nationalgrid

Full Year Results Presentation
Transcript
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NATIONAL GRID

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Introduction

John Dawson, Head of Investor Relations
Good morning ladies and gentlemen and welcome to the London Stock Exchange and to you of you joining online. My name is John Dawson, Head of Investor Relations for National Grid and it's my pleasure to welcome you here for National Grid's Full Year Results for 2013/14.

Before I start can we just ask everybody to make sure they've turned off their mobile phones? During today's presentation we will refer to profit and other measures, which will be on a constant currency basis unless indicated and will be before timing, storms and other adjustments.

Our presentation may include forward looking statements, please refer to our cautionary statements in our materials today.

Just a reminder you can find all our materials for today's presentation on our website and also on our investor relations app.

The order of play today will be as follows; Steve will give an opening talk about the highlights of the year, Andrew Bonfield will then cover our financials in a little more detail and then Steve will return to talk about our priorities for 2013/14 [correction: 2014/15] and the outlook.

So without further ado I'll hand you over to Steve Holliday our Chief Executive.

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Highlights

Steve Holliday, Chief Executive
Thank you John and good morning everybody. I think you meant '14/'15 then John actually.

This time last year when we were together I talked about the fact that we are entering a new period, a period of clarity, real clarity for our businesses. And you'll remember that followed the resetting of a lot of our regulatory arrangements, almost 80% in fact and of course a period of significant organisational change. Those two things together laid strong foundations for the future.

And this year, this was a year of execution and we have delivered that execution. We've seen the benefits in network resilience from our investments. We've seen the benefits on our safety performance from our relentless focus and the benefits here in the UK from our significant preparation for the RIIO price controls. I just want to share with you a few of the highlights.

Overall we've delivered a solid financial performance. We've got off to a good start to our new eight year price controls in the UK, whilst we've maintained our underlying improvements in the US.

Operationally it's been one of our best years ever in terms of network reliability, resilience and customer service. Our investment programme continues at over £3.4bn, contributing to overall growth in regulated asset base of 5%.

Importantly under the new RIIO incentives around £70m of savings will benefit consumers in the form of reduced charges starting in 2015.

Returns are fundamental to this business; they are calculated of course on a different basis in the UK and the US. But they are the best measure of our performance, how we deliver at an operational level. They reflect how we live within our allowances, our incentive performance and additionally at a Group level how we efficiently finance the business to balance growth opportunities against the sustainability of our dividend.

In the US our overall GAAP returns on equity are marginally down on last year, but remain 9% or better for the second year running. This reduction actually reflects lower allowed returns in our New York Gas business Downstate and the Generation business on Long Island, excluding those reductions returns are essentially flat year on year.

In the UK in the past we used to talk about the complexity of vanilla returns, I'm pleased that we're going to be using returns on equity in the UK going forwards. And in year one of RIIO, our IFRS UK returns averaged 12.7%, a pleasing 260 basis points above the base allowed returns, with the new totex incentives contributing almost half of this outperformance.

As a result overall IFRS Group return on equity of 11.4% represents a good measure of our progress this year. As well as returns on equity from today we'll be reporting our progress against a new key metric, value added. Value added is an attempt to really capture the total return per share that we deliver for our investors, a clear long term measure of value creation. In the past year we've delivered value added of £2.1bn or 57.2 pence per share and Andrew will take you through this calculation.

Let me turn to the IFRS results, operating profit was £3.7bn, up 1%. After deducting constant interest costs of £1.1bn, headline PBT increased by 2% to £2.6bn, close to where we expected despite some headwinds from timing. With the benefit of finalising a number of tax audits in the US, earnings were 5% higher than we'd originally expected at £2bn for the first time, or 54 pence per share.

Absolutely in line with our dividend policy we're recommending a final dividend of 27.54 pence per share, bringing the full year to just over 42 pence per share, which is an increase of 2.9% on the prior year.

With a strong balance sheet we intend to adopt a much more proactive approach to limiting the dilutive impact created by the scrip dividend and Andrew will explain these plans more fully later.

Over these past three years we've invested over £10bn, not only in expanding our networks, but also replacing and modernising many assets. We've been focused on improving the security and resilience of these critical networks, both here in the UK and in the US. This last winter has really demonstrated the benefits and the focus of that investment.

In the US our networks met a challenging increase in demand levels over a very cold winter, in fact we saw seven of our top ever demand days in history in our gas business last winter. Despite having no Superstorm Sandy the minor storms as we referred to them increased enormously, in New York we had a 40% increase on average storms, in Massachusetts a 100% increase in snow storms versus the norm. And we dealt with the largest ice storm going through the Northeast in more than a decade.

We delivered the energy that customers needed at the time they needed it most. We've learnt a lot of lessons over the last five years about how to respond to these storms and the investments that we've made into the vulnerable points of our system have made a huge difference. Bringing those two things together these storms firstly caused less damage than they have historically and when we did have damage we restored power very quickly for all of our customers.

And of course as the polar vortex as it was, was causing that weather in the US the influences over here in the UK were very different. We had the mildest winter for a very long time but it was exceptionally wet and long spells of very high winds. The investments that we've made in flood defences in particular for low lying substations paid off. As a result there were no related outages whatsoever on our system. This targeted focus on reliability investment has made an enormous difference.

The past year also has been our safest year ever; in particular in the UK our safety performance has improved to a level where it benchmarks as truly world class. Against all of the achievements I look at across our business in the last year, it's this safety improvement that actually gives me personally the greatest satisfaction. But I'm determined that we should continue this as a key priority, and obviously a key objective is to replicate the performance we have in the UK across the Atlantic.

As you all know our preparation for the new sense of controls, the RIIO controls in the UK, started long before the beginning of this financial year. Since 2012 the transformation has been significant. We talked at our seminar in August last year about three themes and some of the actions that we were taking to prepare for RIIO, actions that would be critical to beating the challenging targets that we've been set.

Our new Gas Distribution mains replacement contracts have delivered. In fact they've delivered better than our expectations in some areas. That's helped Gas Distribution in the UK to be our stronger performer this year against the full year targets for totex. These contracts were a genuine step improvement against the old alliances, both in terms of unit costs and the incentives. We're finding this now to be equally true as we introduce these into transmission where we're well along with the process of moving from our alliances to more focused partnership arrangements.

This year we agreed a new pay deal and updated our pension arrangements for all of our employees in the UK. In Gas Distribution we put in place new arrangements for the field force. In Transmission our changes have resulted in a leaner and more focused organisation, as I said back in August the new approach to delivering our outputs is a major opportunity for us to drive our performance against both our totex targets and our incentive mechanisms and by doing so deliver even better value for money for customers.

