. Assuming normal levels of UK inflation and excluding the US working capital investment movement, underlying asset growth in this year was 5%.

Consistent with our policy the Board is recommending a 1.1% increase in the dividend. We also have brought back last year's scrip, reflecting our strong balance sheet. As we have said previously we will continue to manage dilution whilst keeping a close eye on the need to finance growth within our current credit ratings.

Value-added in the year was strong, at £1.8bn or 47.6 pence per share. This is built from growth in group assets of £1.1bn, cash dividends and the repurchase of scrip which totalled just over £1.6bn, against the growth in net debt of around £0.9bn. Our expectations for value-add continue to support our commitment to sustainable dividend growth.

Looking ahead to next year as usual we've included a technical guidance section to support you with modelling assumptions. A few key points to note. We expect the UK to continue to deliver 200 to 300 basis points of out-performance, with slight reductions of legacy incentives in our Gas Transmission business as I flagged previously. In the US, returns are expected to be maintained during the year ahead of rate revisions in Massachusetts and New York. After removal of this year's one-off items and with lower interconnector revenue, we expect our other activities to return to more normal levels of performance. We also expect to see marginally higher interest costs and a tax rate similar to this year.

So let me summarise. The financial performance across the Group has been strong. Our capital investment is at record levels, supporting future growth opportunities. Our

financial strategy remains robust, with strong operating cash flows and headroom in the balance sheet. With that I'll hand you back to John.

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Outlook

John Pettigrew, Chief Executive
Thank you Andrew. So as the new CEO of National Grid I'd now like to share with you my initial thoughts on our priorities in both the short and the long term.

Maximising value for our existing businesses has been and will continue to be the key priority. This year we have a number of important activities underway including the sale of a majority stake in our Gas Distribution business and the US rate filings. So let me start by updating you on the progress we've made on each of these, and after that I'll highlight the key areas that I believe are important for the continued long-term success of National Grid.

Starting with the update on our plans to sell our majority stake in the UK Gas Distribution business. With regards to the transaction itself we've seen a good level of buyer interest, and have been approached by a range of investors who are in the process of forming bidding consortia. However, before formally launching the sales process there is a huge amount of work required to start the separation of the business. UK Gas Distribution is not a standalone business. It is fully integrated with the other UK businesses and utilises shared services from finance, HR, and IT. This means that separating out the business is complex.

Our goal is to create a standalone business that can operate efficiently whilst maintaining its primary role as a provider of safe and reliable networks. Internally we are consulting with our employees and with the pension trustees, and externally we are working closely with Ofgem and the HSE to secure all the necessary regulatory consents prior to separation.

I am pleased to say that this work is progressing well. The formal sales process will launch in the summer, and we expect the transaction to complete in early 2017. After which our portfolio will be in a strong position in support of higher growth, delivering an attractive dividend whilst ensuring we maintain a healthy balance sheet.

As we indicated when we announced our plans, we expect to return substantially all the net proceeds to shareholders following completion of the sale.

Now turning to the second major activity which is the rate filings in the US. As you know from the completion of the SAP implementation we have now started more frequent rate filings. Our objective is simple - to improve the performance of the business and consistently earn close to the allowed level of returns. To achieve this we are focusing on three things. Firstly being more efficient, which will help to keep costs down and improve our underlying financial performance. Secondly, we must continue to file for new rates on a regular basis which we're now much more able to do. And thirdly we need to extend the mechanisms for capex trackers and true-ups to ensure efficient cost recovery.

Looking at the specific rate cases filed, starting with KEDNY and KEDLI which we filed in January, this is the first rate case filing for these entities since 2006. In terms of the timetable and the next steps, we are in the discovery phase which typically involves responding to a very large number of information requests. The next stage in the process is when we receive PSE staff rebuttal testimony, which we're expecting tomorrow. This will determine the next stage in the process with a decision due in December this year.

In addition to KEDNY and KEDLI, last November we also filed the Massachusetts Electric rate case. Since starting the filings we have completed discovery and we're now in the hearing phase. This started earlier this month and will continue for the next four weeks, with new rates coming into effect in October 2016.

In December 2015 we also filed a capex petition for Niagara Mohawk seeking to provide funding for $1.4bn of capex across the fiscal year '16/'17 and '17/'18. The filing is currently being considered by the PSC, and we expect to hear from them shortly with an extension coming in effect from April 2016. So, we are working closely with our regulators in each of our jurisdictions, and we're highly focused on ensuring a fair outcome for the significant filings made last year.

Looking ahead, I expect the US business to undertake frequent rate filings. The next will be in 2017 with filings for both Niagara Mohawk businesses and Massachusetts Gas. Our other jurisdictions in Rhode Island and FERC are performing well, with no immediate need to file.

So, this has been a busy year for us and our teams are highly focused on delivering on our short term priorities. But we also need to look forward. I'd now like to share with you my thoughts on the four areas that I believe are absolutely critical to the continued long-term success of National Grid.

First of all our customers. We take pride in connecting our customers to the energy they need. We want them to receive a service that's safe, reliable and affordable. However customer's needs are evolving, with much greater engagement, awareness and a desire to manage their energy use. It's vital therefore that we remain close to our customers so that we can respond to their changing needs and deliver them an outstanding service. As customer requirements evolve, so much National Grid. This will bring further opportunities to grow and drive value.

The next area is performance optimisation. National Grid is massively more efficient and agile than the business that I joined 25 years ago. But there is always more that can and must be done. To my mind the entire organisation should regard performance optimisation as part of the day job, relentlessly driving efficiency and doing things better. For us to succeed it's essential that we maintain and strengthen the Group's performance culture.

Moving to the third area which is growth, we have a strong growth potential that's underpinned by the need for significant investment in the regions where we operate. We see plenty of opportunities in our regulated businesses, and we expect to sustain high

levels of investment over the coming years. We also see attractive prospects in our interconnectors, transmission and property businesses, and in addition from time to time we will review acquisition opportunities that arise in our markets.

Overall we have access to multiple sources of growth but we will only invest in projects that meet our strict investment criteria and represent the best value for our shareholders. This requires strong investment discipline and I want to ensure that this discipline is at the core of every decision that we make.

Finally looking ahead to the future. The use of renewable energy sources today together with the drive for energy efficiency are two major objectives that continue to grow in importance for our customers and our regulators. Steady improvement in the economics of distributed generation and energy storage are both adding pace to this momentum. At National Grid we support these changes and we want to play our role in promoting clean energy and energy efficiency. We are working on many exciting projects that position National Grid at the heart of consumer led developments.

For example in Massachusetts we have a Smart Grid pilot which offers 15,000 customers advanced meters and in-home technology that is helping them to manage their energy use in real time. And in the UK managing system flexibility given all the changes in the industry is a major focus area for us. A good example is a service we call Demand Turn-Up, which is part of our prior response programme. It essentially creates the market for businesses to earn revenue by shifting consumption to periods of oversupply in the system.

So, we are actively innovating and developing new products and services that are in synch with the needs of our evolving industry. Over the longer term there are other trends that will become relevant for National Grid such as electrification of heating and transport. These will result in more interaction between the transmission and distribution grids, which in turn will drive further investment in a range of opportunities. Overall I believe if we concentrate on these four areas we will be in a strong position to deliver our long-term commitments for all our stakeholders.

Let me summarise. National Grid is a strong business, as demonstrated by the performance that we delivered last year. As I said earlier maximising value from our core business is our key priority. This year we are focused on the sale of a majority stake in our UK gas distribution business and the US rate filings. Looking further out we have good growth opportunities across the portfolio and we are well positioned to deliver value for shareholders.

Thank you very much for your attention, ladies and gentlemen. Andrew, Dean and I will now be happy to take any questions.

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Questions and Answers

Mark Freshney, Credit Suisse

I have two questions. Firstly on the competitive tendering it seems that the government are very intent on going ahead with this alongside Ofgem. Some of the infra-funds that you're competing against and also looking to sell assets to are taking exceptionally low

returns, and if you were to compete against them taking those low returns it may be dilutive to the overall Group performance. So in this new world of competitive tendering what would be your kind of competitive advantage so to speak?

And just secondly on the sale of UK Gas Distribution, I think there's been some press speculation on difficulties with or challenges with novating bonds and also on the pensions liabilities. What kind of structure can we expect to see? Would you pre-package it with debt and make it easier? Would it need a bigger financing package?

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John Pettigrew, Chief Executive
Let me start with the competitive onshore transmission. So clearly work is still progressing on that in terms of exactly what the shape of that competition is. We've been very clear to Ofgem and to other stakeholders that if onshore competition is in the interests of customers then we're very supportive of it. But there's still a long way to go to make sure that we understand exactly what that onshore competition looks like.

The select committee last week, you would have seen their findings which I think were very sensible in setting out that for significant onshore transmission projects then there should be an assessment of whether there is actually benefits for customers or not. So there's a long way to go Mark in terms of exactly what it would look like. In RIIO-T1 there are only two projects as Andrew said in his presentation that would be impacted by competition. It's still not clear whether they will be or not because we don't know exactly what the definitions are, but back in 2013 Ofgem said the strategic wider works which is basically Hinckley and Moorside new gen could be open to competition. They're incredibly complex projects. You know we've been at Hinckley for five years and up in the northwest for three. I'm sure Ofgem will need to assess not just the economics but actually the timeliness of delivery as well. So there's only two projects that will be impacted in RIIO-T1 and then further on there may be further impacts.

In terms of competitive advantage well it depends on the definition of competition. So National Grid has got a huge amount of experience in developing major infrastructure projects right across the UK. So the whole process of planning, consenting and getting the agreement with local communities to design and agree the infrastructure is something that National Grid has got a lot of experience in and infra-funds certainly haven't.

In terms of the Gas sale let me start and then I'll hand over to Andrew perhaps to talk about the bond issue. So as I said in my presentation the process is on track. We're expecting to formally start the process this summer and we're on track to complete the transaction in early 2017. As I said it is complex in that we need to separate out the business, but all that work is progressing very, very well.

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Andrew Bonfield, Finance Director
Both from a pensions perspective we are working with the pension trustees and working very well with them to get to agreement on how we actually separate the liabilities into the different entities, so that report was actually incorrect from that perspective.

And then secondly on the liability management exercise we actually do have to work through a process of actually putting, because don't forget all the bonds that have been issued in NGG, we would have to get consent from bondholders to switch over. So we will look to see what's the optimal way of actually putting a mixture of existing debt and new debt into the structure. But effectively that is an ongoing process. The time issue at the moment for us actually is the separation from a business perspective on the back office and people part, that is actually probably the bigger time constraint than actually liability management or pensions. So no real issue there.

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Bobby Chada, Morgan Stanley
Can I just follow up on the onshore competition point? So specifically those two examples you quoted of Hinckley and Moorside, National Grid has put a lot of time, effort, organisational skill into those projects already. Would there be any compensation?

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John Pettigrew, Chief Executive
So actually Bobby for strategic wider works as part of the RIIO funding mechanism there was a pot of money put aside for the pre-engineering work. So National Grid has effectively had its costs recovered for that. Where costs aren't recovered they're a part of pre-engineering then we look to indemnify with the customer themselves.

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Bobby Chada, Morgan Stanley
So in a sense if they force these projects to go into some kind of competitive tender you could have acted as a - effectively you've sort of facilitated them, but in the next round of competitive tenders you wouldn't expect to take that facilitation role would you?

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John Pettigrew, Chief Executive
No I mean it's sort of at the heart of what's the definition of competition. So you know are they going to compete our requirement that the system operator has for an increasing capacity, which they've described as the early model. Or are they going to actually have detailed work done by National Grid or other parties to do all the design work and all the planning and then only compete out actually a project that's fully engineered and designed. That I think is still being discussed and debated but in a world in which it's early and it was competed out, no National Grid wouldn't do it.

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Bobby Chada, Morgan Stanley
And when do you expect to have a decision on early versus well defined?

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John Pettigrew, Chief Executive
Well the timetable seems to be working through over the next few months. So Ofgem have been doing the consultations. They've set out some of their preferences and recommendations so I suspect it's towards the end of the summer.

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Dominic Nash, Macquarie
Two questions please. Firstly on system operation, when are we expecting the new flow from the SOs and what are the options actually available as to in extremes could it be stripped from you into an independent company? And then sort of following up from Bobby's question would there be compensation for that sort of role?

And secondly all the action going forward in networks looks like it's getting more local and distributed. And the DSO, the creation of a DSO, when would we expect to hear from a potential creation of a lower voltage system operator?

And then my second - sorry probably three then I guess, which is on the storage. I mean Turner is building a big storage facility in southern Italy as a replacement for transmission. When would you start to expect to see sort of large scale storage in the UK and what opportunities and threats does that sort of throw up your way?

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John Pettigrew, Chief Executive
We'll have a go at each of them in turn. Shall we start with the system operator? So a bit of context here, so I mean this goes right back to Amber Rudd's reset speech where she mentioned she wanted to look at whether there was value in increased separation of system operator. And it's probably worth just saying that the system operator role you know has evolve every year over the last 20 odd years, and National Grid has always had to put the right controls and governance and separation in place to make sure that there aren't any perceived or actual conflicts of interest.

But we do recognise that the market needs to have confidence that those separations and those controls are in place. So there is discussion going on with DECC and with Ofgem about what they might look like. The options are that given that the role has evolved over the last couple of years there may be a need for further controls to be put in place, that is one option. The second option which is debated far and wide is a move to an independent system operator.

My personal view is I don't think moving to an independent system operator is the right thing for the UK at this time. You know there's an awful lot going on in the industry with the need for inward investment. We need stability as we focus on things like balancing the network with a lot of new generation coming on, and it would be a hugely disruptive thing to do. But in terms of the timescales it's with government so we're in discussions. So I'm not sure what the exact timescales are. My personal view is it's probably going to be in 2016.

The second question was around I think just the interaction between distribution and transmission networks.

Dominic Nash, Macquarie
Ratio of a DSO itself.

John Pettigrew, Chief Executive
Yeah again in terms of timing of a DSO it's unclear to me. You're absolutely right that there is a huge amount of more interaction now between the transmission networks and the distribution networks. And we've done a lot of work over the last 12 months working with the DNOs to be able to make sure that we get the right information flow so that there aren't any inhibitors to distributed generation connecting to the distribution networks. We are at a point where quite often reinforcements are now needed on the transmission system in order to facilitate the flows that we're seeing on the distribution network. So the DNOs are becoming more active in the way that they manage their networks. There has been lots of discussion around whether they're going to formally become distribution system operators. But that's going to continue to evolve in my view.

And your third question around storage, so in terms of storage you're right, as technology prices fall then storage starts to become an option for a number of different types of service. So in our mind it can provide an extremely useful balancing service. So as we see more intermittent generation on the network then the need to have fast acting frequency response which battery storage is a fantastic provider of, becomes a really valuable service to us. Of course you could also see it as being an alternative to building infrastructure depending on what type of flows you have on the network, and of course it's got the opportunity for energy arbitrage as well.

When the National Infrastructure Commission came up with their findings which I think were very helpful that said that we need to get the right frameworks in place in the UK to make sure that those three tranches of opportunity and storage can be exploited I think was bang on in my view. So I think the actions that they put to DECC and Ofgem are going to be important to get the right framework. We are certainly looking at it from a system operator perspective at the moment in terms of potentially seeing if there's an opportunity to have fast acting frequency response through battery storage.

Deepa Venkateswaran, Bernstein
I had a couple of questions. The first one is your interconnectors; I mean if there were to be a Brexit would that actually impact any of your existing projects where you've already taken FID or maybe even the future projects?

Secondly could you also explain the working capital movements in the US which I think there was some statement that you wouldn't be seeing a similar working capital move next year? And then I think the rate base growth was different so can you just explain what that does?

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John Pettigrew, Chief Executive
I'll give Andrew the working capital one.

In terms of the impact on the interconnectors, I think our expectation is that we're not expecting to see a significant impact as a result of Brexit on our interconnector flows. The economics and the desire to have interconnection between the UK and Europe exists so there are people on both sides that are keen to trade across that interconnector. Exactly what form that will take is really dependent on exactly what the exit looks like and what set of rules we get the other side of it in terms of whether we're part of the internal energy market in a world in which we're outside of Europe, so it's difficult to exactly predict what that will look like. But the desire to have interconnection between the UK and Europe is on both sides so I don't see it having a significant impact.

In terms of working capital Andrew?

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Andrew Bonfield, Finance Director
Yeah certainly Deepa. On working capital some jurisdictions in the US do actually put working capital into rate base. And obviously when you have winter weather fluctuations you do see. So 31st March 2015 very cold winter, very high level of debtors, resulted in very high working capital. And last year when we talked about underlying growth in the US the headline growth was 9% in rate base. We talked about 5% underlying.

This year obviously very mild winter in the US so on 31st March 2016 the low level of debtors, we actually saw a working capital reduction. So effectively the headline rate - down the line rate was 7.5% but the headline rate was 6%. We just normalise for that just to take it out so you can see what the real underlying expectation is of rate base growth.

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Edmund Reid, Lazarus Partners
Three questions. The first on DSR. You're obviously making quite a push for DSR in the UK. I think DSR is a lot less prevalent in the UK than it is in the US. I was wondering why that was the case and what you can do to improve it?

Secondly on battery storage. Do you think most of the battery storage will be at the Transmission or Distribution level and do you see it as more of an opportunity for your UK or your US business?

And then thirdly on metering revenues. Looks like smart metres are finally being introduced or speeding up. What's that going to do to your legacy metering business?

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John Pettigrew, Chief Executive

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Okay thanks. So let's start with DSR. And I might ask Dean for his comments on the US. So certainly in the UK over the last 12 months National Grid actually launched a programme called Power Responsive campaign which was really trying to identify where are the blockers in the UK for encouraging increased demand side response. So from a system operator perspective we see demand side as being a really important part of balancing the network going forward, particularly when you've got increased intermittent generation. So the Power Responsive campaign was very much about getting people across the industry together to understand where those blockers are and then to try and develop the different types of products and services.

