

NATIONAL GRID PLC  
Form 6-K  
June 19, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549**

**FORM 6-K  
REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Date: 19 June 2007**

**NATIONAL GRID plc**

(Registrant's Name)

1-3 Strand

London

WC2N 5EH

(Registrant's Address)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

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**Signature**

**Dear shareholder**

We are pleased to report a good financial performance for the year ended 31 March 2007. Adjusted operating profit\* was £2,454 million and adjusted earnings per share\* was 47.7p, up 5%. Operating profit\* was £2,513 million and basic earnings per share\* was 48.1p, up 16%. These results reflect the Company's sound platform of operational performance and we are confident they provide a solid basis for our future investment.

As part of our aim to be world-class in all we do, we have undertaken a fresh strategic review. At the core of this review was the need to ensure we are maximising value for shareholders and continuing our focus on providing a safe, efficient and reliable service while acting responsibly.

As a result of the review, we are now focusing on our core skills of operating in the gas and electricity sector in the US and UK. We are committed to ensuring a disciplined approach to running our business, reducing inefficiencies and developing more effective ways of working. To support this, the Company has been reorganised under lines of business to allow further integration and knowledge transfer between our US and UK businesses.

We continue to invest in the development of our workforce with the aim of employing and retaining the highest calibre people both now and in the future. We are proud of the commitment and professionalism demonstrated by our talented and diverse employees.

The Company's goal of world-class performance remains unchanged. We believe this will be achieved through our investment programmes and our determination to continue to create value in our existing businesses. We are both confident of the Company's ability to continue to provide good financial performance and value for our shareholders.

**Sir John Parker,  
Chairman**

**Steve Holliday,  
Chief Executive**

**Important Notice**

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full Cautionary Statement on the back cover.

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**Table of Contents**Annual Review 2006/07 **01****Highlights**For more information see [www.nationalgrid.com](http://www.nationalgrid.com)

Revenue* <b>£8,695m</b> 2005/06: <b>£8,868m, down 2%</b>	Adjusted operating profit* <b>£2,454m</b> 2005/06: <b>£2,457m</b>	Adjusted earnings per share* <b>47.7p</b> 2005/06: <b>45.5p, up 5%</b>
Cash generated from operations* <b>£3,090m</b> 2005/06: <b>£2,973m, up 4%</b>	Operating profit* <b>£2,513m</b> 2005/06: <b>£2,374m, up 6%</b>	Earnings per share* <b>48.1p</b> 2005/06: <b>41.6p, up 16%</b>
Capital expenditure* <b>£2,345m</b> 2005/06: <b>£1,907m, up 23%</b>	Return on equity <b>12.4%</b> Three year average	Ordinary dividends <b>28.7p</b> 2005/06: <b>26.1p, up 10%</b>
Lost time injuries <b>142</b> 2005/06: <b>117, up 21%</b>	Percentage of females in workforce <b>23.7%</b> 2005/06: <b>23.4%</b>	Reduction in greenhouse gas emissions <b>35%</b> 2005/06: <b>26%</b>

**n New operating structure**

New lines of business are now in place as part of the strategic review.

**n Disposal of wireless business**

Sale of the UK wireless business on 3 April 2007 for £2.5 billion and announced intended £1.8 billion share buy-back with the proceeds.

**n £169 million share buy-back**

We have commenced a share buy-back programme, in 2006/07 this amounted to £169 million.

**n Responsible business approach**

We have been recognised as a Platinum company in the Business in the Community 2006 Corporate Responsibility Index.

\* for continuing operations

excludes the impact of exceptional items and remeasurements







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**02 National Grid plc**  
**Chairman's Statement**  
**Sir John Parker**

**I believe our refreshed strategy will position us to take full advantage of the value creating opportunities we foresee over the next few years.**

**Board**

In January 2007, the role of Chief Executive successfully transferred from Roger Urwin to Steve Holliday. Steve served as Deputy Chief Executive from April 2006 through to December, when Roger stood down. The Non-executive Directors agreed a handover plan of responsibility and this assisted in ensuring a smooth transition and providing management continuity. The success of this approach is demonstrated by the continued strength of the Company's performance throughout this period. Roger's depth of experience and leadership will be missed and all the Directors wish him well in his new ventures.

I am confident that Steve will provide strong leadership of the Executive team as we enter a new phase in the development of National Grid. I also believe that our new operating model and our refreshed strategy will position us to take full advantage of the value creating opportunities we foresee over the next few years.

Other changes to the Board saw Mike Jesanis step down as an Executive Director of National Grid. He had been with the Company for 23 years and had been a member of the Board since July 2004. We will miss his contributions and knowledge and we wish him well in the future.