Our engineers have taken this challenge onboard and are creating solutions that deliver the outputs that we're charged with at lower overall cash costs. This isn't about a couple of headline projects I can tell you about, in reality it's about incremental savings over hundreds of small projects.

A couple of examples though. The connection of a wind farm in the Northwest to a substation we've delivered 40% less than assumed by using technological innovation. On an investment to reduce the constraints across the boundary between England and Scotland by customised tower designs, we've saved £10m. There are just many, many of these examples, where taking a different approach to totex compared to thinking about operating costs and capex separately is generating savings. And when consolidated across the portfolio they become very meaningful for both investors and of course for customers.

In the US progress is satisfactory, we're now sustaining overall returns as a result of driving performance and of course the benefits of our new rate arrangements. For example last year's Niagara Mohawk rate cases have generated meaningful improvements, but not yet fully reflected as the new rates only impacted nine months of our published calendar year returns.

Combined with the cost reduction actions of 2011 those filings have helped to improve returns by 260 basis points in aggregate across the two Upstate businesses compared to 2011.

If I look at Narragansett in Rhode Island where the business benefited from a full 11 months of new rates, returns are now above the 9.5% allowed in both the businesses. And with capital and cost trackers they should remain healthy for some years to come, providing of course that we can continue to deliver the services that our customers need and want.

At the end of December we also completed the handover of our LIPA management services agreement, a significant task and further complicated by the issues of implementation of systems that we had. But it was completed on time and around 2,000 employees successfully and smoothly transitioned to work for PSEG on Long Island.

Let me touch on our financial systems implementation, following a successful upgrade to that system at the close of 2013 we remain on track to complete during 2014 and within our revised cost estimate. This project and these systems remain essential for our long term business, laying for the foundations for the ease of new rate filings and the ability to create a number of productivity initiatives. So all in all when I look at the US it's a year of consolidation with the business now focused on laying the ground work for our future filings and investment strategy, which I'll say a bit more about later.

But just before I hand you over to Andrew I'd like to say a few words about my close friend Nick Winser. Today we've announced he's planning to stand down from the Board of National Grid in July.

Nick has been with National Grid for over 20 years, he has been a strong part of this leadership team for well over half of that time. And I remember my first day when I first joined in 2001; Nick has always been alongside me, particularly as a go to man for transmission. He's provided National Grid, its shareholders, and indeed our customers with a devotion that has added tremendous value. And his involvement latterly of course on the new price controls in the UK have helped secure the framework that I am absolutely convinced will benefit National Grid and consumers alike.

I'm pleased that Nick is not yet leaving, he will stay engaged on National Grid matters for a while yet, as Chairman of our two regulated businesses, both Gas and Electricity in the UK and of course he continues to get our support in his role as the President of ENTSO-E, the European industry body.

Back to results, we are on course, we've built the foundations created in the last few years, we've delivered the priority goals we set out last May and I'll return to talk about the priorities for this new year. But first let me hand over to Andrew, as John said, to add a bit more colour to our financial performance last year and set out in a bit more detail the key measures that we'll steward ourselves against for our future performance. Andrew.

Financial Performance

Andrew Bonfield, Finance Director
Thank you Steve and good morning everybody. First let me begin by saying that this has been a solid year financially and we've shown good progress against all of our key metrics.

You will have noticed in the statement that we are discussing our business in a different way; and we've introduced some new metrics whilst continuing to promote the importance of others.

I've spoken before about how we can add additional information to standard IFRS measures to demonstrate the underlying strength of our businesses. These metrics reflect how we as a National Grid Management Team will steward them in the future.

Therefore, today and in the future, I will be discussing our performance based on Regulatory Financial Performance and position, our Return on Equity, or ROE, and our new Value Added metric.

We've spoken many times in the past about Return on Equity and its use as a measure of performance against our regulatory contracts. The new Value Added Metric is newer and I'll take you through its calculation in a little while.

I will refer to Regulated Financial Performance and Regulated Financial Position a number of times. These metrics are just for timing incentives to reflect the real value created in the year. To do this, Regulated Financial Performance takes operating profit and aligns it with the regulatory treatment of expenditure and the way we are rewarded. Regulated Financial Position is an Ofgem defined metric and includes other regulatory assets and liabilities held outside RAV.

In the US this is nothing new, and for some time we have been disclosing assets held at a rate base such as deferrals. In the UK this principally comprises amounts owing to the group relating to pensions and long term spend.

In the UK, electricity transmission, the Return on Equity was 12.4% compared to the base allowance of 10.2%. The outperformance of 220 basis points was split between price control benefits, traditional incentive schemes and the totex Scheme which made a healthy contribution of 80 basis points in its first year.

Traditional incentives contributed 70 basis points to overall returns, this has included BSES which returned to profit this year versus the losses in the previous year.

Operating profit was £1.1bn, adjusting for the differences between IFRS and the new regulatory measures, principally tax, indexation and depreciation, the Regulative Financial Performance was also £1.1bn.

Our closing asset base for the year increased by 8%, driven by asset additions of £1.2bn. And inflation adjustment of £0.3bn which was partially offset by depreciation of £0.7bn. The closing value of Regulatory Assets was £10.19bn and the Regulatory Financial Position was up to just over £11bn.

UK gas transmission generated a return of 12.8%, 280 basis points above its base. Much of the outperformance related to incentives from the previous price control which added 210 basis points.

We underperformed on the overall totex scheme, in part because of one-off restructuring costs, but also as a result of spend on projects carried over from the previous price control which had no allowance in the year.

On RIIO related work, totex outperformance was positive, albeit modest, reflecting the current lower level of capex.

Traditional incentive performance was good, despite losing the large permitting income we saw last year, in total, incentives delivered around 110 basis points of incremental revenue.

Operating profit was £0.4bn, once again adjusting for the differences between IFRS and the new regulatory measures, the Regulative Financial Performance was £0.6bn.

The Regulated Asset Value of the business was £5.5bn growing 3%, and the Regulated Financial position was £5.7bn.

UK gas distribution had a strong start to the new price controls, the contract renegotiations positioned us well to drive outperformance. Overall returns were 13%, a full 310 basis points above base, with totex driving this.

The RIIO readiness work enables us to deliver the mains replacement programme at a materially lower cost than our allowances right from the start of the year. In addition, the systems investments we've made in prior years helped drive efficiencies across the business. Totex outperformance of 280 basis points was therefore very good and is built on strong foundations so we would expect most of this benefit to carry forward in to the future.

