



Our performance for 2014-15

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How to contact us

If you have a specific question, feedback or an opinion on our RIIO performance booklet, feel free to get in touch with us.

Email: talkingnetworks.distribution@nationalgrid.com

Write: Tony Nixon, National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA

Talking networks website: www.talkingnetworksngd.com

Smell gas? Please call the 24-hour Gas Emergency line: 0800 111 999

Hello and welcome...



Welcome to our performance summary of our second year under RIIO and the first for me after I became Director of Gas Distribution in April 2015. I am pleased to report good progress across the majority of our output commitments. This year you will be able to see

our detailed output performance together with supporting case studies, and also see numbers by network at a glance.

This year has been about maintaining last year's performance together with tackling and resolving issues in key areas to ensure we strive to deliver the best service possible to our customers, embedding the customer at the heart of what we do. This year hasn't been without its challenges and we explain how we are overcoming these.

It's really important for us to get things right in the areas of safety, reliability and customer service. We need to do this while making sure the work we do safeguards future generations via sustainability, investing in innovation to reduce costs further and providing you with value for money.

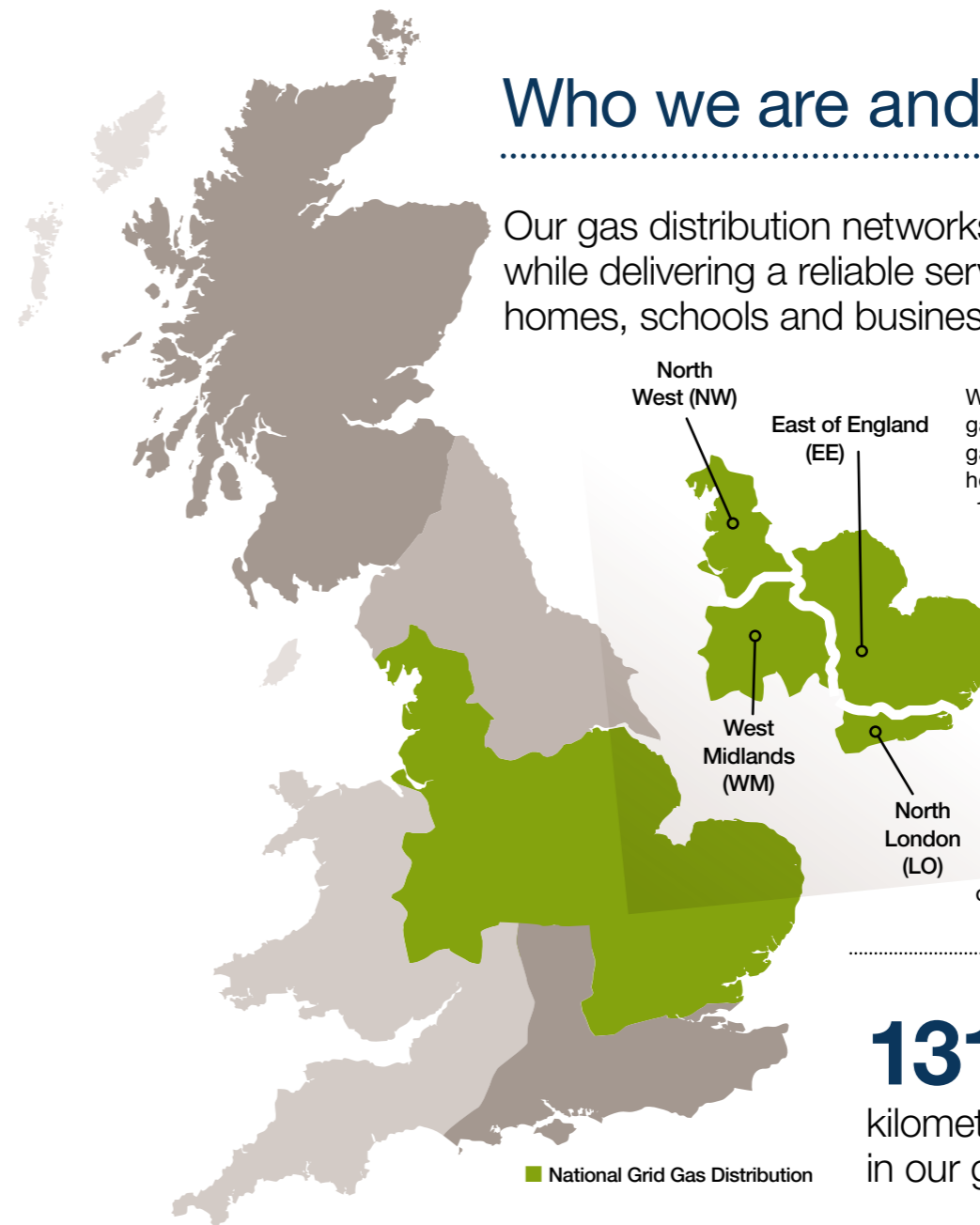
I am pleased to be able to share some examples of how we are doing this. It's not just about the present day, this is why we have included details about what the future could look like in terms of providing you with affordable, sustainable, secure, low-carbon energy solutions.

I hope that you find this document useful, and that it shows you we're working hard to keep you safe and provide you with a reliable service that's value for money.

Chris Train, Director UK Gas Distribution

Who we are and what we do

Our gas distribution networks keep you safe while delivering a reliable service to 11 million homes, schools and businesses



We own and operate four of the UK's gas distribution networks, transporting gas safely and reliably to 11 million homes, schools and businesses through 131,000 kilometres of pipe.

Covering the East of England, North London, the North West and the West Midlands, we make sure customers are connected to the gas they need, both now and in the future, for heating, cooking and keeping their businesses running.

We manage the gas emergency number, responding to and repairing gas leaks. We also connect new customers and upgrade our network to keep all our customers safe.

131,000 kilometres of pipe in our gas distribution network



■ National Grid Gas Distribution

Who is this document for?

Our target audience for this performance document is a wide range of stakeholders, from gas shippers to shareholders, local and highway authorities to fuel poverty groups, supply chain partners to consumer groups. For domestic customers, we have put together individual one-page network performance documents showing a

customer bill breakdown together with key output performance in 2014/15. These can be found at www.talkingnetworksngd.com/price-control.aspx. This main document provides more information to support each of the one-page documents. For more specific investor information please visit investors.nationalgrid.com



In more detail: Stakeholder commitments

Our Committing To You For 2015 publication, which was published in April, provided details of the outcomes that we have promised to deliver. We hope our suite of performance publications fulfils the commitment to continue to share our

RIIO performance. We always welcome your feedback, particularly as we have simplified our performance information as well as including more future-looking material this year. Please use the contact details provided.



OUR RIIO PRIORITY: We will provide value for money	
THE OUTCOME WE WILL DELIVER: We are delivering value for money	
YOU SAID	OUR NEW 2015/16 COMMITMENTS
<ul style="list-style-type: none"> We should continue to communicate our RIIO performance and maintain an efficient network. 	<p>10 We will continue to share our RIIO performance annually with our stakeholders and operate a safe, reliable and efficient network.</p>

We will keep you safe and warm

14/15 executive summary

Keeping our customers safe and warm remains our number-one priority. We continued to deliver our emergency service standards across all four of our networks and improved the health of our assets. We are ahead of our programme to remove risk from our iron pipes by replacing or maintaining them. However, for our repair risk output measure, we are not where we expect to be for three of our networks. We have taken proactive actions to improve how we plan and manage gas escapes, and reduce the time taken to repair them. We are still aiming to meet the eight-year performance target.

We have seen positive performance across a number of the output target areas in this category and a summary of performance against specific measures can be seen below.

WE WILL KEEP YOU SAFE AND WARM – HOW WE PERFORMED

Overall, we kept the network safe and prevented any major incidents.

- We responded quickly to reported gas escapes – over 97% of uncontrolled escapes were attended within one hour and over 97% of controlled escapes attended within two hours.
- We remain ahead of target to deliver our

programme to remove risk from our iron pipes by replacing or maintaining them in each of our four networks.

- We achieved above target across all networks for repairing gas escapes within 12 hours.
- Unfortunately, in three of our four networks, repair risk was higher than it should have been.
- In response to this we have launched a repair risk initiative, which includes allocating more teams to complete this work. We are still aiming to meet the eight-year RIIO-GD1 performance target.
- The average customer awareness of the dangers of carbon monoxide has risen by 32%, from 6.5 to 8.6 out of 10.

Awareness is measured through a set of questions where a score of eight shows a good level of understanding of not just the symptoms but the action that can be taken to reduce the risk of exposure to carbon monoxide.

- We connected more than 4,000 vulnerable customers to gas.



We are looking at ways to increase the number of vulnerable customers we connect to gas in our North London and West Midlands networks, where we are slightly behind where we would like to be. The recent government announcement of an extra £25m of funding in England could contribute to this and in-house support is a key factor in connecting more customers in future.