Over the last year I think we've had some real successes with that so we are seeing increased use of DSR in terms of balancing our network. As I mentioned in my speech we've introduced new products such as the demand step-up product. And we'll continue to do that. As an aspiration we've set out that potentially you could see, from a balancing action perspective in the UK, about half of our actions being on the demand side and half in the generation side. Now that's a long term aspiration but one that we think is achievable because of the scale and the capability of the demand side.

So why is it not flourishing in the UK as much as perhaps in the US? If you talk to people who are providing those services then what they're looking for is long term contracts and certainty. We need to work with the regulators and with the providers themselves to make sure that they have that to be able to make the investments to shift their processes to be able to provide the services.

Dean did you want to mention anything on the US side, demand side?

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Dean Seavers, Executive Director, US
Good morning. I don't have a lot to add to that. I think from the standpoint of both working with our regulators as well as I'd say just incentives we definitely are seeing that in the US.

I think - I did want to pick up on another point too, another question that was asked relative to the storage piece for us and the distributed generation. The reality is a lot of the regulations and incentives are really driving that. It's put a lot of pressure on the system from a peak standpoint. John mentioned the fact that it had some requirements on our network but in terms of the test that John mentioned in his earlier prepared speech the reality is we're testing a lot of those from a micro grid standpoint. You know if you go from what we're trying to do with our customers from a resiliency and from a reliability standpoint, we're testing micro grids and some of our RAV initiatives so you'll see a lot more results from that going forward.

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John Pettigrew, Chief Executive
And in terms of battery storage in the UK. So there are opportunities in Transmission, it's quite clear. Whether they're going to be larger than the people putting the battery on their home which is what all the adverts are showing at the moment, I think it's just too early to say if I'm honest. I mean there is an issue in the UK that actually National

Grid couldn't own storage as it's currently defined as an asset class because at the moment it's classed as a generator. Now there are a lot of people think that's probably not right in terms of the role that storage plays, but in terms of potentially providing a service to Transmission or as an alternative infrastructure, clearly if prices keep coming down it's a sensible solution.

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Andrew Bonfield, Finance Director
Then on metering we did see some reduction in the number of metres, gas metres. Obviously the share - most of them were prepayment, but actually we were able to offset the impact of that so profits were actually flat year on year. It's been interesting watching the metering business. I've now been here for five and a half years and every year it's going to go down and my budget for next year is slightly down year on year given the change, but we'll obviously just manage the business as best we can Ed. Obviously over time we do expect the rollout of Smart to have an impact.

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Iain Turner, Exane BNP Paribas
Can I ask a couple of questions? Firstly could you just go through the change to the tax treatment in repex and explain that a bit more because I didn't get that?

And then secondly I think in the statement you give a figure for how much tax you paid in the UK but you don't give a figure for how much you paid in the US which I guess means it's probably quite a small number. Is that a liability going forward in terms of the political, the regulatory system and situation in the US?

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Andrew Bonfield, Finance Director
Okay so first of all on tax change and repex this was a very technical accounting issue effectively relates to adding IFRS accounting to UK entities. As a result of that - as a result of the change to IFRS accounting effectively mains replacements expenditure was now capitalised and depreciated. That results in a change to the tax treatment because the HMRC was going to follow what IFRS accounting was going to do. So our allowances had to change to reflect that because as you know we're remunerated on cash taxes.

In the US we don't pay any cash tax, it's bonus depreciation which obviously increases the deferred tax liability. As far as the political climate is concerned actually they've just extended bonus depreciation through 2019 although tailed it off. It is about the desire to see investment.

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Lakis Athanasiou, Agency Partners
Three questions for me. You mentioned the IFRS changes, are you seeing any different treatments in regard to your current tax on derivative with the change to your subsidiaries being accounted as IFRS?

Secondly, could I press you on your response on storage and DSR, particularly in the UK? It is a technology that's very good for a system operator but it's very bad for a transmission owner. And you seem remarkably relaxed that, you know, these activities will cannibalise your growth in assets, and I'm thinking particularly the UK where you do get some good returns on your assets going into the RAV.

And thirdly on debt separation in Gas Distribution. Andrew spoke about it but can I press you on that one a bit more, because if I was a debt holder in NGG I certainly wouldn't want my debt ending up in the new Gas Distribution entity with the potential that it gets levered up down the road. And I see that as a problem that - well I mean is it surmountable and how could it be given that bond holders wouldn't want to see their debt going into the new entity?

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Andrew Bonfield, Finance Director
Do you want me to start? Okay start with that one first. Firstly there is a regulatory reason why you wouldn't actually gear up the entity itself and that is actually because of the interest deduction on cash taxes. There is a restriction on how much debt you would actually be able to put in. So that will be one thing, there's the thing. You cannot gear these entities up to the level that you are expecting. You will actually have to do it within the structure rather than the actual individual entities.

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Lakis Athanasiou, Agency Partners
You don't get the tax credit but we've seen in the water sector when these things happen they come in and they gear up. Now okay they lose the taxing but they still gear up.

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Andrew Bonfield, Finance Director
But like I said it's one of the things - we will still have a 49% ownership, we will not want to lose the tax credit so we actually do have restriction. We do have things we would continue to watch on.

As far as actually on the IFRS accounting for derivatives that doesn't impact because derivatives are for our own account. There was no impact. This was because obviously with repex there is a regulatory allowance around whether it was capitalised or not capitalised for IFRS accounting and then for tax purposes.

Tax on derivatives or booked tax on derivatives is actually as reflected in the accounts; there will be no impact of that just from a book accounting perspective.

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Lakis Athanasiou, Agency Partners
My third question on globalising Transmission?

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John Pettigrew, Chief Executive
I mean in terms of investment in the UK business, so as you look forward we've got a strong investment profile so we're going to spend £16bn on our networks in RIIO-T1. And a large part of that continues to be asset replacement as well as supporting renewables and new generation.

There are opportunities for Transmission to use storage, but DSR and storage do impact on the overall profile of demand. So demand has been flat for a number of years now. How that actually plays out, it's just too early to say in terms of exactly what it means. We're actually finding at the moment that actually through intermittent generation and distributed generation that we're identifying projects on our Transmission business that are required in order to support the Distribution networks doing what's happening on their DNO networks. So it's not one way is what we're seeing at the moment, it's impacting what we need in terms of reactive power on our networks so we're putting a lot of equipment of reactive on the networks at the moment. So I don't see it as a spiral of decline.

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Verity Mitchell, HSBC
I've just got a couple of questions. One is a technical one about FERC and the complicated moving down and up of returns. Perhaps we can have a bit of clarification about that, the FERC businesses? I mean you earned 11.4% ROE this year, but I know that the FERC is reviewing its allowed returns. And that's the first question.

And the second question is just about your technical guidance on strong interconnector performance this year. And perhaps you could explain why you think that might not continue in the current year?

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John Pettigrew, Chief Executive
Dean would you like to take the FERC one?

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Dean Seavers, Executive Director, US
Yeah. On the FERC we've had a couple of challenges on the returns and in a couple of cases they've been reduced, but in reality we've had a case that has just come back and the decision was in the first year it was reduced and in the second year it was actually increased. So from our perspective obviously in terms of the relationship with the regulator is to make sure we get fairer outcomes than that but to get the heavyweights stabilised. So that's kind of what we're seeing recently.

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Andrew Bonfield, Finance Director
And Verity on the technical guidance, we were pointing out - if you remember at the half year I did actually point out we saw very strong performance over the summer. Part of that was due to changes with the climate change levy which did result in a very significant arbitrage opportunity which boosted auction prices. That we don't expect to recur next year so we do expect the profitability to decline as a result of that.

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James Brown, Deutsche Bank
Two questions. First one is on the US. You talked about a desire to get the returns up in the US to close to the base returns and that's a key focus. Is that something we should expect to happen over the course of the next round of rate filings in the next kind of two to three years, or is that more of a medium term ambition for the next five or six years?

And second question, obviously a lot of focus on your system operator role and lots of talk about how next winter looks very, very tight certainly based on the capacity that's going to be available in the market. Obviously you have the SBR as well. I was just wondering whether you could share some thoughts around next winter? Whether you think you have the tools that you need to keep the lights on and keep prices at a reasonable level, and whether there are any levers that you can pull to avoid frequent price spikes next winter?

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John Pettigrew, Chief Executive
So in terms of the US rate filings, so as I said in my presentation so we've currently got KEDLI and KEDNY and Massachusetts out for rate filings. We expect Massachusetts to conclude in October and KEDLI and KEDNY to conclude in January. So we will see a small benefit in this fiscal year from those rate filings which will effectively offset some of the cost pressures we've got in other parts of the business. So as our outlook sets out we're expecting returns in the US for this coming year to be similar to what we've seen last year.

However with those rate filings in place and then with the next tranche of rate filings going in, which will be the Niagara Mohawk and Massachusetts Gas, then we would expect to start to reduce that headroom between the allowed returns and the actual returns.

In terms of the system operator role in next winter, so part of our role as National Grid obviously is to do the assessment in terms of what does the winter look like. We've done that assessment based on what we see, and with the closures that we've seen in the last 12 months next winter looks tight but manageable so similar to the words that we used in previous winters. National Grid has already purchased 3.5 gigawatts of supplemental balance in reserve. We've got a tender out at the moment for demand side supplemental balance in reserve. Based on where we are today and the analysis that we've done we feel that we've got the tools that we need. But it's a long way to go till the winter so we continuously assess it and we'll continue to do that through the

summer, right up to our winter outlook report in the autumn to make sure that we have the tools to balance the system.

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Peter Atherton, Jefferies
These are easy ones I think. In the financial calculations on the return on RAVs there's a 3% indexation. Can you just remind me when that gets trued up to actual inflation?

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Andrew Bonfield, Finance Director
The actual numbers we produce are value add and actually what the rate base growth we talked about are at actual rates of inflation. So they reflect the 1.6% that was there at the 31st of March on our PI. When we do for purposes of actually giving our ROE calculations and showing our returns, rather than go to effect - because we have nominal regulation in the UK - nominal in the US, real in the UK we just give them nominal but we use their long term inflation assumption which is 3% which is the Bank of England 2% plus 1% for RPI.

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Peter Atherton, Jefferies
Okay thanks. And just final one on sort of managing the system. I mean we've seen a collapse in coal output in the UK in recent weeks and months and it doesn't look great for the coming months as well on the economics of coal. What sort of challenges does that throw up if any?

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John Pettigrew, Chief Executive
So in terms of the - there was a lot in the media wasn't there in the last couple of weeks about it was the first time in 100 odd years that we've run the network without any coal on it. So the characteristics of the network have changed Peter, you're absolutely right, so we see a lot of solar in the day, a lot of wind, and then the gas coming on in the evening and a lot less coal on the network.

The challenge it throws up is particularly around intermittency which is why we've been developing products like the demand turn up product and fast frequency response, so as the network is evolving we have to develop new products to make sure that we can manage the system in real time. I'm very pleased actually with the way that the system operator is managing that, and the new products we put in place seem to be very economic and a good way of meeting those challenges.

Going to take this as a final question I think.

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Analyst, Bloomberg Intelligence
Two questions please. Can you remind us what the system operator earnings are as a part of your operating profit and net income please?

And the second question is on M&A. Obviously you said you're trying to grow organically mostly but you're open for new opportunities. Could you give us a bit more colour what geographies we're talking about? Is it just US and UK or are you open to new geographies? And what areas, is it just the Transmission, interconnectors or Distribution?

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John Pettigrew, Chief Executive
So in terms of the system operator the operating profits are very modest, they're about 1% of our total operating profit. So in terms of my comments on M&A, National Grid is in a very good position in terms of the sources of growth. So we've got strong growth in our core business in both the UK and the US, and as Andrew said we're targeting 5% to 7% growth across the Group. In addition to that we've got some exciting development opportunities with things like interconnectors and Transmission in the US. But as you'd expect of a company like National Grid, from time to time we will look to see if there is an opportunity for acquisitions. But we will only do that if we believe it aligns with our strategy and that it creates value for our shareholders.

Okay so I'm going to conclude the Q&A there so thank you very much everybody for attending today. So as you saw last year strong results for National Grid, and hopefully as you got a sense from the presentation the management team is very focused on our short term priorities and in very good shape for the future. So thank you very much everybody.

Applause

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END

National Grid

New York Teach-In Question and Answer Sessions

14th September 2017

First Question and Answer Session

Question
Slide 29 when you were kind of showing capital investment and growth in rate base, I was just wondering the conversion, so 1.3 billion rate base increased by 300 million so just wondering what's sort of a normalised way of looking at it.

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Ken Daly, CFA, New York President & Chief Operating Officer
It's a good segue into Peggy's section, our Chief Financial Officer, she's going to actually walk you through a trace of how capex converts right into rate base growth and how things like depreciation fit in.

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Question
And then just wondering about the construct of 3 billion capital investment, 7% rate base growth. Looking a few years out you can kind of make the case that there's a huge need for reinvestment because of replacement, grid modernisation, RPS and so on. At what point in time do you start to hit that level where customer rates are going to increase way beyond? So is 7% a sustainable growth rate or just how to think about that dynamic?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah so I think as John said earlier you know we do have a very long future in terms of growth because of the pipe replacement programme and the need to modernise the grid. Having said that we're incredibly focused on the bill impacts to customers and that's really where those bill tools that I mentioned are so important.

So I'll give you an example, for upstate New York even if we wind up getting the full rate increase that we've requested, because of the low income funding that's now in bills for the customers who have the hardest time paying their bills, the lowest of low income, their bills will actually go down. So we have programmes that help to try to mitigate that. And I think as you heard Mike say and I mentioned we also try to phase in the bill increases. We try to avoid rate shocks to our customers. For KEDNY KEDLI Peggy will walk you through the numbers but instead of a very large one time increase we're able to spread that out.

We're also benefiting right now from low commodity prices. So a big part of the customer's bill as you know is commodity because of the abundance of natural gas both on the gas side and on the electrics side in New York State. Commodity remains low so it's something we're very conscious of, we're always focused on it, that's why efficiency is at the top of the agenda and each year we're trying to reduce our operating cost to absorb as much of the inflation that hits our business year over year. So bill impacts are a major concern. I think right now the regulator is at a point where they understand the need for bill impacts in order to fund the investment going forward and I think we feel like we've got that balance right.

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Mike Calviou, SVP, Regulation and Pricing
I think the only thing I'd say is if you look a bit further out as Ken says we do absolutely think very hard about bill impacts for customers. I think increasingly we'd be looking in terms of areas of growth where we're creating additional value for customers. So for example investment around electric heating and electric vehicles, effectively we're creating sort of like new value pools for customers and that - clearly there's opportunity for that to give us growth opportunities that isn't just adding additional bills onto existing customers for the current uses for the electric and gas they use.

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Question
How did the staff recommendation that we just got on the NIMO case, how did that compare to what you experienced in the Keyspan cases?

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Ken Daly, CFA, New York President & Chief Operating Officer
I'll start off Mike. We're in midstream now so we won't say too much about negotiations but I think across the state the average is normally you get around 5% of the ask. Clearly the numbers Mike shared are higher. KEDNY and KEDLI were even higher than that. If you're thinking about the KEDNY KEDLI filing it was very much driven by the policy around replacing gas infrastructure whereas in the NIMO case we have a whole bunch of other issues that we're taking on. So it's not as high as KEDNY KEDLI but it's higher than you've seen in other industry initial offerings from staff.

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Mike Calviou, SVP, Regulation and Pricing
Yeah if you look at ROE in particular, in the KEDNY KEDLI filing staff's opening position was 8.6 and we settled at 9. Before you sort of plug into your models, just assume an outcome fully consistent, in the Corning gas case which is the most recent case that was settled in New York, staff's opening position was 8.2 and they settled at 9. So there is normally movement from staff's opening position to a settlement and you can look across historic whatever and make assumption. Clearly about to go into settlement discussions, I don't want to speculate on the precise outcome but we do look at those most recent settlements of 9 as key benchmarks that clearly will inform our position.

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Question
When you look at New York, New York typically has given the lowest ROEs in the nation. Is there any point that the utility throttles back capex, getting these really substandard returns? Because it seems like there's no incentive for the commission to give the utility an attractive return when you're going to deploy the capital anyway.

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah I'll let Mike jump in again but I think as you listen to Mike's points you know New York has a number of very progressive regulatory features so it's forward looking. So it's based on a future rate year not the historic.

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Question
Lots of parts?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah a lot but not all. Secondly a number of protection mechanisms as I outlined in mine some of the traditional ones but also now for city spend, environmental clean-up. I think the state's also now much more open to incentives so more symmetry around the allowed return in terms of upside and downside. So we see New York we find it a really good place to invest.

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Mike Calviou, SVP, Regulation and Pricing
Clearly if returns were too low then that would clearly affect our willingness to invest large amounts to meet all the challenges we've talked about so that's part of argument. We do think that returns have to be at an acceptable level but as Ken says we're trying to create an overall regulating framework that works for us and our customers and particularly the fact that under REV they've proposed new upside only incentives is positive. They recognise they're asking us to do things that are outside our traditional area, they want us to want to get into these areas and therefore they're saying no we'll give you upside incentives to do this. So we're ultimately looking to make sure the entire regulatory framework works for us and our customers and creates an area that is attractive for us to even make the investment that is needed.

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Question
Could you give us a comparison with CoreNet where they are able to earn above their allowed ROE and where you guys have done I think around 91%? What is that like 10% to 15% delta between the two companies that you cannot overcome, could you just elaborate on that?

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Ken Daly, CFA, New York President & Chief Operating Officer
Sure. So for the New York business as I mentioned by next April for the whole of the business we will have refreshed rate plans. In the prior period you know we've been living off a very, very old rate agreement. So for KEDNY and KEDLI it had been a decade, we had a rate freeze going back more than a decade, and for NIMO more than five years since we've last had the rates updated. So I think a key as you've heard from Mike as we go forward is we're going to try to keep our rate plans aligned with our cost of operating the business.