Operating profit was £0.9bn, adjusting for the differences between IFRS and new regulatory measures, the Regulative Financial Performance was also £0.9bn.

Regulated Asset Value grew just over £100m to £8.5bn. The closing Regulative Financial Position was £50m less, reflecting timing of the recoveries.

In the US, achieved returns were 9%, reflecting the lower returns in Massachusetts, offset by improved returns in New York and Rhode Island.

The lower returns in Massachusetts were as expected and reflect the need to re-file our rates which we plan to do next year.

The improved returns in New York were delivered despite the lower allowed returns in KEDNY and a prior provision release in respect of an audit in Niagara Mohawk.

Looking on a two year view, returns in Niagara Mohawk have been an aggregate added around 90 basis points to the overall US returns; a very significantly improved position.

Operating profit was £1.1bn, reflecting the loss of deferral income and the higher costs. The cost increases included minor storms, insurance, and the number of one-time items.

The US rate base increased by 9% to $16.3bn, reflecting increased investments in Rhode Island and NiMo, as well as growth in the gas businesses in Massachusetts and down state New York.

Rate base also benefitted from a $0.7bn increase in working capital, mainly related to commodity costs. Excluding this, the underlying growth and rate base is around 5% which is in line with recent trends.

The nature of our other activities means it’s appropriate to review these businesses on an IFRS basis only. In the year, we have moved the French Interconnector to other activities where it's reported alongside Grain and our metering businesses.

The strong performance of the French Interconnector along with no storm related insurance costs, our profits rise to £131m. Steve mentioned the remediation of US SAP system is progressing well, and the costs are in line with those that I outlined in November.

We continue to expect the systems fixers to be implemented this summer, with the system fully operational by the end of December. The remediation costs reduced operating profit by £149m, compared to £113m last year.

Our focus is obviously on reducing the ongoing costs associated with the complex manual processes required to compensate for the deficiencies of the system. Currently, these processes are required to produce good financial data, but also cause delays and incur extra cost. Swift but sustainable resolution is the absolute priority of the US team.

Moving to the Group results and starting with operating profit, overall operating profit increased by 2% to £3.7bn. This is a little lower than our expectation in November due to the lower UK recoveries as a result of the mild winter. As you'll note, for the full year, high UK revenues and lower storm costs more than offset cost increases and the loss of US deferral income.

Depreciation of system costs were higher, but we also benefitted from the stronger performance of the French Interconnector.

Timing continues to be a feature, if we remove the impact of timing and major storms, operating profit was broadly flat year on year. We ended the year with the balance of £60m owed to our customers. RIIO means the number of UK timing balances will now have a two year lag between creation and recovery.

This is another reason why we will focus our performance measures on returns as it shows the true underlying performance of the business against the regulatory contract.

Financing costs were marginally lower than last year and somewhat lower than our guidance. We continue to refinance debt at low prevailing interest rates and the weaker US dollar reduces sterling equivalent of interest on our US dollar denominated debt.

Tax was also lower than expected, primarily from the closure of US tax audits, the overall charge was £581m, a tax rate of 22.5%.

Overall, earnings per share increased by 5% to 54 pence per share. Operating cash flow was £4.6bn, £400m higher than the previous year. Working Capital moved favourably as last year’s major storms did not recur. This was partially offset by higher accounts receivable in the US as a result of weather related cost spikes.

As is our usual practice, we've included a technical guidance section in the statement to help you with modelling assumptions for 2014 and '15. This guidance focuses on our expectations for some of the key metrics that I have discussed today. But briefly we expect continued totex outperformance in our UK businesses. In the US, returns in NiMo Electric should progress as we get a full year, 12 month impact from increased revenues from last year's rate filing. Conversely, Massachusetts we expect to continue to feel cost pressures putting downward pressure on their ROEs. Their finance costs should be consistent, and we would expect capex to be broadly flat year on year.

The IR team will be available to take you through the detail on a conference call at 2 pm this afternoon.

The Board is recommending a 2.9% increase in the dividend for the year. This is in line with the average UK RPI over the past year, and is consistent with the policy we announced last March. We are also reinstating scrip for the final dividend.

Our performance is allowing us to manage a much more proactive approach to managing the dilution that scrip creates, and going forward we are going to actively manage the total level of scrip issuance we need to maintain the target credit ratings.

When periods of investment are stable, like we see today, this may mean managing dilution to very low levels, perhaps even zero. We'll be using different levers to do this; including asking for authorities at the AGM to allot and buy back shares as required.

At the Group level, our focus remains round providing a healthy growing dividend, along with sustained asset growth. To achieve this we'll base our management of the business and our long term incentives on Return on Equity and the new Value Added metric. We have maintained strong double digit group ROE of 11.4%. This reflects the strong performance of the UK business, stable US returns, and strong treasury management which offset pre financing costs and lower debt allowances.

So overall, for the year, a year of strong returns with the associated cash flow supporting the dividend.

Turning to the new Value Added metric; this is a new measure that we'll be using to show how we drive total shareholder return. Quite simply, it's the level of asset growth plus dividends paid during the year, less the increase in net debt. It gives a very clear picture of the equity return created to shareholders in any year.

I'll take you through the building blocks. In total we invested £3.4bn which net of depreciation and other adjustments drove growth in the total Regulated Asset Value of £2bn. Over the course of the year we paid cash dividends of just over £1bn. That reflects the final dividend of 12/13 and the interim dividend of 13/14. The underlying growth and net debt was £0.9bn. The balance of these movements was a value added to shareholders of £2.1bn or 57.2 pence per share. Of this, £1bn was returned via cash dividends with the remainder retained in the business.

I believe this new metric will help shareholders to understand the true value that we are able to generate from the businesses.

So in summary let me replay the highlights for the year. Earnings per share grew 5% to 54p. The group return on equity is 11.4%. The value earned to shareholders is £2.1bn. Our financial position remains strong with good cash flows and stable gearing. We believe our model has been tested under a range of scenarios which should give investors confidence in the returns they can expect us to deliver.

With that, I'll hand back to Steve.

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Outlook

Steve Holliday, Chief Executive

Thanks Andrew. I hope you can clearly see there how performance drives returns and of course how those returns then underpin our dividend and finance our growth. The focus is very clear. The returns on asset growth, and that not surprisingly therefore sets our priorities for next year and beyond. Of course the external environment in which we operate also has an influence, both here and in the United States.

And the particular influence that has is on our investment programme. Andrew's already indicated we expect investment programme for this new financial year to be very much in line with the last year, around £3.4bn; with some additional investments in the US and a small reduction in the UK.

