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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 3 of the transmission licence to prepare regulatory accounts on a current cost basis for each financial year which give a true and fair view of the assets, liabilities, reserves and provisions of, or reasonably attributable to, the Separate Businesses, as defined for that purpose in the transmission licence, and of the revenues, costs and cash flows of, or reasonably attributable to, those businesses for the financial year.

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 enables the Licensee to ensure that the regulatory accounts comply with Condition 3 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 audited the summary regulatory accounts set out on pages 2 to 8 which have been prepared under the current cost convention and the accounting policies set out on pages 2 and 3. The summary regulatory accounts have been extracted from the full regulatory accounts for the year ended 31 March 1999, prepared by The National Grid Company plc for submission to the Director General of Electricity Supply, as required by Condition 3 of the transmission licence issued to The National Grid Company plc on 26 March 1990.

### **Respective responsibilities of Licensee and auditors**

As described above, 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 opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. The audit of summary regulatory accounts comprises an assessment of whether the accounts contain all information necessary to ensure consistency with the full regulatory accounts and of whether the detailed information required by the transmission licence has been properly extracted from these documents and included in the summary regulatory accounts.

### **Opinion**

In our opinion the summary regulatory accounts set out on pages 2 to 8 are consistent with, so far as concerns the Separate Businesses as defined for that purpose in the transmission licence, the full regulatory accounts as described above on which we issued an unqualified report dated 24 May 1999.

### **PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors

London

24 May 1999

## Accounting policies

**a Basis of preparation**

The accounts give the information prescribed by Condition 3 of the transmission licence and have been prepared in accordance with applicable accounting and financial reporting standards. Following the adoption during the year of Financial Reporting Standard 12 “Provisions, Contingent Liabilities and Contingent Assets” (FRS 12), comparative figures have been restated where applicable to comply with this standard. The impact on reported results and comparative figures is explained in note 7.

**b Accounting convention**

The accounts have been prepared using current cost accounting principles, which provide for the effects of specific price changes on the resources necessary to maintain the operating capability of the businesses, and include a charge for depreciation, based on the current cost of tangible fixed assets as distinct from their original cost.

**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 value to the business, being current replacement cost less accumulated depreciation and after deducting related capital contributions or, if lower, their recoverable amount, by reference to value in use. Value to the business has, in general, been assessed either by estimating the cost of modern equivalent assets or by the indexation of historical costs using appropriate indices. Certain land and buildings are included in the balance sheets on the basis of an internal valuation.

In respect of the transmission business (“the Business”), value in use is based on the regulatory asset value of the Business, determined by The Director General of Electricity Supply during the second regulatory review of the transmission price control and from which the Business’ main source of revenue is derived. To the extent that the impairment provision, and adjustments thereto, represent changes in the estimated remaining service potential of tangible fixed assets, these amounts are charged to the operating profit and loss statement. Changes to the impairment provision which represent price changes are taken directly to capital employed.

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, in general, 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 are stated at the lower of cost and net realisable value.

**f Turnover**

Turnover includes inter-business and inter-company transactions and is stated net of value added tax.

**g Transmission use of system income**

The transmission business' main source of revenue, which is derived from the use of the transmission system, is subject to price regulation by reference to a formula contained in the transmission licence. This formula includes a correction factor whereby adjustments relating to over- or under-recovery of revenue in a particular year may be made in following years. With regard to any over-recovery of revenue, provision is made in the accounts in the period in which the over-recovery arises. Any under-recovery of revenue is not recognised in the accounts until the additional revenue relating to the under-recovery is received or receivable by the transmission business.

**h Pensions**

The cost of providing pensions is charged to the operating profit and loss statements on a systematic basis, with variations from the regular cost being allocated over the estimated remaining service lives of the employees allocated to the businesses.