Certainly my goal in running the New York business is to get as close to achieving allowed returns as possible. And I think in these new agreements there's much more symmetry around the returns. You heard about the incentives, when I look at the most recent data points for me and for National Grid here in New York we had a very fair outcome for KEDNY and KEDLI, unprecedented perhaps in terms of the level of their rate

increases. If you look at those four interim filings we thought we had very, very fair outcomes there. And we're halfway on the NIMO outcomes; I won't speculate but feel very confident we'll land at a fair outcome there as well.

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Question
So just curious about the incentive and for example the coming NIMO are you going to have similar incentive like for the bills like you did at KEDNY?

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Ken Daly, CFA, New York President & Chief Operating Officer
So again it's in flight so we'll see where it lands. For KEDNY and KEDLI I think the incentives that you're aware of, we're allowed to retain the first 50 basis points of outperformance, so effectively an opex incentive to try to keep our costs down. We get to share with the customers those savings. And then we have an additional 40 basis points now of new incentives around leak repair, unit cost, growth on the system etc.

In staff's rebuttal testimony as part of the Niagara Mohawk, so in staff's position they also are recommending incentives for the Niagara Mohawk business. We'll see where it ultimately lands but I think we feel very confident that you'll see something similar to what we saw in KEDNY and KEDLI but much more around REV and REV goals about how we manage customer bill impacts, how we help customers create some new energy tools.

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Mike Calviou, SVP, Regulation and Pricing
Yeah I mean we're looking to build on what we've done in KEDNY KEDLI and I think we're between the similar incentives for Niagara Mohawk gas that we saw for KEDNY KEDLI plus the new REV incentives for electricity. I think we'll plus the core opex incentive, the first 50 basis points before we start to do any revenue sharing with customers. We feel there'll be attractive portfolio incentives that give us real good opportunities for some upside.

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Question
You talked about the opportunity to transition electric customers to - and oil customers to natural gas. Does the $1,000 rebate programme cover all the costs associated with that transition and are you looking at residential, commercial and industrial? What's kind of the customer base? What's the growth that you're expecting from that?

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Ken Daly, CFA, New York President & Chief Operating Officer
Sure so the focus is on converting oil customers to natural gas. The programmes I described are funded in rates so these were programmes that we petitioned for as part of KEDNY KEDLI and we have the funding. The $1,000 programme is if we happen to be on a route, if we're doing a leak prone pipe replacement we can go door to door and encourage those customers at that time to convert because our costs will be lower since we're ploughing the roads anyway, and convert the customers. The low income

programmes likewise, that was part of the funding that came through in rates. So that is all funded and it's part of our operating costs as we go forward.

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Mike Calviou, SVP, Regulation and Pricing
Yeah I mean the $1,000 and the $7,500 I referred to are there to offset the cost the customer will incur in terms of new boilers and heating equipment etc. So certainly for your average customer $1,000 won't fully pay for it but it does make it a reasonably attractive proposition. I don't know the precise numbers, I know the neighbourhood where I live that in my house we're not on the gas main and a lot of people are looking at it. It's a few thousand dollars to convert for your average customer and therefore that $1,000 really does sort of take it into a point where people get really interested in it.

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Question
What type of growth rates are you looking at through them?

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Ken Daly, CFA, New York President & Chief Operating Officer
So for Long Island you still are - it becomes at a low penetration. We're right now close to record levels of growth. We're adding about 13,000 customers per year across the system. Here in the city, Brooklyn and Queens, it's more around the redevelopment. So we're at 80% saturation but believe it or not we're growing as quickly in Brooklyn as we are anywhere because of all the redevelopment. A lot of customers are building up and we're getting the benefits there.

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Question
So for the NIMO case, when you say multiyear settlement is that typically three years or there is a range of years you're looking at it? And if there is a range of years you're looking at it do you prefer the longer end of it or shorter end of it? And for the longer years how much more do you have to give back to achieve that?

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Ken Daly, CFA, New York President & Chief Operating Officer
So in the filing itself it's one year filing but traditionally and in the NIMO case specifically we've included two additional years of data. So one plus two would lead you to three. The KEDLI agreement was a three year deal. Having said that it's not hard coated, it's not necessarily but right now I think given our history and given where the commission has come out recently which is not just our case but with other cases, three years feels around the sweet spot.

Normally the way it works is if you agree to anything longer than a one year deal you are rewarded with what's called a stay out premium and that's ideally hopefully how we'll get the allowed return higher than what staff's current position is and more aligned with what we would expect out of the rate case. So I'd say three years is probably where I'd

anchor around, could be a little shorter or a little longer but I wouldn't go too much further in either direction.

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Mike Calviou, SVP, Regulation and Pricing
The thing to add is we always have the right to go back in and file to update our rates, and therefore that's why in any multiyear deal we'll generally get a stay out premium so that's to our benefit. Looking at different lengths of multiyear deals clearly the further you go out the more uncertain our costs are which can be a problem for both our - there's more chance that our revenue and our costs misalign. However clearly it's a longer period in which we can outperform and sort of generate value via incentives etc.

So we do look pretty hard at those key points, you know three versus four is an interesting debate which we've had. I think at the moment given the amount of change that's going on, REV etc. going longer than three years feels hard. There's just so much change going on in the industry I don't think any of us feel as though we'd be able to produce really, really solid capex forecasts going out of those longer periods.

So I think you know as Ken says three years feels a sweet spot at the moment but I think as part of the overall performance based regulation strategy we're certainly open to longer term deals. And obviously in our UK business we've done five and then even most recently eight year deals, albeit those deals do have a number of sort of what you might call adjustment mechanisms that sort of help allow for that uncertainty point.

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Question
So maybe from a National Grid US context how should we think about your ability to push beyond that 90% realised ROE versus the allowed ROE? Going into new rate cases and then putting that in context with your rate case cycle that he just asked about, how should we think about your strategy of filing for rate cases going forward to match that on a realised outlook?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah I think as I said upfront the key is having rate cases that reflect the current realities of running these businesses. For New York now we will have fully refreshed rate cases, that gives us a much better opportunity of earning near those allowed returns. We talk about the symmetry of the incentives as you go forward, I think to the broader US it's actually a very, very similar picture, where in Rhode Island and Massachusetts we have similar plans to update those rate filings.

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Mike Calviou, SVP, Regulation and Pricing
Yeah so we'll be filing Rhode Island and Massachusetts later this year and once we've done that then that will be the full cycle. Each of the - clearly for each individual operating company we aim to achieve a rate agreement that allows us to earn as close to 100%. As you know or may know Massachusetts doesn't have forward looking test years, they tenure - traditionally they've given us higher base ROEs so we got a pretty good outcome in the MECO case. But because they work off historic test years we tend

to have some inbuilt regulatory lags. So broadly that's going to be the most challenging jurisdiction to get to that 100% or sort of get close to 100%, but across the portfolio we're looking to create the regulated frameworks that allow us to get as close to 100% as possible.

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Ken Daly, CFA, New York President & Chief Operating Officer
So with that we'll take a short break. Mike and I will be available over coffee. And when we come back you'll hear from our colleagues Marcy and Peggy so thank you.

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Second Question and Answer Session

Question
Thank you. Can you talk about Massachusetts and Rhode Island and perhaps why you chose not to have a discussion about those entities today, are they considered non-core perhaps?

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John Pettigrew, Chief Executive
So let me just say categorically no - to answer, they're not non-core. So the US business in its entirety is hugely important to National Grid. You heard me say at the beginning, you know the proposition that we set out is one in which we want to grow the business by 5 to 7% per annum; we want to continue to increase the dividend by at least the UK inflation rate each year.

To do that all of our US businesses have to contribute either in terms of growth or in terms of yield. And our Rhode Island and Massachusetts' businesses are doing exactly that as well. So we're very comfortable with the shape of the portfolio that we've got in the US.

We decided to pick on New York for the reasons we've set out, it is by far the biggest part of our US business. It's been a while since we showcased some of the work that we've been doing and with such a significant series of rate cases going on we thought it was the right opportunity. But please don't read into that anything other than Rhode Island and Massachusetts are equally as important to us.

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Question
Peggy, can you reconcile your slide where you showed the building blocks for New York rate base effectively of a 4%, from 10 to 10.4, how do we get from there to the 7%, is that a timing difference, what's the reconciliation there?

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Peggy Smyth, US Chief Financial Officer
Yes, so there's a couple of moving parts in there, but you look at say construction work in progress, the CWiP it can vary in any given year. And it just really depends on the timing of complex projects and when they get placed into rate base, when they become

use and useful. So that's one of the big key drivers there. So it's more just a timing item.

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Question
On the rate base growth question, the impact of the deferred taxes once the New York business becomes in an NOL position, does the deferred taxes not matter, how should we think about it?

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Peggy Smyth, US Chief Financial Officer
So the deferred taxes, what we'll be seeing and we're looking at this, particularly as bonus depreciation is starting to wind away that's going to have an impact on deferred taxes and so you'll see that that reduction will be less going forward, which will increase rate base.

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Question
And when do you expect to be in NOL positon at the operating utility level? NOL, net operating loss.

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Peggy Smyth, US Chief Financial Officer
In an NOL position, so we're - again when we're looking at taxes we're thinking about just as the company as a whole and looking at all of the operating companies together collectively.

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Question
Sorry, the last question, I was trying to understand - like usually most utilities are in NOL positions, so even if they invest the deferred tax liabilities increase, but the deferred tax assets also increase, so the impact on rate base is zero.

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Peggy Smyth, US Chief Financial Officer
Yes and so we've modelling it out and we've looked at when those NOLs will turn and we'll become a cash basis taxpayer as well going out into the future. So initially it won't - when bonus goes away it won't have that big of an impact on us, but eventually we'll become - we'll eat up all the NOLs. We've been doing all different scenario modelling on that.

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Question
Hi, can you talk about dividends from the operating companies up to Nat Grid North America and then up to Nat Grid, is there any kind of policy or requirement that you need to meet?

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John Pettigrew, Chief Executive
I'll hand over to Peggy for some of the detail, but at the macro level there's no policy. We, you know as I said, at a portfolio level we look for each of our operating businesses to contribute growth and yield. The operating cash that we get from the US supports our balance sheet metrics very well. So our constraining metric, RCF to debt is one that we look to stay above 9%, each business needs to contribute to support that in terms of our dividend and growth and we're very comfortable with that and the shape of the portfolio that we've got.

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Peggy Smyth, US Chief Financial Officer
And that's where the difference between the two different frameworks for regulation with the US more nominal and the UK real helps us, from the US perspective it focuses more on immediate cash flow generation and that helps us meet that metric in particular.

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Question
Thanks, also do you have any interest in further M&A activity, one of your neighbours just bought a water company, are you interested in anything like that, or other utilities as well?

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John Pettigrew, Chief Executive
Again, from a strategic perspective I think we feel that we're in a very good place in that you know we set out that we wanted to grow the business by 5 to 7% and continue to grow the dividend. When you look at the US business, it's growing, as you've seen from Peggy and the other presentations, by 7%. If you look at our UK business it is around about 5%. We've got some incremental opportunities in the UK with things like the interconnectors, in the US through some of our National Grid Ventures opportunities.

So we're sort of in the sweet spot. A company the size of National Grid will always look if there is an opportunity to see if there is value to be created. In recent years it's difficult to see how that value is created through M&A. So we would always look, but it's not part of our core strategy, our focus is on execution of delivering that 5 to 7%.

And we certainly don't have any interest in water just to be clear.

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Question
In the appendix you have a chart on ROEs, in which you talk about the allowed ROE and the achieved ROE, given the rate cases already settled with KEDNY and KEDLI and then also looking forward to NiMO, what should we expect in terms of the achieved ROE, there has been some volatility across the few years, you know maybe you'll be getting a little bit lower ROE, but given some of the mechanisms in place we would hope that there we could less volatility, if you can just talk about that going forward.

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah, I think as I said you know we're really excited that by next April all of the rate agreements across New York will be fully refreshed for the first time in many, many years. If you go back to KEDNY and KEDLI when those rates were first refreshed a decade ago, for the first five years actually both of those companies earned their allowed return and then some each year, we were outperforming for many, many years. It was in the latter period, after the rates had expired, that you start to see them come below the allowed.

So both KEDNY and KEDLI, I know John is holding me and I hold myself and the team to earning near those allowed. We're confident that with a fair outcome in NiMO we'll be back in a position where we have a fair opportunity to earn very near those allowed returns.

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Question
Thanks, this is a little bit related to the M&A question that was asked before, but a little different angle, just as you John look at the company strategy overall in terms of your mix between UK and US, do you feel like you have the right portfolio shift from the highest level in terms of your asset mix between the two countries?

And I ask that with specific regards to what we're seeing in the UK, you know it seems like Ofgem is starting to indicate that you know there will be some ROE or rate pressure and there has been some other blowback, it seems like that I'm reading here, you know 3,000 miles away, that there are some maybe emerging risks in the UK. So does that play into your strategy at all?

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John Pettigrew, Chief Executive
I'll answer it with two different halves really, so I'll talk a little bit about UK regulation as well. In terms of the overall portfolio mix we're very comfortable. So as you know we took a key decision 18 months or so ago when we decided to sell a majority stake in our Gas Distribution business in the UK. And the reason, just to remind you, of why we did that was the UK Gas Distribution business is coming to the end of its replacement cycle and therefore the prospects for growth, in our view were very, very low. And therefore back to our proposition, it wasn't really supporting our 5 to 7% growth. And actually because of some of the regulatory changes it wasn't actually generating as much cash going forward as well.

So when we look at the overall portfolio today with that decision made, we're very comfortable that each business is contributing in the way that we would want to deliver that proposition. You know of course as a Board we will review that on a regular basis. But we're very comfortable today.

And it sort of demonstrates actually the value of diversity. So if you look back three or four years ago you would have said that the UK was going to expect to see stronger growth in rate base than the US. And actually perhaps the regulatory positions were perhaps going to be more favourable in the UK. Over the last few years I think it's

definitely clear that the rate base will grow stronger in the US than the UK, we're at 5% in the UK and 7% in the US and we are seeing some challenges in the regulatory framework in the UK.

Now the focus of the regulatory challenges at the moment are very much in the supply businesses. But there is a read across into networks. Ofgem have just launched what they call their Open Letter, which is the beginning of a process that will take us four years to get to a conclusion in terms of what are the appropriate returns, where does the risk sit between customers and the utilities and what does the incentivisation look like.

So it's very early in the process so there's a lot of emotion at the moment, particularly with the suppliers. In my conversations with Ofgem the key thing I think next year will be about getting the framework right for RIIO T2. And then beyond that I think we'll get into real discussions around what's the appropriate level of returns for the networks going forward, where does the balance of risk sit, and what's the right set of incentivisations.

What is clear is the UK regulators are very committed to continuing incentivisation for utilities. It's a very strong principle for them and one that they're not going to talk away from.

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Question
Maybe taking the other side, if you look at a three to five year outlook on electric versus gas I'm curious where you think capital opportunities for spending are going to look between those two sides of your business?

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John Pettigrew, Chief Executive
At the Plc level it's slightly different UK and US, so in the UK as I've already said we've taken the decision to exit a large majority of our Gas Distribution business because we didn't see the capex opportunities there. But our Electricity Transmission in the UK is still a significant driver of capital investment. In terms of its total capital investment it's bigger than New York for example, in terms of the amount of spend per annum. And we see the levels of investment over the next four years in Electricity Transmission in the UK continuing at similar levels to what we've seen in the last four years.

Beyond that then it really comes down to how quickly we're going to see new generation in the UK coming on. It's actually taking a lot longer than people assumed five years ago. So we've still got something like 79 gigawatts of generation in a queue wanting to connect to National Grid in the UK and that will drive some investment.

And on the back of that of course you've got electrification as well. And the question is how quickly are people going to move to electric cars and what's that going to do to drive investment in the networks. And we're doing some work on that at the moment, it's early days, but it's clear there will be a need for investment at the transmission and distribution level in the UK for electricity through the electrification of transport.

In the US it's more balanced as you've seen today. So we've got - what's very nice I think about our capital investment programme is that it really is underpinned by asset health, safety, resilience, and reliability. So we're not dependent on some superstar

project that we hopefully will win. The 7% growth that we talked about is underpinned by the replacement of leak prone pipe, resilience, store resilience, reliability and asset replacement. And that is both on the gas and on the electricity side.

So that's why I think we feel very confident about the growth projections that we're talking about today because we're not reliant on those big projects.

In National Grid Ventures we are competing for some big projects, but they're not in those 7% numbers that we talked about today.

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Question
Just picking up on the comments on the value of the diversification, as you talk to investors on each side of the Atlantic where do you feel the bigger disconnect is you know versus understanding and valuation around the two pieces, is it people sitting here not getting the UK, or people in the UK not fully appreciating the value of the US?

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John Pettigrew, Chief Executive
So I'll slightly turn it around, I think the obligation on us is to make sure that people understand the regulatory framework, the performance of the business and the opportunities that we've got ahead of us. So when I talk to our colleagues in the UK, the understanding of the US regulatory framework is not as good as the people in this room. When I talk to people in the US then their understanding of the UK regulatory framework is perhaps not as good.

So you know the onus is on us to be as transparent as we can, give as much disclosure as we can that it allows you to understand the value proposition. And you know that's to a large extent what we've been doing here today and we were doing in London yesterday is making sure that people have a good understanding of exactly how we see the New York business, which is such a critical element of our US business.

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Question
Is there any plan to list the US as a separate - although the UK - own all you know 100% so that US investors - or your folks in the US can appreciate the value then …?

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John Pettigrew, Chief Executive
Again, our focus, and hopefully you got that this morning is very much around delivery and making sure we're focusing on the delivery and improving the performance of our US business and our UK business. Part of today and yesterday really is to provide as much disclosure and transparency as possible, so people understand the value of each business.

