



The National Grid Company plc
Regulatory Accounts 2001/02



National Grid

Responsibilities

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Responsibilities in respect of the preparation of the regulatory accounts

The Licensee (The National Grid Company plc) is required by Condition 5 of the transmission licence granted under section 6 (1)(b) of the Electricity Act 1989 (“the Transmission Licence”) to prepare regulatory accounts for each financial year which give a true and fair view of the assets, liabilities, reserves and provisions of, or reasonably attributable to the consolidated transmission business (as defined in the Transmission Licence), and of the revenues, costs and cash flows of, or reasonably attributable to, the consolidated transmission business for the financial year.

The Licensee has prepared Regulatory Accounts that incorporate the consolidated transmission business, the interconnectors business (as defined in the Transmission Licence) and the ancillary services business (defined as the business of the Licensee or any affiliate or related undertaking as operator of the Licensee’s transmission system in previous accounting periods in the acquisition of ancillary services (as defined in the Transmission Licence) and in the sale of ancillary services or similar services offered for sale by the Licensee), together referred to as “the Separate Businesses” of the Licensee. Following the introduction of the New Electricity Trading Arrangements the ancillary services business ceased to be a separate business under the Transmission Licence and those activities are now reported within the consolidated transmission business.

The Licensee is responsible for ensuring that each Separate Business keeps accounting records which disclose with reasonable accuracy the financial position of the Separate Business and which enable the Licensee to ensure that the regulatory accounts comply with Condition 5 of the transmission licence.

The Directors have general responsibility for taking reasonable steps to safeguard the assets of the Group (The National Grid Company plc and its Group undertakings), certain of which may for regulatory accounts purposes be allocated or apportioned to the Separate Businesses, and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the regulatory accounts, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed.

Report of the auditors to the members of The National Grid Company plc

We have reviewed the summary Regulatory Accounts of The National Grid Company plc (“the Licensee” or “the Company”) on pages 3 to 6 which comprise the profit and loss account on page 4, the balance sheet on page 4, the cashflow statement on page 4 and the notes on pages 5 to 6.

Basis of preparation

The summary Regulatory Accounts have been extracted from the full Regulatory Accounts for the year ended 31 March 2002.

The full Regulatory Accounts have been prepared under the historical cost convention and the accounting policies set out on page 3 and in accordance with Condition 5 of the Licensee’s transmission licence (“the Transmission Licence”).

Respective responsibilities of Licensee and Auditors

As described in the statement of responsibilities on page 1, the Licensee is responsible for the preparation of the Regulatory Accounts. Our responsibility is to report to you our opinion as to whether the summary Regulatory Accounts are consistent with the full Regulatory Accounts.

Basis of audit opinion

We conducted our audit of the full Regulatory Accounts in accordance with auditing standards issued by the Auditing Practices Board. The review of the summary Regulatory Accounts comprises an assessment of whether the summary Regulatory Accounts are consistent with the full Regulatory Accounts and have been properly extracted from the full Regulatory Accounts.

Opinion

In our opinion the summary Regulatory Accounts set out on pages 3 to 6 are consistent with the full Regulatory Accounts as described above on which we issued an unqualified report dated 29 May 2002.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
29 May 2002

Accounting policies

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a Basis of preparation

The regulatory accounts give the information prescribed by Condition 5 of the transmission licence and have been prepared in accordance with applicable accounting and financial reporting standards.

b Basis of accounting

The regulatory accounts are prepared under the historical cost convention. This is a departure from previous years when the accounts were prepared using current cost accounting principles and comparatives have been restated to reflect this change.

c Charges, allocations and apportionments

In preparing these accounts, categories of revenues, costs, assets, liabilities and provisions have been credited, charged or allocated specifically to a business, wherever appropriate. Because of the integrated nature of The National Grid Company plc's activities, it is necessary to apportion certain elements of these categories to determine those amounts reasonably attributable to each of the businesses as an individual activity. Elements not attributable to an individual activity, such as taxation, capital liabilities and interest thereon, have been excluded.

d Tangible fixed assets and depreciation

Tangible fixed assets are included in the balance sheets at their historic cost less accumulated depreciation. Costs include payroll and finance costs incurred which are directly attributable to the construction of tangible fixed assets.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets are depreciated, principally on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements the depreciation periods for the principal categories of assets are as follows:

	Years
Plant and machinery	
Transmission plant	
- Towers	40 or 60
- Substation plant, overhead lines and cables	40 or 50
- Protection, control and communication equipment	15 or 25
Cross-Channel link	25
Freehold and leasehold properties	up to 40
Motor vehicles and office equipment	3 or 5

e Stocks

Stocks, which primarily comprise consumable stores, are stated at the lower of cost and net realisable value.

f Turnover

Turnover primarily represents the amounts derived from the transmission of electricity and the provision of related services. It includes inter-business and inter-company transactions, and is stated net of value added tax.

g Pensions

The cost of providing pensions is charged to the profit and loss statement on a systematic basis over the service lives of the employees in the scheme. Variations from the regular pension cost are allocated over the estimated average remaining service lives of current employees.

h Research and development

Research and development expenditure is charged to the operating profit and loss statements in the period in which it is incurred.