The linkage between our capital investment plans and growth remains. But it's not as straight forward as it once was, with asset lives in the UK tapering, transitioning of repex over the eight year period, and of course in the UK this new performance RAV. Let me take you back to the comments if I can that I was making in November.

At that time, based on the latest forecasts for generation construction in the UK, and therefore our connection activities, our planned activities for non-load related work for our regulated businesses remain the same. We can see a sustainable base line growth rate at a group level of around 5% per year in asset values for the foreseeable future.

At this time next year, we should have a lot more clarity about new generation projects as the EMR mechanism comes in to effect this autumn. I would expect, and we certainly hope, to see an increase in load related capex for our electricity transmission business; and hence, this rate of growth during the course of the first bid of RIIO should increase. Perhaps even to as much as 7% during the last few years.

If I move across to the US, the political and economic environments are having a positive influence on our capex plans and therefore our growth. This year for the first time, we invested over $2bn in the US. Up on the previous year and indeed up on the years before that. These increases particularly reflect two clear trends. Particularly in our gas distribution activities that are growing much faster than our electric distribution activities have in recent years.

It's driven by the combination of a growing demand for natural gas, with connections to our system again up 5% last year; and the political support ever growing for increased replacement of leak prone pipe. And some of the regulatory discussions that we are involved in today are directly linked to those two issues.

For example, in our Downstate New York gas business on Long Island, we're in the process as we speak of applying for cost recoveries to allow additional investments to accelerate the development of the network, tie in more customers and possibly defer the need for a full rate filing.

In Massachusetts, frustratingly, as Andrew identified, we've have to contend with the potential for lower returns in the near term, which will create a headwind across the whole of the US. But we continue to walk towards a clear agreement on the modernisation of the networks there, investments that will be required, and would like to get that in place before we get our next rate filing in, as Andrew indicated in the middle of 2015.

Overall, we need to ensure that our regulatory arrangements keep pace with the changing demands on our networks. But the arrangements we have today across the US look very different from those we had five years ago. Decoupling, capex trackers, bad debt trackers, property catch true up, pension cost true ups, all of these elements across almost all of our rate plans protect us from significant risks; in fact it's a framework that more and more regulators are seeking to emulate.

As we set out in November, future growth opportunities in the US include repowering of some of our generation on Long Island and transmission opportunities both in our territory and beyond our territories. So taken with the core growth in our rate plans today, those initiatives add another one to 2% to the growth rate towards the end of the decade.

And finally as I'm talking about growth, our focus on non-regulator opportunities is progressing well. I hope you recently saw a study which was carried out for us by Baringa indicating an additional 4,000 megawatts of connection between Great Britain and Europe could save UK consumers £1bn a year through the access to lower wholesale prices. We are currently involved in a number of Interconnector projects, the furthest advance of those is Nemo, 1,000 megawatt connection to Belgium at a cost estimated at £600m. Closely followed by 1.4 gigawatt connection to Norway with cost estimated to be £2bn.

These 50/50 joint ventures are great opportunity for growth, but they deliver real advantages for consumers, and we are targeting significant progress on both of those projects this year.

And importantly, Ofgem is now focused on putting a framework together to allow a reasonable level of certainty around the financial aspects of these investments, whilst at the same time making sure these projects of course are efficient and competitive.

So as I stand back overall, we've got a positive outlook on growth whichever one of the scenarios we entertain. And of course we plan to deliver further value by outperformance. Improving the returns and driving sustainable attractive Value Added. The operational priorities are very clear; in the UK after a good start we expect to deliver another year of strong returns, and efficient growth. Despite recent changes, electricity transmission in particular has a significant investment programme.

Gas transmission has fewer major projects at this moment, an increased focus on asset integrity and security; there are several important upgrades on the system. For gas distribution, the challenge continues to be improving customer service, particularly in the area of connections. We've set stretching goals for customer service, and of course, for the returns from that business as we target delivering leading network performance.

In the US, the priority remains to sustain returns and growth. Filings for deferred costs and capital allowances, together with ongoing discussions around future investments, will lay the groundwork for a much more comprehensive set of rate filings in calendar year 2015.

In the meantime, the priorities are driving efficiency across the businesses while ensuring that we continue with this high level of customer service.

The ambition in the US remains unchanged, delivering and sustaining best in class US returns.

We've had a solid year, the balance sheet's strong, growth is good. We've got opportunities on both sides of the Atlantic to further improve returns. That's all about good execution, clearly. If we execute well, we continue to deliver attractive total returns to our investors and continue to deliver the important services that we provide to our customers.

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Questions and Answers

Steve Holliday, Chief Executive
Thank you for that and we'll be very happy to take your questions with some other members of the team here as well today. Martin your hand went up very quickly.

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Martin Brough, Deutsche Bank
Thanks, you're getting really good returns on your regulated assets both in the UK and the US, but given where the share price is I think the 57p of total return that you've given is less than a 4% real return on your current share price. So obviously that's great in terms of the confidence ~~that~~ that shows from investors in maintaining this but does that put pressure on you in terms of maintaining these very good returns over the long term to justify where the share price is trading?

And the second question I had was Alstom obviously is up for discussion in terms of its future and I think the Grid has an ongoing damages case against some of the electrical equipment manufacturers due to a previous cartel, do you have any concerns about upstream consolidation in the equipment making market?

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Steve Holliday, Chief Executive
That's two very different questions. I mean I think we've made very clear in our remarks about what our job is in terms of these returns and the growth yes, and it's showing through. I hope you're getting a sense of confidence as well about we believe we can continue to sustain these returns, we have a baseline of growth in the business and our job is to work on the upside on that as well and while that continues make sure that we deliver the same sort of returns on all the new assets as well.

The case that you identify, there's actually some costs in these results actually associated with the pursuance of a claim for the cartel that existed in gas and connected to switchgear. There should be a decision reasonably soon actually on that and we've reached an agreement with Ofgem as well that if we get those damages back then they'll be shared with consumers in the UK as well. Another example of sensible regulation, sharing those benefits between investors and customers, but we've been pursuing it ever since the case was proven that there was a cartel. I don't see any impact on the consolidation on that claim whatsoever.

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Martin Brough, Deutsche Bank
But you don't have more general concerns about consolidation upstream?

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Steve Holliday, Chief Executive
Well I don't really think so. I think are there enough competitors in this marketplace would be our concern and there still are. I mean a lot of the things that we've been doing in procurement over recent years is been making sure we're not overly focussed on Europe frankly as well, there's a lot of equipment that comes into our businesses in both the UK and the US now from the Far East. If you go back five/six years ago the answer to that question was zero, so we've responded already to the fact that there was less competition in Europe by broadening our reach of the global procurer.