But as a Board we regularly look to see if there are opportunities through the way that we're structured to create value. But at the moment as I said our focus is very much on delivery and disclosure and transparency and we think that's an important element of it.

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Question
You alluded to National Grid Ventures and the upside opportunity from unregulated businesses, can you talk about how you think about downside risk from such opportunity sets. And also how you think about measuring success over both financial and non-financial metrics over the medium term in that business?

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John Pettigrew, Chief Executive
So in terms of risk, the objective in National Grid Ventures is to take advantages of opportunities which are in adjacent markets to our networks. But the characteristics of those investments are very much either semi regulated or sudo regulated. So we look for opportunities where it's a long term investment in an asset where we can contractualise the terms in a very similar way to regulation.

So if you look at where National Grid Ventures is focusing at the moment, by far the biggest capital investment is in our interconnectors business in the UK. We've got an interconnector that we're building with Norway which is the longest subsea cable in the world; we've got an interconnector we're building with Belgium and with France. Each of those will end up being long term contracts with a lot of the characteristics you expect to see in regulated business, and in fact they've got a regulatory cap and collar in terms of returns. So even if the market doesn't deliver those returns we're protected against the downside.

So that is our focus for National Grid Ventures in terms …

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END

National Grid

New York Teach-In

London, 13 September 2017

National Grid

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Dean Seavers, Executive Director, US

Ken Daly, CFA, New York President & Chief Operating Officer

Mike Calviou, SVP, Regulation and Pricing

Marcy Reed, EVP, Business Operations, Engineering and Process

Peggy Smyth, US Chief Financial Officer

Introduction

Aarti Singhal, Director of Investor Relations
So good morning everyone and welcome to our Investor Teach-In on the New York business. As always we start with safety, no planned fire drills this morning, so if you hear an alarm if you could make your way out through those doors, down the stairs, and leave the building through reception.

So this is our first event on the New York business and really our aim is to provide you with more detail, more granularity on our growing US operations. And to help with this we've also included an analyst pack in your materials this morning.

I'm really pleased that tomorrow is going to be our first local event for some years for shareholders based in the US when we repeat this event in New York.

So we've got a full agenda this morning which is now displayed on the slide behind me. There will be two Q&A sessions, so you should have plenty of opportunity to ask lots of questions to the team. I hope that you'll enjoy meeting the team and that you'll find today's presentations insightful.

Before we move on I'd like you to take note of the cautionary statement that's included in your packs. And with that I'd now like to hand you over to our CEO, John Pettigrew, thank you.

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Opening Remarks

John Pettigrew, Chief Executive
So thank you Aarti and good morning everyone. I'm delighted you're able to join us today.

I'd like to start this morning by just setting out the objectives for the next two and a half hours, which is really to show you the quality of our US business, the opportunities for growth and improved returns, the potential for National Grid to benefit from the developments that we see in the industry, and the strong team we have in place to deliver the opportunities. And it's for those reasons that we're hugely optimistic about the future of our US business.

As you know our business is broader than just New York, but we've chosen to focus on New York today because it's our largest jurisdiction in the US, it's at the heart of our US agenda, and has significant organic growth opportunities.

So following my opening remarks Dean and the team will discuss this in detail and of course we'll also update you on the recent developments such as the NIMO rate case filing.

What I should point out is that our focus this morning is on our regulated businesses in New York, so we won't be covering other areas such as National Grid Ventures, but of course I'll be happy to take questions on this or other areas during the Q&A.

So as many of you know I've been in National Grid for over 25 years now and between 2007 and 2010 I worked in the US as the US Chief Operating Officer. So for me personally it's been a really exciting journey to see how the business has grown to now represent 42% of our asset portfolio.

So we'll just take a moment to remind you of that history. So we entered the US in the year 2000 and we expanded our footprint through a number of acquisitions, both in New England and in New York, including Niagara Mohawk in 2002 and Keyspan in 2007 and you'll hear more about both of these today.

The rationale for these acquisitions was founded on the understanding that these businesses offered a combination of attractive, low risk returns that were underpinned by stable regulatory frameworks and good organic growth potential.

So we've been in the US for 17 years and over that time our rate base has grown significantly to over $19bn, with the majority of that rate base focused on electricity and gas distribution. So to put this scale into context, National Grid's operations in the US, which now serves over seven million customers, is comparable to some of the largest domestic US utilities. Since 2010 the US business has achieved compound annual rate based growth of 5%, principally through investments and upgrading and expanding our core electricity and gas networks.

We invested $2.9bn in the US last year, which was 58% of the Group's total capex and over the last two years we've had one of the largest capital programmes in the US utility sector.

As our industry continues to evolve there are increasing investment opportunities in the distribution end of the value chain and our businesses will enable us to build on the solid foundations we already have.

For the Group as a whole we adopt a portfolio approach and each of our businesses much contribute to our growth in shareholder value, through a combination of asset growth and dividends. So as you know we're targeting asset growth for the Group in the 5 to 7% range and have a policy to grow the dividend at least in line with UK inflation for the foreseeable future.

Our US business plays an increasingly important role in contributing to this proposition. In recent years our priority has been to improve the performance of the business and consistently earn as close as possible to the allowed levels of returns. And over the last couple of years we've made good progress towards this objective and this year we're targeting 90% of allowed.

In terms of operating profit the performance has been improving and going forward we expect it to increase as we file the new rates and invest in growth.

And of course we must do all of this whilst continuing to deliver world class operational and safety performance, maintaining a robust balance sheet and positioning ourselves at the forefront of industry developments. And as I've said consistently since becoming CEO in order to create value in the longer term our customers must be at the centre of everything that we do. This will enable us to achieve our vision of exceeding the expectations of all our stakeholders.

So as we look to the future over the next couple of years we expect to see significant investment opportunity in the US. You can see from this chart that in 2017 the utility industries expected to invest about $118bn and going forward the share of network investment is expected to grow, with the potential for well over $300bn to be invested in networks by 2021.

This investment is driven not only by the need to replace aging infrastructure but also to adapt the network to the industry trends, including supporting our states to meet their aggressive environmental targets, facilitating renewable generation and meeting the increasing demands of our customers. During the season this morning Dean and the team will give more context on how these trends translate to opportunities within our jurisdictions.

Dean will also update you on the changes that we've made to strengthen the US organisation to ensure that we can deliver on this growth. And I'm confident that the highly experienced senior team which combines deep industry knowledge and local US expertise are the best team to deliver against these commitments.

So in summary I'm delighted to be here today as we showcase the work that we've been doing in New York and the progress that we've made. National Grid has a long history in the US, we're a major utility in the market and with the restart of rate filings we're on the path to deliver improving performance.

This financial year will see the full benefits of the filings of last year and we're targeting 90% of the allowed returns. With the capex plans that we have in place, together with our ongoing rate filings our expectation is for the US to deliver rate based growth of around 7% over the medium term.

The US is core to our investment proposition, offering diversification of regulatory exposure and a major opportunity for growth. I look forward to supporting the team as we continue to grow our business in the US and create long term sustainable returns for our shareholders. Now let me hand you over to Dean to take you through the morning.

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US Introduction

Dean Seavers, Executive Director, US
Thanks John, good morning everyone. Two years ago when I stood in front of you I'd been with the company just six months and at the time I laid out a pretty ambition agenda focused on growth, rate cases and ROE improvement and most of what I said centred around what we intended to do or what we planned to do. Now, almost two years later I'm proud to stand in front of you with my colleagues to say that we've grown our business commensurate with what we laid out two years ago.

We've implemented and executed on our rate case strategy, which really puts us in position to continue our growth trajectory and affords our business the opportunity to improve our earnings. And operationally, as John said, we've improved our safety performance, controlled our spending and focused on embedding process driven efficiencies so that we can sustain the improvement we've seen over the last couple of years.

And as a US leadership team we are both confident and committed to our operational framework and I'm proud to lead the team as we continue our journey of creating value for our customers and value for our shareholders.

So now let me take just a few moments to show you our actual performance relative to the priorities we laid out two years ago. First, we articulated a growth expectation of around 7%. Since then our rate base has grown by more than $2bn, and our growth rate, excluding movements in working capital has averaged 7%. This has been driven by a significant capital plan, which has increased by a half a billion dollars in two years, reaching $2.9bn on an IFRS basis. This year we expect to invest over $3bn with the increased level of investment being funded by new rate plans.

In the past two years we successfully filed major rate cases for Massachusetts Electric, our Downstate New York businesses of KEDLI and KEDNY and Niagara Mohawk, together these represent 70% of our rate base and this follows a temporary hiatus that we had in our filings. This year we're preparing to file our remaining distribution companies as we have the ability to file as needed on an ongoing basis. This is very important as we can now file cases based on quality data before our rates get out of date. This is fundamental to our ability to achieve closer to our allowed returns.

And our returns have started to improve, as John mentioned we remain strongly focused on improving the performance of our business. And for the current year we're targeting 90% of our allowed.

Now John began today's presentation by outlining National Grid's value proposition, within this framework our US priorities moving forward are clear. Core to our business is a focus on delivering world class network reliability and safety performance and we have made significant progress here. Our OSHA recordable injuries are down 20% since the end of 2016.

At the same time we've focused on managing our financial performance so that we can deliver returns as close to the allowed as possible and we expect to deliver 90% of allowed this year.

The team is committed and has robust plans to continuing driving both operational and financial improvements. Now, combined with this focus on operational execution we also have significant organic growth opportunities and we're focused on delivering that growth in a disciplined manner, working within our rate plan so we can receive timely recovery of our investments.

Now alongside this we're preparing for the longer term by evolving with the changes that are taking place in our industry. In each of the states where we operate we've proposed a number of new solutions for our customers to help them benefit from advancements in our space.

Of course these proposals must be made in a responsible way that considers customer affordability. Everything we do must begin and end with the customer in mind. And this will be a theme throughout today's presentation.

Now let me now turn to the four drivers for investments in our networks which John touched on briefly, they are in aging infrastructure, environmental policy, falling costs for renewables, and changing customer needs.

In the North East where we operate more than half of the electricity and gas infrastructure was built in the 1970s or before and replacement and modernisation of this aging infrastructure will underpin our robust investment plans over the medium terms.

On the gas side, mandated work, which includes lead prone pipe replacement accounts for about 60% of our capex. Now in contrast to the UK we're actually in the early stages of our pipe replacement programme. There has been a clear desire by our regulators and the public to accelerate our pipe replacement. And this increased level of investment will remain for years to come. In our territory we are replacing just over 400 miles per year, with some jurisdictions having almost 20 years left in their replacement programmes.

The rest of our gas investment plan consists of about 25% growth related investment, which includes expanding the network into new areas, or accommodating greater demand in existing areas. And about 15% reliability investment, where we focus on maintaining sufficient monitoring and control capability and strengthen the integrity of our gas network.

On the electric side there is a significant need to modernise the aging networks in order to be able to handle the current demands, this includes renewables and more distributor resources, as well as to better stand up to storms. Like on the gas side this asset condition work represented 60% of our electric investment last year, including replacing our poles, wires and transformers and mitigating future risk on our networks.

For the rest of the plan about 15% was customer driven work, providing customers with new services and outdoor light connections and about 25% includes solutions to address capacity needs and assuring communications and control systems meet future expectations.

The fundamental drivers of investment will support our investment plan over the medium term and this is true across both our electric and our gas business. It's a fantastic opportunity to invest in our core business.

Let me now turn to the environmental agenda, in the North East we have some of the more progressive jurisdictions that have aggressive renewable standards and plans to drive real change on behalf of customers and this is resulting in more opportunities for our company. New York, Massachusetts and Rhode Island all have strong targets for CO_2 reduction over the medium and long term, which have remained unchanged despite changing support at the Federal level.

This gives us an opportunity to play a big role in the energy transition across a number of areas within our regulated businesses. We are already a leader in energy efficiency and demand response, and we have a growing presence and a growing influence in distributed generation and grid modernisation. Some of these efforts are included in our plans and some represent upside to future investment plans. In addition, we can compete for transition projects to bring clean energy into the region and make further investments through National Grid Ventures in the semi or non-regulated space.

So the clean energy policy objectives that I just outlined create opportunities for us and these policy objectives are now much more achievable as the economics of clean energy continue to improve. For example, looking at large scale renewables, since 2009 solar costs have declined 85%, and onshore wind costs have reduced by two thirds on a per

megawatt hour basis. Clearly these trends are increasing the appetite to integrate more renewables into the generation mix.

According to Bloomberg New Energy Finance, by 2025 the US will have over 80 gigawatts of installed utility scale solar capacity and over 140 gigawatts of wind. This transition towards cleaner sources of energy will create opportunities for National Grid at multiple points along the value chain and we are preparing ourselves to capitalise on those opportunities.

As an example we're increasing installed solar capacity in our Massachusetts rate base and have connected the US's first offshore wind farm with an investment we made to our regulated Rhode Island business.

As John laid out our strategy puts customers first in everything we do. Our strategy puts customers first in everything they do. This is particularly important in the US where we have direct contact with seven main accounts representing 20 million people. We believe that developing good relationships with our customers by providing a frictionless experience will help position the company as a preferred provider or new products and new services. That is why it's absolutely essential that we evolve our business alongside our customers. Customers are looking for a seamless and more personalised customer experience and are not afraid to tell us what they want. This is especially true of younger generations who are used to interacting with their utilities at a rate that is six times that of baby boomers, via mobile apps and through social media.

I think this creates a new opportunity to understand our customers even better than we have in the past and is therefore a great opportunity to deepen the value proposition for our customers.

Over the next ten years we believe that one of the most exciting customer driven trends will be the adoption of electric vehicles. A National Grid survey shows that about a quarter of our residential customers would be extremely, or very likely to consider an electric vehicle for their next automobile purchase. That extrapolates to more than a million and a half customers. There are still some hurdles with the technology itself, and some hurdles with the cost of that technology, but more relevant for National Grid is the lack of a charging infrastructure. And the majority of our customers believe the utility should be responsible for developing public EV charging stations.

Now again if we use Massachusetts as an example there needs to be huge increases in charging points to be able to accommodate the expected growth in demand. This could create opportunities for us through the development and management of a charging infrastructure in the medium term.

To help our company and our regulators better understand these opportunities we have a number of projects and proposals underway, in both Massachusetts and New York. Over the next three years we could build up to 2,500 new charging ports, while also helping customers learn more about electric vehicles through territory wide education campaigns. We will use these initiatives to help to better understand customer behaviours, so that we are more informed and better positioned in the future.

So with this backdrop we are preparing our organisation for the sustained level of growth. I have introduced some changes that will enable the organisation to benefit from our broader US scale and replicate improvements across the business. We have a very disciplined and robust performance management framework in place that we call

Cadence. This ensures that our team has the appropriate responsibilities and accountabilities and that we are getting quality information on a timely basis, which together enables effective decision making.

Along the same lines we developed a strong rate filing programme that I mentioned earlier. We now have the resources, the structure, and the process to be able to file effective rate cases as needed. This is clearly important in driving improved financial performance as it allows us to align our regulated revenue with the costs required to service our customers.

We've also evolved our operational functions to include end to end process views and a UK style capital delivery function, where we're actually leveraging a few of our experienced UK colleagues to help us jump start this function and adopting their lessons learnt to our regulatory requirements.

Now in doing so Marcy Reed, who you know as President of our Massachusetts business, has recently become a new role overseeing business operations, engineering and process and that's across all of our jurisdictions. This includes development and oversight of our end to end processes which are designed to strengthen our customer focus. Now you'll hear more about this from Marcy today, but I believe Marcy is uniquely qualified for this role, because her tenure as a jurisdictional president makes her well versed in the process needs from a customer and regulatory perspective.

Having taken on this new role Marcy will be succeeded as President of the Massachusetts jurisdiction by Cordi O'Hara. I'm really pleased to have Cordi join our team as she brings excellent experience from her commercial background and in particular her most recent role as Head of the UK System Operator.

Also as part of the evolution of our operations John Bruckner will be leading the new complex Capital Delivery function, as well as Network Operations and Safety. Lastly, I have appointed Charles Dickerson as President of Business Services, who will look to take our shared services function to the next level.

So together with Ken Daly and Mike Calviou who you'll hear from today, as well as the other jurisdictional presidents Rudy and Tim, each who have 29 years with National Grid, we have a diverse, highly experienced team that's driving the US agenda.

Now before I summarise let me turn to New York which is the key focus of our presentation today. John talked about why he thought New York was such an important part of our portfolio, so let me spend just a minute giving you my perspective as well.

It is our largest jurisdiction representing more than 50% of our US rate base and about 50% of our capital investment. So from a scale perspective it would be a significant utility in its own right. And the investments we are making in New York impact a number of communities in a significant way. Ken and the New York team have been diligent in improving the operational and regulatory performance and he's going to talk to you about that today.

And as I think about the customers in Brooklyn and Long Island and Staten Island and also the customers in Rochester and Buffalo and Syracuse I'm reminded that we have this incredibly diverse set of communities that we partner with to both revitalise and sustain their economies and bring energy to life for millions of customers. We've been here for 15 years and New York is not only an important part of the US business and as

you'll hear today, New York represents a lot of opportunity for us and for the communities we serve.

So let me summarise. I believe we're well positioned to capitalise on the growth opportunities in our industry. We expect to invest around $3bn per year in the medium term. The industry trends and broader landscape for the US favours growth in our region. The industry is dynamic and we'll work to position ourselves so that we can capitalise on these future opportunities in a way that creates value for our customers and value for our shareholders.

We have improved our operational and regulatory execution, so that growth will be more profitable for us. And this is a testament to the team's focus and commitment. As I said earlier I am proud of our team, we've made progress in the performance of the US business and this continues to be a top priority. We are evolving and strengthening the US organisation to enable us to deliver on the significant growth we see ahead. And we are laser focused on delivering for our customers.

So now let me hand over to Ken to give more detail about the New York operation.