Principal financial statements

Operating profit and loss statements

for the years ended 31 March

		Transmission		Interconnectors		Ancillary services	
		2002	2001	2002	2001	2002	2001
	Note	£m	(restated) £m	£m	(restated) £m	£m	(restated) £m
Turnover - continuing operations		1,240.7	1,195.4	63.1	83.6	1.2	120.2
Operating costs	1	(716.0)	(709.2)	(42.9)	(39.8)	(1.2)	(120.1)
Operating profit - continuing operations							
Before exceptional reorganisation costs		524.7	486.2	20.2	43.8	-	0.1
Exceptional reorganisation costs		(39.8)	-	-	-	-	-
Total operating profit		484.9	486.2	20.2	43.8	-	0.1

Statement of total recognised gains and losses

for the years ended 31 March

The change in the basis of accounting from current cost to historical cost has reduced the capital employed at 1 April 2001 by £2,152.3m.

There are no other recognised gains or losses for the current year other than the profit for the year as stated above.

Balance sheets

at 31 March

		Transmission		Interconnectors		Ancillary services	
		2002	2001	2002	2001	2002	2001
	Note	£m	(restated) £m	£m	(restated) £m	£m	(restated) £m
Tangible fixed assets	2	3,461.5	3,256.9	145.5	146.3	-	-
Current assets							
Stocks		12.1	12.0	-	-	-	-
Debtors	3	4,646.2	4,253.4	483.3	460.2	2.4	10.5
Cash at bank and in hand		-	78.8	-	-	-	-
		4,658.3	4,344.2	483.3	460.2	2.4	10.5
Creditors (amounts falling due within one year)	4	(378.0)	(362.1)	(3.1)	(1.0)	-	(8.1)
Net current assets		4,280.3	3,982.1	480.2	459.2	2.4	2.4
Total assets less current liabilities		7,741.8	7,239.0	625.7	605.5	2.4	2.4
Provisions for liabilities and charges	5	(17.9)	-	-	-	-	-
Net assets employed		7,723.9	7,239.0	625.7	605.5	2.4	2.4
Capital employed	6	7,723.9	7,239.0	625.7	605.5	2.4	2.4

Cash flow statements

for the years ended 31 March

		Transmission		Interconnectors		Ancillary services	
		2002	2001	2002	2001	2002	2001
	Note	£m	(restated) £m	£m	(restated) £m	£m	(restated) £m
Net cash inflow/(outflow) from operating activities	7	699.1	549.2	33.5	59.6	0.1	(3.2)
Capital expenditure							
Payments to acquire tangible fixed assets		(308.3)	(319.2)	(1.5)	(0.7)	-	-
Receipts of capital contributions		7.8	2.2	-	-	-	-
Receipts from disposals of tangible fixed assets		-	0.1	-	-	-	-
Net cash (outflow) for capital expenditure		(300.5)	(316.9)	(1.5)	(0.7)	-	-
Transfers from other businesses		0.3	(10.7)	(11.1)	-	-	-
Net cash inflow/(outflow) before financing		398.9	221.6	20.9	58.9	0.1	(3.2)
Represented by:							
Movement in inter-business balances		477.7	197.0	20.9	58.9	0.1	(3.2)
(Decrease)/increase in cash		(78.8)	24.6	-	-	-	-
		398.9	221.6	20.9	58.9	0.1	(3.2)

The accounts on pages 3 to 6 inclusive were approved by the Board of Directors of The National Grid Company plc on 29 May 2002 and were signed on its behalf by:

R J Urwin, Director
S J Holliday, Director

Notes to the accounts

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1 Operating costs

	Transmission		Interconnectors		Ancillary services	
	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
Depreciation	165.8	147.6	13.3	13.2	–	0.1
Payroll costs	81.4	86.5	0.5	0.5	–	1.0
Purchases of electricity	–	0.9	–	–	1.2	116.1
Rates	97.5	96.3	3.1	3.4	–	–
Balancing Services Incentive Scheme direct costs	203.8	–	–	–	–	–
Transmission services scheme direct costs	–	219.6	–	–	–	–
Other operating charges	167.5	158.3	26.0	22.7	–	2.9
	716.0	709.2	42.9	39.8	1.2	120.1

Operating costs in respect of the transmission business include research and development costs amounting to £6.2m (2001: £8.1m).

