

**National Grid Company plc**

**Regulatory Accounts**

**2003/04**

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## **Regulatory accounts**

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### **Contents**

	<b>Page</b>
<b>1. Basis of preparation and Directors responsibilities</b>	<b>2</b>
<b>2. Independent Accountants Report</b>	<b>3</b>
<b>3. Accounting policies</b>	<b>4</b>
<b>4. Operating profit and loss statements</b>	<b>6</b>
<b>5. Statements of total recognised gains and losses</b>	<b>6</b>
<b>6. Balance sheets</b>	<b>7</b>
<b>7. Cash flow statements</b>	<b>7</b>
<b>8. Notes to the accounts</b>	<b>8</b>

## **Basis of preparation in respect of the Regulatory Accounts**

The Licensee (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. Following the publication of Audit 5/03 (Reporting to Regulators of Regulated Entities) by the Institute of Chartered Accountants in England and Wales, our auditors have presented a 'fairly presents' audit opinion.

The Directors have prepared Regulatory Accounts that incorporate the consolidated transmission business and the interconnectors business (as defined in the Transmission Licence), together referred to as "the Separate Businesses" of the Licensee.

The Regulatory Accounts present details only in respect of the Separate Businesses of the Licensee and do not show information in respect of the other business operations of the Licensee.

## **Directors responsibilities in respect of the Regulatory Accounts**

The Directors are responsible for ensuring that the Separate Businesses keep accounting records which disclose with reasonable accuracy the financial position of the Separate Businesses 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 National Grid Company plc and its subsidiary undertakings ("the Group"), 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.

## **Independent Accountants' statement to National Grid Company plc**

We have examined the summary Regulatory Accounts of National Grid Company plc ("the Company") on pages 4 to 11 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cashflow statement and the related notes to the summary Regulatory Accounts.

Our audit report on the full Regulatory Accounts was made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Transmission Licence. Our audit work on the full Regulatory Accounts was undertaken so that we might state to the Company and the Regulator those matters that we agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Transmission Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for our audit report on the full Regulatory Accounts, or for the opinions we have formed.

This statement on the summary Regulatory Accounts, including the opinion, has been prepared for, and only for, the Company. To the fullest extent permitted by law, we do not accept or assume responsibility in making this statement to anyone other than the Company for our examination, for our report on the summary Regulatory Accounts, or for the opinions we have formed.

### **Basis of preparation**

The summary Regulatory Accounts have been extracted from the full Regulatory Accounts for the year ended 31 March 2004. The full Regulatory Accounts were prepared under the historical cost convention and in accordance with conditions 5 of the Company's Transmission Licence and the accounting policies set out in the statement of accounting policies on pages 4 and 5.

The Regulatory Accounts present details only in respect of the Separate Businesses (as defined on page 2) of the Licensee and do not show information in respect of the other business operations of the Licensee.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

### **Respective responsibilities of the Regulator, the Directors and Auditors**

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The directors' are responsible for preparing the summary Regulatory Accounts

The directors' responsibilities for preparing the Regulatory Accounts in accordance with conditions 5 of the Transmission Licence are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to report to you our opinion on the consistency of the summary Regulatory Accounts with the full Regulatory Accounts.

### **Basis of audit opinion**

We conducted our audit of the full Regulatory Accounts with regard to Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales and in accordance with Auditing Standards issued by the Auditing Practices Board except that, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

We conducted our review of the summary Regulatory Accounts with regard to Bulletin 1999/6 'The Auditors' Statement on The Summary Financial Statement' issued by the Auditing Practices Board

Our review of the summary Regulatory Accounts comprised only of 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.

Our opinions on the full Regulatory Accounts and the summary Regulatory Accounts are separate from our opinion on the statutory accounts of the Company on which we reported on 20 May 2004 which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

### **Opinion**

In our opinion the summary Regulatory Accounts set out on pages 4 to 11 are consistent with, and have been properly extracted from, the full Regulatory Accounts for the year ended 31 March 2004 on which we issued an unqualified report on 20 May 2004.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Birmingham  
20 May 2004

<sup>1</sup> The maintenance and integrity of the National Grid Company plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web site.

<sup>2</sup> Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

## Accounting policies

### 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, and under the historical cost convention.

### b) Ultimate parent undertaking

The ultimate parent undertaking is National Grid Transco plc.

### 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 the Separate Businesses, wherever appropriate. Because of the integrated nature of National Grid Company plc's activities, it is necessary to apportion certain elements of these categories to determine those amounts reasonably attributable to each separate businesses as an individual activity. Elements not attributable to an individual activity, such as taxation, pension scheme asset/ (deficit), capital liabilities and interest thereon, have been excluded. The disclosures that would be necessary under FRS 13 "Derivatives and other financial instruments: disclosures", SSAP 24 "Pension Costs", FRS 17 "Retirement benefits" and FRS 19 "Deferred tax" have therefore not been made.