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New York Overview

Ken Daly, CFA, New York President & Chief Operating Officer
Thank you Dean and good morning, I'm really delighted to be here and provide an overview on the New York business. As Dean mentioned I've been with the company now for 29 years, the last six of which I've had the privilege of leading our New York business. And really my role is to ensure that all the opportunities that John and Dean laid out across our US business that in New York we're well positioned to capitalise on these opportunities.

I think my three key messages are since we last met at the investor seminar now two years ago, you know one is that we've made very good progress both operationally and financially. Secondly that the progress is underpinned by a very strong regulatory framework and investment plans. And then finally what really excites me is when you look forward the New York business is really well positioned for the future growth opportunity. And I think I can bring you real visibility into the opportunity.

So let me start with an overview and it's clear that New York at National Grid we have a major presence in the State. In fact when you look at the chart on the left you'll see in terms of the size of the business, miles of pipe, miles of wire, we're by far the largest in the state. We serve over four million customers of the seven million that Dean mentioned across the US, four million are in our New York business. And when you look at the chart on the right you'll see in terms of investments over just the past five years we've now invested over $6bn upgrading the infrastructure in Upstate and Downstate New York.

But more than that we really are a major part of the New York State economic engine and the energy mix. We employ 8,000 employees of our own and we also support many more thousands of jobs across the State in terms of our investment programmes and in some of the customer programmes that I'll share with you shortly.

In terms of rate base, you know as Dean said, New York - a major business in its own right, over $10bn, roughly 50/50 between Upstate and Downstate. But when you look at the map, the green and blue, that's Upstate New York a very, very vast service territory of over 25,000 square miles, in Upstate we're both a gas and an electric company serving over two million customers. We have some major cities like Buffalo, Albany, and Syracuse, but more so we serve many, many smaller communities across all of Upstate New York.

If you look at Downstate New York, the purple part of the map, there we're a major gas business, a service territory that serves big cities in New York like Brooklyn, Queens, Staten Island, and then we also serve the whole of Long Island. And what's very unique about Long Island is there is still very low penetration of natural gas, so it provides years and years of growth opportunity for the company as we move forward.

In terms of our financials, you know again we're proud that we are improving the overall performance. If you look at the capital investments they have been increasing I think as you'll hear from Peggy our CFO shortly, when you roll in the new rate agreements you'll see a further increase in the capital. Our rate base is growing very solidly and if you look at the financial returns you can see the improvement. In fact in fiscal year '17 you see the benefit of the partial year impact of the KEDNY and KEDLI rate agreements.

So really it is the regulatory filings, not just the rate cases, but a series of interim filings that we've made to update our capital programmes. And in fact over the last few years we've made four of these filings and these filings have been successful and they have funded $3.2bn worth of capital over that same timeframe, which has really allowed us again to modernise the gas and the electric infrastructure.

But the main focus is on the rate cases. As you know this past January the KEDNY and KEDLI rate case for the Downstate business came into effect for the first time in ten years, so after a ten year rate freeze we updated the rates. That funded a further $3bn in capital and the main focus; the main priority for the current year now is to deliver the Niagara Mohawk rate agreement. Mike will walk you through the details, but I think the headlines are that by next April all of the New York business will have refreshed rates across Upstate and Downstate.

In terms of the priorities Dean walked you through the US priorities and when you look at the New York priorities you'll see that we are completely aligned. Clearly the priorities are delivering excellent customer service, delivering world class reliability and safety, investing efficiently and ensuring that that investment is timely recovered, delivering on our regulatory strategy as I've mentioned and then finally looking to the future - advancing New York State's energy policy.

Let me now walk you through each of the five in a bit more detail. And as Dean said, I'll start with the customer. In our rates now we have a series of programmes that allow us to meet the changing requirements of the customers that Dean mentioned, but at the same time help New York State advance its major energy policies.

So first is energy affordability, one of the main challenges is to support customers who have trouble paying their bills. In our rate agreements we'll now have over $100m funded to provide bill credits and other tools to help these customers.

Clean energy is clearly another priority; if you look at solar we've seen a massive increase in customer owned solar, an 800% increase over the past six years, resulting in 14,000 new connections to our grid.

Energy efficiency, we have an $80m programme to give customers new tools and new technologies to help them manage their energy usage. And again as part of the rate filing we're looking to increase that.

And then economic development, over $100m funded in rates since 2011 really helping our communities retain jobs. I think the best example was in the days and weeks after Hurricane Sandy, we launched a $30m in Downstate New York to help those customers rebuild their energy systems. And you think about what Florida and Texas are going through right now, you know it shows you how important those programmes were to our communities. And in fact we look back - 10,000 jobs were retained because of National Grid's economic development programmes.

And then finally gas growth, you know we're in a very unique position in that we still have significant opportunities to convert customers from oil to natural gas. The benefit to the customers is based on today's pricing they save 50% on their winter heating bills. The benefit to the community is it brings in a cleaner form of energy, in fact each single conversion we equate to the equivalent of taking 15 cars off the road. And then finally the benefit to the company, clearly it provides a growth engine for many, many years to come.

Let me give you an example of one our new gas growth programmes that we've worked with our regulator and the local communities to implement. So rather than converting customers one at a time like we've traditionally done, we now have the ability to go in on the front end and make a very, very large investment which enables us to more quickly convert the entire community.

The first example I'll give is in Nassau County, so the western end of the Long Island in a community called East Hills, where previously half of the residents did not have access to our gas system. So again on the front end in one single job we laid 80,000 feet of gas main. And if you look at the benefits, we are able to convert now up to 1,000 customers on that one single programme. That small community will save $1m in their energy bills and again the equivalent of taking 15,000 cars off the road now given the scale of the project.

The next phase we're moving out to Suffolk Country, so further east on Long Island where there's an even lower penetration of natural gas. We're going to install over 30,000 feet of main in Suffolk Country. Again, help create jobs, stimulate the economy but at the same time funded in rates we have a number of incentives that we can offer to customers who are along the route, or big incentives to our low income customers, again to try to avail them to the economic and environmental advantages of natural gas.

Next, clearly we're focused on becoming world class in terms of safety and reliability. You heard from Dean the focus on employee safety, we have a lot of pride in the fact that each year we're seeing fewer road traffic collisions, fewer employee safety incidents, but to be clear as a leader of the business our goal is always zero, we want to get to the point where we have no incidents on our system.

We're equally focused on public safety. And if you look at our track record you know not only do we achieve all of our 12 customer service metrics, but last year we also achieved all 30 of our very stretching gas and electric reliability targets.

For 2017, the current year, we're once again on schedule to meet all of these requirements, despite some very extreme weather we've seen in Upstate New York. In fact back in March New York State was hit with a very, very big windstorm. We ourselves lost 180,000 customers, and not only were we able to restore those customers very, very quickly, but then we immediately dispatched hundreds of our crews to a neighbouring utility within the state to help them with their restoration efforts.

After the event we were very proud to receive an award from EEI, the Edison Electric Institute for our storm response and for our support of the neighbouring utility. In fact just yesterday we sent 300 National Grid employees and contractors down to Florida to support in its restoration efforts.

But when you look at the programmes you know it really gives us an opportunity with the capital investment to replace a lot of aging infrastructure. And if you look at the chart on the right, I think as Dean mentioned, leak prone pipe is probably the best example and a real feature of the Downstate rate agreements. Just a few years ago we were replacing 140 miles per year, by 2020 all funded in rates that will jump to nearly 300 miles; so again lower emissions for the community and a real growth engine for the company as we move forward.

But we can't just replace the pipe, we really need to make sure we're doing it in an efficient manner and that we're using all of the available tools and technologies. An example I like to share is CISBOT, it's a cast iron sealing robot. And if you think about you know cities like Brooklyn and Queens where we have a very dense population and very, very tight streets, the benefit of the robot if you look at the pictures would make a single excavation and then the robot if you can imagine can crawl 500 feet in each direction and every 12 feet stops along the way and seals the joints in the cast iron pipe. So rather than replacing the pipe we just restore it and it effectively becomes new and instead of dozens of excavations we make that one single excavation.

We've been using this technology now for the past two years, again as part of the agreement with our regulators and you can see the early benefits. We've sealed nearly 2,000 joints at a saving of $30m compared to traditional replacement or repair methodologies.

The third strategy is very focused on regulatory. And I thought before I get into the details and Mike will walk you through a lot in his section, just to explain who are the key stakeholders. So on the government side, you know clearly the rules and the regulations are made by the government, both at the Federal level, but much more so at the State level and we have very, very close working relationships with the State's energy team.

Secondly, are local communities, not just storm response but also every day meeting their energy requirements, particularly more and more around clean energy.

And then third of course the New York Public Service Commission, the PSC, you know similar to Ofgem is charged with overseeing the utilities across New York State. There are currently four commissioners in post, a new Chair, John Rhodes, I know John well we serve together on the New York State Energy Authority Board and also a staff of

dedicated - hundreds of public servants as part of the DPS, the Department of Public Service.

Now we really pride ourselves in our ability to collaborate with all of these stakeholders, certainly we've shared the storm example, but I think the rate case and the regulatory process is another best in class. If you look back at those capital filings and the outcomes we've achieved, but also the most recent rate case, the Downstate KEDNY and KEDLI agreement is probably the best example.

If just walk you through the details, again as you know it covers the calendar years '17 to '19, so a three year agreement. By the third year it provides $500m worth of new revenues, new funds for us to run the New York business. It's underpinned by a 9% return on equity, it supports as I mentioned a $3bn three year capital programme and it has a number of features, trackers that help mitigate the risk to the business.

So Mike will walk you through the pension tracker and bad debt, property tax and so on. But two I wanted to highlight are new, one is around public works, so New York State and New York City do a lot of work, if their work plans cause us to spend more than what was contemplated in our rates we have a tracker.

Likewise the cost to clean up legacy environmental sites, if those costs exceed the amount that's in rates again we have the right now to go back in and collect a surcharge from customers to help offset that. So we really felt that the rate agreement was very, very balanced for both our customers and for you our shareholders.

And then finally looking forward, you know clearly as a major player in New York State we're looking to help lead the way in the State's energy policy for the future; in New York that's called REV, Reforming the Energy Vision. But before we make any large scale investments we have a series of demonstration projects right now - we're trying to test the feasibility and the customer adaption to these programmes.

So there are eight demos and I thought I would just kind of walk you across the State. If you start in Buffalo a really good example is a $4m investment we're making to install solar panels on the roofs of low income customers. So we're trying to test the feasibility of a utility like National Grid rate basing this investment and then those customers getting the benefit of the clean energy and then the energy savings being helped - to help them pay for their bills.

In Potsdam the northern part of our business, very much impacted by storms we're testing a micro grid, we can very quickly island off our system in the event of an extreme weather event.

Clifton Park is a smart grid demo, 20,000 smart meters and sensors and thermostats - testing whether we can get customers to change and use their energy behaviour more wisely. And then in Downstate a series of very, very similar demos, but on the gas side, demand response, micro CHP and actually even trying a geothermal demo. So the goal here is the test these locally, you know very innovative, relatively small scale, but eventually look for some larger investment opportunities in the future.

So in summary, you know clearly National Grid is a major presence in New York and as I said in the front end we believe we've made good progress in terms of our operational performance, customer service, safety and reliability, good progress in terms of our financial performance. This performance is now underpinned by strong regulatory

agreements and again all of our regulatory agreements will be refreshed by next April, a real focus on cost management and technology. And I think what excites me most is real visibility to growth for the future. And that visibility again is driven by the regulatory strategy and with that I'll now turn it over to Mike who'll walk you through it in greater detail, Mike.

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Regulatory

Mike Calviou, SVP, Regulation and Pricing
Thanks Ken and good morning everyone. My name is Mike Calviou and I lead the US Regulation and Pricing team. As you can probably guess from my accent the majority of my career has been in the UK, however I have been in my current role for the past two years and I'm now a permanent member of the US Leadership Team.

In my presentation I'll be giving you an oversight of our regulatory strategy, which includes a transition to a more performance based regulation approach. And then I'll give you a more detailed insight into the Niagara Mohawk rate case process. This is a very important case for us given its size and its scope. I'll explain where we are in the process and why we're confident we're going to get a fair outcome.

As you just heard we've made good progress in New York on our regulated strategy with the KEDLI and KEDNY filing complete and the Niagara Mohawk filing expected to be in rates from April 2018 onwards.

Before I update you further on the filing process I'd like to take a few minutes to talk about how we think about our regulatory strategy in the US.

It's the role for me and the rest of the regulatory team to create and agree a regulatory framework that's consistent with the company strategy that Dean referred to earlier. Our key regulatory objective are as follows: Firstly as Dean set out significant levels of investment are required to update aging infrastructure to ensure we continue to provide a safe and reliable service to our customers. So ensuring timely funding for this investment is critical, while earning a fair return for our shareholders and also managing the bill impact for our customers.

Secondly, we're also being asked by regulators to respond to the carbon reduction targets in each of our jurisdictions through the connection of solar, wind and storage assets and the development and deployment of demand side response, micro grids and smart meters. Our aim is to ensure funding and to build the right regulatory framework to support this transition to the utility of the future.

Our regulatory agreements also need to support our ability to serve our customers. For example as you heard we're facilitating the conversion of customers from oil to gas heating and we're increasingly thinking about electric heating and vehicle demand as part of the overall decarbonisation of the economy, so we need the right funding and incentives to do this as well as the other customer programmes that Ken referred to.

Finally, we aim to increase the opportunity to earn higher ROE, in return for where we create additional value for our customers and or help deliver State energy policy goals. I have extensive experience in UK based regulation, such as RIIO that has increased emphasis on incentives. I have therefore seen the benefits that this sort of performance

based regulation has brought to UK energy consumers, as it enables win-wins for customers and the company. Therefore, I believe it is one of the key tools that we can use to incentivise utility companies such as ourselves as we pursue the important priorities discussed earlier.

We already have some incentives in place, for example relating to our really successful energy efficiency programmes. But we're looking to increase the scope of these incentives, as well as have a better balance between upsides and downsides. The great news is that the need for improvements to traditional US regulatory approach is already recognised by many of our regulators and key stakeholders, given the changing energy landscape we operate in.

Before looking at how the regulatory environment is evolving in New York it's worth noting that the US regulatory regimes in each of our three states are among the most stable and progressive in the world. The majority of our operations in the US are allowed to file forward test years, allowing us to better manage the effects of regulatory lag and reduce the frequency of filing over longer term, which is burdensome to us and our regulators.

Over the past two years we've seen intensive rate case activity, which will continue for the next few years. However, our longer term aim is to create the regulatory frameworks that allow us to file less frequently, while still delivering good business performance.

All of our rate plans include features that protect shareholders from certain types of cost inflation where it is large beyond our control. These mechanisms are referred to as trackers and include costs such as property taxes, the commodity element of bad debt charge, environmental clean-up costs, and pensions and other post-employment benefits known as OPEBs.

We currently also have trackers for capital investment programmes, however we would like to increase the incentives on us to deliver these programmes efficiently as part of the overall performance based regulation strategy.

There are also elements of regulation in the US that are attractive to us as a Group when we look at the portfolio of companies we operate, particularly the cash generative nature of nominal regulation in the US. Peggy will touch on this in more detail, but it's worth remembering that whilst we're looking to evolve and improve the regulatory regimes that we work within in the US they are already great places to operate as a regulated utility.

In order to work effectively within any regulatory framework it's important to have open and honest communication channels that operate continuously so we're able to build up a level of trust and mutual understanding with our key stakeholders. Therefore, in New York we run a proactive stakeholder outreach programme with the Public Service Commission, the PSC, that's created open and transparent dialogue with our regulators. It includes upfront meetings with PSC staff, as well as informal and formal technical sessions to educate on any solution we might propose and seeks to obtain input and guidance upfront before any formal submission is made.

So for example, Ken, myself and a number of other members of the Senior Leadership team met with the then Chair Audrey Zibleman and other commissioners and most of the senior PSC staff in Albany, just before we filed the Niagara Mohawk case to talk

about all the key issues. And that fundamentally shaped the filing and what we submitted.

Since that time, as you heard, we actually have a new Chair John Rhodes and an additional new commissioner, so we've worked hard to make sure that everyone is fully up to speed.

We believe our approach to regulatory and stakeholder engagement is best in class and this is starting to see benefits. So let me give you a few examples. We've been successful in recently negotiating several interim agreements outside of rate cases as Ken mentioned, something that had not historically been contemplated. These include the special surcharge recovery for environmental clean-up costs. And also the KEDNY, KEDLI and Niagara Mohawk rate case extensions.

We continue to advance REV demonstration projects, working collaboratively with the PSC, with a number already approved. Again, all of this being done outside the traditional rate case process.

And our recent rate cases, albeit they involve very challenging discussions, have been a lot less confrontational and have led to less extreme positions being taken in rebuttal, which we believe ultimately leads to better outcomes for everyone. This is in contrast to you know past New York rate cases, which some of you may recall got pretty heated. And it really demonstrates the massive improvements we've made in this area of stakeholder relations over recent years.

We have also been successful in advancing elements of the regulatory strategy as set out earlier. So for example in the KEDNY and KEDLI rate plan has a number of new incentives around areas such as capex unit costs, miles of leak prone pipe removed, and reductions in gas leaks.

So, where do we stand today, we've completed the KEDNY and KEDLI filings with new rates in effect from January 2017 through to December 2019, which covers 46% of the New York rate base. Ken has already shared with you how this filing is contributing to our financial performance and delivering important investment for our customers.

The Niagara Mohawk business represents the remaining 54% and we expect new rates to come into effect in April 2018. So I'd like to spend a few moments walking through how the process works and also update you on the progress we've made through this rate case.

The rate case process starts about six months before we actually file it, the first step is to define the rate case strategy and prioritise our issues. For Niagara Mohawk filing here are the key things we identified. So obtaining funding for core investments and enable these utility of the future investments we've talked about, maintaining existing trackers, the introduction of new outcome based incentives, multiyear allowances with upside opportunity from efficiencies and of course achieve an acceptable level of base ROE.