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Martin Brough, Deutsche Bank
Thanks.

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Steve Holliday, Chief Executive
You want to pass forward to Bobby and we'll go back to John.

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Bobby Chada, Morgan Stanley
Thanks, so two questions. The first is on this concept of managing the scrip more proactively. I think the RCF to debt is 10.5% for the year you just reported so there's clearly a fair bit of headroom there. How will you communicate how you're going to manage the scrip, is there a point in time, you know twice a year, where you will say we're going to buy back this much stock, or is it just going to be a slightly less clear cut process and we'll see it after the fact?

And then the second question is obviously as Martin said great returns in those three UK businesses, in each of those there are three very different buckets of outperformance and there are big differences between which business is doing well where. Can you give a broad feel for where you expect things to move between those three buckets or where the biggest moves might be?

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Steve Holliday, Chief Executive
Sure, do you want to pick the scrip up Andrew?

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Andrew Bonfield, Finance Director

Yes I mean obviously as you know the issues here is as we look through over the future period of time we still do require some scrip throughout the RIIO process. Ultimately at the end of the day we do have a large investment programme and we're going to need to be a little bit more flexible about how we do it.

I don't think Bobby we would want to sit up the front today and say tomorrow we're going to buy back 10 million shares because that's how many are coming through the scrip programme, because ultimately again there are people who will trade against you doing that. But I think you'll get a very clear indication based on cash flows and cash flows performance of what we will be doing.

So we are going to have to be slightly obscure about it from year to year because we don't want to end up in a situation where we are creating value for other people rather than for our shareholders. Ultimately at the end of the day we will sort of manage the scrip period, so for example this time we've actually reduced the period of time we're going to be offering the scrip. Ultimately again that then reduces the arbitrage opportunity which means take up will probably be lower so that's another thing we can do as well.

So it's just going to be lots of little things like that to sort of manage it, and then enable those people who have the ongoing scrip elections to enable them to do it. The problem with stopping and starting the programme is there are people who have evergreen elections for that because they prefer to take scrip.

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Steve Holliday, Chief Executive
We'll certainly be clear on an annual basis about what the plan is though for the forward year clearly.

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Bobby Chada, Morgan Stanley
Isn't it fair to say that if you had a typical scrip take up of sort of 20% odd, with capex flat this year, starting off with 10.5% debt to RCF, you'd have to do something to try and cancel that?

. . . .

Andrew Bonfield, Finance Director
You would look at this year and say if we were doing the programme as we would have done this year, if you remember we cancelled the scrip on the interim dividend, we probably would have shortened the scrip election periods as the first option and then also bought back the share as well if we had the authority in place.

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Steve Holliday, Chief Executive
Yes is the answer to that question yes. I mean the balance sheet is strong as we rightly said but we do a big investment programme. On your second point John might like to comment, I mean you're absolutely right, I'm pleased in some ways that those charts do demonstrate there are different things going on here. We'd certainly expect in gas distribution the totex out performance to be the key driver of performance in that business, and given the contracts we expect that to continue year on year.

As Andrew said on gas transmission they were slightly lower on incentives this year on gas transmission, we expect that to increase. The carrier from the old price control lasts a couple of years actually and then disappears; I think it's two or three John, and transmission do you want to pick up what you expect on transmission?

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John Pettigrew, Executive Director, UK
In terms of the traditional incentives we've got some overhang from the legacy from TCR4 so some of them will diminish over the real period, so gas transmission I think that comes to an end in 2017/2018. In electricity transmission actually they go right through the RIIO period. For the totex incentives, as Andrew said, in gas transmission we had some overhang projects that weren't funded under RIIO, they will be completed this year and therefore the opportunity to outperform on totex is therefore in gas transmission. And also in gas transmission we've got the opportunity to go back to Ofgem to get funding for our compressors to deal with the emissions challenges that we have. So we've got an opportunity to go back to Ofgem in 2015 which again will create opportunities for outperformance.

And in electricity transmission first year of RIIO, so of course a lot of the projects are still continuing from previous periods because they're longer duration projects. So as we move into RIIO we would expect to bring the principles that we've put in place for RIIO to benefit those projects as well.

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Steve Holliday, Chief Executive
Thanks, John next?

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John Musk, RBC
Thank you, two questions again. First one we talked briefly before coming in on capex, and just how confident are you that what we've been seeing over the last couple of years which seems to be more and more deferrals of capex, will actually come through and confidence in the structures being put in place by the government DECC to ensure that we do get enough new build in the UK?

And then secondly on the interconnectors, how should we think about the potential returns that might be on offer to you from building those interconnectors? Obviously regulated returns in the UK are good; would you be only doing these interconnectors if you expect the returns to be better than those you're getting in the regulated assets?

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Steve Holliday, Chief Executive
Hopefully I'd try to answer your questions in terms of base lining our capex and our growth, because it's quite hard to down side from where we are today given how little of generation is being connected. So your question I think John is more about how much confidence do we have in the Energy Act and EMR working in terms of incentivising each generation. All the way through this and Nick of course himself has been very closely working with the government on putting in place the processes that we need to fulfil our administrative roles under EMR. We're only going to know the answer to that when we've run the auctions this autumn, the capacity auctions and of course the CFD's.

So as I was saying this time next year when we stand up we would hope, the government would hope and I suspect everyone in this room would hope as well, that generators are going to want to invest in the UK and that's going to come forward. But that's 2018 onwards of course.

If you actually look at the connection list we've got today which we often talk about, how many people have contracted with National Grid for a connection agreement between today and 2025? In November that number was 101,000 megawatts, a staggering number given only 85,000 megawatts are connected today with the transmission system. Since November that's gone down to 98, quite a lot of the big offshore wind farms in round three were cancelled but a whole bunch of other projects have come on so biomass in particular. So we have still got a big order book if you will of people that want to connect. Of that 98,000 only one power station is being built right now that's only 1.5 gigawatts are actually under construction, another 17 has actually got consent but is not yet being built.

So this is a key year for the UK without any question to see how round one of the market reform really turns out and whether we have people who want to stick with those connection dates, but they're 2018 onwards. And we'll reflect that when we talk about so therefore what's that done to our capex plan this time next year. I've completely forgot your second question sorry.

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John Musk, RBC
Interconnectors?

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Steve Holliday, Chief Executive
Interconnectors sorry. They are unregulated but the regime that's under development at the moment which is out for consultation for build an interconnector is a cap and collar regime actually, a cap and floor. So there's a minimum return that we would get and if we were through the auctioning of capacity earning excessive returns then that would be return to shareholder. So it's almost a quasi competitive and regulated entity.

