

"I am pleased to confirm agreement of the RIO price controls for our UK businesses. This is the culmination of a new process that started over three years ago and represents another opportunity for National Grid to deliver further shareholder value. These arrangements give our UK businesses their longest ever period of regulatory clarity. This enables us to focus on driving efficiency across our operations while building the infrastructure that the country needs and at the same time realise the benefits of excellent performance for both customers and investors." Steve Holliday, CEO, National Grid

RIO Revenue = Incentives + Innovation + Outputs

Delivering a reliable, safe, sustainable network at good value for money for current and future consumers

Main features

- ◆ 8 year price control (covers 2013 – 2021)
- ◆ Covering National Grid's UK regulated operations (electricity and gas transmission and gas distribution)
- ◆ Continued RPI linkage to revenues and RAV
- ◆ Enhanced incentives and retention of capex savings
- ◆ Total expenditure (totex) approach – equal incentives on opex and capex
- ◆ Significant investment profile, with uncertainty mechanisms built in where appropriate

~80% forecast UK RAV growth

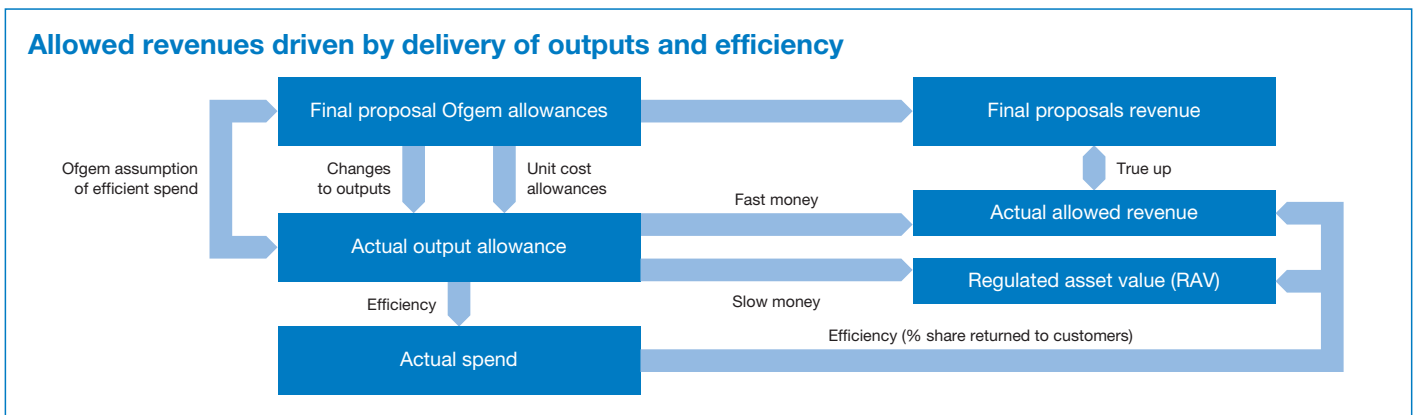
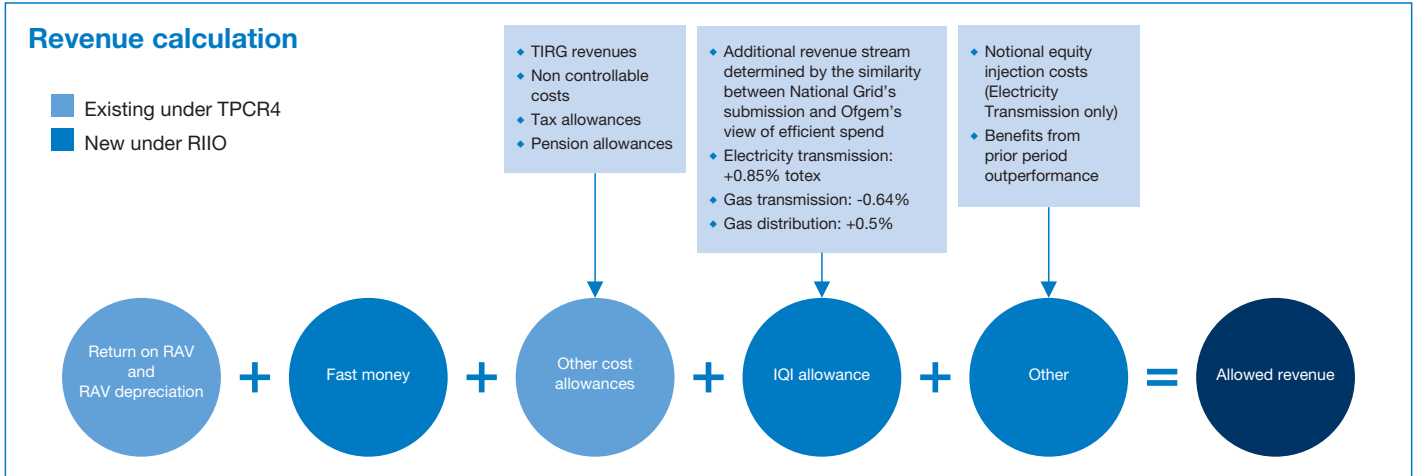
£26bn forecast capex