Paul Joskow, one of our Non-executive Directors, has announced his intention to stand down after the Annual General Meeting in July. He has been a member of the Board since 2000 and his support and advice have been greatly valued throughout this time.

I am pleased to welcome Mark Fairbairn as the Executive Director responsible for our Gas Distribution business in the UK and US. Mark has worked within National Grid for 18 years in a variety of roles, most recently as Chief Operating Officer of our UK gas distribution business.

We welcome Linda Adamany to the Board as a new Non-executive Director. Her energy sector experience in the US market, in particular, will further strengthen the Board.

Following the expected completion of the KeySpan acquisition, we will be welcoming Bob Catell as Deputy Chairman. Bob is currently the Chairman and CEO of KeySpan.

We will seek to ensure that the Board reflects the broadly equal US and UK split of the business following the KeySpan acquisition.



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		Annual Review 2006/07 <b>03</b>
<b>28.7p</b>	<b>1,000</b>	<b>47.7p</b>
<b>Ordinary dividends</b>	<b>We aim to have placed 1,000 young people in training and jobs through the Young Offender Programme by the end of this calendar year</b>	<b>Adjusted earnings per share for continuing operations</b>
		<b>48.1p earnings per share for continuing operations</b>

The Board continues to support a robust process of review of its own performance and that of its Committees. We also devote time to the programmes we have in place to identify and develop the leaders of the future, which is the basis of good management succession planning. We attach importance to giving people in the boardroom and throughout our organisation the right opportunities and experience to grow and develop. We see these as crucial investments in the best interests of all our stakeholders now and into the future.

**Safety**

Safety is at the heart of our activities and it continues to be at the top of the Board's agenda. It is disappointing to see that the injury rate has increased this year so we are conscious that we must increase our safety focus and ensure that it remains a top priority in all our activities, including with our contractors, as we deliver a larger capital investment programme over the next five years. The Board is supported in this critical area, and in its management of the environment and its other corporate responsibilities, by the diligent work of the Risk and Responsibility Committee. As part of the continued focus on safety, I was delighted by the quality of entries for this year's Chairman's awards, which aim to encourage innovation and continuous improvement in safety, health and environmental performance by recognising outstanding achievements in these fields. The winners ranged from flat bed truck safety rails through to the development and introduction of new operating procedures. More details of some of these can be found later in the Business Overview section.

**Dividend policy**

The Board has approved a final dividend of 17.8p per ordinary share, resulting in a total dividend of 28.7p per ordinary share, an increase of 10%. This year-on-year increase reflects our belief that the business is in a position to deliver good growth for shareholders through continuing cost efficiencies and capital growth. We will carry on with the strategic refocusing of the business and disciplined approach to investment. Our aim continues to be to increase sterling dividends per ordinary share by 7% per year through to March 2008.

excludes the impact of exceptional items and remeasurements

**Governance**

The Board is committed to pursuing leading governance practices – we strive for constant improvement through rigorous review of our internal processes. This year, we have undertaken a comprehensive review of business processes and systems to ensure compliance with Sarbanes-Oxley requirements.

**Community investment**

Support for and involvement with our local communities and customers continues to be important to us. Through our programmes of community investment in both our UK and US operations, we endeavour to ensure National Grid operates in a responsible manner.

In the US, National Grid and its employees donated nearly \$2.2 million (£1.2 million) to United Way, a national network of organisations that works to create lasting positive changes in people's lives and their communities. In addition to financial support, many employees volunteered their time and participated in the United Way's Annual Day Of Caring, where they painted, cleaned, gardened and built playgrounds in local communities.

I am proud of our continued leadership of the Young Offender Programme in the UK, and that there are now 80 companies involved alongside us. The programme has continued to develop this year, providing stable employment opportunities to offenders. This contributes to a significant reduction in the national re-offending rate from over 70% to about 7% for offenders participating in the National Grid programme. Collectively, we aim to have placed 1,000 young people into training and jobs, through the programme, by the end of this calendar year.

**Outlook**

The Board remains confident that National Grid is well positioned to continue to generate value for its shareholders. We are entering a period of significant investment and the development of our new operating model should allow us successfully to take on this challenge. We will continue to focus on safety, efficiency of our operations and providing a reliable service to our customers, while acting responsibly in everything we do.

**Sir John  
Parker Chairman**





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**04** National Grid plc  
**Chief Executive's Review**  
Steve Holliday

**National Grid is well positioned in the UK and US to take advantage of the global growth opportunity.**

- \* continuing operations  
excludes the impact of exceptional items and remeasurements
- # on a constant currency basis

I am delighted to be writing my first Chief Executive's review for National Grid and I am immensely proud to have taken over at what is an exciting time for our industry in general and National Grid in particular.

