

The Directors  
National Grid Electricity Transmission plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

30 May 2012

Dear Sirs

**Balancing Mechanism Auditor's report for the year ended 31 March 2012**

- 1 We have audited, in our role as the Balancing Mechanism Auditor ("BM Auditor"), specific aspects of the responsibilities placed on National Grid Electricity Transmission plc ("NGET") within the Balancing and Settlement Code ("BSC"), for the year ended 31 March 2012. More details of these specific aspects as covered by this audit are set out in paragraph 7 below.
- 2 We have completed this audit work in accordance with the Form of Agreement 4538/03/SW agreed between ourselves and National Grid Company Plc on 8 March 2004, subject to both:
  - (a) Amendment Number 3 which was agreed with National Grid Gas Plc on 7 August 2008; and
  - (b) and Amendment Number 4 which was agreed with National Grid Gas Plc on 30 September 2011.
- 3 The Form of Agreement includes a clause limiting the total liability of PricewaterhouseCoopers LLP to NGET and all others authorised to rely upon this work, to a maximum of, unless otherwise specified in a Project Schedule, 200% of the charges incurred (excluding VAT).
- 4 Unless the context otherwise requires, the words and expressions defined in the BSC have the same meanings in this report as in that agreement.

*Respective responsibilities of NGET and Balancing Mechanism Auditor*

- 5 NGET's responsibility in respect of the compilation and submission of certain data to the Balancing Mechanism Reporting Agent ("BMRA") and the Settlement Administration Agent ("SAA") is set out in Section Q of the BSC.
- 6 The BSC also requires NGET to appoint a BM Auditor to review the compilation and submission of the data referred to in paragraph 5.
- 7 Paragraph 5.1.6, Section H of the BSC requires that the following matters should be subject to audit by the BM Auditor:
  - (a) The compiling and submission of Final Physical Notification Data by the Transmission Company pursuant to and in accordance with Section Q of the BSC;

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*PricewaterhouseCoopers LLP, 9 Greyfriars Road, Reading, RG1 1JG*  
*T: +44 (0) 1189 597111, F: +44 (0) 1189 383020, www.pwc.co.uk*



- (b) The compiling and submission of Bid-Offer Data by the Transmission Company pursuant to and in accordance with Section Q;
- (c) The compiling and submission of Acceptance Data by the Transmission Company pursuant to and in accordance with Section Q; and
- (d) The submission of other data by the Transmission Company pursuant to and in accordance with Section Q6 of the BSC.

8 As the BM Auditor it is our responsibility to form an independent view, based on our audit work, as to the extent to which NGET has complied with the requirements of those areas set out in the preceding paragraph.

*Basis of review and scope of work*

9 The scope of our audit covered those procedures and tests that we felt necessary to form the independent view required of us. Details of the various procedures and tests that we have carried out are set out in our 'Balancing Mechanism Audit - Review Approach' Document dated 16 May 2011 ("Approach Document"), as previously distributed to NGET and the BSC Auditor. The Approach Document includes specific reference to the 1.65TWh level of materiality that we have agreed with NGET for the audit. This report should be read in conjunction with the Approach Document (See Appendix I).

10 We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to form the independent view required of us. In forming our view, we assessed the risk of a material breach in respect of the services undertaken by NGET which are covered by this review, whether caused by fraud or other irregularity or error, and determined the adequacy of procedures and controls established by NGET to eliminate or reduce such risks.

11 We have performed the engagement in line with the requirements of the International Standard on Assurance Engagement 3000, which provides guidance on 'Assurance engagements other than audits or reviews of historical financial information'.

*Opinion*

12 In our opinion, NGET has complied with the BSC, in all material respects, during the year ended 31 March 2012, with regards to:

- (a) The compiling and submission of Final Physical Notification Data by the Transmission Company pursuant to and in accordance with Section Q of the BSC;
- (b) The compiling and submission of Bid-Offer Data by the Transmission Company pursuant to and in accordance with Section Q;
- (c) The compiling and submission of Acceptance Data by the Transmission Company pursuant to and in accordance with Section Q; and
- (d) The submission of other data by the Transmission Company pursuant and in accordance with Section Q6 of the BSC.



*Use of this report*

- 13 This opinion is intended solely for the use of the Directors of NGET and the BSC Auditor. We do not intend that it should be relied upon by anyone else and we accept no liability or responsibility to anyone else. We acknowledge that it may be paraphrased or copied in whole or in part by the BSC Auditor in his formal reporting in that role. It should not be copied or disclosed to anyone else without NGET's and our prior written consent which in our case we may, at our discretion, grant or withhold, or grant subject to conditions.

Yours faithfully

PricewaterhouseCoopers LLP  
Chartered Accountants

cc: PricewaterhouseCoopers LLP (in its role as BSC Auditor)