**i Research and development**

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

## Current cost operating profit and loss statements

for the year ended 31 March 1999

	Notes	Transmission		Settlements		Interconnectors		Ancillary services	
		1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>Turnover</b> – continuing operations		<b>1,194.6</b>	1,225.2	<b>57.5</b>	55.5	<b>75.8</b>	75.7	<b>116.6</b>	118.7
Operating costs	(1)	<b>(859.3)</b>	(899.4)	<b>(51.8)</b>	(47.7)	<b>(37.4)</b>	(40.4)	<b>(116.4)</b>	(118.5)
<b>Current cost operating profit</b> – before impairment		<b>335.3</b>	325.8	<b>5.7</b>	7.8	<b>38.4</b>	35.3	<b>0.2</b>	0.2
Impairment of tangible fixed assets	(2)	–	(275.0)	–	–	–	–	–	–
<b>Current cost operating profit</b> – continuing operations		<b>335.3</b>	50.8	<b>5.7</b>	7.8	<b>38.4</b>	35.3	<b>0.2</b>	0.2

## Current cost balance sheets

at 31 March 1999

	Notes	Transmission		Settlements		Interconnectors		Ancillary services	
		1999 £m	1998 (restated) £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>Tangible fixed assets</b>	(3)	<b>4,837.6</b>	4,804.4	<b>2.5</b>	2.9	<b>174.9</b>	189.2	<b>0.2</b>	0.3
<b>Current assets</b>									
Stocks		<b>7.8</b>	8.2	–	–	–	–	–	–
Debtors	(4)	<b>3,890.2</b>	3,597.5	<b>19.8</b>	19.8	<b>344.0</b>	290.7	<b>17.7</b>	42.1
Cash at bank and in hand		<b>23.9</b>	12.9	<b>1.2</b>	4.4	–	–	–	–
<b>Creditors (amounts falling due within one year)</b>	(5)	<b>3,921.9</b>	3,618.6	<b>21.0</b>	24.2	<b>344.0</b>	290.7	<b>17.7</b>	42.1
		<b>(292.5)</b>	(327.1)	<b>(12.7)</b>	(14.4)	<b>(1.7)</b>	(1.1)	<b>(16.0)</b>	(40.7)
<b>Net current assets</b>		<b>3,629.4</b>	3,291.5	<b>8.3</b>	9.8	<b>342.3</b>	289.6	<b>1.7</b>	1.4
<b>Total assets less current liabilities</b>		<b>8,467.0</b>	8,095.9	<b>10.8</b>	12.7	<b>517.2</b>	478.8	<b>1.9</b>	1.7
<b>Provisions for liabilities and charges</b>	(6)	<b>(4.5)</b>	(11.0)	–	–	–	–	–	–
<b>Net assets employed</b>		<b>8,462.5</b>	8,084.9	<b>10.8</b>	12.7	<b>517.2</b>	478.8	<b>1.9</b>	1.7
<b>Capital employed</b>	(7)	<b>8,462.5</b>	8,084.9	<b>10.8</b>	12.7	<b>517.2</b>	478.8	<b>1.9</b>	1.7

The accounts on pages 2 to 8 inclusive were approved by the Board of Directors of The National Grid Company plc on 24 May 1999 and were signed on its behalf by:

**D H Jones** Director

**S J Box** Director

## Current cost statements of total recognised gains and losses for the year ended 31 March 1999

	Note	Transmission		Settlements		Interconnectors		Ancillary services	
		1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>Current cost operating profit</b>		<b>335.3</b>	50.8	<b>5.7</b>	7.8	<b>38.4</b>	35.3	<b>0.2</b>	0.2
Taxation		–	–	<b>(1.4)</b>	(2.6)	–	–	–	–
Revaluation of tangible fixed assets	(7)	<b>42.3</b>	9.8	–	–	–	–	–	–
<b>Total recognised gains and losses relating to the year</b>		<b>377.6</b>	60.6	<b>4.3</b>	5.2	<b>38.4</b>	35.3	<b>0.2</b>	0.2
Prior year adjustment	(7)	<b>8.0</b>							
<b>Total gains and losses recognised since last accounts</b>		<b>385.6</b>							