Worldwide, some \$10 trillion (£5 trillion) of investment is required over the next 20 years in the electricity and gas utility sector. This requirement is driven by a need to meet growing demand, changes to how we source our energy and the replacement of ageing assets.

National Grid is well positioned in the UK and US to take advantage of this global growth opportunity. In the UK, we are entering into a period of significant investment in our electricity and gas systems, as we connect new sources of gas and new types of generation and replace assets built in the 1960s. In the US there is also a strong growth story, connecting new customers to our gas networks and replacing ageing assets, as well as improving the service reliability to our customers.

**Strategy**

So wherever I look there is opportunity; however, in order to capitalise on our strong position and take National Grid to the next level, the Executive team and I have undertaken a careful strategic review, seeking inputs from within the Company and many external stakeholders. The result is not a major change of direction but a need to become more focused, more integrated and more disciplined.

- n** We are **focusing** on electricity and gas in the UK and the US. As a consequence, we have taken steps to realise the value we have created in both our wireless business and our Basslink project in Australia and completed the sale of the UK wireless business in April 2007.
- n** We are **integrating** our operations around lines of business, removing the geographic boundaries.

- n** We are adopting a **disciplined** approach to standardising the way in which we work, sharing and applying best practice and seeking greater rigour to our financial management, ensuring we have the capital to grow, but maintaining the investor confidence that comes from balance sheet discipline.

We believe we are able to do this while maintaining the critical balance between ambitious growth and the need to provide excellent customer service.



## **Growth**

In 2006, we announced and completed the acquisition from the Southern Union Company of the Rhode Island gas distribution network. The Rhode Island gas business serves approximately 245,000 customers through a distribution network of over 3,000 miles of mains. The network substantially overlaps our existing electricity distribution network and is expected to create opportunities for savings.

We also announced the agreement to acquire KeySpan. KeySpan is a gas and electricity energy business with 2.6 million gas customers in New York, Massachusetts and New Hampshire and 1.1 million electricity customers in New York under a long-term contract with the Long Island Power Authority. We are working towards completing the transaction in the autumn with five of the seven approvals already having been granted. Providing we obtain these approvals, KeySpan will be an excellent strategic and operational fit with our business. Our lines of business model should permit swift integration of KeySpan's activities with our operations and provide a model for future acquisitions.

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**£2,345m**  
**2006/07 Capital expenditure**  
**from continuing operations**

Annual Review 2006/07 **05**

This year we concluded the Price Control Reviews for our UK gas and electricity transmission networks, setting the financial basis for the significant investment required, which will result in around a 40% growth in the transmission regulatory asset base.

**Performance**

National Grid has delivered a good performance for 2006/07. Our cash generated from operations\* was more than £3 billion while adjusted profit before tax\* and adjusted earnings per share\* were higher by 3% and 5% respectively. Profit before tax\* and earnings per share\* were higher by 2% and 16% respectively. The performance of our individual businesses has also been very encouraging.

Our Transmission business had a good year and contributed £1,054 million to the adjusted operating profit\*, a 9%# increase compared to 2005/06. During the year, we invested £1,235 million in the UK connecting new customers, generation, and sources of gas to our transmission networks. In the US, we invested £108 million in our transmission network, 19% more than last year.

Adjusted operating profit\* for Gas Distribution was down by 9%# at £480 million, primarily due to the impact of lower delivery volumes as a result of warmer UK weather and higher energy prices reducing gas usage. This impact more than offset the contribution from our new Rhode Island gas distribution business. We invested a total of £526 million, mainly in the UK in our mains replacement programme.

Electricity Distribution results were strong with adjusted operating profit\* up 23%# to £364 million, principally driven by the recovery of costs incurred in previous periods in New York. Capital investment in the year of £218 million mainly reflected increased expenditure

under our reliability enhancement programme.

Our Non-regulated Businesses and other activities contributed £133 million to the adjusted operating profit\*, this was a decrease of £17 million from 2005/06, with a good performance in our Metering and Grain LNG businesses more than offset by higher costs in corporate, insurance and other activities.

**Safety**

Safety will always be an area of major focus in all our activities. Unfortunately, the last 12 months have seen a decline

in our performance, with 142 employee lost time injuries. It is with sadness that we also have to report the death of a contractor who was working for our Transmission business in the UK. We are committed to creating a culture that delivers ever safer ways of working for the protection of our colleagues, our contractors and the public.