### 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.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight line basis to the profit and loss account over the life of the 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	15 to 60
Freehold and leasehold properties	up to 40
Motor vehicles and office equipment	3 or 5

During the year the asset life of the cross-channel link plant and machinery was reviewed and revised to a maximum asset life of 60 years.

## **Accounting policies (continued)**

### **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. Where revenues received exceed the maximum allowed by regulatory formula no liability is recognised.

### **g) Pensions**

The cost of providing pensions is charged to the profit and loss account 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, with the interest component of any variation being reflected in net interest and the other component reflected through staff costs.

### **h) Employee share option schemes**

Employee benefit trusts have been established which result in the cost of delivering shares in the Company's ultimate parent undertaking (National Grid Transco plc) to employees under the terms of the relevant share option scheme being charged to the profit and loss account on a straight line basis over the remaining period of the relevant scheme. This charge is determined as being the difference between the option price payable by the employee and the total purchase cost of the shares.

### **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.

## Operating profit and loss statements

for the years ended 31 March

	Note	Transmission		Interconnectors	
		2004 £m	2003 £m	2004 £m	2003 £m
<b>Turnover</b>		<b>1,283.7</b>	1,303.6	<b>64.7</b>	60.7
Operating costs	1	<b>(796.8)</b>	(755.3)	<b>(35.9)</b>	(39.7)
<b>Operating profit</b>					
Before exceptional reorganisation costs		<b>486.9</b>	548.3	<b>28.8</b>	21.0
Exceptional reorganisation costs		<b>(9.1)</b>	(26.1)	-	-
<b>Total operating profit</b>		<b>477.8</b>	522.2	<b>28.8</b>	21.0

All activities relate to continuing operations.

## Statements of total recognised gains and losses

for the years ended 31 March

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

## Balance sheets

at 31 March

	Notes	Transmission		Interconnectors	
		2004 £m	2003 £m	2004 £m	2003 £m
<b>Tangible fixed assets</b>	2	<b>3,985.9</b>	3,758.6	<b>127.4</b>	132.9
<b>Current assets</b>					
Stocks		11.1	13.8	-	-
Debtors	3	<b>5,262.8</b>	4,890.4	<b>551.4</b>	516.0
		<b>5,273.9</b>	4,904.2	<b>551.4</b>	516.0
<b>Creditors (amounts falling due within one year)</b>	4	<b>(387.8)</b>	(316.7)	<b>(3.0)</b>	(1.9)
<b>Net current assets</b>		<b>4,886.1</b>	4,587.5	<b>548.4</b>	514.1
<b>Total assets less current liabilities</b>		<b>8,872.0</b>	8,346.1	<b>675.8</b>	647.0
<b>Creditors (amounts falling due after more than one year)</b>	5	<b>(141.8)</b>	(92.0)	<b>(0.3)</b>	(0.3)
<b>Provisions for liabilities and charges</b>	6	<b>(6.3)</b>	(8.0)	-	-
<b>Net assets employed</b>		<b>8,723.9</b>	8,246.1	<b>675.5</b>	646.7
<b>Capital employed</b>	7	<b>8,723.9</b>	8,246.1	<b>675.5</b>	646.7

The accounts on pages 4 to 11 inclusive were approved by the Board of Directors of National Grid Company plc on 20 May 2004 and were signed on its behalf by :

N Winsor Director

N Moore Director

## Cash flow statements

for the years ended 31 March

	Note	Transmission		Interconnectors	
		2004 £m	2003 £m	2004 £m	2003 £m
<b>Net cash inflow from operating activities</b>	8	<b>754.3</b>	481.3	<b>32.2</b>	34.2
<b>Capital expenditure</b>					
Net payments to acquire tangible fixed assets		(431.3)	(420.0)	(0.6)	(0.6)
Receipts from disposals of tangible fixed assets		-	1.1	-	-
<b>Net cash outflow for capital expenditure and financial investments</b>		<b>(431.3)</b>	(418.9)	<b>(0.6)</b>	(0.6)
<b>Net cash inflow before financing</b>		<b>323.0</b>	62.4	<b>31.6</b>	33.6
Represented by:					
Movement in inter-business balances		323.0	243.8	31.6	33.6



## Notes to the accounts

### 1. Operating costs

	Transmission		Interconnectors	
	2004 £m	2003 £m	2004 £m	2003 £m
Total operating costs comprise:				
Depreciation	199.0	181.4	6.0	13.5
Payroll costs	65.0	77.3	0.4	0.5
Other operating charges:				
-Rates	88.4	94.5	3.0	3.2
-Balancing Services Incentive Scheme direct costs	279.0	251.6	-	-
-Other operating charges	165.4	150.5	26.5	22.5
	532.8	496.6	29.5	25.7
	796.8	755.3	35.9	39.7

Operating costs in respect of the transmission business include research and development costs amounting to £3.0m (2003 - £4.0m).