## Current cost cash flow statements for the year ended 31 March 1999

	Note	Transmission		Settlements		Interconnectors		Ancillary services	
		1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>Net cash inflow/(outflow) from operating activities</b>	(8)	<b>586.9</b>	579.7	<b>5.7</b>	12.2	<b>49.7</b>	49.7	<b>(3.6)</b>	5.1
<b>Taxation</b>									
Corporate tax paid		–	–	<b>(2.0)</b>	(2.2)	–	–	–	–
<b>Capital expenditure</b>									
Payments to acquire tangible fixed assets		<b>(315.4)</b>	(210.6)	<b>(1.4)</b>	(1.0)	–	–	<b>(0.1)</b>	(0.1)
Receipts of capital contributions		<b>11.9</b>	15.4	–	–	–	–	–	–
Receipts from disposals of tangible fixed assets		<b>0.7</b>	1.8	–	0.3	–	–	–	–
<b>Net cash outflow for capital expenditure</b>		<b>(302.8)</b>	(193.4)	<b>(1.4)</b>	(0.7)	–	–	<b>(0.1)</b>	(0.1)
<b>Equity dividends paid</b>		–	–	<b>(1.7)</b>	(3.3)	–	–	–	–
Transfers from/to other businesses		<b>10.6</b>	28.5	–	–	–	–	–	–
<b>Net cash inflow/(outflow) before financing</b>		<b>294.7</b>	414.8	<b>0.6</b>	6.0	<b>49.7</b>	49.7	<b>(3.7)</b>	5.0
Represented by:									
Movement in inter-business balances		<b>283.7</b>	401.9	<b>3.8</b>	4.4	<b>49.7</b>	49.7	<b>(3.7)</b>	5.0
Increase/(decrease) in cash		<b>11.0</b>	12.9	<b>(3.2)</b>	1.6	–	–	–	–
		<b>294.7</b>	414.8	<b>0.6</b>	6.0	<b>49.7</b>	49.7	<b>(3.7)</b>	5.0

## Notes to the accounts

	Transmission		Settlements		Interconnectors		Ancillary services	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>1 Operating costs</b>								
Current cost depreciation	<b>290.1</b>	300.0	<b>1.8</b>	1.9	<b>14.3</b>	14.4	<b>0.2</b>	0.2
Payroll costs	<b>74.9</b>	74.4	<b>4.5</b>	3.5	<b>0.5</b>	0.4	<b>1.1</b>	0.9
Purchases of electricity	<b>0.9</b>	0.8	–	–	–	–	<b>111.6</b>	113.7
Rates	<b>94.9</b>	92.1	<b>0.1</b>	0.1	<b>3.3</b>	3.2	–	–
Transmission services scheme direct costs	<b>254.0</b>	269.7	–	–	–	–	–	–
Other operating charges	<b>144.5</b>	162.4	<b>45.4</b>	42.2	<b>19.3</b>	22.4	<b>3.5</b>	3.7
	<b>859.3</b>	899.4	<b>51.8</b>	47.7	<b>37.4</b>	40.4	<b>116.4</b>	118.5

Operating costs in respect of the transmission business include research and development costs amounting to £8.4m (1998: £7.8m).

Of the total Group audit fee, £260,000 (1998: £237,000) is attributable to the Separate Businesses and is included within other operating charges.

### 2 Impairment of tangible fixed assets

The 1998 impairment charge of £275.0m, representing a change in the estimated remaining service potential of tangible fixed assets, reduced the net current replacement cost of tangible fixed assets at 31 March 1998 to their value in use, which is based on the regulatory asset value of the transmission business.