Smell gas? Call 0800 111 999

CASE STUDY: NATIONAL GRID ENERGY EFFICIENCY AWARDS

In partnership with National Grid Affordable Warmth Solutions (AWS) and National Energy Action, we are funding a new £400k Energy Efficiency Award scheme. The scheme will support major innovations to tackle fuel poverty and deliver energy-efficient solutions in disadvantaged communities within our four networks.

DELIVERING BENEFITS

CityWest Homes, Walsall Housing Group, Southway Housing Trust, Suffolk District Council and Derbyshire County Council have all commenced the delivery of their individual projects in 2015. The projects will deliver tangible benefits to some of the most deprived communities in the country. A key element to the awards is to ensure that they are innovative, replicable and that any learning will be shared across industry forums.

FIRST OF ITS KIND

Jeremy Nesbitt, Managing Director of National Grid AWS, said: "We know that some of the best energy efficiency ideas come from within communities and that funding is often the major obstacle to them coming to fruition. The scheme is the first of its kind and I am really excited to see what benefits it brings to communities and how we can share this learning with our partners."



12hrs



Achieved above target across all networks for repairing gas escapes



Kept the network safe and prevented any major incidents

32%



Average increase in customer awareness of the dangers of carbon monoxide

4,000



We connected more than 4,000 vulnerable customers to gas in 2014/15

97%



Gas escapes attended within timescale

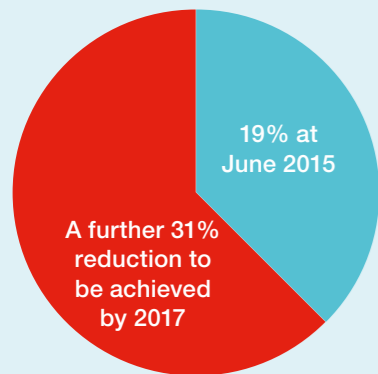
The future of keeping you safe and warm

CASE STUDY: NO DIG

Looking forward, we want to significantly reduce the impact caused by our operations on our customers and stakeholders when we carry out work to replace, repair and extend our network. We have created the No Dig programme to achieve the same output delivery, but with less excavation and supply interruption.

We have an evolving portfolio of projects, with 40 in progress, that will help us achieve our ambition. These are broadly a mix of innovative technology, investment in new tools and techniques, and improving our processes using our Performance Excellence Lean Management programme.

Our stretch ambition is to achieve a 50% reduction in excavations by 2017.



Target 50% reduction in excavations

HOW HAVE WE DONE SO FAR?

Excavation volume, when adjusted for workload, has reduced by 19% compared to the base year 2013/14.

We are on track to deliver our individual supply interruptions associated with replacing pipes, and emergency repair. However, we are still developing our approach to dealing with steel supply risers for multi-occupancy high-rise buildings and this is highlighted in our current 2014/15 performance challenge.

CASE STUDY: PRISM

PRISM is a technique to manufacture a pipe in situ, using the existing pipe due for replacement as a conduit. We have been able to prove the concept during a site trial.

Combining this mains pipe replacement method with a new service lining technique could allow us to undertake a number of mains and service replacement works with significantly less excavation and reduced interruption durations. Using this technique, mains and service replacement in a cul-de-sac of eight houses could potentially be completed in about eight hours, from supply interruption to supply restoration from very few excavations.

The technique has been

developed with our innovation partners, and creates a pipe within a pipe by mixing a polymer on-site. This is then sprayed within the existing cast iron pipe. We can do this by pulling a rotating spray head through the pipe on a cord, using special couplings to provide a smooth transition across joints.

The end result means less inconvenience for our customers and stakeholders as it reduces supply interruption, the number of excavations required and increases production rates.

We are now preparing the technology for trials in live conditions, with an ambition of beginning to deploy the technology by 2017/18.

Using this technique, mains and service replacement in a cul-de-sac of eight houses could potentially be completed in about eight hours



CASE STUDY: I-seal



An example of how we are addressing supplies to Multiple Occupancy Buildings (MOBs) is through a newly deployed technology into our Operations Business Unit that allows us to repair certain joints to these buildings. This new technique and tool allows our operatives to repair leaking joints, without interrupting the supply to our customers.

Through a new fitting designed by one of our innovation partners, Synthotech, anaerobic sealant is injected into the leak path and seals the leak in the joint.

Having the ability to use this technique alongside other developments will help us address the current supply interruption challenge for our customers.



Update on 2013/14: keyhole technology

We now have keyhole vehicles deployed on all of our networks, which allows us to plan more repairs to escapes. When our teams are on-site, this technology allows us to minimise disruption for members of the public and road users by locating, repairing and reinstating jobs much faster.

OUR COMMITMENTS TO KEEPING YOU SAFE AND WARM:
www.talkingnetworksngd.com



For detailed output performance to be reliable, SEE PAGES 20-21

We will be reliable

14/15 executive summary

Keeping the gas flowing to homes and businesses is vital for cooking and heating, and keeping commerce going. Across our four networks, our overall reliability is 99.999%. However, we have not reduced the amount of time customers spend without supply predominately due to an increase in issues with some of the gas supplies to MOBs, for example, flats in our London and East of England networks.

There were over 2,000 MOB-related gas supply interruptions in North London, eight times the level of the set target. These jobs do not form part of our original target from Ofgem on supply interruptions. We were given extra funding to carry out these jobs, but the interruption supply targets were not adjusted at the same time.

If MOBs were excluded, we would

have met our target for unplanned supply interruptions across all our networks. Undeterred by this, we are acting in the best interests of our customers to reduce supply interruptions and have anticipated improved performance in our forecasts.

WE WILL BE RELIABLE – HOW WE PERFORMED

- We achieved 99.999% reliability on the network.
- We maintained operational performance by managing flow and capacity of gas on our networks, together with monitoring the performance of our assets.
- On average, we improved the health of our assets by 14% across all our networks.
- We keep the performance of all our assets under review and as a result, adapt our spending to focus on

priority assets when required.

- We did not achieve the RIIO target level of unplanned interruption minutes in three of our four networks.

EXAMPLES OF HOW WE ARE WORKING TOWARDS REDUCING SUPPLY INTERRUPTIONS

To reduce the number and duration of supply interruptions, we are improving our processes and are also looking at making more effective use of existing technologies, such as greater use of hydraulic working platforms to work on MOBs. We are also investing in techniques through innovation projects that can temporarily repair the supplies, which will help minimise the need for unplanned supply interruptions.

The future of being reliable

CASE STUDY: NETWORK OUTPUT MEASURES (NOMs)

We understand that it is difficult to relate to some of the work we do on our assets and the safety and reliability benefits that are delivered to the network as a result of this work.

As we set out last year, we have been working across the industry to develop the Asset Health reporting methodology and successfully submitted a joint Gas Distribution Network Operator proposal to Ofgem in December 2014.

Since then, we have been developing a methodology to quantify the risk for each asset family. This methodology will be completed in October 2015 and will be followed by an Ofgem consultation to obtain your feedback on these asset health reporting proposals.

PROVIDE AN UNDERSTANDING

The aim of the methodology is to allow us to report health, criticality and risk in a common way and to provide an understanding to stakeholders of what will change during the RIIO-GD1 period.

From a stakeholder point of view, we believe health is an important metric to show the improvements we are making through our investment and maintenance programmes. In addition, the use of the risk metric will allow all Gas Distribution Network Operators to explain how we will adjust our plans for potential emerging risks across our assets, which may require additional investment in one category and/or a reduction in another asset family than originally forecast.

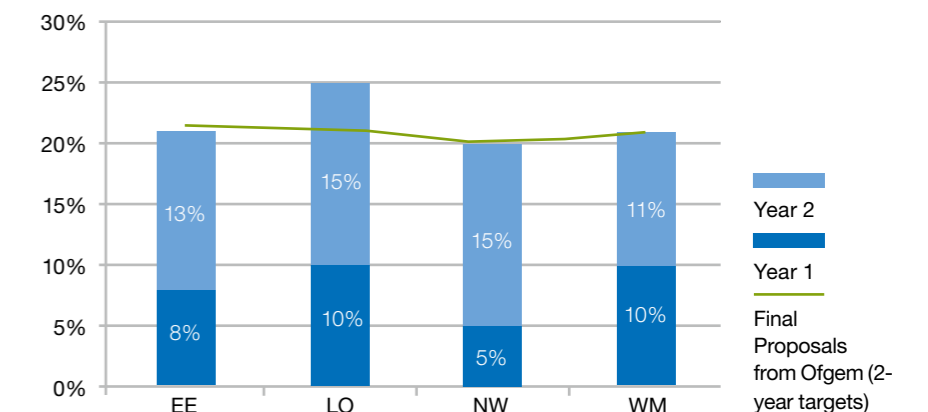


HOW HAVE WE IMPROVED THE HEALTH OF OUR ASSETS OVER THE FIRST TWO YEARS OF THE RIIO CONTRACT?