### **Our people**

One of my priorities is to ensure National Grid is a company where our employees are able to perform to the best of their abilities and attract the necessary talent to run our business into the future. Talent management, effective performance management and encouraging the progress we have made on inclusion and diversity will be critical to achieving our growth ambitions.

### **Climate change**

As we move to a low carbon economy, there will be significant change in the gas and electricity markets and, in particular, the infrastructure requirements. We have a vital role to play in helping society deliver these requirements but also have an individual contribution to make.

Inside National Grid, we are taking action to ensure that our business is carried out in a sustainable and responsible manner. In last year's Annual Report, we committed to delivering a 60% reduction in greenhouse gases from our processes, operations and offices well ahead of the 2050 UK Government target. As part of this, we aim to move to 100% renewable energy for our own use by the end of 2010. Work is also being undertaken to consider the impact of climate change on the operation of our businesses and to review what actions we can take to mitigate the effect. I look forward to updating you on this as we make progress.

### **Outlook**

The next year will be both a busy and an important one for the future development of National Grid, as we:

- n** embed our operational reorganisation along lines of business;
  - n** reinvigorate and work towards improving our safety performance;
  - n** work towards completing the KeySpan acquisition;
  - n** sell our Basslink operation in Australia;
  - n** deliver our capital investment programme;
  - n** maintain our reliability levels in the UK and seek to improve our reliability in the US; and
  - n** focus on the development of all our employees, including those that we expect to welcome from KeySpan.
- We have achieved much in the last year. None of this would have been possible without the hard work, professionalism and dedication of all our employees. They have, once again, risen to the challenges set, for which I and my Executive colleagues are very grateful.

**Steve Holliday**  
**Chief Executive**





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**06 National Grid plc**

**[What we do](#)**

**National Grid's main operations are based in the UK and northeastern US. The maps below show where each of our businesses operate with a description of our main activities.**



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**08** National Grid plc

**How we do business**

**National Grid is committed to carrying out its business in a manner that is safe, efficient, reliable and responsible. We are also committed to developing the skills of our people, who are at the heart of our success.**

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**10** National Grid plc

**What we have achieved**

**Transmission**

**We own and operate gas and electricity transmission networks in Great Britain and England & Wales respectively and an electricity transmission network in the northeastern US. We also operate the electricity transmission network in Scotland.**





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**Area of operations**

We design and maintain National Grid's transmission networks; project manage, construct and commission new assets; and work with the industry and regulators to ensure we have the right returns to carry out our role. In Great Britain, we are the system operator, ensuring reliability of supply to our customers.

**57.5 GW and 436 mcm**

This year saw a peak electricity demand in Great Britain of 57.5 GW and a peak gas demand of 436 mcm.

**£1.3 billion**

In 2006/07, we invested over £1.3 billion in our networks to replace ageing assets and to connect new sources of supply.

**2006/07 highlights**

- > Good year for reliability in Great Britain: 100% of gas delivered and 99.9999% of electricity energy delivered.
- > 7.5% reduction in lost time injuries across Transmission.
- > 8% reduction in cable oil loss in the UK.
- > 15% reduction in CO<sub>2</sub> emissions in the UK.

**£1.1bn****Adjusted operating profit****£1.3bn****Capital investment****43%****Increase in capital investment**

**Left** Overhead linesmen carrying out repair work on a 400 kV transmission line.

**First right** Ward Hill substation following the operational upgrade.

**Second right** Employee of the oil management unit working on a truck fitted with the redesigned handrails.

**Third right** Work in progress on the Milford Haven gas pipeline project.

**Reliability****Ward Hill**

As part of National Grid's commitment to a wider reliability infrastructure improvement programme in New England, we have completed a \$49 million (£26 million) operational upgrade of Ward Hill electricity substation. The upgrade included increasing the number of circuit breakers from 7 to 23 and the number of transformers from 1 to 4. In addition to the substation work, three of the high-voltage electricity transmission circuits feeding into Ward Hill were also upgraded to increase their capacity. The project required careful planning to ensure that customers' supplies were maintained throughout the construction phase. The timescales of the project were challenging and this was made worse by two periods of heavy rain and floods which occurred during construction, halting some work. However, despite these issues, the project was completed to schedule, with construction completed in 12 months.

**Safety (Chairman's award winner)****Flatbed truck redesign**

As part of our continued focus on safety we welcome initiatives from across the Company to improve our performance. One of these initiatives was the development of modifications for flatbed trucks used by our oil

management unit. The trucks have been fitted with fold-away handrails, which provide a safer working environment while working at height. When access to the truck flatbed is required, the handrails are put in place. If the handrails need to be lowered, access restrictions are instigated. These modifications have been designed in conjunction with the unit's employees so that consideration of work methods and usage have been incorporated. Following a successful trial period, all the oil management unit trucks have been modified. Further work has been carried out with our contractors to allow them to use the designs we have developed and we are also considering wider use throughout National Grid.

