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Stock Story

nationalgrid

Surging demand from AI and electrification meets regulated earnings

As the world races to electrify everything, one regulated monopoly stands quietly to reap substantial benefits for investors: National Grid plc (LSE: NG), the owner of the wires powering the UK and the northeastern United States. While National Grid traces its origins to the nationalised electricity industry of post-war Britain, the company re-emerged in its current form following privatisation in 1990 and has since grown into one of the largest investor-owned utility companies in the world. A sustained program of disposals since 2022 has left the business sharper and more focused than at any point in its listed history.

Today, the business is centred on electricity and gas network infrastructure across two geographies, organised across several core segments:

UK Electricity Transmission: Ownership and operation of the high-voltage transmission network across England and Wales, which is the backbone of the national electricity system, carrying power from generators to the regional distribution networks that deliver it to homes and businesses.

UK Electricity Distribution: The UK's largest electricity distribution business, formerly known as Western Power Distribution, serving nearly 8 million customers across the Midlands, South West and Wales.

US Electricity and Gas Networks: Regulated electricity distribution, gas distribution and wholesale electricity transmission across New York and Massachusetts, serving more than 20 million people.

At the heart of the investment appeal lies a combination of structural strengths:

1. **Regulatory conditions improving in the UK and stable in the US**. National Grid benefits from well-established regulation in both the UK and the US, offering predictable, inflation-protected returns. For instance, UK Electricity regulator Ofgem's new five-year framework (2026–2031) meaningfully improves National Grid's financial position by accelerating cash collection, aligning the debt allowance with today's interest rate environment, and enabling faster recovery of construction costs.

2. **Exceptional growth opportunity**. Driven by the urgent need to expand electricity infrastructure to support decarbonisation and growth in electricity demand being driven in part by data centres, National Grid is at the centre of the largest grid investment program in a generation.

3. **Simplified, focused business**. This follows the completion of a major divestment program, which has recycled capital into higher-returning regulated assets and strengthened the balance sheet.

Regulatory framework

The demand for National Grid's services is essential, especially as electricity becomes an increasingly important energy driver of the modern economy, powering homes, vehicles, heating systems, and the data centres that run artificial intelligence. Given the nature of its business, National Grid operates as a regulated monopoly within its territories. This is why the business is governed by economic regulation rather than market forces. Regulation allows the company to earn a fair return over time, but in exchange it agrees to limitations on the prices it can charge.

The regulatory regimes governing National Grid, Ofgem in the UK and a combination of FERC, the New York PSC and the Massachusetts DPU in the US play a central role in investment assessment. We evaluate such frameworks based on:

- Return reasonableness
- Transparency and accountability
- Predictability and consistency

On these dimensions, both the UK and US frameworks score well. Ofgem has demonstrated a willingness to allow investors to earn a reasonable rate of return, with a clearly articulated methodology. The UK's RIIO framework (Revenue = Incentives + Innovation + Outputs) sets five-year price controls that include inflation linkage, a defined cost of capital, and performance incentives that allow National Grid to earn above its baseline return by delivering projects on time and efficiently.

A particular strength of the UK regime is its mitigation of inflation and real interest rate risk. The Regulated Asset Value (RAV), the regulatory valuation of National Grid's infrastructure, is indexed to the UK's inflation index (CPIH). The rate of return is updated periodically to reflect the prevailing interest rate environment, providing further stability and ensuring the business can attract the capital required to fund its £70 billion investment program.

In the US, revenues are protected by full revenue decoupling mechanisms across both electricity and gas businesses. These mechanisms break the link between the volume of energy customers use and the revenue National Grid collects, meaning that whether customers conserve energy, install solar panels or switch to heat pumps, National Grid's regulated revenues remain anchored to the level set by regulators. For the gas businesses, weather normalisation adjustments provide an additional layer of protection, automatically adjusting billing-period revenues when actual temperatures deviate from the 30-year historical average.

Growth opportunities

National Grid has a single, compelling growth engine: the urgent, government-mandated need to expand and upgrade electricity infrastructure to support decarbonisation, electrification and energy security. This is not a cyclical or discretionary investment program. It is a structural necessity driven by net zero commitments, the growth of offshore wind, the electrification of heat and transport, and surging demand from data centres and AI.

Total capital investment is planned to reach at least £70 billion over the five years to FY2031, targeting group-regulated asset growth of approximately 10% per year and underlying earnings per share growth close to the high single digits.

In the UK, the centrepiece is the Great Grid Upgrade, which is a program to nearly double electricity transmission capacity across England and Wales. National Grid's Strategic Infrastructure division is responsible for delivering all 17 of its allocated Accelerated Strategic Transmission Investment (ASTI) projects, which will connect 50GW of offshore wind to the national network by 2030.

In the US, the focus is on upgrading ageing networks in New York and Massachusetts, expanding capacity to service growing electricity demand, and replacing leak-prone gas infrastructure.

We see the demand backdrop as genuinely supportive in a way it has not been for two decades. UK electricity demand rose for the second consecutive year in 2025, the first time in 20 years that demand has increased in back-to-back years, driven by electric vehicles, heat pumps and data centres. In the US, electricity demand in 2025 reached its highest level since records began in 1949, and the EIA forecasts the strongest four-year growth in US electricity demand since 2000.

Conclusion

National Grid sits at the intersection of two government-mandated imperatives, electrification and decarbonisation, that are already reshaping energy demand across the UK and US. Underpinned by a £70 billion capital program, inflation-protected revenues and supportive regulation, National Grid is well-positioned to deliver sustained earnings and dividend growth for the next decade.

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Source: Company filings. Ofgem. FERC. Massachusetts DPU. New York PSC

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