The graph shows how much asset health improvement we delivered in year one and year two of RIIO. The Final Proposals target line shows the original two-year target we were set by Ofgem. You will see that in

our North London network, we have delivered more than the original two-year target. This is due to phasing of our investment plan. All networks are on track to deliver the eight-year programme across RIIO-GD1.

OVERALL NETWORK OUTPUT MEASURE DELIVERY



We will deliver a quality service

14/15 executive summary

Overall, we have maintained last year's performance in delivering customer service. In 2014/15 there were areas where we did not achieve the expected benchmarked standard and we have plans in place to improve our service and the overall experience that our customers receive from us.

WE WILL DELIVER QUALITY SERVICE – HOW WE PERFORMED

OUR EMERGENCY WORK

- For emergency response, we are significantly ahead of the industry RIIO target customer satisfaction score and offering a good overall customer experience.
- Holding focus groups with our employees on areas that we know really matter to our customers, such as frequency and level of communication received during a job, has seen us achieve great results in the overall emergency customer experience we provide.
- We are also looking to provide better feedback to customers in relation to carbon monoxide awareness, help to identify smart meters and take appropriate action to improve the service we offer to vulnerable customers.

EMERGENCY SCORES

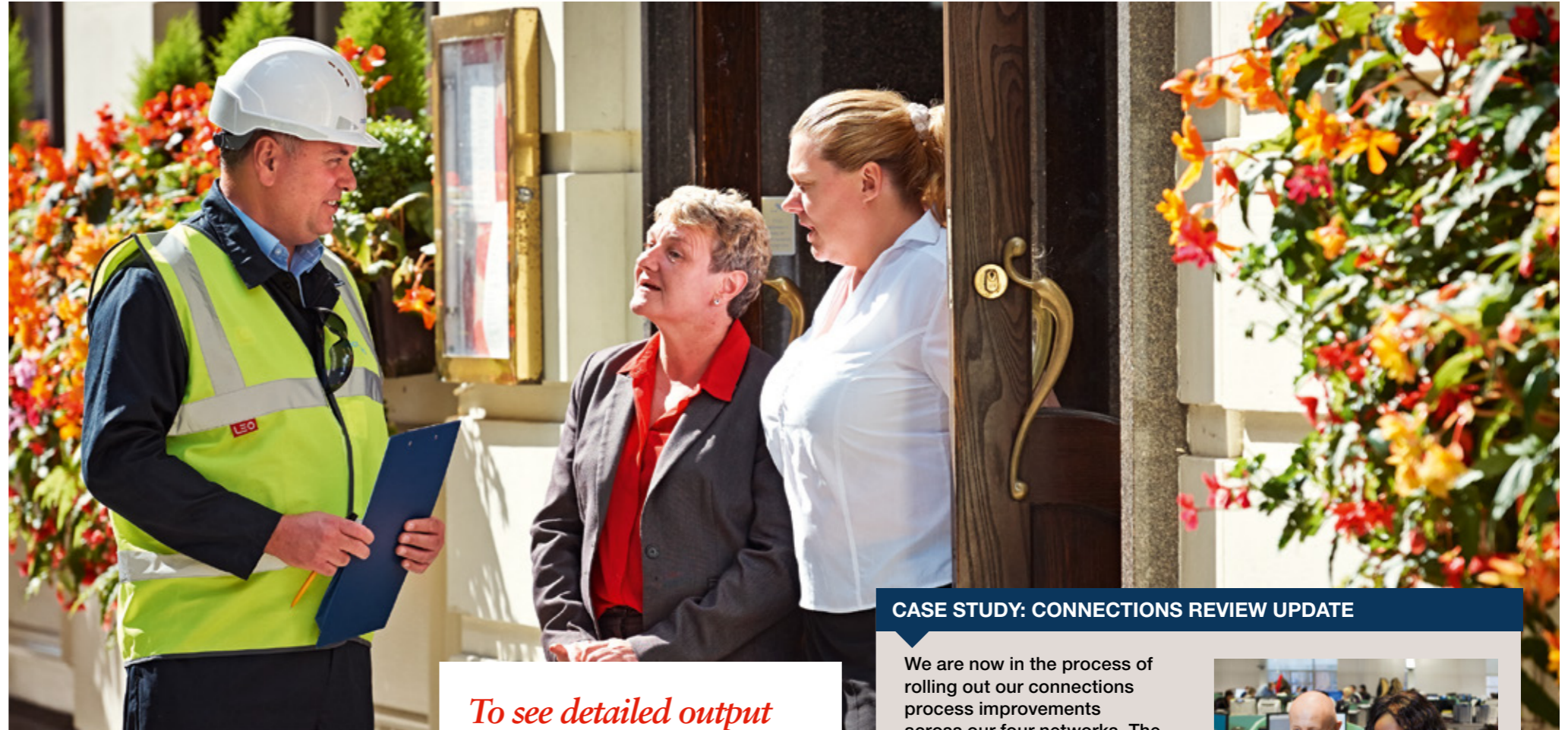
Network	2013/14	2014/15	Target
East of England	9.18	9.29	8.81
North London	8.84	8.87	8.81
North West	9.21	9.20	8.81
West Midlands	9.06	9.15	8.81

OUR PLANNED WORK

- For planned mains replacement work, the customer experience we deliver is not at the level it should be. This is reflected in our customer scores, which have shown no real movement on last year's scores.

As a result of in-depth analysis on our planned mains replacement work customer journey, we are working on improving how we plan our works, our overall communication with customers, site tidiness and reducing the time it takes us to reinstate premises after work has been completed.

- We hope that the process improvements we are making will show improved customer scores as we move through 2015/16.



To see detailed output performance for delivering a quality service, go to page 22

PLANNED MAINS REPLACEMENT WORK SCORES

Network	2013/14	2014/15	Target
East of England	8.17	8.03	8.09
North London	7.90	7.91	8.09
North West	7.68	7.89	8.09
West Midlands	7.95	7.86	8.09

OUR CONNECTIONS WORK

Our connections process improvements, which we spoke about in last year's report, have shown positive results in our North West network where we have fully rolled them out. We hope to see similar results in our other three networks as the improvements are implemented. Please see more detail in the case study later on in this section.

CONNECTIONS SCORES

Network	2013/14	2014/15	Target
East of England	7.59	7.73	8.04
North London	6.61	6.55	8.04
North West	8.03	8.30	8.04
West Midlands	7.52	7.95	8.04

CASE STUDY: CONNECTIONS REVIEW UPDATE

We are now in the process of rolling out our connections process improvements across our four networks. The improvements target the areas that our customers told us were frustrating to them. These were:

- our application form was complex and time-consuming to complete
- our communication with customers was often unclear and inconsistent
- we didn't explain the value we were delivering for the fee paid
- we were not flexible to customer requirements.

We have rolled out improvements in our North West network and are starting to see improvements to the customer experience. Significant improvements we have made are:

- our new application process has been simplified for customers, and those who need help are guided by one of our experts
- visibility of key information about our customers' jobs is now visible to everyone who is part of the end-to-end process
- our bills and statements now provide a breakdown of the cost



- a mobile app for our surveyors helps to inform customers about the process journey and confirm their requirements
- we now offer call-back time slots and out-of-hours survey appointments.

As a result of the above, our process is more streamlined than it was before and the systems that support it are better than they have ever been, in particular the online application and customer account screens.

We have only just started this journey and hope to see the same benefits delivered in the North West across our other three networks. Overall, we will continue to develop our employees to deliver a quality service each and every time.



The future of delivering a quality service

CASE STUDY: SMART METERING



WHY SMART METERS?

Our networks deliver low-cost energy for heating and cooking, and we believe they will continue to be an important part of the energy mix towards 2030 and beyond. To ensure we can utilise the gas networks into the future in a low-carbon economy, we need to help our customers reduce their demand for energy. This can be done by making their homes energy efficient and, therefore, reduce the impact on the environment.

Once installed by suppliers, gas smart meters will provide information on how much energy our customers are using and see the effects of their actions on how they use energy, such as turning down the thermostat on their boiler by one degree. We support real-time energy consumption via smart meters and believe that the supplier lead roll-out is a really positive step in helping customers to manage their everyday use.

WORKING WITH THE INDUSTRY

We have a dedicated project team who are helping us understand and anticipate the impact smart meters will have on our customers, stakeholders and business. We have dedicated leads across our functional departments to ensure complete readiness and fully understand the impacts to our business and customers.

We have continued to engage across the industry, forging strong links and working closely with industry parties. These range from the Department of Energy and Climate Change (DECC), other Gas Distribution Networks, Distribution Network Operators and Smart Energy GB. We hope that by working collaboratively across the industry, we will help support the smooth delivery of smart metering for our customers.