### 3 Tangible fixed assets

	Transmission £m	Settlements £m	Interconnectors £m	Ancillary services £m
Gross value at 1 April 1998	12,423.0	15.3	378.8	1.1
Capital expenditure	294.5	1.4	–	0.1
Revaluations	182.8	–	–	–
Disposals	(60.7)	(1.4)	–	–
Transfers to other businesses	(14.2)	–	–	–
Gross value at 31 March 1999	12,825.4	15.3	378.8	1.2
Depreciation at 1 April 1998	7,343.6	12.4	189.6	0.8
Charge for the year	305.4*	1.8	14.3	0.2
Revaluations	93.7	–	–	–
Disposals	(57.8)	(1.4)	–	–
Transfers to other businesses	(3.6)	–	–	–
Depreciation at 31 March 1999	7,681.3	12.8	203.9	1.0
Net current replacement cost at 31 March 1999	5,144.1	2.5	174.9	0.2
Impairment provision at 1 April 1998	275.0	–	–	–
Amortisation for the year	(15.3)*	–	–	–
Revaluation	46.8	–	–	–
Impairment provision at 31 March 1999	306.5	–	–	–
<b>Net asset value at 31 March 1999</b>	<b>4,837.6</b>	<b>2.5</b>	<b>174.9</b>	<b>0.2</b>
Net asset value at 31 March 1998	4,804.4	2.9	189.2	0.3

\*Depreciation charge for the year £290.1m.

3 **Tangible fixed assets** continued

	Transmission		Settlements		Interconnectors		Ancillary services	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
The net asset value comprises:								
Land and buildings	<b>76.6</b>	83.4	-	0.1	<b>0.1</b>	0.1	-	-
Plant and machinery	<b>4,431.1</b>	4,487.2	-	-	<b>174.6</b>	188.9	-	-
Assets in the course of construction	<b>308.7</b>	212.4	<b>0.2</b>	-	<b>0.2</b>	0.2	-	-
Motor vehicles and office equipment	<b>21.2</b>	21.4	<b>2.3</b>	2.8	-	-	<b>0.2</b>	0.3
	<b>4,837.6</b>	4,804.4	<b>2.5</b>	2.9	<b>174.9</b>	189.2	<b>0.2</b>	0.3

The net asset values of plant and machinery and assets in the course of construction in the transmission and interconnectors businesses at 31 March 1999 are stated after deducting capital contributions of £90.3m (1998: £82.3m) and £0.3m (1998: £0.3m) respectively.

	Transmission		Settlements		Interconnectors		Ancillary services	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
The net asset value of land and buildings comprises:								
Freehold	<b>69.5</b>	75.5	-	-	<b>0.1</b>	0.1	-	-
Long leasehold (over 50 years)	<b>5.8</b>	6.7	-	-	-	-	-	-
Short leasehold (under 50 years)	<b>1.3</b>	1.2	-	0.1	-	-	-	-
	<b>76.6</b>	83.4	-	0.1	<b>0.1</b>	0.1	-	-

4 **Debtors**

	Transmission		Settlements		Interconnectors		Ancillary services	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Trade debtors	<b>34.4</b>	22.9	<b>0.9</b>	0.5	<b>3.3</b>	0.2	<b>13.9</b>	34.5
Inter-business balances	<b>3,845.0</b>	3,561.3	<b>16.3</b>	12.5	<b>332.8</b>	283.1	<b>3.8</b>	7.5
Amounts owed by a related party	<b>0.1</b>	-	-	-	-	-	-	-
Other debtors	<b>4.0</b>	6.7	-	-	-	-	-	-
Prepayments and accrued income	<b>6.7</b>	6.6	<b>2.6</b>	6.8	<b>7.9</b>	7.4	-	0.1
	<b>3,890.2</b>	3,597.5	<b>19.8</b>	19.8	<b>344.0</b>	290.7	<b>17.7</b>	42.1