If the economics work for that the return is commensurate with the risk there, which is clearly higher than a purely regulated business, then we'll be very happy to invest. But the terms, the financial terms of that, yeah are not decided.

Right we'll go behind you if we can and then we'll come this way.

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Ashley Thomas, Societe Generale
Thanks, two questions on incentives but one's a follow up. Just on UK gas transmission incentives on the D2 demand, are you expecting any changes there? And more broadly in terms of US incentives, do you get a sense that sort of US regulators are potentially more open towards moving towards a UK style sort of output related incentives? I'm thinking particularly in New York State, and if so would you welcome that?

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Steve Holliday, Chief Executive
Good I'm glad you picked up on New York because you might have seen that the governor actually issued a paper and he did refer to it to as incentive based regulation, Tom might like to comment on that in a minute. Your first point on D2 has completely foxed me actually.

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Ashley Thomas, Societe Generale
I think it's only about 10m but I think Ofgem are consulting on whether to change the D2 to D5 incentive I believe?

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Steve Holliday, Chief Executive
Do you know what that is John?

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Ashley Thomas, Societe Generale
Demand forecasting.

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Steve Holliday, Chief Executive
Oh demand forecasting, oh right sorry the accuracy incentive, right.

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John Pettigrew, Executive Director, UK
Yes so last year Ofgem introduced some new incentives for actually hitting the maintenance against planned and demand forecasting D plus 2 days and D plus 5 days I think. So we've performed very well against them in the first year so we'll look at the consultation that we're doing and we'll comment on it appropriately.

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Steve Holliday, Chief Executive
Thanks John. Tom?

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Tom King, Executive Director, US
So the bottom line on the discussions with New York on incentives is they are interested number one, we are supporting that discussion and have done at least two deep dives on RIIO with New York, also similar discussions in Massachusetts. Let me just give you three key points that New York's trying to accelerate on. One is they want advanced technology on the networks, that's a key objective of theirs. Second is they want to accelerate clean resources of generation, DG and other resources on the network. And the third is they're looking for economic development and job growth. So it's a broad state objective to use the energy networks as accelerating economic development and jobs and advancing clean technology and resources.

So the first step they're going to take is an open proceeding on just about how do we go about doing that, what are the forecasting costs, how long does it take etc and then coupled with that will be the returns and the incentives as part of the discussion, and it's early days but very encouraged. And we're trying to have the same discussions with Massachusetts which ties to Steve's issue. We really would like to see those discussions accelerate also in advance and couple that with the next round of rate cases. So that's where we are on that, hopefully that was responsive to that question.

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Steve Holliday, Chief Executive
Thank you Tom. Yes I mean they're asking, if you pass over to Dominic, they're asking the right questions about can you get these incentives lined up with what customers place a value on. Dominic?

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Dominic Nash, Macquarie
Hi yes two questions please as well. Firstly in the US the ROEs this year come in at 9%. Is that driven by a combination of both a lower numerator and a higher denominator in your investment case? And including with your increased growth and investment in the US, would we expect to see that ROE broadly flat going out this year or do you think that's going to - is there a leg up or a leg down there?

And the second question was I think in 2008 or say the last time that we had quite a buoyant property market you were going to try and sell quite a slug of property, now things are sort of turning around is this something that you could revisit and could you just remind me again because I've completely forgotten the size of it, but I do remember it was quite large?

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Steve Holliday, Chief Executive
It was indeed. It is always a well kept, embarrassing secret the size of land owner that National Grid is in the UK actually behind the Church of England and Network Rail. And there are some probably profits actually coming through here so just to answer that one that is something that we're interested in, it has now changed, is there an opportunity again to advance some of those proceeds but there isn't anything to talk about today.

In terms of the States and Tom might like to comment as well, we've tried to cover this off I hope, is we're essentially flat year on year, if you take out the reductions in the ROEs on the two businesses that I talked about we've essentially stabilised and held flat. Now that's not what we want to do frankly. We're still not where we need to be in terms of meeting our allowed returns.

So I see this as a little bit of a pause and because we do have to go back into Massachusetts and re-file, our target is this year to work very hard to make sure we hold our costs flat in nominal terms. And the rate base growth will not erode the returns, those profits because of the way the mechanisms are working despite the small lag that should not impact returns. Our challenge is to hold our costs flat and if we do that then we will hold and sustain those returns for another year. The next step up then is the following year which is associated both with the rate cases but moreover the benefits that we will exploit once the SAP system is up and running.

Want to add anything to that Tom?

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Tom King, Executive Director, US
Yes just a quick breakdown on the jurisdictions. You should expect the same turn out in Rhode Island and FERC. As we're reporting that would be certainly our expectations because we have the right mechanisms in place to true up the cost and the cash recovery within the financial year.

On New York we'll have full benefit of 12 months versus the 9 months that we have in this reporting year. Massachusetts is where the issues are and where the problem is, and as discussed before looking at the combination of both grid modernisation and sustaining the US financial systems gives us the ability to go in 2015 with real solid numbers and a clear view of where Massachusetts is going on grid modernisation and true up that cost.

So the real pressure on us will be in Massachusetts. I expect the other jurisdictions to perform and therefore the objective will be to ensure that we're managing our cost and sustaining and maintaining those returns.

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Steve Holliday, Chief Executive
Thanks Tom. Peter?

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Peter Atherton, Liberum Capital
Hi, two questions for Nick as he's leaving us and then one for Andrew. Nick I wonder if you can give us an update on SBR, we heard from SSE in March that they'd withdrawn Keadby so how's the general process going?

And then secondly how did the transmission system cope this year with all the wind, it's the first really windy winter we've had with lots of wind on the system?

And then for Andrew, thanks for the new value added metric, that's really good, can you strip out inflation for us and tell us what the number would have been with zero inflation?

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Steve Holliday, Chief Executive
You've got a couple of seconds to work that out while Nick answers the first one.

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Nick Winser
Thank you Peter. And so on SBR two things to report, we're currently seeing the progress of licence changes going through the Ofgem consultation process. That's well advanced so we're expecting licence changes for SBR and DSBR to be finalised in June. In parallel with that as you can imagine there's plenty of analysis going on to look at margins right out through the next four years. Those

pieces of work come together in the next couple of months and we should then see announcements from essentially the three of us, DECC, Ofgem and ourselves as to whether we need to use DSBR and SBR in any of those years, and what that will mean then about when the auctions go ahead.

So personally I think there's great work being done there, the new tools are exactly the right thing, and they're on time and we're comfortable that they give us the right capacity to manage the situation we see ahead.