#### Responsibility

##### **Milford Haven**

On our Milford Haven gas pipeline project, in Wales, we are consulting with local communities directly affected by our works. To provide information we have created a project website and produced a range of bilingual leaflets and fact sheets providing project information. All MPs, Welsh Assembly Members and councils with constituents affected by the project have been written to and we have met with many of them. There have been a number of public information events and presentations to community councils. Our community relations team has made individual visits to many residents to discuss any concerns they may have. We also provide a freephone number for local residents to call if they have any questions about our works at any time. Despite these efforts, due to the size and nature of our works, there are still concerns in the local community. Throughout the remaining works this level of support to the community will continue as we aim to ensure everyone is informed and is able to have their questions answered.

excludes the impact of exceptional items and remeasurements





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**12** National Grid plc

**What we have achieved**

**Gas Distribution**

**We own and operate gas distribution systems in the UK and the northeastern US.**

**£480m**  
**Adjusted operating profit**  
**£526m**

**Capital investment**

**12%**

**Increase in capital investment**

**Left UK employee operating the specialist truck from the US.**

**First right Gas engineers setting up streetworks.**

**Second right Polyethylene gas pipe being cut for use as part of the network replacement work.**



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**Area of operations**

**We distribute gas to 11.8 million homes and businesses across the UK, and Rhode Island and New York State in the US. We employ around 4,700 people in the UK and 700 in the US.**

**0800 111 999**

We operate the UK national gas emergency number for our networks, other networks and other gas transporters.

**2.3 million calls**

In 2006/07 we handled 2.3 million emergency calls in the UK on the above number. In the US we handled 35,000 gas emergency calls.

**2006/07 highlights**

- > Actual gas consumption 303 TWh in the UK and 50.8 TWh in the US.
- > Replaced 1,850 km of iron gas pipes in the UK.
- > 5,000 new services and 84 km of new gas main connected in the US.
- > This year was the second warmest winter on record in the UK, reducing gas distribution volumes by 8% over the year.

**Reliability**

**Investment**

We expect to invest £2.6 billion in our UK gas network over the next five years. This investment includes up to £400 million per year on network replacement works and up to £190 million on infrastructure investment. The majority of the network replacement work is driven by the iron mains replacement programme agreed with the Health and Safety Executive (HSE). Under this programme, we are required to replace iron gas mains that are within 30 metres of buildings by 2032. Since 2002/03, we have been ramping up the replacement levels to ensure that the 2032 target can be met. During 2006/07 we have replaced about 1,850 km of mains gas pipes. This means we have now achieved the required replacement rate to meet the 2032 target. The 2006/07 figures represent a 7% increase compared with the previous year and a 50% increase compared with 2002/03. To achieve this significant increase we have been working closely with our Gas Distribution Alliance Partners and, due to the success of these partnerships, this model has been rolled out to our Transmission business in the UK. Over 90% of the mains replacement work was completed using techniques that do not require the whole length of pipe to be dug up. This significantly improves the efficiency of the activity, reduces cost, and minimises disruption to the public and the environment.

**Responsibility (Chairman's award winner)**

**Plastic pipe recycling**

In the UK, we are currently carrying out a programme to replace old iron pipes with polyethylene pipe. This pipeline replacement can result in the production of waste polyethylene pipe. By working with our suppliers, we have devised an award-winning process that enables the waste pipe to be collected and returned to the supplier. The pipe can then be converted into pellets and reused. To reduce further the environmental impact, the waste pipe is collected by the supplier after a delivery of new pipe, so no additional journeys are required. To achieve this, special cages, which fit on the back of the delivery vehicles, were designed by our supplier for the collection of the waste pipe and fittings. The profit made through this process is shared between us and our supplier and some depots have decided to give this to local charities. The process was trialled in our East of England gas distribution network area and has now been expanded to cover the London and West Midlands areas. There are 13 depots currently involved and we have recycled around 165 tonnes of polyethylene pipe this financial year. Our suppliers have extended the programme to include other major utility companies. Through the polyethylene recycling scheme we have saved the equivalent of 330 tonnes of carbon dioxide and 3,300 transport miles.

#### Safety

##### **Cable strike prevention**

When carrying out excavation of gas pipes for replacement or repair, a common risk is the possibility of our excavation equipment damaging buried cables. An induced current detection method, which had been in use for some time, was extended to include domestic cable. A pilot strategy was developed by employees in the UK to highlight this technique, including guidance on how and why this approach should be used. This resulted in the cable strikes in the pilot area reducing by 74% over a 10 month period.