One key aspect of the filing was to include the request for funding for REV. the proposals includes spending associated with the REV demonstrations that Ken mentioned, new investments to facilitate distributed energy resources, as well as new REV related upside only performance based incentives, which in New York are known as earning adjustment mechanisms, or EAMs.

Other preparation for the rate case includes the audit of the historic test year. The historic test year is the actual period of results, in this case for 12 months ended December 2016, which is used as the basis for the filing. It is this data on which assumptions are overlaid to forecast the costs for the first year of the rate case and also the additional two years of data which we've supplied to facilitate a multiyear agreement.

Next we develop detail testimony and exhibits that support the case. So for the Niagara Mohawk filing this includes a total of 22 volumes of testimony and exhibits, with over 40 members of the company providing written testimony from across the various functional areas.

And finally, and building on what I was setting out earlier, we completed a proactive stakeholder outreach programme that creates open and transparent dialogue with our stakeholders and regulators. So subject matter experts from functional areas are teamed with their counterparts at the PSC to discuss issues that are addressed in the case.

So to give you an example Keith McAfee who leads the New York Electric operations team has had several intensive meetings with his counterparts in the PSC to discuss our request for increased vegetation management spend. This is actually quite a challenging area at the moment due to the emerald ash borer, which is having a devastating impact on trees across the US, so causing us to work hard and spend more money to keep our rights of way clear.

Meetings are held prior to the filing and provide the PSC information on progress against regulatory commitments and informs them of the challenges the company is facing. And this creates a collaborative environment to resolve issues. We work to create a no surprises culture between the company and the PSC.

Overall all, all of this stakeholder outreach equates to over 200 meetings held prior to actually the full rate case filing. Once we've filed, we then hold formal technical sessions to make sure we educate call PSC staff on the company's position and to make sure they have a full understanding of the case.

In addition, we've done more than 250 meetings with customers and other key stakeholders, which helps shape the filing. So we've met with customers, customer representatives, state agencies, local governments, school districts, hospitals, environmental advocates, economic and community partners, and electric officials across Upstate New York to educate them on the need to increase rates and gain their input on what they're looking for from National Grid. What we heard, I guess not surprisingly is that their priorities are reliability, safety, affordability and sustainability.

We filed the Niagara Mohawk case in April 2017, subject to the finalisation of a number of cost assumptions, the largest which is the completion of actuarial pension studies. The filing was then updated in July and we sought a total of £331m of incremental revenue in year one.

In an effort to manage bill impacts the company's proposal includes phasing in the increase over a three year settlement period and the use of existing funds owed to customers, i.e. regulatory liabilities to offset the company's need for rate relief. This has the impact of reducing the level of customer billings by approximately $250m over the three years. The end result was a total monthly bill impact of $8.93 or 11% for an

average residential electric customer and $8.70, or 12.5% for an average residential gas customer.

As you know the return on equity requested was 9.79% and the cost of debt was 4.32% with an equity ratio of 48%.

On the filing date a discovery process is initiated. This allows all active parties, including the PSC, to submit written questions on the rate case. We then have ten days to respond. To date we have received and responded to over 1,800 questions on time, which has really built confidence and credibility in our case.

Much of the proposed increases were to fund greater levels of O&M for items such as low income programmes, Ken referred to, economic development, and increased vegetation management, as well as increased capex investment and also adjustments to our asset lives.

As we look to understand the rebuttal and look ahead to the outcome of the case it's worth remembering the way the case was constructed was to allow optionality for the regulator, but by providing a number of proposed initiatives. It's natural therefore in any rate case that we would expect the level of approved revenue to be lower than the ask as these initiatives are prioritised and weighed against the corresponding bill impacts for our customers. The point though is that many of these items will not have a direct impact on earnings if they are not funded. This flexibility also allows the provision of three years of forecast date to allow for multiyear agreement, much like our approach in the KEDNY and KEDLI rate case.

So on August 25th the PSC staff issued their rebuttal testimony. There recommendation was to approve 45% of our updated ask for electric and 50% for our gas business, with an 8.25% allowed return on equity. This excludes energy efficiency, which PSC staff has moved into base rates.

This is usually the low point in a long process that's still a while to go, but it's worth noting the in recent rate cases in New York across all electricity and gas utilities PSC staff's first position has actually averaged about 5% of each company's ask. So in contrast to the 45 to 50% proposed in our case. So against that benchmark we're actually starting from an okay position.

And although we inevitably focus on the areas of disagreement, i.e. things they are not proposing to fund, we should not forget that there are a number of positives in their position. So for example they agreed to our proposal for 48% equity ratio.

The reduction in revenue that they propose can be classified into three main components, firstly a reduction into the headline allowed return, which clearly would have an impact on earnings. However, we expect their rebuttal position represents a low point and there should be upside here via a stay out premium in any settlement agreement we may be able to reach, as well as any additional support for a better number we can provide in our rebuttal to theirs.

Secondly, are those items where there will be an offsetting reduction to the level of costs incurred by the company? So the largest item here is the depreciation charge, which is adjusted under US GAAP to align with the outcome from the filing. Therefore the depreciation charge and the associated revenue always match and so we do not see an earnings impact from such items under US GAAP.

Finally are those items that could potentially have an impact on our achieved return on equity. An example of this could include operations and maintenance expenditure. So if the outcome for something we've asked for was lower than we requested then we'd have to look to live within our means and try to adjust our costs to fit within the revenue allowed. So this could mean reducing the level of workload and or setting challenging efficiency targets. And to the extent that we're not able to remove all these unfunded costs then there could be an impact to earnings for revenue reductions in this category.

Clearly, the PSC staff rebuttal is only one step in the process and we will look to provide further support for the costs that they are challenging in our response, which we're actually filing at the end of this week. I think we have a strong case and I'm cautiously pleased with how the process has gone so far.

So the company's rebutting PSC staff's position in full with only a few minor exceptions, but of particular note is ROE and IT systems investment. In terms of return on equity, staff rely heavily on their discounted cash flow methodology and they continue to provide historically low results for utility companies, as utility valuations remained high causing dividend reals to be very low. The effect of these anomalous capital market conditions on the DCF has been recognised in other jurisdictions such as FERC. But despite these market conditions, PSC staff has not substantially modified its methodology.

In our formal rebuttal we will argue that they should consider alternative approaches to determine appropriate ROE. Further in any multiyear settlement we will argue we should expect ROE in the range of other recently approved settlements in New York, so most recently both Con Ed and Corning Gas who agreed 9%.

In terms of our IT programme our system investment has a number of projects and the overall programme was not insignificant. PSC staff has indicated concern around our cost estimate and our ability to deliver such a significant programme. Our formal rebuttal will indicate that to meet business needs we need to advance the entire portfolio of projects, that our estimates are sound and that we're prepared and have the resources to deliver this programme in the timeframes we've outlined in the case. However, expected as part of any multiyear settlement there's some concessions in this area that may need to be made, though as noted earlier we would then aim to live within these funding levels.

So to summarise, New York is an attractive place to operate with some of the most progressive energy policies in the United States, including forward looking rate plans, trackers for costs we have little control over and substantial growth opportunities, particularly due to the State's energy policies.

We've made really good progress on our regulatory filings in both New York and across the rest of the US business. So once we've completed Niagara Mohawk and filed Rhode Island and Massachusetts Gas as part of our ongoing filing cycle we'd have completed a full cycle of rate cases for all of our operating companies. And this will lay a great foundation for the future of the business.

And we continue to advance our regulatory strategy, including identifying opportunities to introduce more performance based regulation, which is for the benefit of both ourselves and our customers.

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Coffee Break

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Operations

Marcy Reed, EVP, Business Operations, Engineering and Process
Welcome back from break everyone, I hope you enjoyed your treats. My name's Marcy Reed and the last time I had the privilege of standing before you I was the President of the Massachusetts jurisdiction, as Ken and Dean both mentioned. I've recently taken on a newly creative role as the Executive Vice President of Business Operations, Engineering and Process and that's a role that covers the full US business.

Over the last couple of years we've done a really good job strengthening the underlying business that we have the pleasure of running and I would say we're in good shape. Moving to a process centric model will allow us the opportunity to dig even further into finding improvements that will give us long term benefit for the business but also importantly our customers.

And my objective in fact out of the whole team is through this process centric model look deeply at the end to end processes that we have, employing activities for our customers from start to finish. Trying to really wring out efficiencies so that we can get after that allowed return that we've been talking about trying to get close to and also again meeting our customer expectations; so that's what I'm up to.

And as Dean mentioned earlier he talked about four converging trends that are affecting our industry today, one is ageing infrastructure, another was the environmental impacts that we're seeing, another around the falling - that precipitous decline of cost of renewables, and the last one is the changing customer expectations that we're seeing. And all of these trends are driving increased capital investment that you've heard from Ken and others. And along with increased capital investment of course you'll see increased O&M expense to support that underlying business.

So we look at this as our new normal, the world is changing and this is what we just expect to see going forward. And so what we're doing is trying to prepare ourselves to be strong and operate well within this environment.

To address this new normal the first thing we're doing is moving to this process centric model that I've mentioned. This means that we're looking holistically at how we're delivering services from beginning to end across the business which will break down those traditional siloes that you typically see in an organisation. And help us to better understand the cause and effect of our actions.

We're also looking at the broader industry and of course to our colleagues here in the UK to find and utilise best practices. When combined with better data analytics the start to finish review will drive decisions that will help serve our customers better which will lower costs and improve safety, which of course is always important to us.

So we've got nine major processes that we've identified so far and each begins and ends with the customer. They range from back office activities such as billing, all the way through to the core activities that we do that involve construction. And each of these

processes has a dedicated process owner. Really focussing on these critical processes on behalf of our customers will address the bulk of work that we actually perform on their behalf. And I can tell you from my prior role and also here in my current role, there are places where we can improve for sure.

And as we do this we're going to make sure that all 16,000 of our employees are on board with our process journey and that they more importantly understand why, why we're on the journey and we'll work to help them develop capabilities across the organisation. By digging into all of the steps of the processes that are key to us, understanding why we do what we do and then focusing on the better data, key performance indicators and relentlessly seeking output based metrics, I know we'll be successful on this journey.

So I'll start with a few, basically I'm going to give you a few examples of how this is coming to life in the US. So I'll start with one example of a process that we have called Gas Aware to Repair, it is what it says on the tin. And it's important to us because it's a critical process that deals with customer safety and direct contact with our customers. This process is all about gas odour calls or you can them gas escapes here in the UK. Across our US business we respond to all odour calls that we receive. And in New York alone last year we responded to over 100,000 investigations for leaks. New York also has stringent regulatory requirements around response time. The good news is that we're meeting all of our targets, but it's important for us to continue to work at this so that we continue to do so, but also bring out some of the improvements that we can along the way.

So responding to a leak is actually a complicated activity, there are multiple internal hand offs and there are multiple customer touch points. And this obviously creates ample opportunity for us to be inefficient. By looking at this from start to finish and then streamlining the process we can provide a quicker, better service to our customers at a lower cost.

The process actually begins even before a leak is identified; we have a campaign that we call, Smell Gas, Act Fast. And it informs customers and the general public actually about gas safety, who to call when you smell gas and what to do until we show up. And when an odour is reported we need to respond efficiently both to meet our regulatory targets but also obviously to reduce risk.

Then following the inspection of a leak we would focus on updating our records accurately and on a timely basis, which will reduce future costs associated with bad data. We've got millions of records so I'm sure you can see how this is quite important to the process.

Finally if any follow up is required for that customer it's important for us to be flexible so that we can meet their expectations. In the past giving someone an 8 hour window might have been deemed adequate, but as you know in today's world that's simply not going to cut it and we need to make sure that we are really working on being the service provider that they need us to be. So by providing customers with tighter windows and ensuring that we do what we say we're going to do, we have a great opportunity to increase satisfaction, while also reducing costs associated with multiple visits, we're basically just going to do what we say we're going to do.

Now Ken said earlier that we're increasing our leak prone pipe replacement across New York and indeed across our US footprint and we continue to connect new customers to

our system every day. The increased investment shows no sign of slowing down, so we're taking action to develop a long term sustainable platform that can support this level of growth. This is a big effort, it's called Gas Business Enablement, we kicked it off last year and there's a combination of people, process and system improvements around three primary areas that you can see on the slide.

Number one, managing our assets; it's supported by a single asset management system that will allow enhanced risk based decisions to better manage our assets. Number two, delivering our work, supported by a single work management system that will give us an integrated view of our work and allows to optimise our resources. And number three, the most important, serving our customers, supported by customer engagement solutions that will provide better visibility and information for our customers, the call centre and all of our employees. This initiative is another example of the start to finish work that we're doing and will reduce risk, improve performance and create a scalable, flexible platform for growth.

And then the last major process that I want to talk about is the development of a complex capital delivery function across the US. As you may know the UK developed a capital delivery function at the start of RIIO to enable the organisation to deliver large projects more efficiently. Through the first half of RIIO this has been a key factor in our ability to deliver £460m of savings for our customers, while maintaining world class reliability. Because of that success my colleague John Bruckner who's sitting over there in the back, is leading this initiative to develop a similar function in the US. In fact John has brought over the fellow who kicked it off for us here in the UK to help us set it up in the US.

The complex capital delivery function will focus on our largest projects which account for more than $1bn of spend every single year. This is another example of really digging in to understand the start to finish processes for our customers. And so far the team has made good progress in refining the structure, roles and responsibilities, systems and capabilities. We'll look for the function to be up and running by April and expect it will deliver our capital plans more efficiently at reduced risk and cost.

So I'll give you a couple of examples of what this capital delivery process change might look like. We've got a few really exciting complex projects that are in early stages of development. And in down state New York we have two that I'll talk about, the Metropolitan Reliability Infrastructure project and the North West Nassau project, both are included in our recent KEDNY and KEDLI filings. These are multiyear projects that will run out through 2021, 2022 so the start to finish process work that we're doing should actually have a pretty good bearing on the success of these projects.

On the left, the Metropolitan Reliability Infrastructure project is a major gas job in Brooklyn aimed at meeting the long term system demands in New York City while also increasing operational reliability. We're investing $250m over the next few years to install more than seven miles of 30 inch main in some of the most congested streets of the city and we'll complete the project in 2021.

On the right the North West Nassau project on Long Island is a six year, $280m project involving the installation of around eleven miles of 24 inch main and we'll be replacing older sections of the transmission pipe to ensure adequate system pressures and improved reliability in the system. So together you can see that these two projects account for more than $0.5bn of very good investment.

On the electric side there's a very exciting project that's getting underway as part of the clean energy ecosystem that's being developed in Buffalo. The Gardenville Substation project is in the early stages of replacing two existing 115KV substations into a single substation. It will connect 17 transmission lines across Upstate New York and supply Western Europe with 750 megawatts of power flow. It will not only provide an update to the aging infrastructure but it will also support future load growth and make the system more resilient.

This project is particularly interesting because of the changing energy mix in the region. As coal plants retire the substation will move hydro from Niagara Falls and Ontario Canada as well as wind from Western New York into the region. This clean energy will provide power to the Tesla Panasonic solar manufacturing plant; it's the largest solar panel and solar roof tile plant in the Western hemisphere. And while I was in Buffalo I got to see just how and how massive this plant is. And it all comes full circle, our REV Demonstration project that Ken spoke about earlier for neighbourhood solar will use panels just like those manufactured at this plant to serve 150 of our customers in the region plus three churches. I just love this project, it's a great story of revitalisation for the community but it also enables this State to attract new industries to the area.

So let me wrap up by saying this, I am so excited about where the US business is right now, the environment around us is changing and we're embracing it. Customers are being increasingly demanding and that's okay, how we execute on our work plan will drive both customer satisfaction and operational efficiency.

We're responding to all this by moving to the process centric model that I've discussed, really understanding the cause and effect of our actions and improving everything from start to finish. This approach is key to the success of our gas business enablement and complex capital delivery function as well as processes like the Gas Aware to Repair that I spoke about. And our workforce is calling for this too so of course they're quite excited to see it happen and I can't help but envision all of the positive things that will come from us doing this for both the company and our customers.

And now I will turn it to my friend Peggy Smyth our US CFO, voted best dressed of the team to talk about the financial implications of all this.

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Finance

Peggy Smyth, US Chief Financial Officer
Well thank you Marcy. And I joined National Grid about three years ago. And I've got to tell you it's been a very exciting three year journey. As you've heard we spend a lot of time reinvigorating our rate case filing process and getting our business focused on performance and we're just starting to see the benefits.

Now I'm really excited about where we're going as I look ahead, but before I get too far ahead of myself today there's three things that I'd really like to talk to you about. First is that we delivered on the commitments that we made to you. Dean has an expression that he uses, our say do ratio, we say what we're going to do and we do it. Second, is as you've heard that New York has a very progressive regulatory environment and that it's a very good place to do business. And lastly that our New York business is a very big part of our US business and it's growing strongly.

So if I look back and I look out in the audience I see many of you who were here two years ago when we sat in a room similar to this at our first US Investor Meeting in November 2015. So back then we were just starting to see the first rays of sunshine after our SAP system issues. And we set out a number of commitments to you and again going back to our, say do ratio, and as Dean had outlined before, we told you what we were going to do then and we're coming back to you today saying that we did them and New York has been an integral part in the success story that we've had.

Now as we look back at our New York performance over the last three years, now you can see from the chart here on the left that we've achieved year end rate base growth excluding working capital of an average of 6% a year to $10.4bn at 31st March 2017. And this has all been supported by discipline capital investment.

Now this rate base growth coupled with the impact of the new rate cases that we've had for KEDNY and KEDLI which went into effect on 1st January 2017 in our operating profit, they've resulted in really good growth in our achieved and turn on equity despite our out of date rate plans that we had in Niagara Mohawk. So as you can see on the chart on the right that we were able to achieve ROE of 8.4% as of 31 March 2017 up 17 basis points from where we were in December 2015, against an allowed of 9.2% for New York. We are committed to achieving at least 90% of our allowed returns in 2017 and 2018 across all of our US business and New York is a key part in helping us get there.