Of the total Group audit fee, £295,000 (2001: £287,000) is attributable to the Separate Businesses and is included within other operating charges.

As a result of the introduction of New Electricity Trading Arrangements, the operating costs previously recorded as purchases of electricity and Transmission Services Scheme direct costs are now included within the Balancing Services Incentive Scheme direct costs.

2 Tangible fixed assets

	Transmission £m	Interconnectors £m	Ancillary services £m
Gross value at 1 April 2001	13,662.3	379.4	0.9
Prior year adjustment (Accounting policy b, page 3)	(8,808.4)	(1.5)	(0.1)
Gross value at 1 April 2001 (restated)	4,853.9	377.9	0.8
Additions	370.7	1.4	–
Disposals	(42.8)	–	–
Transfers from/(to) other businesses	–	11.1	(0.8)
Gross value at 31 March 2002	5,181.8	390.4	–
Depreciation at 1 April 2001	(8,299.0)	(231.8)	(0.8)
Prior year adjustment (Accounting policy b, page 3)	6,702.0	0.2	–
Depreciation at 1 April 2001 (restated)	(1,597.0)	(231.6)	(0.8)
Charge for the year	(165.8)	(13.3)	–
Disposals	42.8	–	–
Transfers (from)/to other businesses	(0.3)	–	0.8
Depreciation at 31 March 2002	(1,720.3)	(244.9)	–
Net asset value at 31 March 2002	3,461.5	145.5	–
Net asset value at 31 March 2001 (restated)	3,256.9	146.3	–

	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
The net asset value comprises:						
Land and buildings	77.4	75.1	–	–	–	–
Plant and machinery	2,907.0	2,884.3	132.5	145.8	–	–
Assets in the course of construction	451.6	244.9	12.8	0.2	–	–
Motor vehicles and office equipment	25.5	52.6	0.2	0.3	–	–
	3,461.5	3,256.9	145.5	146.3	–	–

	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
The net asset value of land and buildings comprises:						
Freehold	70.5	68.2	–	–	–	–
Long leasehold (over 50 years)	2.7	2.7	–	–	–	–
Short leasehold (under 50 years)	4.2	4.2	–	–	–	–
	77.4	75.1	–	–	–	–

Notes to the accounts continued

3 Debtors

	Transmission		Interconnectors		Ancillary services	
	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
Trade debtors	12.3	40.5	0.3	6.0	–	5.9
Inter-business balances	4,582.0	4,104.3	475.1	454.2	2.4	2.3
Other debtors	6.5	52.4	–	–	–	–
Prepayments and accrued income	45.4	56.2	7.9	–	–	2.3
	4,646.2	4,253.4	483.3	460.2	2.4	10.5

Included within transmission other debtors are amounts falling due after more than one year of £2.9m (2001: £3.5m).

Inter-business balances substantially represent accumulated net income. Cash is received within the corporate division of The National Grid Company plc.

4 Creditors (amounts falling due within one year)

	Transmission		Interconnectors		Ancillary services	
	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
Trade creditors and accruals	319.0	314.4	0.3	1.0	–	7.6
Social security and other taxes	20.9	26.4	1.0	–	–	0.5
Other creditors	38.1	21.3	1.8	–	–	–
	378.0	362.1	3.1	1.0	–	8.1

5 Provisions for liabilities and charges

	Transmission £m	Interconnectors £m	Ancillary services £m
At 1 April 2001	–	–	–
Additions	18.3	–	–
Utilised in the year	–	–	–
Released in the year	(0.4)	–	–
At 31 March 2002	17.9	–	–

The provisions balance at 31 March 2002 relates to severance and other restructuring provisions.