We have a dedicated project team who are helping us understand and anticipate the impact smart meters will have on our customers



For more information on our incentives SEE PAGE 17

In addition, we are working closely with energy suppliers, who have agreed to share their detailed roll-out plans with us so that we can plan the resources we need to maintain our high levels of safety and customer service. We have used various elements of the supplier roll-out plans to understand the impact of the increase in workload due to smart metering-related issues and to make sure we minimise the impact on our emergency, planned mains replacement and connection services. To support this, we have also been using the same data to understand the impacts on call volumes to our customer centre as we have noticed an increase in smart meter-related calls to our customer centre.

THE TRANSITION: SUPPORTING OUR CUSTOMERS AND STAFF

Although National Grid is not directly responsible for the roll-out of smart meters, we are fully aware that this is one of the most significant changes to energy usage and billing in more than 200 years. The change will affect our customers, stakeholders and employees.

We will continue to engage and train our field force, contract partners and back office staff on smart metering and any changes that will affect their roles. This has meant that our people

We are fully aware that this is one of the most significant changes to energy usage

have been better equipped to talk to customers about smart metering and answer their questions. This approach will continue through the roll-out and into the sustained smart metering world.

Along with getting our people ready, we are also keen to make sure that the customer has the best experience possible when a smart meter is installed. This will be done by reviewing our processes and identifying where the installation of a smart meter could potentially impact the service we provide.

CASE STUDY: OUR STAKEHOLDER ENGAGEMENT INCENTIVE SUBMISSION (SEIS)

As part of the Broad Customer Measure Incentive, earlier this year we submitted our SEIS to Ofgem and were reviewed by their independent panel, made up of experts from various industries, to be scored for our submission. This year

we were awarded 5.9 out of 10, which is lower than last year's score. We have taken on board the panel's feedback to build on the strengths of the approach we have embedded. Along with this, we continue to focus on best practice sharing, cost benefit analysis and detailing the outcomes we have delivered for stakeholders.

CASE STUDY: OUR DISCRETIONARY REWARD SCHEME (DRS)

In May this year we presented our individual and gas distribution network collaborative DRS submissions, and appeared in front of Ofgem's appointed panel in July. This reward scheme aims to encourage gas distribution networks to undertake activities to help address a range of social and environmental outputs, and we achieved awards in all categories. The panel were encouraged by the collaborative submission, but believed that we could have achieved more as a group of companies. The panel provided positive feedback on our individual submission and we are currently working on the changes we need to make to improve for the next review in three years' time.

We will safeguard future generations

To see detailed output performance for safeguarding future generations
GO TO PAGE 23

14/15 executive summary

Providing a network that is sustainable is vital to delivering gas safely to homes and businesses. We do this by reducing our own carbon footprint through the energy we use and by reducing leakage from our networks.

We have continued to reduce the level of gas leakage from our network through:

- managing pressure of gas in the network, which we believe is now close to the maximum level of benefit that we can achieve through this technology
- improving processes of treating our pipes with mono-ethylene-glycol (MEG), where the average level across our networks has increased to 32% in 2014/15

- the continuation of our planned mains replacement programme, which remains a significant factor in reducing leakage.

Connecting and injecting biomethane into the network is another way in which



we are facilitating a sustainable gas network. In 2014/15, we connected nine bio-gas plants across our networks, with a combined capacity of around 70MW and an anticipated annual production of around 590GWh, enough to supply the needs of around 15,000 customers.

SAFEGUARDING FUTURE GENERATIONS – HOW WE PERFORMED IN 2014/15

- We connected nine biomethane gas plants.
- We delivered a reduction in leakage volumes.
- For all four networks we have reduced the level of scope 1 and 2 emissions.
- We have significantly reduced the amount of spoil we send to landfill compared to 2013/14.

CASE STUDY: BIOSNG

We continue to work towards a vision of large-scale production of renewable gas, delivering cost-effective, low-carbon energy to consumers and helping to meet the UK's Greenhouse Gas (GHG) reduction targets.

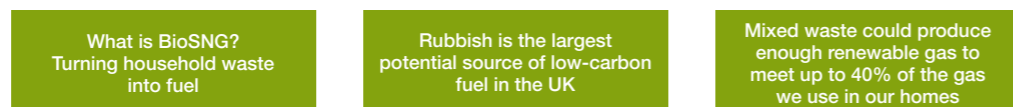
To help achieve this vision, National Grid and its partners – Advanced Plasma Power, Progressive Energy and Carbotech – were successful in obtaining build funding from both Ofgem's Network Innovation Competition and the European BESTF-ERANET programme. The build will demonstrate renewable gas production by thermal gasification of domestic and commercial waste.

The BioSNG project is currently at the test phase.

TIMELINE OF PROJECT



Once the pilot plant in Swindon is fully commissioned later in 2015, we can start testing and optimising the process. We can expect to be producing BioSNG by early 2016, when the facility will be used as a showcase to demonstrate the technology to industry stakeholders.



Projects such as BioSNG are demonstrating how gas networks can play an important role in providing low-cost energy supplies to customers while maximising the use of renewable energy sources.

CASE STUDY: BIOMETHANE CONNECTIONS

Since our first connection in 2013, we have continually sought customer feedback to inform and improve our processes and commercial frameworks. This has resulted in increased flexibility, improved 'fit for purpose' commercial arrangements, revisions to our regulatory regime and facilitating customer choice in the use of innovative, cost-efficient solutions for their projects.

We have worked with our customers to evolve our processes and designs to allow both National Grid's and the customer-owned equipment to be housed in a single box arrangement. This has led to overall cost efficiencies for the customer as well and reduced their land requirements. In November 2014, we connected our first project to the high-pressure network using suitably qualified contractors to lay the pipeline and connect to our Local Transmission System (LTS). This has facilitated further competition in the connections market. This year we trialled new engineering solutions by connecting the first biogas facility in the country to the gas network by a plastic pipe operating at 19 bar.

Current uncertainty on the future funding of the RHI (Renewable Heating Incentive) continues to provide challenges for us and the industry. Many of the connections have benefited from this incentive, and our volume forecasts, which are aligned with government expectations for biomethane, had assumed that an incentive would continue. There is risk that changes in the incentive structure will impact volumes of biomethane connections over the remainder of the RHI period.

We believe that alternative gas sources have an important role in the future of energy provision and we are keen to support the government and regulators to facilitate this.

The future of safeguarding future generations

CASE STUDY: COMPRESSED NATURAL GAS (CNG) FOR HEAVY GOODS VEHICLES (HGVs)

The government is targeted with reducing GHG emissions by 80% by 2050. Of the total GHG emissions, 25% are attributed to road vehicle transport. While constituting only 1.5% of road transport numbers, HGVs and buses account for 21% of transport emissions.

With CNG & Liquefied Natural Gas (LNG) offering a cleaner, quieter and cheaper alternative to diesel, we are keen to assist the reduction of road transport emissions by developing the emerging market in natural gas for HGVs and buses.

AMBITION

With a large gas distribution network, we are well placed to provide connections for potential customers who wish to use vehicles powered by natural gas and see the network as the backbone to supporting a future national infrastructure.

Our ambition is for CNG to be the fuel of choice for HGVs and buses. The benefits of CNG can be seen in the graphic.

This technology is not new and internationally there are thousands of gas vehicles on the road, with a growing level of research evidence to support using the technology. We are also starting to see manufacturers offering dedicated gas HGVs and buses in the UK, which provide greater choice for haulage and bus companies considering this technology.

There is strong potential for sustainable sources of gas to be used to support the vehicle fuel sector. Whether it is biomethane or bioSYN gas, the environmental emissions, from a wheel-to-wheel perspective, are c.70% less than diesel.

To demonstrate our commitment in developing this market, we have partnered with CNG Services in the



creation of a CNG filling station on the M6 motorway in Leyland, near Stockport. The new station will be the first high-pressure connected public-access CNG filling station in the UK, capable of refuelling more than 500 HGVs daily, or as much as 3,500kg of CNG per hour. The station's first major customer will be Waitrose, part of The John Lewis Partnership.

PROMOTING THE USE OF GAS

We have worked closely with the Low Carbon Vehicle Partnership in developing their vehicle fuels infrastructure road map for the Office of Low Emissions Vehicles and the Department for Transport. We are also part of a consortium led by Birmingham City Council looking at developing four gas filling stations around the city's edge. As members of the Natural Gas Vehicles (NGV) Network, we are working with industry stakeholders to promote the use of gas in vehicles, help identify how the potential can be realised and to ensure that standards are in place to underpin the industry.

For UK gas customers, the growth of this transport fuel sector will result in higher usage of our network. This will, therefore, reduce the transportation cost per customer in the long run, while helping to reduce environmental impacts from the transport sector.

We will provide value for money

The RIIO Final Proposals set targets for expenditure and outputs based on the upper quartile performance of the eight gas distribution networks. They included assumptions around performance improvements in every year of the eight-year price control period.

The initiatives we introduced helped us to become more efficient during 2013/14. We have mostly maintained this improvement throughout 2014/15. We believe we can continue to be efficient in the future while still achieving our output targets.

