

## Our business model

How we generate long-term value.

### Our business

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors.

We own and operate gas and electricity transmission and distribution infrastructure in the UK and northeastern US. Our principal operations are:

- UK Electricity Transmission
- UK Gas Transmission
- UK Gas Distribution
- US Regulated
- Other activities (such as Grain LNG, Interconnectors and Metering)

We aim to maintain a clear and consistent strategy over the long term to provide stable returns to our investors and consistent levels of service to our customers and communities.

- Our vision and strategy: pages 14–15
- Principal operations: pages 27–36

Our transmission and distribution businesses operate as regulated monopolies. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on.

In the UK, we have one regulator for our businesses: Ofgem. In the US, for the areas in which we operate, we are regulated by the relevant state regulators and FERC.

### Our value proposition

We are a long-term, asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

#### Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- performance against incentives;
- return on equity and cost of debt; and
- customer satisfaction scores.

You can find more information about calculating our allowed revenue under our UK and US regulatory agreements on pages 20 to 23.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet safety and reliability targets, as well as the efficiency and innovation targets included in the RIIO licence agreements in our UK regulated businesses.

#### Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This allows us to continue generating revenue growth and growth in our regulated asset base. This in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our shareholders.

### The foundations of our business model

Our people, being a responsible business, and encouraging innovation are at the heart of our business model and are reflected in our strategy.



#### Our people

Our business is built on our people. We work hard to make sure that we keep them as safe as possible as well as providing an inclusive culture and encouraging development.

- Our people: pages 24–25

These cash flows are then reinvested to provide future growth, or returned to shareholders.

### Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our shareholders. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

## Our stakeholders

Our stakeholders include customers, the communities in which we operate, shareholders, governments and regulators.

### We create value for our customers and communities by:

- operating safely, reliably and sustainably;
- focusing on affordability to reduce the impact on customer bills;
- delivering essential services that meet the needs of our customers;
- providing emergency services; and
- engaging with the communities in which we operate.

### We create value for our shareholders by:

- making sure our regulatory frameworks maintain an acceptable balance between risk and return;
- operating within our regulatory frameworks as efficiently as possible;
- maximising incentives to make the most of our allowed returns;
- careful cash flow management and securing low-cost funding;
- disciplined investment in our networks and non-regulated assets; and
- protecting our reputation.

Using our knowledge and expertise, we engage widely in the energy policy debate to help guide future policy direction. We also work with our regulators to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

□□ [How our strategy creates value: pages 14–15](#)



### Being a responsible business

Doing the right thing is a responsibility we take seriously. Our environmental, financial and social responsibilities are fundamental to the way we work and how we manage our impact on the communities in which we operate.

□□ [Principal operations: pages 27–36 and KPIs: pages 16–19](#)



### Innovation

Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks.

□□ [Principal operations: pages 27–36](#)