5 **Creditors (amounts falling due within one year)**

	Transmission		Settlements		Interconnectors		Ancillary services	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Trade creditors and accruals	<b>251.2</b>	266.3	<b>5.7</b>	9.6	<b>0.5</b>	1.1	<b>15.6</b>	40.3
Amounts owed to a related party	<b>10.0</b>	12.9	-	-	-	-	-	-
Corporation tax	-	-	<b>2.1</b>	2.7	-	-	-	-
Social security and other taxes	<b>17.7</b>	15.1	<b>0.4</b>	0.5	<b>1.2</b>	-	<b>0.4</b>	0.4
Proposed dividend	-	-	<b>4.5</b>	-	-	-	-	-
Other creditors	<b>13.6</b>	32.8	-	1.6	-	-	-	-
	<b>292.5</b>	327.1	<b>12.7</b>	14.4	<b>1.7</b>	1.1	<b>16.0</b>	40.7

## Notes to the accounts – continued

6 Provisions for liabilities and charges	Transmission £m	Settlements £m	Interconnectors £m	Ancillary services £m
At 1 April 1998 – as previously reported	19.0	–	–	–
Prior year adjustment (note 7)	(8.0)	–	–	–
At 1 April 1998 – as adjusted	11.0	–	–	–
Paid or becoming current	(6.5)	–	–	–
<b>At 31 March 1999</b>	<b>4.5</b>	<b>–</b>	<b>–</b>	<b>–</b>

In The National Grid Group accounts the above amounts are included within other provisions.

7 Movement in capital employed	Transmission £m	Settlements £m	Interconnectors £m	Ancillary services £m
At 1 April 1998 – as previously reported	8,076.9	12.7	478.8	1.7
Prior year adjustment	8.0	–	–	–
At 1 April 1998 – as adjusted	8,084.9	12.7	478.8	1.7
Operating profit for the year	335.3	5.7	38.4	0.2
Tax and dividend	–	(7.6)	–	–
Revaluation of tangible fixed assets	42.3	–	–	–
<b>At 31 March 1999</b>	<b>8,462.5</b>	<b>10.8</b>	<b>517.2</b>	<b>1.9</b>

Prior year adjustment

The adoption of FRS 12 has resulted in a change in the method of accounting for provisions. This change in accounting policy, which has had no impact on the results for each of the two years ended 31 March 1999, has been reflected in the accounts as a prior year adjustment in accordance with FRS 3. As a result, capital employed at 31 March 1998 has been increased by £8.0m.

8 Current cost cash flow statements	Transmission		Settlements		Interconnectors		Ancillary services	
Reconciliation of operating profit to net cash inflow/(outflow) from operating activities	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Operating profit	<b>335.3</b>	50.8	<b>5.7</b>	7.8	<b>38.4</b>	35.3	<b>0.2</b>	0.2
Impairment of tangible fixed assets	–	275.0	–	–	–	–	–	–
Depreciation charge	<b>290.1</b>	300.0	<b>1.8</b>	1.9	<b>14.3</b>	14.4	<b>0.2</b>	0.2
Loss/(profit) on disposal of tangible fixed assets	<b>1.1</b>	(0.9)	–	(0.3)	–	–	–	–
Decrease/(increase) in stock	<b>0.4</b>	(2.4)	–	–	–	0.1	–	–
(Increase)/decrease in debtors	<b>(10.9)</b>	(4.7)	<b>3.8</b>	(0.3)	<b>(3.6)</b>	0.4	<b>20.7</b>	(1.4)
(Decrease)/increase in creditors	<b>(22.6)</b>	(5.0)	<b>(5.6)</b>	3.1	<b>0.6</b>	(0.5)	<b>(24.7)</b>	6.1
Decrease in provisions	<b>(6.5)</b>	(33.1)	–	–	–	–	–	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>586.9</b>	579.7	<b>5.7</b>	12.2	<b>49.7</b>	49.7	<b>(3.6)</b>	5.1

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