TOTEX PERFORMANCE (TOTAL EXPENDITURE)

These are our costs of operating and investing in our distribution networks. RIIO incentivises us to increase efficiency and we share 37% of any cost performance with customers.

Overall, we spent slightly less during 2014/15 than 2013/14. We spent around £25m less per network than the regulatory cost target by being more efficient, which will result in additional benefits to customers through lower bills. The major area where we are beating the targets continues to be the money we spend on mains replacement through our strategic contracting partners in all networks.

Over the eight years of RIIO-GD1,

our forecast spend remains largely unchanged in total compared to our expectations last year, apart from some small phasing differences. In total, we expect to spend around £943m every year to make sure we achieve our output targets.

We expect to deliver these outputs while spending around 8% less than the regulatory cost targets. We are planning to deliver a number of innovation projects that introduce new techniques on our replacement activity to increase our efficiency.

REPLACEMENT

This year we have focused particularly on removing risk on a selection of shorter-length, higher-risk mains. Along with some planning challenges, especially in the West Midlands, this has resulted in lower volume of replacement and overall cost efficiency from 2013/14. These challenges have now been overcome. Our London network managed to increase cost efficiency, completing more work at a consistent cost level.

After two years, we are ahead of the primary output target of iron mains risk removed. We are behind the secondary output of length replaced, but having addressed some operational challenges during 2014/15, we are confident that we can increase our workload delivery over

the next two years so that by the middle of the eight-year RIIO period, we will have delivered 50% of the target length that is to be replaced.

We are increasingly confident of delivering benefits from innovation projects that aim to make our forecasted programme more efficient.

CAPITAL

In 2014/15, we started increasing activity on network output measures related to safety and security of supply of our assets. Workload levels should increase further over the coming year in line with our goals to deliver outputs.

We have updated our capital forecasts to include higher costs for our physical site security upgrade programme (see uncertainty mechanism section) and additional security on our IS data centres.

OPERATING COSTS

We have reduced our operating costs in 2014/15, following our internal change programme. Beyond 2015/16, we expect these efficiencies to be off-set by the need to increase expenditure to support the industry roll-out of smart meters.

Our forecasts include further continuous improvement, and also reflect increased spend on apprentices. This will make sure that, in the medium-term, we have the right number of skilled people on our repair teams, helping us achieve the output target that we missed during 2014/15.

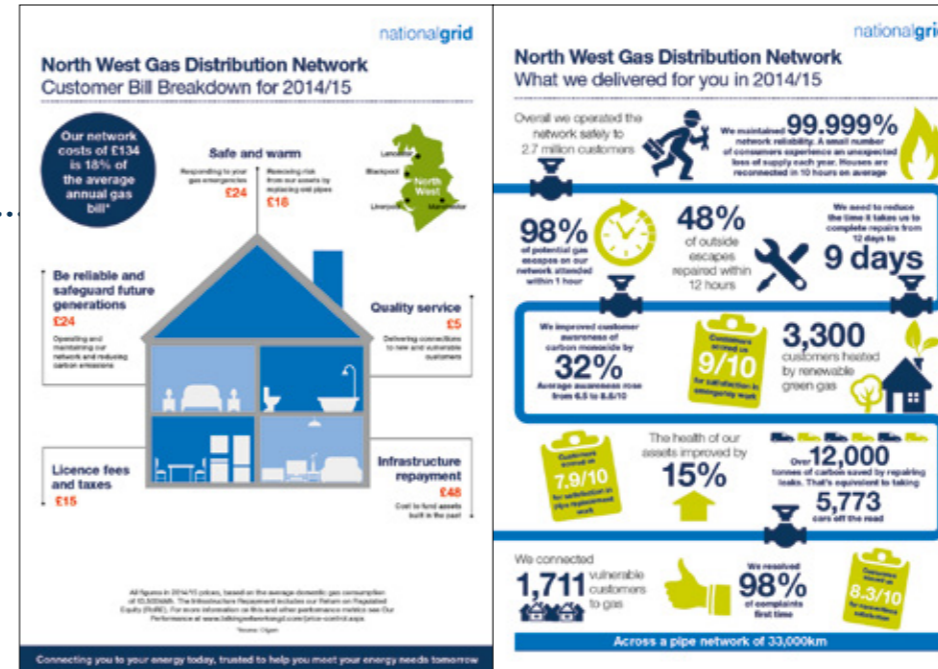
UNCERTAINTY COSTS

Over the coming years we expect to incur costs that are not covered by the Final Proposal allowances, but are instead covered by uncertainty mechanisms.

We are working hard to keep these costs as low as possible while achieving our required output targets.

The main uncertainty items are:

- **Streetworks** The TOTEX forecasts included in the RRP are consistent with the May 2015 submission to Ofgem for an appropriate adjustment in allowances for efficient expenditure for these additional costs. These costs are a result of factors arising from legislation and government initiatives, as new highway authorities take up the legislation.



Individual network cost and performance see <http://www.talkingnetworksgd.com/price-control.aspx>

NON-CONTROLLABLE COSTS

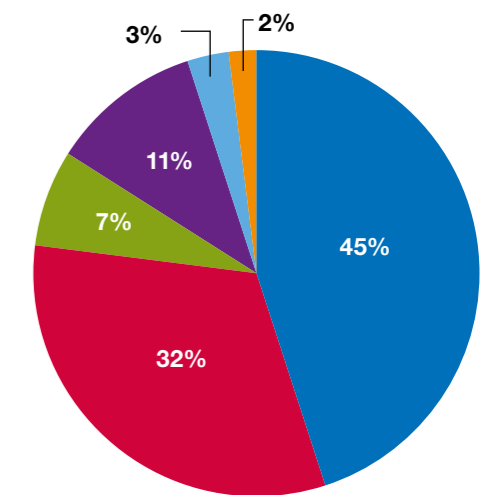
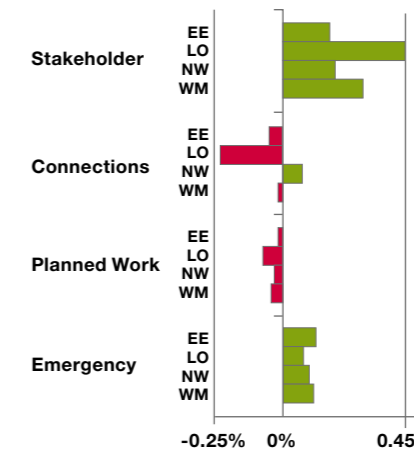
In addition to incentivised TOTEX, which runs at around £240m annually for each network, we also incur what is termed as non-controllable costs of around £83m annually per network.

The main element of cost relates to our business rates.

The National Transmission System (NTS) exit cost is paid to secure capacity from the transmission system. We are reducing the capacity required as losses are reducing, and this is shown in our incentive performance. Similarly, our shrinkage costs are reducing as we reduce the amount of gas leakage from the system. In addition, reductions in gas prices are fully passed through to customers.

Our pension costs have increased as a result of our pension review, which identified higher deficits in the pension scheme.

The other costs are covered by the Network Innovation allowance, which is funding the research into new technology. This aims to drive benefits in the future. Finally, the Licence Fee covers the cost of Ofgem's duties to oversee the industry.



benchmark set as part of RIIO-GD1 for connections and planned mains replacement work. This brings a financial penalty and negative impact on our network returns as measured by return on regulated equity (RoRE). These penalties are not shared with customers. Good performance as part of our emergency service and the award made through our Stakeholder Management incentive has resulted in an overall positive performance for the broad customer measure. We recognise we have the ability to do more in this area through improvements in our connections process and also reducing disruption when undertaking our planned mains replacement activities.

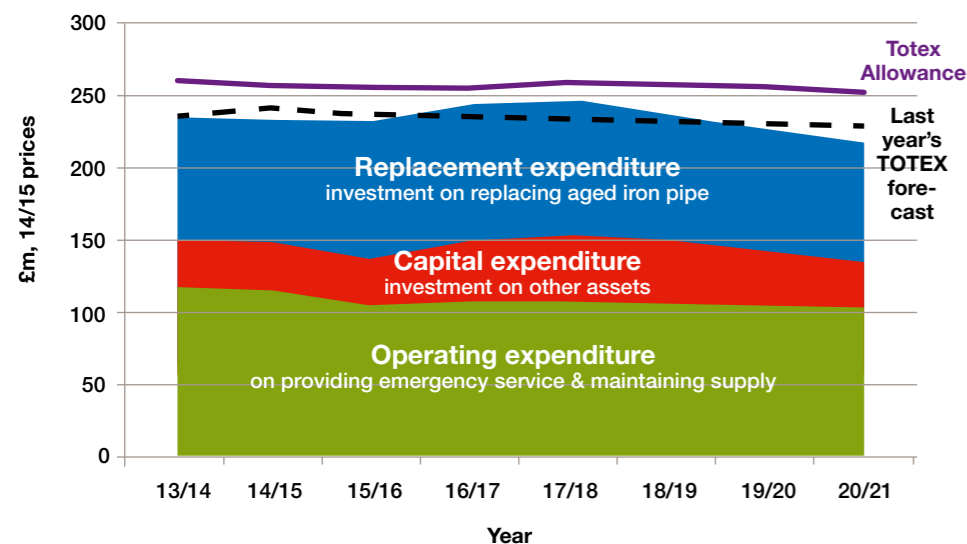
- **Physical site security** The TOTEX forecasts included in the RRP are consistent with the May 2015 submission to Ofgem for an appropriate adjustment in allowances for efficient expenditure for these additional costs. Throughout 2014/15, we have continued working with the Department of Energy and Climate Change (DECC) to review Critical Network Infrastructure physical site security. This review has included National Grid proposing alternatives to full physical solutions through cheaper operational solutions.