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Peter Atherton, Liberum Capital
So when would an auction take place and are you suggesting that actually you may not require SBR, you may say we don't actually need it?

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Nick Winser
We will look at all four years and decide whether to run an auction for either product against any of those years. Yes that degree of freedom is still open and clearly we're only going to go out if we believe that the margin figures require us to do so.

In terms of how does the transmission system operate over the winter, I mean Steve touched on flooding which was I suppose the headline stuff in the press and we were really proud of some of the key works that we had done, you know really significant key works that paid back hugely for customers during the flood events. Wind, as you say, was also a very significant part of the winter and we were absolutely delighted by the performance of the transmission system. We had a few circuits trip on occasions of very strong wind, but no loss of supply from that. And you know really strong performance that shows the care we've taken in looking after those assets and the good shape they're in.

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Peter Atherton, Liberum Capital
And managing the intermittency of wind when it's sometimes providing 15% of the output was okay?

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Nick Winser, Executive Director, UK
Yeah, we've had quite a few years to get used to that and to learn about it as wind has come on the system. The big issue though is wind cut out at high levels. And our forecasting is absolutely bang on these days, and so you know when you look at what we expect to happen as the wind rises from the output of wind generation, we're completely on top of that and can manage it very professionally and successfully. So it didn't cause us any problems.

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Steve Holliday, Chief Executive
Thanks Nick, that's great. I mean it is, our seven day outlook on wind, the accuracy of our forecast is just phenomenal today, it really is. Andrew, the inflation report.

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Andrew Bonfield, Finance Director
We have used in our regulated financial performance measure, and that is set out in the release. And gas emergency transmission is about £300m. And gas transmission is about £160m. And in gas distribution it's about £250m. So in total about £700m. We use 3% in our calculations for the financial position, and then obviously that's slightly different from the Ofgem defined RAV which is based on the real actual underlying indexation in the year. And that will be slightly lower because it was a 2.5% then.

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Steve Holliday, Chief Executive
Could you pass it to your right please Peter, thank you.

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Deepa Venkateswaran, Sanford Bernstein
So two questions, both on the totex. So firstly you've incurred a few one off restructuring costs this year. What magnitude do you expect to sort of reoccur or you know was it front loaded? And secondly on electricity transmission you mentioned that a lot of the focus of the projects this year was still continuing from the previous regime, so by when do you sort of see some of the impacts trickle in and, you know, move to the gas distribution sort of performance on totex?

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Steve Holliday, Chief Executive
The restructuring costs that Andrew referred to I think are all this year, and that is the end of them actually, they're just in the course of this year.

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Andrew Bonfield, Finance Director
Yes, it's items that would normally have been classified as exceptional, and some of those are put into the totex calculation. Reduced returns about 40 basis points this year across the whole of the UK business.

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Steve Holliday, Chief Executive
But don't continue into next year.

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Andrew Bonfield, Finance Director
No.

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Steve Holliday, Chief Executive

And the totex as John was saying, and I think I said in my speech as well, that starts to flow through in the New Year. I mean some of the projects I was referring to, these small things; really start to flow into year two. There's a little bit of a lag on the tunnels for example under London, the billing in pound project that we're - which doesn't complete until 2016, that's continuing. But progressively it will increase. We'll certainly see some of those benefits in fiscal year '14 / '15.

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Andrew Bonfield, Finance Director
Just on totex - just on restructuring just because I think that's also a good thing to note is there will be decisions we take now, and this has always been the thing we've talked about on totex, about where you can make investments which were opex related such as restructuring, which actually will have longer term benefits which may not necessarily flow through, through opex, but ultimately will flow through, through maybe lower capex spending and so forth, which ultimately can benefit you. So again this is part of that being able to actually holistically manage the business now, not just to focus on opex versus capex, it's managing it as a total of cash and that's one of the advantages.

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Steve Holliday, Chief Executive
Yeah, it could be, but there are no plans in this year. Those are the major restructurings associated with the RIIO readiness.

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Iain Turner, Exane BNP Paribas
Can I ask you about super storm sandy? It only seems 12 months ago that you were getting a lot of flack about that. Can you just give us an update on where the flack process is and whether it's all calmed down?

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Steve Holliday, Chief Executive
It does seem a long time ago now, doesn't it actually? But if you were to actually go and visit some of the south shore of Long Island it's still there for you to see, it really is. I mean some of the damage has - some of the houses are still there, they've not been knocked down yet. And a lot of the businesses who we interact with actually and provided help to over the storm, Tom and I are often there, and they're still struggling. You know, the damage continues actually from the storm. The costs that we were actually collecting from Long Island, we've actually collected all of those as Andrew said. That was in the cash adjustment here.

The governor started the Moreland Commission which looked at all of the responses across Sandy, which looked not just at the utilities, but the emergency responses and everybody. There were some recommendations out of there, but there isn't - what's the next step Tom, on the Moreland Commission? There isn't really anything, is there I think, I'm aware of?

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Tom King, Executive Director, US

No, you know it's moved into just normal PSC oversight, and so I don't expect anything new to come other than continued performance storm after storm.

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Steve Holliday, Chief Executive
When you go back to the earlier question and Tom's answer about what the governor issued the other week about the energy future of New York, it's not just about the smarter systems and getting customers to a different proposition, infrastructure reinforcement post storms and resiliency is a key part of that as well actually. So that's one of the outputs from the Moreland Commission.

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Tom King, Executive Director, US
And multiple storms throughout the year that we've performed under, so it's good performance.

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Lakis Athanasiou, Agency Partners
Two questions on the UK please. One on the capex spend. I mean very roughly this morning just looking at the numbers you seem to be really way below the baseline on capex in ET and gas distribution, the order of 600 million odd. Now obviously there's a capitalisation and a totex and I haven't really looked at the opex side of things, but two questions on that. One is what is that? Is that re-phasing, is it efficiency, will it be changing revenue drivers? And in your RAVs that you give, are you putting in that under spend on an efficient sized basis, or are you making judgements about what is re-phasing and what is efficiency? And what's the magnitude of that?

And a second different question on metering. Nice little cash cow, but it depends on how quickly smart metering comes through. We're already seeing the process of kicking that down the road starting. Has Ofgem started to signal yet it will want to come back and review the pricing arrangements on that? Or do you expect that to be another couple of years down the road?

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Steve Holliday, Chief Executive
Well Andrew can pick up the first one in terms of the complexity of that accounting. We've just completed a price control on metering in this last year so it's not theirs; it's another one of those businesses. There's too much to talk about almost these days, isn't there? So they have literally just reviewed and reset the prices from metering, so don't expect to come back on that any time soon.