And we expect to continue to see improving returns in New York in the future, although the headline allowed returns obviously depends on the results of the outcome of the Niagara Mohawk rate case that Mike discussed earlier.

So now as a reminder the headline returns on equity in the US and in New York that we report on are lower than those in the UK and it's due to structural differences in the way they're calculated and the different regulatory constructs.

So in the US we have nominal regulation which benefits cash flow, while in the UK real regulation exists and it impacts growth, both of which are really important for delivering shareholder return in the long run and value creation. So this coupled with the higher equity ratios that we have in the US versus the UK mean that we have higher upfront cash flows in the US versus the UK, which is important as we need to maintain strong cash flows to help fund the growth in our business.

But the key obviously is to make sure that we're delivering as best we can from a performance perspective against all of our rate plans and New York is a critical part of this and we are confident that we can do it.

So overall the mix of cash and growth between the US and the UK businesses enables us to deliver both growth and yield, which are important for delivering shareholder value. And it demonstrates the benefits of the portfolio diversification that John highlighted earlier.

So now let's look to the future. We have capital investment agreed to December 2019 for KEDNY and KEDLI and the Niagara Mohawk case is progressing as Mike had elaborated before. What this means is that we have a significant agreed capital programme to deliver for the next four years, coupled with our projections beyond the end of our current rate plans with the reasons for the capital spend are those which Dean outlined earlier. They're going to give us around an 11% capex compound growth rate through to 2021.

Now our forecast capex plans result in an average rate base growth of over 7% for New York over the same period. So how does this capex growth result and translate into rate base growth so I'm going to walk you through this right now. So, and this is important, because from the time construction begins until the asset gets placed into service we earn a non-cash return which is called the allowance for funds used during construction or AFUDC. It's an agreed upon weighted average cost to capital. And this return is added to the assets book value and then once it's placed in service we earn a cash return on it until they cost of that asset is fully recovered from our customers.

Now to show how our capital investment flows into rate base I'm going to use the movement in New York's year end rate base excluding working capital changes from March of 2016 to March of 2017 as an example. So the first and most obvious building block here is the capital investment, $1.3bn in this case. Of that $0.2bn will remain in what we CWiP, call construction work in progress and CWiP is for our longer term and more complex construction projects that take more than a year or so to fulfil.

Next we reduce the rate base by 0.4bn for depreciation. Deferred taxes accounts for another $0.3bn reduction. The net result adds up to a $0.4bn or 4% increase in the year end rate base for New York year over year.

So providing a simple rule of thumb to translate the annual capital investment into the rate base growth isn't that simple and it's not straightforward because the amounts that go in to CWiP vary year over year and can be vary significantly. However, over the last five years our US rate base has grown to 40 to 50% of the annual capex spend.

So finally at 31 March of 2017 in New York we had roughly $1bn of assets outside our rate base. Now this doesn't mean these assets are not earning a return. Under the rate plans that we have assets outside of rate base primarily consist of CWiP the construction work in process that I talked about, which makes up the majority the balance and it's built up over time, and the regulatory assets yet to be recovered from our customers such as deferred environmental and pensions costs which Mike and Ken talked about earlier. They earn a non-cash return and the non-cash return is added to the assets and we get the recovery of those over the life of those assets and we're fully recovered from our customers.

So there's a number of moving parts that go into calculating rate base but the key is that our rate base is growing at a very solid 7% per year over the short term and the medium term, again 7% average rate base growth over the short and medium term.

So we have a lot of growth here so how are we funding this? And it's quite simple really that the US companies they issue fixed rate debt in US dollars to fund all the significant capex that we have. And we maintain roughly a 50/50 debt to equity ratio as part of our capital structure. Now all of our companies in the US have investment grade ratings in the A range and our rate plans mean that we have little to no exposure in interest rate movements as we're funded for the interest costs that we incur. So in the last year we've successfully issued $1.7bn of long term debt for KEDNY and KEDLI at an average coupon of 3.5%, securing more than $200m of interest rate expense savings for our customers over the next decade.

So this is really important for our customers many of whom live in impoverished areas. So a couple of weeks ago I went up to visit Ken's team in the Albany, New York area which is our State capital for the State of New York. And I got to meet with many of our

crews and our customers there and you see just how hard our customers are working to make ends meet day in and day out. So every dollar saving that we can deliver is really important for them. So the debt issuances, like the ones that I just talked about they're a major milestone in our financing strategy to issue low cost debt and provide savings to our customers. They were achieved through the scale that we have across our global organisation with a large Group treasury function supported by US treasury team.

So looking forward in the US we expect to issue about $1bn to $1.5bn in debt in the next 12 months including an issuance expected in New York.

So the growth in the capital investment and the rate base coupled with the new rate plans in place for a full year for KEDNY and KEDLI they'll results in a significant increase in US GAAP adjusted operating profit for the current financial year. It's likely to be around 8% higher than the $916m that we achieved last year.

Now this year on year increase is slightly higher than normal as we're still playing catch up in our rate filing plans. But as we move forward we expect this level of growth to be more reflective of the rate base growth of around 7%. However, the key to maintaining year over year strong growth is ensuring that we operationally deliver on what we have in our rate plans.

So now as you all know unlike other US utilities we report externally under IFRS and with the rates are set under US GAAP and there are significant differences between the accounting for US GAAP and under IFRS. And unfortunately sometimes the US GAAP results don't and the performance doesn't translate lineally into that for IFRS in a linear fashion. IFRS accounting is more closely aligned to cash than US GAAP than regulatory accounting is and that can lead to some significant differences between the two. And the volatility is driven by two key items, levelisation and commodity timing, now I've used the rate agreement for KEDNY on a calendar year as an example here to show the differences between the two accounting schemes.

So what is levelisation, well for those of you who aren't immersed in US regulatory speak it's actually quite simple, it's simply the way that customer bills are phased and customer bill increases are phased in over a multiyear settlement period to minimise the first year impact. It's a particular feature of our KEDNY and KEDLI rate plans and depending on how it progresses will be a feature in our Niagara Mohawk plans as well.

So as an example as part of our KEDNY agreement instead of a 20% plus increase in customer's bills in year one it's been spread about to around 9% per year. So under US GAAP we create a regulatory asset for the deferred part of the bill in year one which is released over the three years. Now as IFRS follows the cash there's a negative impact versus our GAAP in year one but a positive impact versus GAAP in year three.

So other features that create accounting differences include commodity timing, which isn't included in the chart here, but it's the time between when we supply gas or electric to our customers and being able to pass on any increases or decreases in the cost of it. So as a guide we've seen this fluctuate, the commodity timing fluctuate between minus 10 and plus $70m over the last three years.

And finally there are other items that are differences between US GAAP and IFRS such as environmental or mediation and costs of removal, they're more consistent year over year and due to the differences in the different accounting frameworks IFRS to US GAAP they typically result in higher IFRS earnings year over year than we would have in GAAP. And

for KEDNY these items increase IFRS profit by a little less than $100m each year. So a typical year would be more like what you see here for calendar 18, with IFRS earnings higher than US GAAP. Over time IFRS and US GAAP earnings roughly approximate one another but the key point here is that we are seeing strong growth in both our IFRS earnings and our US GAAP earnings over the short and medium term.

So now let me take a broader view and go to the whole of the US organisation. So New York as you've heard, represents about half of our US rate base as of 31 March 2017. And over the last couple of years we've consistently talked about National Grid looking to deliver growth of between 5 to 7% with the US targeting the higher end of that range.

Now as you can see from the expected GAAP capital investment chart here, we're consistently forecasting to spend in excess of $3bn a year consistently going forward through 2021. And we have over 80% of that already in our rate plans or in the NIMO submissions that Mike just talked about.

Now with the way our rate plans work we have certainty over a base level of investment following each new rate plan. However we know that to complete all the work that's necessary in the future we need to file more rate cases and ask for higher capital allowances.

So for example our agreement from Massachusetts Electric which came into effect in 2016 it increased our capital rate plan to $249m each year. But our forecasts for the future show that we're going to need more than this. So the gap between our current allowed and our forecast is shown here in the blue section on the chart on the left.

Now while the $249m continues until we file new rates and it's included in the purple block here through to 2021. Now if we're successful in our rate filing programme and the delivery of our capital plans it is driving an average annual rate base growth of around 7% to over $25bn by 2021. Again it's a rate base growth of over 7% to $25bn by 2021 for US regulated businesses.

Now at the moment we don't have complete regulatory clarity on our capex forecast, but when the Niagara Mohawk case and the rates are agreed at the end of the calendar year we'll know the vast majority of our funded spend out to 2021.

So how does the increase in the capital investment and therefore the rate base affect the income statement? In the longer term this should be a direct correlation between asset base growth and the operating profit. However, over the next few years we're aiming to grow our GAAP operating profit by around 10% and our IFRS operating profit by around 7% due to the differences in the accounting that I just talked about. Now it's slightly higher than our target for rate base growth due to the catch up in the rate filings that we discussed just now.

Now as we continue the wider rate filing programme with Massachusetts Gas and Rhode Island businesses all expected to file cases in the next few months we are driving operational efficiencies to ensure that we can achieve to as close to our allowed returns as possible for all of our operating companies. And we're doing this through two means, first is just keeping a really firm grip on our cost base and second is you heard outperforming on the limited incentive options that we have in New York.

So as I've just stated we have an ambition to grow average rate base by around 7% to 2021. Now to achieve this and maintain a returns performance of over 90% of the

allowed we need to grow our GAAP operating profit by around $150m each year through to 2021. And we are well positioned to achieve this through the activities that Dean, Ken and Marcy just talked about this morning. And I am confident that I'm going to be able to stand here again in another short time and say that we have delivered again on our say do commitment to you once more.

So in summary first is we've delivered on the commitments that we made to you two years ago with consistent performance in our New York operating companies. And we have the new KEDNY and KEDLI rates in place and we have more coming in the beginning of April next year with the Niagara Mohawk case and our ability to increase our percentage of allowed returns is increasing along with our operating profit.

Second, that New York has one of the most forward looking US regulatory regimes, it's a great place to do business and we have a very strong pipeline of needed capital projects that are going to deliver future growth across New York and the wider US business going forward.

And lastly that New York is a big portion of our US business with a lot of value creation and potential and I personally am very proud and excited to work in the company. So thank you for your attention this morning and I'm now going to pass over to John for just some closing remarks.

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Closing Remarks

John Pettigrew, Chief Executive
Thank you Peggy. So let me just summarise the key takeaways from this morning. So as you heard our US business is in great shape and the New York jurisdiction is a significant reason for that. So all four businesses in New York will be operating under new rates by April next year, as we reported at year end KEDNY and KEDLI have already started to contribute to the improved performance and the NIMO filing process is very much on track.

Across our US business we're taking actions to operate more efficiently and ensure we are well positioned to meet the changing needs of our customers. The US industry trends are favourable for us; we have a highly experienced diverse team to drive the business forward.

So when you put all of that together we're confident that we're able to deliver strong rate base growth whilst continuing to drive improvements in returns. As Peggy said we delivered on the commitments that we made in November 2015 and I'm confident we can deliver on the new targets we've set out today.

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END

National Grid

New York Teach-In Question and Answer Sessions

14th September 2017

First Question and Answer Session

Question
Slide 29 when you were kind of showing capital investment and growth in rate base, I was just wondering the conversion, so 1.3 billion rate base increased by 300 million so just wondering what's sort of a normalised way of looking at it.

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Ken Daly, CFA, New York President & Chief Operating Officer
It's a good segue into Peggy's section, our Chief Financial Officer, she's going to actually walk you through a trace of how capex converts right into rate base growth and how things like depreciation fit in.

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Question
And then just wondering about the construct of 3 billion capital investment, 7% rate base growth. Looking a few years out you can kind of make the case that there's a huge need for reinvestment because of replacement, grid modernisation, RPS and so on. At what point in time do you start to hit that level where customer rates are going to increase way beyond? So is 7% a sustainable growth rate or just how to think about that dynamic?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah so I think as John said earlier you know we do have a very long future in terms of growth because of the pipe replacement programme and the need to modernise the grid. Having said that we're incredibly focused on the bill impacts to customers and that's really where those bill tools that I mentioned are so important.

So I'll give you an example, for upstate New York even if we wind up getting the full rate increase that we've requested, because of the low income funding that's now in bills for the customers who have the hardest time paying their bills, the lowest of low income, their bills will actually go down. So we have programmes that help to try to mitigate that. And I think as you heard Mike say and I mentioned we also try to phase in the bill increases. We try to avoid rate shocks to our customers. For KEDNY KEDLI Peggy will walk you through the numbers but instead of a very large one time increase we're able to spread that out.

We're also benefiting right now from low commodity prices. So a big part of the customer's bill as you know is commodity because of the abundance of natural gas both on the gas side and on the electrics side in New York State. Commodity remains low so it's something we're very conscious of, we're always focused on it, that's why efficiency is at the top of the agenda and each year we're trying to reduce our operating cost to absorb as much of the inflation that hits our business year over year. So bill impacts are a major concern. I think right now the regulator is at a point where they understand the need for bill impacts in order to fund the investment going forward and I think we feel like we've got that balance right.

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Mike Calviou, SVP, Regulation and Pricing
I think the only thing I'd say is if you look a bit further out as Ken says we do absolutely think very hard about bill impacts for customers. I think increasingly we'd be looking in terms of areas of growth where we're creating additional value for customers. So for example investment around electric heating and electric vehicles, effectively we're creating sort of like new value pools for customers and that - clearly there's opportunity for that to give us growth opportunities that isn't just adding additional bills onto existing customers for the current uses for the electric and gas they use.

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Question
How did the staff recommendation that we just got on the NIMO case, how did that compare to what you experienced in the Keyspan cases?

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Ken Daly, CFA, New York President & Chief Operating Officer
I'll start off Mike. We're in midstream now so we won't say too much about negotiations but I think across the state the average is normally you get around 5% of the ask. Clearly the numbers Mike shared are higher. KEDNY and KEDLI were even higher than that. If you're thinking about the KEDNY KEDLI filing it was very much driven by the policy around replacing gas infrastructure whereas in the NIMO case we have a whole bunch of other issues that we're taking on. So it's not as high as KEDNY KEDLI but it's higher than you've seen in other industry initial offerings from staff.

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Mike Calviou, SVP, Regulation and Pricing
Yeah if you look at ROE in particular, in the KEDNY KEDLI filing staff's opening position was 8.6 and we settled at 9. Before you sort of plug into your models, just assume an outcome fully consistent, in the Corning gas case which is the most recent case that was settled in New York, staff's opening position was 8.2 and they settled at 9. So there is normally movement from staff's opening position to a settlement and you can look across historic whatever and make assumption. Clearly about to go into settlement discussions, I don't want to speculate on the precise outcome but we do look at those most recent settlements of 9 as key benchmarks that clearly will inform our position.

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Question
When you look at New York, New York typically has given the lowest ROEs in the nation. Is there any point that the utility throttles back capex, getting these really substandard returns? Because it seems like there's no incentive for the commission to give the utility an attractive return when you're going to deploy the capital anyway.

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah I'll let Mike jump in again but I think as you listen to Mike's points you know New York has a number of very progressive regulatory features so it's forward looking. So it's based on a future rate year not the historic.

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Question
Lots of parts?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah a lot but not all. Secondly a number of protection mechanisms as I outlined in mine some of the traditional ones but also now for city spend, environmental clean-up. I think the state's also now much more open to incentives so more symmetry around the allowed return in terms of upside and downside. So we see New York we find it a really good place to invest.

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Mike Calviou, SVP, Regulation and Pricing
Clearly if returns were too low then that would clearly affect our willingness to invest large amounts to meet all the challenges we've talked about so that's part of argument. We do think that returns have to be at an acceptable level but as Ken says we're trying to create an overall regulating framework that works for us and our customers and particularly the fact that under REV they've proposed new upside only incentives is positive. They recognise they're asking us to do things that are outside our traditional area, they want us to want to get into these areas and therefore they're saying no we'll give you upside incentives to do this. So we're ultimately looking to make sure the entire regulatory framework works for us and our customers and creates an area that is attractive for us to even make the investment that is needed.

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Question
Could you give us a comparison with CoreNet where they are able to earn above their allowed ROE and where you guys have done I think around 91%? What is that like 10% to 15% delta between the two companies that you cannot overcome, could you just elaborate on that?

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Ken Daly, CFA, New York President & Chief Operating Officer
Sure. So for the New York business as I mentioned by next April for the whole of the business we will have refreshed rate plans. In the prior period you know we've been living off a very, very old rate agreement. So for KEDNY and KEDLI it had been a decade, we had a rate freeze going back more than a decade, and for NIMO more than five years since we've last had the rates updated. So I think a key as you've heard from Mike as we go forward is we're going to try to keep our rate plans aligned with our cost of operating the business.

Certainly my goal in running the New York business is to get as close to achieving allowed returns as possible. And I think in these new agreements there's much more symmetry around the returns. You heard about the incentives, when I look at the most recent data points for me and for National Grid here in New York we had a very fair outcome for KEDNY and KEDLI, unprecedented perhaps in terms of the level of their rate

increases. If you look at those four interim filings we thought we had very, very fair outcomes there. And we're halfway on the NIMO outcomes; I won't speculate but feel very confident we'll land at a fair outcome there as well.

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Question
So just curious about the incentive and for example the coming NIMO are you going to have similar incentive like for the bills like you did at KEDNY?

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Ken Daly, CFA, New York President & Chief Operating Officer
So again it's in flight so we'll see where it lands. For KEDNY and KEDLI I think the incentives that you're aware of, we're allowed to retain the first 50 basis points of outperformance, so effectively an opex incentive to try to keep our costs down. We get to share with the customers those savings. And then we have an additional 40 basis points now of new incentives around leak repair, unit cost, growth on the system etc.