- **Smart metering roll-out** We have put dedicated resources in place to work with the industry to help ensure that the supplier-led programme that will replace all 11 million National Grid customer meters is a successful one. This has increased our understanding and knowledge of the potential implications on our processes. It has also enabled us to reduce the estimated impact across our four networks by 30% over the period from last year's TOTEX forecast.

INCENTIVES

In terms of output incentives, overall we have driven good performance across our networks. All networks have been able to reduce gas leakage and reduce gas capacity bookings from the UK Transmission system, with the outperformance being shared with customers.

For our customer incentives, the graphic shows that we are behind the



FINANCIAL PERFORMANCE

We are learning from our operational challenges in 2014/15. Over the RIIO-GD1 period, we are determined to provide a better customer experience, deliver our output targets and expect to achieve a (RoRE) of around 10%.

North London is our highest-performing network given that Replacement Expenditure (REPEX) accounts for a higher proportion of TOTEX than our other networks.

The RoRE forecast is in line with the expectation given in last year's Regulatory Reporting Pack (RRP). They include our expectations of an improvement in our customer shrinkage and NTS exit capacity performance in future years.

There are many factors that will influence the level of our capital, replacement and operating costs over the remainder of the RIIO period. The forecasts provided in this document represent an estimate, which we believe falls within a reasonable range of outcomes for the RIIO period, consistent with our aims to deliver outputs and provide value for money to customers.

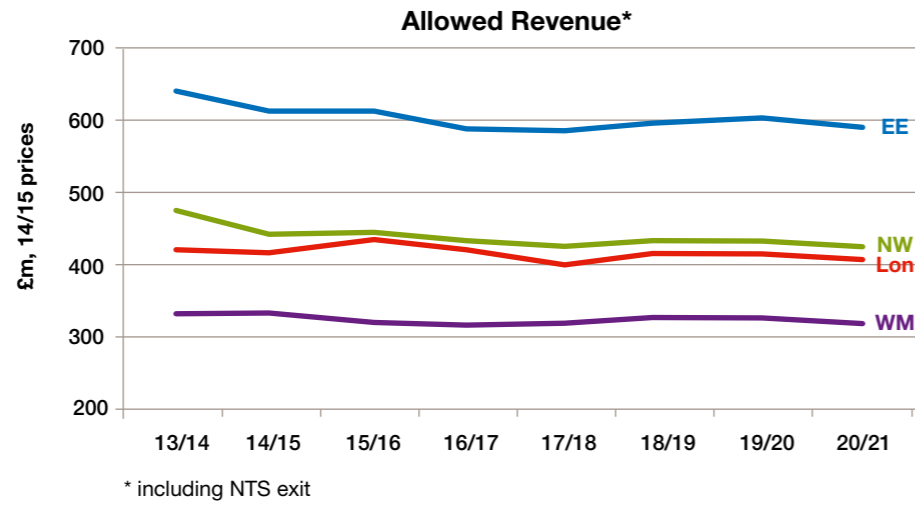
ALLOWED REVENUES

Our year-on-year revenue adjustments are reported to Ofgem through the RRP.

In 2014/15, allowed revenues are primarily determined by our allowances set at the start of RIIO. This is because the agreed industry adjustments mechanism only takes effect in the third year of RIIO and each year after (2015/16).

Similarly, the arrangements under RIIO mean that further adjustments relating to incentive performance in 2014/15 will not be reflected until the formula year 2016/17.

Based on our actual and forecast performance, together with the lower cost of debt and lower corporation tax, our allowed revenues are expected to decline over the period in real terms. However, our forecast performance does not include any revenue adjustment for uncertainty mechanisms that may be agreed over the coming months with Ofgem and the industry.



RETURN ON REGULATORY EQUITY BREAKDOWN

	Baseline RoRE (Post-tax cost of equity)	Total Incentive Mechanism	Broad Measure of Consumer Satisfaction	Gas Management Incentives*	Total
East of England	6.70%	0.80%	0.23%	0.74%	8.46%
London	6.70%	3.38%	0.22%	0.49%	10.80%
North West	6.70%	1.10%	0.32%	0.20%	8.31%
West Midlands	6.70%	2.80%	0.35%	0.32%	10.17%

Return on Regulatory Equity (RoRE) is a representation of the percentage of returns earned by shareholders as a measure of equity.

The price control sets allowances for the running of a safe and efficient network at 6.7%.

GDNs are incentivised to outperform and Ofgem expected good-performing networks to achieve double-digit returns.

We are determined to provide a better customer experience and deliver our output targets

CUSTOMER BILLS

During 2014/15, the impact on the average annual domestic customer gas bill of National Grid Gas Distribution was £139. This represents 20% of the average household gas bill.

The table below shows that National Grid's Distribution Network element for its customers' average annual domestic bill is expected to decline by around 7% over the next six years in real terms.

This report has demonstrated both our progress against the outputs, service improvements to our customers and the changes we have made to our business to deliver these at an efficient cost.

Our cost forecast is based on assumptions that include allowances for known risk. We will work to minimise and mitigate these risks over the RIIO-GD1 period.

Forecast average gas distribution element of an average domestic customer bill

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
East of England	£138	£134	£134	£128	£128	£130	£130	£128
London	£155	£151	£157	£151	£142	£148	£146	£144
North West	£139	£134	£137	£130	£128	£130	£130	£128
West Midlands	£139	£140	£134	£131	£132	£136	£134	£131
National Grid average	£142	£139	£139	£134	£131	£135	£134	£132
Cumulative change from 2013/14		-2.2%	-1.8%	-5.7%	-7.4%	-5.1%	-5.7%	-7.2%

National Grid Gas Distribution Customer Bill Breakdown for 2014/15

Our network costs of £139 is 18% of the average annual gas bill*

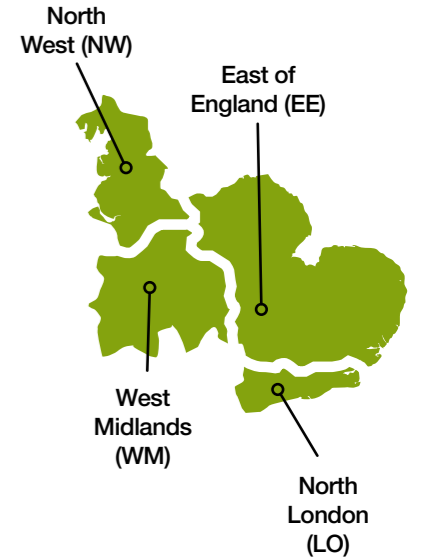
Safe and warm

Responding to your gas emergencies

£23

Removing risk from our assets by replacing old pipes

£21



Be reliable and safeguard future generations

£25

Operating and maintaining our network and reducing carbon emissions

Quality service

£5

Delivering connections to new and vulnerable customers

Licence fees and taxes

£16

Infrastructure repayment

£49

Cost to fund assets built in the past

All figures in 2014/15 prices, based on the average domestic gas consumption of 13,500kWh. The Infrastructure Repayment includes our Return on Regulated Equity (RoRE).

*Source Ofgem

Keep you safe and warm, and will be reliable

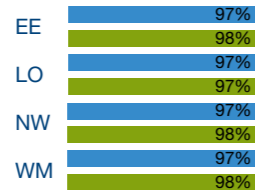
Safety regulation compliance – Gas Safety Management Regulations (GSMR): Annual target
Reporting that our assets are being maintained to the required GSMR standard.
Target met: All networks have maintained compliance throughout the year.



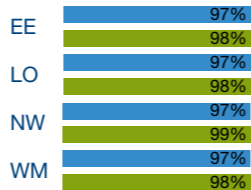
Safety regulation compliance – Control of Major Accident Hazards (COMAH): Annual target
Reporting that our assets are being maintained to the required COMAH standard.
Target met: All networks have maintained compliance throughout the year.



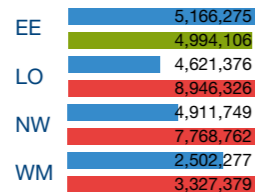
Uncontrolled escape response: Annual target
Attending 97% of all uncontrolled gas escapes within 1 hour.
Target exceeded: All networks have exceeded the 97% target for 14/15 for this primary output.