But you are right, you know, every time you look at that business it does look as if that aspect is drifting back into the future Lakis, you're right. On the accounting treatment Andrew?

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Andrew Bonfield, Finance Director
Yeah, on the accounting side, you're correct, there's about a £600m under spend against allowance, about £415m of that is phasing. So we have not taken any of that into account in working out totex outperformance. There's about £170m which is totex outperformance of which £70m goes back to customers, and £100m comes through into our performance RAV.

That’s an average cost.

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Steve Holliday, Chief Executive
That’s in that number, yeah.

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Mark Freshney, Credit Suisse
Two questions on issues with your contractors that have hit the media headlines over the past week. Firstly on, you know, the big offshore cable that you’re looking to put in, there's been a recall on that. Can you talk through the issues and if there's any potential risk to your totex outperformance from that?

And just secondly, I think gas distribution has been where you've had some issues with Ofgem in the past, and I think there were some suspensions at your biggest - or one of your big contractors. Can you talk through that and is that issue contained with your contractor, or could it impact your relationship with Ofgem?

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Steve Holliday, Chief Executive
Yeah, on the second one Mark, you know the standards that we hold ourselves to, the ethical standards that we run our business to, is something we absolutely expect all of our suppliers to meet as well. And I'm very pleased actually that Balfour Beatty had an issue up in Wolverhampton, and they’re actually totally in line with what we would absolutely demand from all of our contractors is that they carry out a full and extensive investigation. And as we understand it, it’s their investigation not ours, while they’re doing that, they’ve suspended a few employees while they’re getting to the bottom of it. There’s nothing in terms of the work they do for National Grid at all, this was associated with an accusation of fraud on some of their subcontracts.

I have great confidence in them actually, they responded exactly as we would expect them to do, doing a very thorough investigation and have suspended the key employees until they’ve reached a decision. The consequences of that then obviously are then an issue for Balfour Beatty. That is what we would expect them to do.

In terms of the cable, John you've got the latest on the Western Link.

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John Pettigrew, Executive Director, UK
This is the Western Link so we’re manufacturing a 420 kilometre subsea cable. Last week ~~Parisium(?)~~ [Prysmian]who are doing the manufacturing let us know that in the last batch that came out of the impregnation tank, which is at about 25 kilometres, there was an anomaly on the cable that was concerning them. So at this stage we just know there's an anomaly on the cable, it’s a full 25 kilometres of the 420. So our engineers and their engineers are now looking at that to understand whether that’s an issue and what we would need to do to that cable. But that’s the latest on where we are with it.

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Steve Holliday, Chief Executive
Okay, thanks John.

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Bobby Chada, Morgan Stanley
I wanted just to go back to the US if possible and to some of the comments Tom made. If I understood the process correctly you would expect the SAP system to be operational basically at the end of this calendar year, and so filing rate cases sometime in the first half of calendar '15. Take a 12 month run rate for a rate case; it looks like it could be two financial years before you have much benefit from the new rate cases in Massachusetts or in KEDLI or KEDNY. So whenever you talked about holding costs flat in nominal terms, is that really something you can manage for two financial years? Or should we expect to see some ROE degradation?

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Steve Holliday, Chief Executive
No, that's not our challenge Bobby at all, so just go back - actually we're in conversation on KEDLI at the moment, as I referred to. If we get the allowances that we need to expand that network that will defer the need for a full rate case actually. We've already deferred because of the arrangements we made on KEDNY the need for it. Tom actually covered off upstate New York which will go on for a few years yet. Rhode Island is working very, very well, there are annual corrections - don't forget the annual correction mechanisms that I was referring to as well. The issue as Tom pointed out is Massachusetts totally.

At this moment in time I'd expect to be filing that probably towards the middle of 2015. It's not a year process in Massachusetts either; it's a much quicker process actually. So we'll be expecting those to go into rates in early 2016. Meanwhile we have to do the self help that we're going to need to do during the course of 2014/15, that's absolutely right. But it's a mixture. There are some things that are going up. In the Niagara Mohawk rate case for example there were revenue increases in year two and year three embedded in that rate case. The assets that have gone into rate base automatically drive up revenues in some of the other jurisdictions as well. The issue is very focused on Massachusetts at the moment, and that's - you know if you look at the rate base of mass electric across the rate base overall it's about 10% of our total rate base.

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Bobby Chada, Morgan Stanley
And on the SAP implementation, what sort of level of confidence would you say you have now in it being done to a new - well it's not changed, but to the existing time and budget?

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Steve Holliday, Chief Executive
If I may, we could spend hours on SAP and we do spend hours on SAP should imagine, it's working today. It's not as if the systems are waiting to be switched on, it is working today. But as Andrew said the amount of manual workarounds to double check things are costing us money today. So it's

removing the incremental costs that are important, and the third release that goes in in the summer is a big release.

We put a release in over Christmas, we put a release in literally just before Christmas, very, very smoothly that made some differences. So we are on schedule for completing that during the course of 2014, and as I have said and Andrew has said, at the moment the costs associated with that are slightly below our expectations. We're not there yet so we're not taking in any way our finger off the pulse on that one, but we're on track, on schedule to get that done this year.

Okay, one final question from anybody? Peter, you've won the auction.

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Peter Atherton, Liberum Capital
Sort of… the business has obviously recovered very well since the sort of difficulties around 2010 and the rights issues is now on a very stable footing. So paradoxically it's actually a much better time to have a sort of deep strategic think about where this business is going to be in five and ten years time. Are you giving it a deep strategic think about where the business is going to be in five, ten years time or what are your thoughts about where the business will be in five or ten years time?

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Steve Holliday, Chief Executive
Great time for sitting back in an armchair and having a philosophical, strategic conversation. I can categorically assure you that the board of National Grid has conversations about the future of this business five years and ten years out continuously. So you're absolutely right in some ways in terms of the work we've been doing in the last five years to get the business to the position it is today, operationally and financially.

Throughout that period of time that doesn't mean to say we have not been - and always thinking about what's the long term direction? What's the right business model for us in terms of maximising value for shareholders? And what do customers actually need from us? Goes back to Lakis' point in some ways on the smarter systems and the work we're doing in New York. The shape of this business will change over the next ten years for sure, but we absolutely know the agenda about essential investment and infrastructure that we're making on both sides of the pond for the next few years. But there is and there will continue to be - what I'm thinking about, how does the business evolve post 2020 in particular, where we might be in a very different sort of energy system on both sides of the Atlantic. Good place to finish.

Thank you for your time this morning, appreciate it.

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