#### Responsibility

##### **Customer focus**

Gas Distribution is dedicated to delivering customer satisfaction through the provision of consistent and reliable services. In the UK we continue to meet all of the standards of service targets set by Ofgem. However, we know from customer surveys that there are some areas where we can do more. We have reviewed our customer focus and have developed plans to bring together a number of existing and new initiatives. One change has seen the letters we send to customers notifying them of mains replacement work being made more customer friendly by providing more information on the work involved and removing technical jargon.

excludes the impact of exceptional items and remeasurements





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**14** National Grid plc

**What we have achieved**

**Electricity Distribution**

**We distribute electricity to approximately 3.4 million customers in upstate New York and New England.**

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**Area of operations**

**We provide a range of services for the delivery of electricity including: owning, operating and maintaining a distribution system covering 30,000 square miles; handling more than 8.7 million customer enquiries annually; restoring service promptly when outages occur; metering and billing; offering customers energy efficiency programmes; and purchasing electricity for customers who have not chosen their own suppliers.**

**14.0 GW**

The peak electricity demand for 2006/07 in our service area was 14.0 GW on 2 August 2006.

**£218 million**

In 2006/07, we invested over £200 million in our electricity distribution network.

**2006/07 highlights**

> Met all service quality standards in Rhode Island. Met majority of service quality standards and improved reliability performance in New York and Massachusetts.

> Achieved our goal for reducing the average time customers are without power when they have a service interruption.

**£364m****Adjusted operating profit\*****£218m****Capital investment****6%****Increase in capital investment on a constant currency basis**

**Left** National Grid teams working on restoring power in Buffalo, New York.

**First right** Hendrix wire being used to improve reliability of the overhead electricity distribution network.

**Second right** Floods affecting Inghams substation during June 2006.

**Reliability****Reliability Enhancement Program**

A five year Reliability Enhancement Program was started last year across the US service territory, with the aim of reducing the number and duration of outages on our network, as well as meeting the service quality standards in each of the states, where applicable. 2006/07 was the first full year of the programme with \$150 million (£79 million) of work completed. This work involved: the replacement of more than 45,500 cutouts as well as replacing other critical assets; improvements to more than 1,300 miles of our overhead lines, through a range of actions including replacing poles and installing lightning protection; and the trimming or removal of trees adjacent to more than 10,000 miles of lines, where they were considered to pose a risk to reliability. Our employees have increased their engagement by focusing daily on reliability, finding more efficient ways of working, as well as developing new approaches to some tasks. This work has contributed to improved performance in both the frequency and duration of reportable outages.

**Safety (Chairman's award winner)****New electrical operating procedure**

We have introduced a new common operating procedure across Electricity Distribution that allows employees to isolate safely electrical equipment for maintenance. The aim of this change is to ensure employees feel confident they are carrying out their role correctly, regardless of location, and to provide a framework to achieve zero injuries every day. The procedure provides a consistent set of rules and practices, allowing employees to operate across the business. Employees from a wide range of departments came together to develop the processes. In addition to the documentation, a comprehensive training programme was developed and, over a period of 5 months, nearly 3,000

employees were trained, requiring either a 2 or 3 day course. To meet this intensive programme, more than 90 employees were trained as instructors and, at one point, simultaneous training was taking place at 15 different locations.

Efficiency

Floods

In June 2006, a severe flood hit the communities along the Mohawk River and East Canada Creek in the state of New York and some of our substations were flooded under more than 3 feet of water. This resulted in significant damage to 3 substations in the area and 9,800 customers being without power. The emergency recovery plan was put into force. Temporary substations were brought in to replace 2 of the damaged sites and temporary repairs were carried out at the 3rd. In addition, 2,500 feet of electric line was installed from the mobile substations to restore power. Helicopter patrols were used to monitor and assess the flood damage. Electricity was shut off to those areas affected by the flood due to safety concerns. Power was restored within 2 days, although some customers remained without power for longer as household repairs were required.

