



Harnessing Opportunity: National Grid's Strategic Response to Decarbonisation

nationalgrid

Growing electricity demand combined with the desire of governments to decarbonise their economies has presented substantial opportunities for capital investment in energy infrastructure. National Grid is a major beneficiary of these trends. The company is poised to grow the scale of its operations at a record pace over the next six years, with expectations they will commission more new and upgraded infrastructure than in the previous 30 years. National Grid has posted strong operating and financial performance over many years and now faces a prolonged period of unprecedented investment that we believe will lead to long-term earnings growth.

Background

National Grid is a UK-based multinational whose primary activities are the operation of transmission and distribution of electricity and gas across the UK and northeastern USA.

National Grid operates through the following business units:

- **UK Electricity Transmission** operates high-voltage electricity transmission networks in England and Wales.
- **UK Electricity Distribution** operates the electricity distribution networks in the East Midlands, West Midlands, southwest of England and South Wales.
- **New England business** operates electricity transmission networks in Massachusetts, New Hampshire and Vermont, and electricity and gas distribution networks in Massachusetts.

- **New York business** operates gas distribution networks, electricity distribution networks and high-voltage electricity transmission networks in New York.
- **National Grid Ventures** develops, operates and invests in large-scale clean energy infrastructure. It operates separately from the core regulated operations of National Grid. The unit has a diverse group of businesses including subsea electricity interconnectors (interconnectors are high-voltage cables used to connect the electricity systems of neighbouring countries), wind and solar power generation, competitive electricity transmission, battery storage, conventional generation and liquified natural gas (LNG) regasification and storage.

In the year ended 31 March 2024 (FY24), the Underlying Operating Profit for Continuing Operations for National Grid increased by 6% at constant exchange rates to £4,773 million. Capital investment increased to a record £8,235 million, an increase of 11% on the previous year.

National Grid delivered good operational performance over FY24 with high levels of network reliability; for example, Transmission and Distribution reliability remained steady at 99%-100% across all company-owned networks. The company is committed to achieving net zero and Scope 1 and 2 emissions fell by 6% in FY24.

Opportunities

The critical need for economies to invest in energy infrastructure has never been more pressing. Investment in an economy's energy infrastructure promotes economic growth, improves manufacturing and technology capabilities and enables decarbonisation – a key step in addressing climate change.

Artificial intelligence and advanced computing has led to increased growth in underlying electricity demand

Governments in the company's key jurisdictions have all made ambitious climate targets – the UK government has targeted a fully decarbonised electricity system by 2035 and New York has targeted a 100% zero emissions electricity sector by 2040 while Massachusetts has targeted a 50% reduction in carbon emissions by 2030. New York, Massachusetts, Vermont and New Hampshire all have ambitions to reach net zero by 2050. This decarbonisation in the US northeast and the UK is the dominant driver of growth for the company's business portfolio with the expansion and strengthening of energy systems being critical to the wider energy transition.

The impacts of decarbonisation on the energy infrastructure sector are enormous. Across the UK, New England and New York, National Grid expects electrification of heat and transport to increase electricity demand from its networks by between 37% and 51% by 2035. In the US, renewable energy capacity could almost triple by 2032 to 110 gigawatts (GW) as the Inflation Reduction Act and Infrastructure Investment and Jobs Act encourage investment in the sector.

In addition, the development of artificial intelligence and advanced computing has led to increased growth in underlying electricity demand, placing further demands on the capacity and reliability of existing power systems.

As a consequence, policymakers in the UK and the US are encouraging investment in electricity transmission and distribution and other energy infrastructure. Given the bulk of earnings generated by National Grid are derived from regulated energy utility businesses, this encouragement can be expected to lead to increased investment, which leads ultimately to earnings growth.

Capital Investment Plan

National Grid invested £33 billion across its businesses over the past five years. In May 2024, the company announced that it expects to invest £60 billion in the five years to the end of March 2029, approximately double the level of investment of the past five years. The significant step up in capital investment will deliver annual group asset growth of around 10% and 6%–8% underlying EPS CAGR from a 2024/25 baseline. The scale of the investment is staggering. For example, the company's UK Electricity Transmission business is expected to install more than 12,000 kilometres of new cables across 17 new projects – the equivalent to the diameter of planet Earth.

This investment plan is dominated by investment in electricity networks and will mean approximately 80% of group assets will be electric by 2029 compared to approximately 70% of assets today. Given the commitment of governments to ongoing decarbonisation, the increased exposure of the company to electricity networks positions them well to benefit from ongoing capital investment over the coming decades.

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