Totex allowances

£bn (nominal)	Electricity Transmission	Gas Transmission	£bn (nominal)	Gas Distribution
Transmission operator (TO) baseline capex	7.8	1.5	Capex	1.2
TO uncertainty mechanism capex	4.6	–	Repex	4.2
TO capex	12.4	1.5	Controllable opex	3.6
System operator (SO) baseline capex	0.3	0.2	Non controllable opex	2.9
SO uncertainty mechanism capex	–	–	Opex	6.5
Capex	12.7	1.7	Totex	9.0
TO controllable opex	2.1	0.8	Non controllable opex	2.9
SO controllable opex	0.8	0.4	Total expenditure	11.9
SO uncertainty mechanism opex	–	0.1		
Non controllable opex	0.9	1.1	£bn (nominal)	UK regulated total
Opex	3.8	2.4	Capex	19.8
Totex	15.6	3.0	Controllable opex	7.8
Non controllable opex	0.9	1.1	Totex	27.6
Total expenditure	16.5	4.1	Non controllable opex	4.9
			Total expenditure	32.5

Financing package

	National Grid Electricity Transmission (NGET)	National Grid Gas Transmission (NGGT)	National Grid Gas Distribution (NGGD)
Cost of equity	7.0%	6.8%	6.7%
Cost of debt	Index	Index	Index
Gearing	60.0%	62.5%	65.0%
WACC (using 2.92% cost of debt)	4.55%	4.38%	4.24%
Asset life transition measures	1 period (8 years)	Not applicable	1 period repex, stepped 50–100%
Totex capitalisation	85%	Base 64%, uncertainty mechanisms 90%	Repex 50–100%, other 24–27%
IQI ratio/totex incentive rates	112/47%	123/44%	107–118/63%
RAV (nominal)	31 March 2013 31 March 2021	£10.4bn £22.2bn	£5.4bn £9.8bn
			£8.3bn £11.1bn



Incentives

Transmission	Gas Distribution
Customer & stakeholder satisfaction survey	Safety
Stakeholder engagement	Stakeholder engagement
Environmental discretionary award	Customer satisfaction
SF ₆ reward	Complaints
Power outages	Shrinkage and leakage
Large project permits	Capacity
Constraint management	
Transmission support services	

■ Transmission
■ Electricity transmission
■ Gas transmission
■ Gas distribution

Outputs

Transmission	Gas Distribution
Safety e.g. replacement of ageing assets	Safety e.g. compliance with legislation, mains risk removed
Reliability/availability e.g. increased boundary capacity	Reliability/availability e.g. key risks removed, asset health
Environment e.g. maintain current SF ₆ leakage levels	Environment e.g. leakage/shrinkage volumes
Customer e.g. satisfaction levels	Customer e.g. satisfaction levels
Connections e.g. new plant connected in timescales dictated in licence	Connections e.g. completion by agreed dates
	Social e.g. fuel poor connections volume

Important notice

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. Furthermore, this document, which is provided for information only, does not constitute summary financial statements and does not contain sufficient information to allow for as full an understanding of the results and state of affairs of National Grid, including the principal risks and uncertainties facing National Grid, as would be provided by the full Annual Report and Accounts, including in particular the Strategic Review section and the 'Risk factors' on pages 176 to 178 of National Grid's latest Annual Report and Accounts, as updated by National Grid's unaudited half year financial information for the six months ended 30 September 2013 published on 21 November 2013. Copies of the most recent Annual Report and Accounts are available online at www.nationalgrid.com or from Capita Registrars. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

Further information

John Dawson
 Director of Investor Relations
 T +44 (0)20 7004 3170
 M +44 (0)7810 831944
john.dawson@nationalgrid.com

Andy Mead
 Senior Investor Relations Officer
 T +44 (0)20 7004 3166
 M +44 (0)7752 890787
andy.mead@nationalgrid.com

Tom Hull
 Investor Relations Manager
 M +1 917 524 4099
tom.hull@nationalgrid.com

Mike Ioanilli
 Investor Relations Manager
 T +44 (0)20 7004 3006
 M +44 (0)7789 878784
michael.ioanilli@nationalgrid.com

George Laskaris
 US Investor Relations Director
 T +1 929 324 4170
 M +1 917 375 0989
george.laskaris@nationalgrid.com

Victoria Davies
 Investor Relations Officer
 T +44 (0)20 7004 3171
 +44 (0)7771 973447
victoria.davies@nationalgrid.com

Caroline Dawson
 Investor Relations Manager
 T +44 (0)20 7004 3169
 M +44 (0)7789 273241
caroline.dawson@nationalgrid.com

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[@nationalgridR](https://twitter.com/nationalgridR)

National Grid plc
 1-3 Strand
 London WC2N 5EH
 United Kingdom
www.nationalgrid.com