- \* excludes US stranded cost recoveries
- excludes the impact of exceptional items and remeasurements







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**16** National Grid plc

**What we have achieved**

**Non-regulated Businesses**

**Our businesses comprise National Grid Metering, OnStream, National Grid Grain LNG and National Grid Property.**

**£103m**  
**Adjusted operating profit**  
**for National Grid Metering**

**and OnStream**

**£9m**

**Adjusted operating profit  
for National Grid Grain LNG**

**£86m**

**Adjusted operating profit  
for National Grid Property**

**Left** One of the new LNG storage tanks being constructed as part of the phase II development at Grain.

**First right** An example of a smart electricity meter being used in the pilot project.

**Second right** The National Remploy Leading the Way Award received by the Gloucester metering centre.

**Third right** Land regeneration work being carried out in Hull.

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**Area of operations**

**We either operate in markets related to our principal businesses or provide support to our businesses.**

- > Metering and OnStream operate in the regulated and competitive metering markets.
- > Grain LNG terminal is the first LNG terminal to be developed in the last 30 years.
- > Property manages a portfolio of properties across Great Britain.

**20 million**

The metering businesses have a collective asset base of over 20 million meters nationwide and manage just under 10,000 meter transactions per day.

**4%**

Grain LNG currently has the capacity to meet 4% of UK gas demand.

**2006/07 highlights**

- > Installed over 800,000 meters under competitive contracts.
- > Successfully piloted smart meters.
- > Around £500 million of investment approved in new infrastructure projects.
- > Completed the remediation of 17 sites in Great Britain.

Efficiency

**Smart metering**

At a time of increased focus on climate change and energy prices, we are proud of the work being carried out on the development of smart metering. We have successfully completed a pilot involving over 500 non-domestic electricity customers, which involved the use of our smart metering device. The solution has the potential to be used by 2.5 million commercial users. In addition to measuring the amount of energy used, by utilising modern communication routes, the meter can be read remotely to provide accurate meter readings without needing access to the consumer's premises. The meter readings can be collected at half hourly intervals, allowing them to track and monitor their energy consumption and gain a greater understanding of when energy is used and where efficiencies can be realised. The solution also gives organisations with multiple locations across the country the ability to verify and compare their meter readings from all their sites, with data available via a secure website the same day as the readings are collected.

Our metering business has also installed over 3,000 automated meter reading units to businesses via their gas suppliers. These meters remove the requirement for meter reading visits and aim to increase billing accuracy while reducing cost.

Responsibility

**Enabling a diverse workforce**

As part of our work on inclusion and diversity, in the UK, the metering contact centre at Gloucester has been working closely with Remploy to support the centre's ongoing recruitment. Remploy helps to provide employment opportunities for people with disabilities or heart conditions. The aim is to provide a working environment where all employees are equal members of the organisation, from recruitment, into training and beyond. The work undertaken has resulted in adjustments being made to the recruitment process as well as the workplace. Within the recruitment process, consideration is given to issues such as offering support with filling in application forms and providing large font size options for any assessments. Adjustments to the workplace have ranged from redesigning work stations to using clear markings on cupboards and walkways. Buddying arrangements and additional training have also been provided where appropriate. Throughout the process, efforts have been made to discuss issues with employees directly so that the adjustments made meet their requirements and allow them to receive the full benefit. In October 2006, these efforts were recognised when the metering centre was awarded the National Remploy Leading the Way Award.

Responsibility

**Land regeneration**

We have been working across Great Britain to regenerate former town gas works. The programme is for a range of developments, which we expect to result in the building of 1,260 houses and flats, including 414 social or affordable units, from those sites regenerated in 2006/07. Other buildings on these reclaimed sites range from a primary school, a college, retail units, offices and industrial units, to a power station. The regeneration of this land can involve the removal of old buildings and structures as well as land decontamination work. In regenerating the sites we have been piloting a range of alternative technologies to minimise the amount of material taken off site to landfill. Last year we recycled 65% of our excavated material.

A specialised environmental process involving bioremediation has been introduced to clean up a former gas work site in Hull. Microbes already in the soil are stimulated to break down the tarry deposits to enable the soil to be reused. Around 66,000 tonnes of materials have been treated on site, thereby eliminating the need for over 6,000 truck movements. A tent, covering an area around the size of a football pitch, is used to protect the area from low temperatures and moisture. This work brings benefits to the local communities, while cleaning up the industrial heritage of the past and delivering financial returns for the Company.

excludes the impact of exceptional items and remeasurements







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**18** National Grid plc  
**Board of Directors**

**01 Sir John Parker**

**Chairman**

**Appointed October 2002, Age 65,**

**N (ch)**

Sir John Parker became Chairman following the merger of National Grid Group plc and Lattice Group plc. He had been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. He had previously been a Non-executive Director of BG plc from 1997. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Deputy Chairman of Port and Free World Zone (Dubai), a Non-executive Director of Carnival plc and Carnival Corporation, Inc., Senior Non-executive Director of the Court of the Bank of England and Chancellor of the University of Southampton. Once its demerger from Anglo American plc is complete, Sir John will become Joint Non-executive Chairman of the Mondi Group. Sir John is a former Chairman of P&O Group and of RMC Group plc, a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC and a former Non-executive Director of Brambles Industries plc, GKN plc and British Coal Corporation. He is a Fellow of the Royal Academy of Engineering.