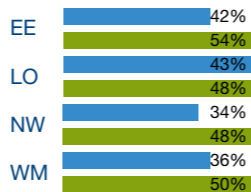
Controlled escape response: Annual target
Attending 97% of all controlled gas escapes within 2 hours.
Target exceeded: All networks have exceeded the 97% target for 14/15 for this primary output.



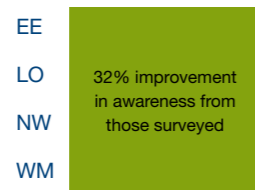
Programmed escape repair risk: Annual target
Cumulative risk score of daily escapes outstanding over year.
Behind target: At a National Grid Distribution level we are behind target in 3 out of 4 networks. Plans are in place to ensure we meet the performance expected.



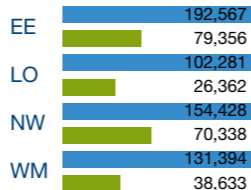
Repair duration: Annual target
Repairing gas escapes within 12 hours of receiving the emergency call against individual network target percentages – specific annual targets for each network. **Target exceeded:** All networks have met or exceeded the target % of escapes repaired within 12 hours.



Carbon monoxide awareness: 8-year target
Movement in awareness scores from customer survey results. Of customers surveyed, post awareness score increased from 6.5 out of 10 to 8.6 out of 10. Shows positive movement in raising customer awareness.



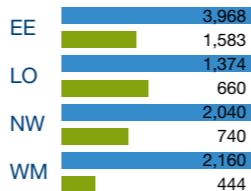
Main risk removed: 8-year target
Level of risk removed from our pipelines through maintenance or replacement.
Above target: We are on track to deliver our main risk targets over the 8 years and both East of England and North West networks are ahead of plan.



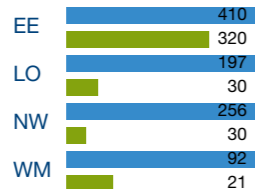
Asset health methodology: Target September 2015
Publish how we intend to monitor the health and criticality of our assets.
On target: Methodology submitted December 2014. Amended version due end of September 2015.



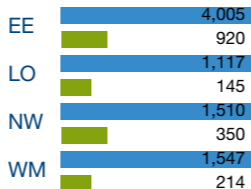
Telemetry and communications: 8-year target
Metric shows how much risk reduction has been completed against our 8-year RIIO-GD1 commitment.
On target: Annual run rate is generally higher than 2/8ths of the programme and we are on track to achieve our RIIO-GD1 commitment.



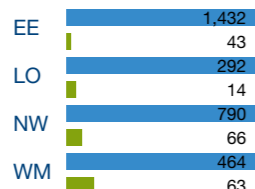
Cathodic protection: 8-year target
Metric shows how much risk reduction has been completed against our 8-year RIIO-GD1 commitment.
On target: Annual run rate is lower than 2/8ths of the programme, however, plans are in place to deliver our RIIO-GD1 commitment.



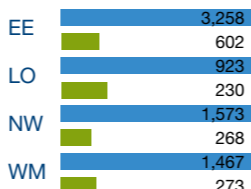
Local transmission system pipelines: 8-year target
Metric shows how much risk reduction has been completed against our 8-year RIIO-GD1 commitment.
On target: Annual run rate is lower than 2/8ths of the programme and will increase year-on-year to a peak level to achieve RIIO-GD1 commitment.



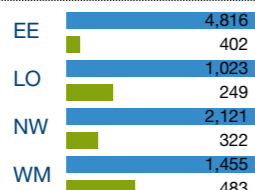
Distribution system (excluding 3 tier iron mains): 8-year target
Metric shows how much risk reduction has been completed against our 8-year RIIO-GD1 commitment.
On target: Annual run rate is lower than 2/8ths of the programme, however, plans are in place to deliver our RIIO-GD1 commitment.



Pressure reduction installations: 8-year target
Metric shows how much risk reduction has been completed for pressure reduction installations including transmission offtakes.
On target: Annual run rate is lower than 2/8ths of the programme, however, plans are in place to deliver our RIIO-GD1 commitment.



Governors: 8-year target
Metric shows how much risk reduction has been completed against our 8-year RIIO-GD1 commitment.
On target: Annual run rate is generally lower than 2/8ths of the programme, however, plans are in place to deliver our RIIO-GD1 commitment.

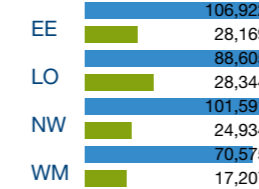


Achievement of 1:20 planning standard: Annual target
Ensuring that we plan for enough gas to be available to you during a bad winter each year.
Target met: Forecast developed in accordance with 1:20 planning standard.



We have included our overall position for our four networks, stating either 'Target met', 'Target exceeded' or 'Behind target' for annual outputs; and 'Above target', 'On target' or 'Below target' for outputs being assessed over eight years. Some outputs, such as our Capacity of Biomethane Connected, do not have a target, therefore, we have stated the output delivered for the year.

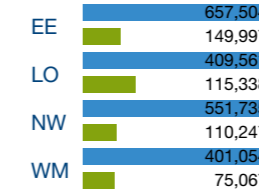
Number of unplanned interruptions: 8-year target
Minimising the number of unplanned interruptions.
On target



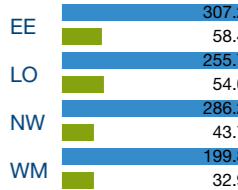
Duration of unplanned interruptions: 8-year target
Minimising the amount of time customers are off gas as a result of emergency work (millions of minutes). **Below target:** Our level of unplanned interruption minutes is over target and for EE, LO and WM we are forecasting to be over target for the RIIO period.



Number of planned interruptions: 8-year target
Minimising the number of planned interruptions.
On target



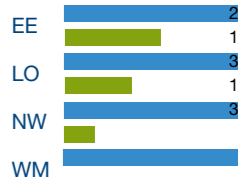
Duration of planned interruptions: 8-year target
Minimising the length of time customers are off gas as a result of planned work (millions of minutes).
On target



Responding to telephone calls: Annual target
Answering 90% of emergency calls within 30 seconds.
Target exceeded: All networks have exceeded the 90% target for 14/15 for this primary output.



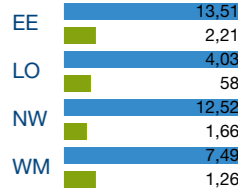
Gas holder demolition: 8-year target
Specified number of gas holders demolished over 8 years. Measure shows number of gas holders demolished against 8-year RIIO-GD1 commitment.
On target



Gas in buildings events due to mains fractures: 8-year target
Measuring the occurrences of gas in buildings due to gas mains fracture. Aim is to minimise level over RIIO-GD1. **Above target:** The level of events recorded in 14/15 has been higher than 13/14. This variation is due to ground conditions, temperature variation and other factors.



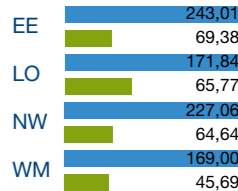
Number of mains fractures: 8-year target
Measuring the number of occurrences of fractured mains. Aim is to minimise level over RIIO-GD1. **Above target:** There has been over a 20% increase in events from 13/14, despite our ongoing mains replacement programme. We are undertaking analysis to see if this is a trend or a one-off occurrence.



Length of main off risk (3 tier iron mains): 8-year target
Delivering mains replacement programme (km). **On target:** Annual run rate is lower than 2/8ths of the programme, however, plans are in place to meet the 8-year target.



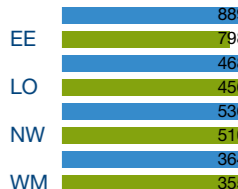
Number of non-PE services renewed: 8-year target
Specified volume of services renewed per network over 8 years.
On target



Capacity utilisation of NTS offtake and pressure reduction installations: 8-year target
Reduction of capacity utilisation at a set number of installations over RIIO-GD1.
On target: Due to overall forecast demand reductions, no investment was required in 14/15.



NTS offtake (Flat capacity) booked: Annual target
Ensuring we optimise our NTS offtake capacity to meet demand.
Target exceeded: We have been able to reduce our bookings through improvements in the commercial regime and our actions to manage our capacity requirements.