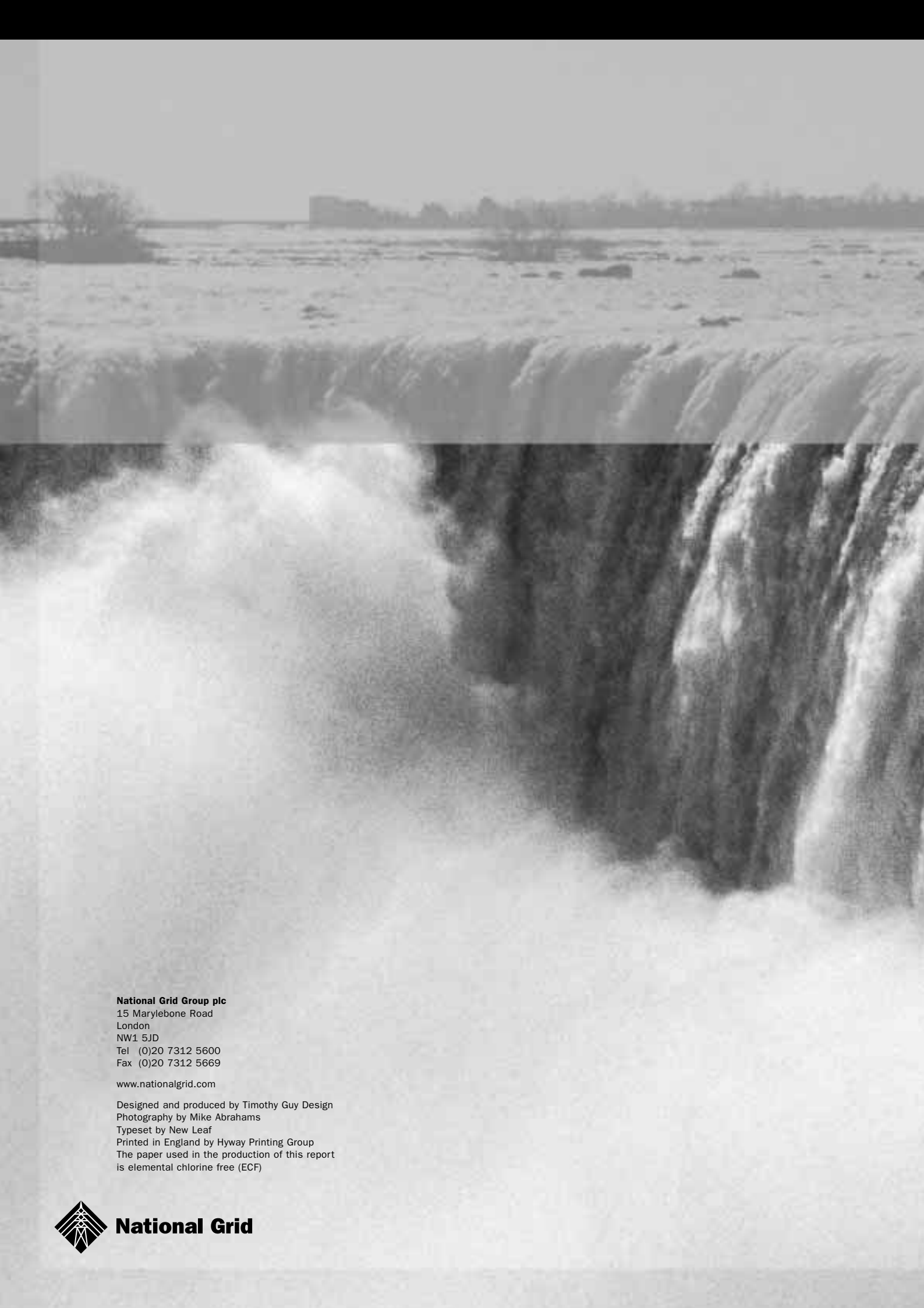
6 Movement in capital employed

	Transmission £m	Interconnectors £m	Ancillary services £m
At 1 April 2001	9,390.0	606.9	2.3
Prior year adjustment (Accounting policy b, page 3)	(2,151.0)	(1.4)	0.1
At 1 April 2001 (restated)	7,239.0	605.5	2.4
Operating profit for the year	484.9	20.2	–
At 31 March 2002	7,723.9	625.7	2.4

7 Cash flow statements

Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	Transmission		Interconnectors		Ancillary services	
	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
Operating profit	484.9	486.2	20.2	43.8	–	0.1
Depreciation charge	165.8	147.6	13.3	13.2	–	0.1
Profit on disposal of tangible fixed assets	–	(0.1)	–	–	–	–
(Increase)/decrease in stock	(0.1)	(3.5)	–	–	–	–
(Increase)/decrease in debtors	84.9	(91.6)	(2.2)	1.7	8.2	(2.5)
Increase/(decrease) in creditors	(54.3)	12.5	2.2	0.9	(8.1)	(0.9)
Increase/(decrease) in provisions	17.9	(1.9)	–	–	–	–
Net cash inflow/(outflow) from operating activities	699.1	549.2	33.5	59.6	0.1	(3.2)



National Grid Group plc

15 Marylebone Road
London
NW1 5JD
Tel (0)20 7312 5600
Fax (0)20 7312 5669

www.nationalgrid.com

Designed and produced by Timothy Guy Design
Photography by Mike Abrahams
Typeset by New Leaf
Printed in England by Hyway Printing Group
The paper used in the production of this report
is elemental chlorine free (ECF)



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