**02 Steve Holliday**

**Chief Executive**

**Appointed March 2001, Age 50,**

**E (ch), F**

Steve Holliday joined National Grid Group plc as Group Director, UK and Europe in March 2001. Immediately following the merger of National Grid Group plc and Lattice Group plc in October 2002, he was responsible for the electricity and gas transmission businesses. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. Steve was appointed Chief Executive on 1 January 2007, having been Deputy Chief Executive from 1 April 2006. He was formerly an Executive Director of British Borneo Oil and Gas.

Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Steve's international experience includes a four year spell in the US. He has also developed business opportunities in countries as diverse as China, Australia, Japan, Brazil and the former Soviet Union. He is a Non-executive Director of Marks and Spencer Group plc.

**Committee membership**

**A** Audit

**E** Executive

**F** Finance

**N** Nominations

**R** Remuneration

**R&R** Risk & Responsibility

**(ch)** denotes Committee chairman

**Table of Contents**Annual Review 2006/07 **19****03 Steve Lucas****Finance Director****Appointed October 2002, Age 53,  
E, F**

Steve Lucas has been Finance Director since his appointment and is additionally responsible for UK and US Shared Services. He joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. Steve had previously been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc in 2000. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. Prior to this he was with Shell International Petroleum Company for 11 years, occupying a number of finance management positions and treasury roles, including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC. He is a chartered accountant.

**04 Nick Winser****Executive Director****Appointed April 2003, Age 46,  
E**

Nick Winser joined the Board in April 2003 as Executive Director responsible for transmission. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

**05 Mark Fairbairn****Executive Director****Appointed January 2007, Age 48,  
E**

Mark Fairbairn was appointed to the Board in January 2007 as Executive Director with responsibility for Gas Distribution. He joined National Grid in 1989 from BNFL. He was awarded an OBE in 2001 for his services to the electrical industry in respect of his leadership of the fundamental changes implemented for the introduction of the New Electricity Trading Arrangements. Previously Chief Operating Officer of the UK gas distribution business, he has played a key role in helping to restructure the UK gas distribution market through the gas networks sales and the creation of National Grid's new gas distribution business.

**06 Edward Astle****Executive Director****Appointed  
September 2001, Age 53,  
E**

Edward Astle joined the Board as Group Director, Telecommunications in September 2001 and is now Executive Director responsible for Non-regulated Businesses and leads Business Development. He was Managing Director of BICC Communications from 1997 to 1999, and between 1989 and 1997 he held a variety of positions with Cable & Wireless. He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the Cable & Wireless board as Executive Director Global Businesses.

**07 Ken Harvey****Non-executive Director and Senior Independent Director****Appointed October 2002, Age 66,  
N, R, R&R**

Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A chartered engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort

International Group plc.

**08 Linda Adamany**

**Non-executive Director**

**Appointed November 2006, Age 55,**

**A, R&R**

Linda Adamany joined the Board in November 2006. She is Group Vice President, Commercial Directorate and Business Support of BP Refining and Marketing. Linda has over 25 years experience in the energy sector, having held various roles for BP in the UK and US, including Chief Executive of BP Shipping and Senior Vice-President of Commercial Development. She is a certified public accountant.

**09 John Allan**

**Non-executive Director**

**Appointed May 2005, Age 58,**

**A, R (ch)**

John Allan was appointed to the Board in May 2005. He is a member of the Management Board of Deutsche Post, having been appointed following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. John started his career in marketing at Lever Brothers, moving to Bristol-Myers Company Limited and then Fine Fare Limited. He joined BET plc in 1985 and was appointed to the board in 1987. He is a member of the CBI's President's Committee, the International Advisory Council of the Singapore Economic Development Board and the University of Edinburgh Campaign Board. John was previously a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc. He is a Non-executive Director of Samsonite Corporation.

**10 Paul Joskow**

**Non-executive Director**

**Appointed March 2000, Age 59,**

**F (ch), N**

Paul Joskow was appointed to the Board in March 2000 following the acquisition of New England Electric System (NEES). He served as a Director of NEES between 1987 and its acquisition. He is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), the Director of the MIT Center for Energy and Environmental Policy Research, a Research Associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul is also an independent Trustee of the Putnam Mutual Funds and an independent Non-executive Director of TransCanada Corporation.

**11 Stephen Pettit**

**Non-executive Director**