Maintaining operational performance: Annual target
Ensuring that we operate the system effectively in order to meet demand each year.
Target met



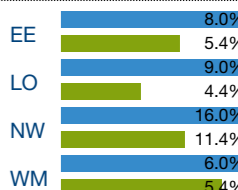
Offtake meter accuracy: Annual target
99.9% accuracy on offtake meter readings.
Target met



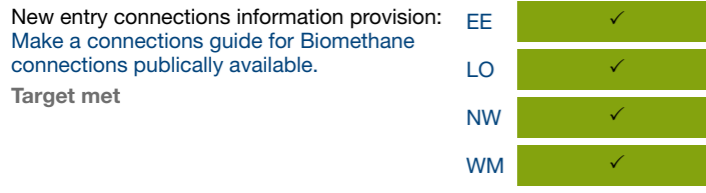
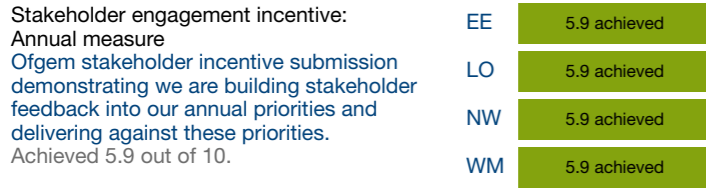
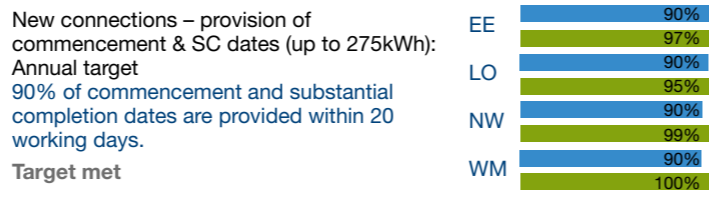
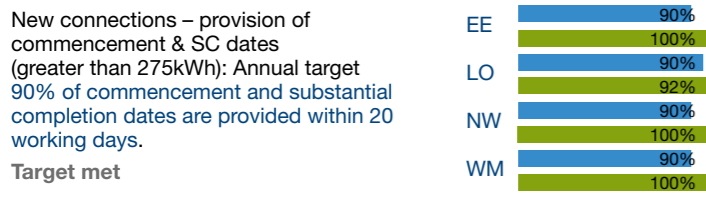
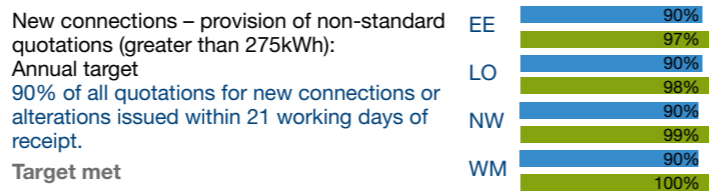
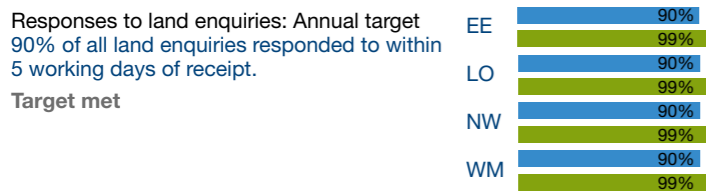
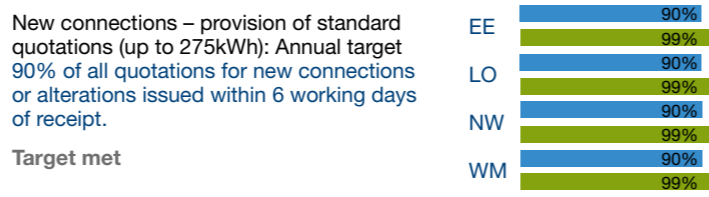
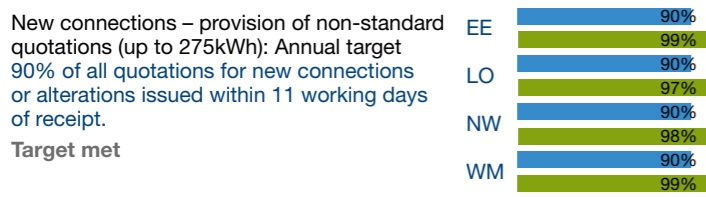
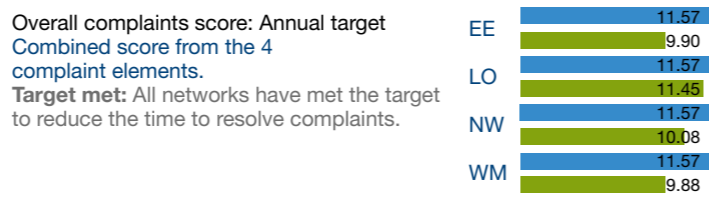
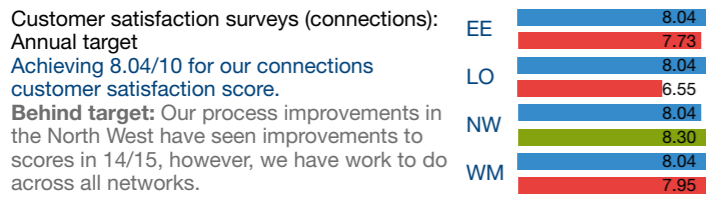
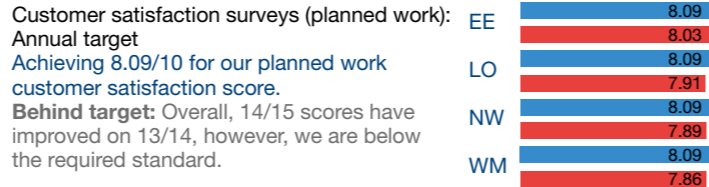
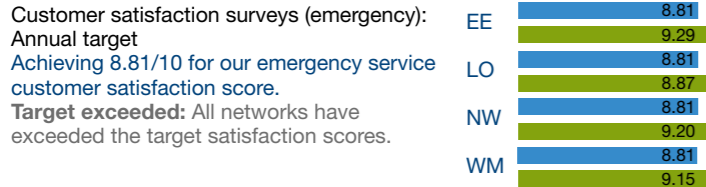
Telemetered fault response: Annual target
The length of time (hrs) that an average above ground installation has a fault within the year.
Behind target: Both our London and West Midlands networks did not meet target in 14/15. Performance was impacted by a small number of faults where parts required to fix the fault had a long lead time.



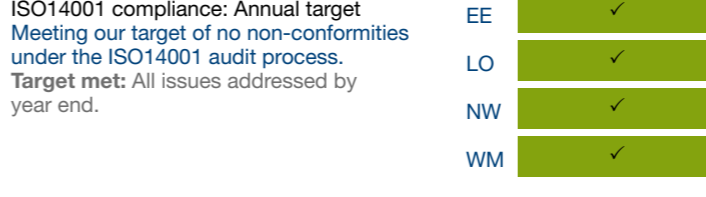
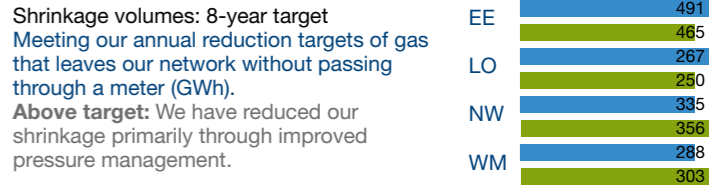
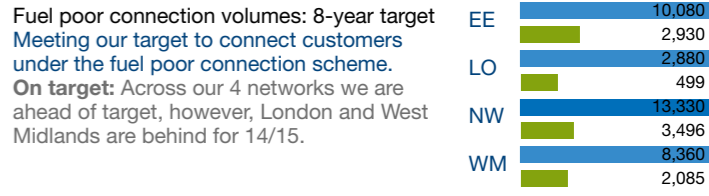
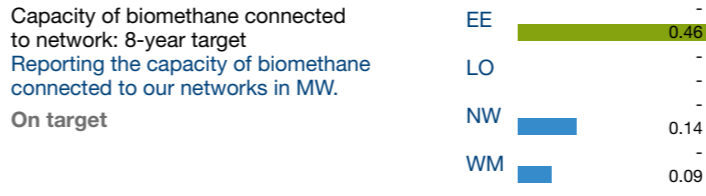
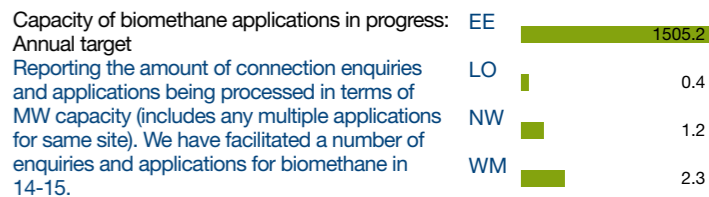
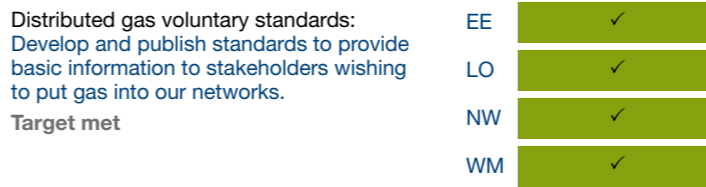
Pressure system regulation – fault response: Annual target
Strategic asset management to enable a reduction in faults of pressure system assets.
Target exceeded: We have reduced the number of faults for this year, which has improved our reliability.



Deliver a quality service to all



Safeguard future generations



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