In staff's rebuttal testimony as part of the Niagara Mohawk, so in staff's position they also are recommending incentives for the Niagara Mohawk business. We'll see where it ultimately lands but I think we feel very confident that you'll see something similar to what we saw in KEDNY and KEDLI but much more around REV and REV goals about how we manage customer bill impacts, how we help customers create some new energy tools.

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Mike Calviou, SVP, Regulation and Pricing
Yeah I mean we're looking to build on what we've done in KEDNY KEDLI and I think we're between the similar incentives for Niagara Mohawk gas that we saw for KEDNY KEDLI plus the new REV incentives for electricity. I think we'll plus the core opex incentive, the first 50 basis points before we start to do any revenue sharing with customers. We feel there'll be attractive portfolio incentives that give us real good opportunities for some upside.

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Question
You talked about the opportunity to transition electric customers to - and oil customers to natural gas. Does the $1,000 rebate programme cover all the costs associated with that transition and are you looking at residential, commercial and industrial? What's kind of the customer base? What's the growth that you're expecting from that?

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Ken Daly, CFA, New York President & Chief Operating Officer
Sure so the focus is on converting oil customers to natural gas. The programmes I described are funded in rates so these were programmes that we petitioned for as part of KEDNY KEDLI and we have the funding. The $1,000 programme is if we happen to be on a route, if we're doing a leak prone pipe replacement we can go door to door and encourage those customers at that time to convert because our costs will be lower since we're ploughing the roads anyway, and convert the customers. The low income

programmes likewise, that was part of the funding that came through in rates. So that is all funded and it's part of our operating costs as we go forward.

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Mike Calviou, SVP, Regulation and Pricing
Yeah I mean the $1,000 and the $7,500 I referred to are there to offset the cost the customer will incur in terms of new boilers and heating equipment etc. So certainly for your average customer $1,000 won't fully pay for it but it does make it a reasonably attractive proposition. I don't know the precise numbers, I know the neighbourhood where I live that in my house we're not on the gas main and a lot of people are looking at it. It's a few thousand dollars to convert for your average customer and therefore that $1,000 really does sort of take it into a point where people get really interested in it.

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Question
What type of growth rates are you looking at through them?

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Ken Daly, CFA, New York President & Chief Operating Officer
So for Long Island you still are - it becomes at a low penetration. We're right now close to record levels of growth. We're adding about 13,000 customers per year across the system. Here in the city, Brooklyn and Queens, it's more around the redevelopment. So we're at 80% saturation but believe it or not we're growing as quickly in Brooklyn as we are anywhere because of all the redevelopment. A lot of customers are building up and we're getting the benefits there.

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Question
So for the NIMO case, when you say multiyear settlement is that typically three years or there is a range of years you're looking at it? And if there is a range of years you're looking at it do you prefer the longer end of it or shorter end of it? And for the longer years how much more do you have to give back to achieve that?

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Ken Daly, CFA, New York President & Chief Operating Officer
So in the filing itself it's one year filing but traditionally and in the NIMO case specifically we've included two additional years of data. So one plus two would lead you to three. The KEDLI agreement was a three year deal. Having said that it's not hard coated, it's not necessarily but right now I think given our history and given where the commission has come out recently which is not just our case but with other cases, three years feels around the sweet spot.

Normally the way it works is if you agree to anything longer than a one year deal you are rewarded with what's called a stay out premium and that's ideally hopefully how we'll get the allowed return higher than what staff's current position is and more aligned with what we would expect out of the rate case. So I'd say three years is probably where I'd

anchor around, could be a little shorter or a little longer but I wouldn't go too much further in either direction.

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Mike Calviou, SVP, Regulation and Pricing
The thing to add is we always have the right to go back in and file to update our rates, and therefore that's why in any multiyear deal we'll generally get a stay out premium so that's to our benefit. Looking at different lengths of multiyear deals clearly the further you go out the more uncertain our costs are which can be a problem for both our - there's more chance that our revenue and our costs misalign. However clearly it's a longer period in which we can outperform and sort of generate value via incentives etc.

So we do look pretty hard at those key points, you know three versus four is an interesting debate which we've had. I think at the moment given the amount of change that's going on, REV etc. going longer than three years feels hard. There's just so much change going on in the industry I don't think any of us feel as though we'd be able to produce really, really solid capex forecasts going out of those longer periods.

So I think you know as Ken says three years feels a sweet spot at the moment but I think as part of the overall performance based regulation strategy we're certainly open to longer term deals. And obviously in our UK business we've done five and then even most recently eight year deals, albeit those deals do have a number of sort of what you might call adjustment mechanisms that sort of help allow for that uncertainty point.

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Question
So maybe from a National Grid US context how should we think about your ability to push beyond that 90% realised ROE versus the allowed ROE? Going into new rate cases and then putting that in context with your rate case cycle that he just asked about, how should we think about your strategy of filing for rate cases going forward to match that on a realised outlook?

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah I think as I said upfront the key is having rate cases that reflect the current realities of running these businesses. For New York now we will have fully refreshed rate cases, that gives us a much better opportunity of earning near those allowed returns. We talk about the symmetry of the incentives as you go forward, I think to the broader US it's actually a very, very similar picture, where in Rhode Island and Massachusetts we have similar plans to update those rate filings.

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Mike Calviou, SVP, Regulation and Pricing
Yeah so we'll be filing Rhode Island and Massachusetts later this year and once we've done that then that will be the full cycle. Each of the - clearly for each individual operating company we aim to achieve a rate agreement that allows us to earn as close to 100%. As you know or may know Massachusetts doesn't have forward looking test years, they tenure - traditionally they've given us higher base ROEs so we got a pretty good outcome in the MECO case. But because they work off historic test years we tend

to have some inbuilt regulatory lags. So broadly that's going to be the most challenging jurisdiction to get to that 100% or sort of get close to 100%, but across the portfolio we're looking to create the regulated frameworks that allow us to get as close to 100% as possible.

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Ken Daly, CFA, New York President & Chief Operating Officer
So with that we'll take a short break. Mike and I will be available over coffee. And when we come back you'll hear from our colleagues Marcy and Peggy so thank you.

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Second Question and Answer Session

Question
Thank you. Can you talk about Massachusetts and Rhode Island and perhaps why you chose not to have a discussion about those entities today, are they considered non-core perhaps?

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John Pettigrew, Chief Executive
So let me just say categorically no - to answer, they're not non-core. So the US business in its entirety is hugely important to National Grid. You heard me say at the beginning, you know the proposition that we set out is one in which we want to grow the business by 5 to 7% per annum; we want to continue to increase the dividend by at least the UK inflation rate each year.

To do that all of our US businesses have to contribute either in terms of growth or in terms of yield. And our Rhode Island and Massachusetts' businesses are doing exactly that as well. So we're very comfortable with the shape of the portfolio that we've got in the US.

We decided to pick on New York for the reasons we've set out, it is by far the biggest part of our US business. It's been a while since we showcased some of the work that we've been doing and with such a significant series of rate cases going on we thought it was the right opportunity. But please don't read into that anything other than Rhode Island and Massachusetts are equally as important to us.

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Question
Peggy, can you reconcile your slide where you showed the building blocks for New York rate base effectively of a 4%, from 10 to 10.4, how do we get from there to the 7%, is that a timing difference, what's the reconciliation there?

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Peggy Smyth, US Chief Financial Officer
Yes, so there's a couple of moving parts in there, but you look at say construction work in progress, the CWiP it can vary in any given year. And it just really depends on the timing of complex projects and when they get placed into rate base, when they become

use and useful. So that's one of the big key drivers there. So it's more just a timing item.

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Question
On the rate base growth question, the impact of the deferred taxes once the New York business becomes in an NOL position, does the deferred taxes not matter, how should we think about it?

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Peggy Smyth, US Chief Financial Officer
So the deferred taxes, what we'll be seeing and we're looking at this, particularly as bonus depreciation is starting to wind away that's going to have an impact on deferred taxes and so you'll see that that reduction will be less going forward, which will increase rate base.

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Question
And when do you expect to be in NOL positon at the operating utility level? NOL, net operating loss.

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Peggy Smyth, US Chief Financial Officer
In an NOL position, so we're - again when we're looking at taxes we're thinking about just as the company as a whole and looking at all of the operating companies together collectively.

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Question
Sorry, the last question, I was trying to understand - like usually most utilities are in NOL positions, so even if they invest the deferred tax liabilities increase, but the deferred tax assets also increase, so the impact on rate base is zero.

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Peggy Smyth, US Chief Financial Officer
Yes and so we've modelling it out and we've looked at when those NOLs will turn and we'll become a cash basis taxpayer as well going out into the future. So initially it won't - when bonus goes away it won't have that big of an impact on us, but eventually we'll become - we'll eat up all the NOLs. We've been doing all different scenario modelling on that.

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Question
Hi, can you talk about dividends from the operating companies up to Nat Grid North America and then up to Nat Grid, is there any kind of policy or requirement that you need to meet?

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John Pettigrew, Chief Executive
I'll hand over to Peggy for some of the detail, but at the macro level there's no policy. We, you know as I said, at a portfolio level we look for each of our operating businesses to contribute growth and yield. The operating cash that we get from the US supports our balance sheet metrics very well. So our constraining metric, RCF to debt is one that we look to stay above 9%, each business needs to contribute to support that in terms of our dividend and growth and we're very comfortable with that and the shape of the portfolio that we've got.

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Peggy Smyth, US Chief Financial Officer
And that's where the difference between the two different frameworks for regulation with the US more nominal and the UK real helps us, from the US perspective it focuses more on immediate cash flow generation and that helps us meet that metric in particular.

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Question
Thanks, also do you have any interest in further M&A activity, one of your neighbours just bought a water company, are you interested in anything like that, or other utilities as well?

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John Pettigrew, Chief Executive
Again, from a strategic perspective I think we feel that we're in a very good place in that you know we set out that we wanted to grow the business by 5 to 7% and continue to grow the dividend. When you look at the US business, it's growing, as you've seen from Peggy and the other presentations, by 7%. If you look at our UK business it is around about 5%. We've got some incremental opportunities in the UK with things like the interconnectors, in the US through some of our National Grid Ventures opportunities.

So we're sort of in the sweet spot. A company the size of National Grid will always look if there is an opportunity to see if there is value to be created. In recent years it's difficult to see how that value is created through M&A. So we would always look, but it's not part of our core strategy, our focus is on execution of delivering that 5 to 7%.

And we certainly don't have any interest in water just to be clear.

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Question
In the appendix you have a chart on ROEs, in which you talk about the allowed ROE and the achieved ROE, given the rate cases already settled with KEDNY and KEDLI and then also looking forward to NiMO, what should we expect in terms of the achieved ROE, there has been some volatility across the few years, you know maybe you'll be getting a little bit lower ROE, but given some of the mechanisms in place we would hope that there we could less volatility, if you can just talk about that going forward.

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Ken Daly, CFA, New York President & Chief Operating Officer
Yeah, I think as I said you know we're really excited that by next April all of the rate agreements across New York will be fully refreshed for the first time in many, many years. If you go back to KEDNY and KEDLI when those rates were first refreshed a decade ago, for the first five years actually both of those companies earned their allowed return and then some each year, we were outperforming for many, many years. It was in the latter period, after the rates had expired, that you start to see them come below the allowed.

So both KEDNY and KEDLI, I know John is holding me and I hold myself and the team to earning near those allowed. We're confident that with a fair outcome in NiMO we'll be back in a position where we have a fair opportunity to earn very near those allowed returns.

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Question
Thanks, this is a little bit related to the M&A question that was asked before, but a little different angle, just as you John look at the company strategy overall in terms of your mix between UK and US, do you feel like you have the right portfolio shift from the highest level in terms of your asset mix between the two countries?

And I ask that with specific regards to what we're seeing in the UK, you know it seems like Ofgem is starting to indicate that you know there will be some ROE or rate pressure and there has been some other blowback, it seems like that I'm reading here, you know 3,000 miles away, that there are some maybe emerging risks in the UK. So does that play into your strategy at all?

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John Pettigrew, Chief Executive
I'll answer it with two different halves really, so I'll talk a little bit about UK regulation as well. In terms of the overall portfolio mix we're very comfortable. So as you know we took a key decision 18 months or so ago when we decided to sell a majority stake in our Gas Distribution business in the UK. And the reason, just to remind you, of why we did that was the UK Gas Distribution business is coming to the end of its replacement cycle and therefore the prospects for growth, in our view were very, very low. And therefore back to our proposition, it wasn't really supporting our 5 to 7% growth. And actually because of some of the regulatory changes it wasn't actually generating as much cash going forward as well.

So when we look at the overall portfolio today with that decision made, we're very comfortable that each business is contributing in the way that we would want to deliver that proposition. You know of course as a Board we will review that on a regular basis. But we're very comfortable today.

And it sort of demonstrates actually the value of diversity. So if you look back three or four years ago you would have said that the UK was going to expect to see stronger growth in rate base than the US. And actually perhaps the regulatory positions were perhaps going to be more favourable in the UK. Over the last few years I think it's

definitely clear that the rate base will grow stronger in the US than the UK, we're at 5% in the UK and 7% in the US and we are seeing some challenges in the regulatory framework in the UK.

Now the focus of the regulatory challenges at the moment are very much in the supply businesses. But there is a read across into networks. Ofgem have just launched what they call their Open Letter, which is the beginning of a process that will take us four years to get to a conclusion in terms of what are the appropriate returns, where does the risk sit between customers and the utilities and what does the incentivisation look like.

So it's very early in the process so there's a lot of emotion at the moment, particularly with the suppliers. In my conversations with Ofgem the key thing I think next year will be about getting the framework right for RIIO T2. And then beyond that I think we'll get into real discussions around what's the appropriate level of returns for the networks going forward, where does the balance of risk sit, and what's the right set of incentivisations.

What is clear is the UK regulators are very committed to continuing incentivisation for utilities. It's a very strong principle for them and one that they're not going to talk away from.

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Question
Maybe taking the other side, if you look at a three to five year outlook on electric versus gas I'm curious where you think capital opportunities for spending are going to look between those two sides of your business?

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John Pettigrew, Chief Executive
At the Plc level it's slightly different UK and US, so in the UK as I've already said we've taken the decision to exit a large majority of our Gas Distribution business because we didn't see the capex opportunities there. But our Electricity Transmission in the UK is still a significant driver of capital investment. In terms of its total capital investment it's bigger than New York for example, in terms of the amount of spend per annum. And we see the levels of investment over the next four years in Electricity Transmission in the UK continuing at similar levels to what we've seen in the last four years.

Beyond that then it really comes down to how quickly we're going to see new generation in the UK coming on. It's actually taking a lot longer than people assumed five years ago. So we've still got something like 79 gigawatts of generation in a queue wanting to connect to National Grid in the UK and that will drive some investment.

And on the back of that of course you've got electrification as well. And the question is how quickly are people going to move to electric cars and what's that going to do to drive investment in the networks. And we're doing some work on that at the moment, it's early days, but it's clear there will be a need for investment at the transmission and distribution level in the UK for electricity through the electrification of transport.

In the US it's more balanced as you've seen today. So we've got - what's very nice I think about our capital investment programme is that it really is underpinned by asset health, safety, resilience, and reliability. So we're not dependent on some superstar

project that we hopefully will win. The 7% growth that we talked about is underpinned by the replacement of leak prone pipe, resilience, store resilience, reliability and asset replacement. And that is both on the gas and on the electricity side.

So that's why I think we feel very confident about the growth projections that we're talking about today because we're not reliant on those big projects.

In National Grid Ventures we are competing for some big projects, but they're not in those 7% numbers that we talked about today.

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Question
Just picking up on the comments on the value of the diversification, as you talk to investors on each side of the Atlantic where do you feel the bigger disconnect is you know versus understanding and valuation around the two pieces, is it people sitting here not getting the UK, or people in the UK not fully appreciating the value of the US?

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John Pettigrew, Chief Executive
So I'll slightly turn it around, I think the obligation on us is to make sure that people understand the regulatory framework, the performance of the business and the opportunities that we've got ahead of us. So when I talk to our colleagues in the UK, the understanding of the US regulatory framework is not as good as the people in this room. When I talk to people in the US then their understanding of the UK regulatory framework is perhaps not as good.

So you know the onus is on us to be as transparent as we can, give as much disclosure as we can that it allows you to understand the value proposition. And you know that's to a large extent what we've been doing here today and we were doing in London yesterday is making sure that people have a good understanding of exactly how we see the New York business, which is such a critical element of our US business.

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Question
Is there any plan to list the US as a separate - although the UK - own all you know 100% so that US investors - or your folks in the US can appreciate the value then …?

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John Pettigrew, Chief Executive
Again, our focus, and hopefully you got that this morning is very much around delivery and making sure we're focusing on the delivery and improving the performance of our US business and our UK business. Part of today and yesterday really is to provide as much disclosure and transparency as possible, so people understand the value of each business.

But as a Board we regularly look to see if there are opportunities through the way that we're structured to create value. But at the moment as I said our focus is very much on delivery and disclosure and transparency and we think that's an important element of it.

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Question
You alluded to National Grid Ventures and the upside opportunity from unregulated businesses, can you talk about how you think about downside risk from such opportunity sets. And also how you think about measuring success over both financial and non-financial metrics over the medium term in that business?

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John Pettigrew, Chief Executive
So in terms of risk, the objective in National Grid Ventures is to take advantages of opportunities which are in adjacent markets to our networks. But the characteristics of those investments are very much either semi regulated or sudo regulated. So we look for opportunities where it's a long term investment in an asset where we can contractualise the terms in a very similar way to regulation.

So if you look at where National Grid Ventures is focusing at the moment, by far the biggest capital investment is in our interconnectors business in the UK. We've got an interconnector that we're building with Norway which is the longest subsea cable in the world; we've got an interconnector we're building with Belgium and with France. Each of those will end up being long term contracts with a lot of the characteristics you expect to see in regulated business, and in fact they've got a regulatory cap and collar in terms of returns. So even if the market doesn't deliver those returns we're protected against the downside.

So that is our focus for National Grid Ventures in terms …

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