Of the total Group audit fee, £305,000 (2003: £315,000) is attributable to the Separate Businesses and is included within other operating charges, of which £25,000 (2003: £25,000) relates specifically to the audit of the Regulatory accounts, £265,000 (2003: £275,000) to the audit of the consolidated statutory accounts of National Grid Company plc and £15,000 (2003: £15,000) relates to other Regulatory Reporting.

Exceptional reorganisation costs of £9.1m (2003: £26.1m) were charged to operating profit in 2003/04 as the Transmission business completed implementation of restructuring plans.

## Notes to the accounts

### 2. Tangible fixed assets

	Transmission £m	Interconnectors £m
Cost at 1 April 2003	5,651.0	391.2
Additions	426.3	0.6
Disposals	(51.8)	(0.4)
<b>Cost at 31 March 2004</b>	<b>6,025.5</b>	<b>391.4</b>
Depreciation at 1 April 2003	(1,892.4)	(258.3)
Charge for the year	(199.0)	(6.0)
Disposals	51.8	0.3
<b>Depreciation at 31 March 2004</b>	<b>(2,039.6)</b>	<b>(264.0)</b>
<b>Net book value at 31 March 2004</b>	<b>3,985.9</b>	<b>127.4</b>
Net book value at 31 March 2003	3,758.6	132.9

	2004 £m	2003 £m	2004 £m	2003 £m
The net book value comprises:				
Land and buildings	81.1	83.2	-	-
Plant and machinery	3,208.1	3,047.7	125.9	119.9
Assets in the course of construction	631.6	601.8	1.4	12.9
Motor vehicles and office equipment	65.1	25.9	0.1	0.1
	<b>3,985.9</b>	3,758.6	<b>127.4</b>	132.9

	2004 £m	2003 £m	2004 £m	2003 £m
The net book value of land and buildings comprises:				
Freehold	74.3	76.3	-	-
Long leasehold (over 50 years)	2.7	2.7	-	-
Short leasehold (under 50 years)	4.1	4.2	-	-
	<b>81.1</b>	83.2	<b>-</b>	-

## Notes to the accounts

### 3. Debtors

	Transmission		Interconnectors	
	2004	2003	2004	2003
	£m	£m	£m	£m
Trade debtors	37.4	22.8	4.9	3.9
Inter-separate business balances (see below)	5,148.8	4,825.8	540.3	508.7
Other debtors	17.2	5.8	-	-
Prepayments and accrued income	59.4	36.0	6.2	3.4
	<b>5,262.8</b>	<b>4,890.4</b>	<b>551.4</b>	<b>516.0</b>

Included within transmission other debtors are amounts falling due after more than one year of £12.2m (2003:£2.4m).

Inter-Separate business balances substantially represent accumulated net income which has not been remitted to the Transmission and Interconnector businesses because cash is received within the corporate division of National Grid Company plc rather than within the separate Businesses.

### 4. Creditors (amounts falling due within one year)

	Transmission		Interconnectors	
	2004	2003	2004	2003
	£m	£m	£m	£m
Trade creditors	157.8	213.3	-	0.3
Accruals and deferred income	119.7	40.3	1.9	0.7
Social security and other taxes	13.9	21.7	1.1	0.9
Other creditors	96.4	41.4	-	-
	<b>387.8</b>	<b>316.7</b>	<b>3.0</b>	<b>1.9</b>

### 5. Creditors (amounts falling due after more than one year)

	Transmission		Interconnectors	
	2004	2003	2004	2003
	£m	£m	£m	£m
Accruals and deferred income	130.2	92.0	0.3	0.3
Other creditors	11.6	-	-	-
	<b>141.8</b>	<b>92.0</b>	<b>0.3</b>	<b>0.3</b>

### 6. Provisions for liabilities and charges

	Transmission	Interconnectors
	£m	£m
At 1 April 2003	8.0	-
Utilised in the year	(1.7)	-
<b>At 31 March 2004</b>	<b>6.3</b>	<b>-</b>

The provision balances at 31 March 2004 and 31 March 2003 relate to onerous lease costs in respect of a vacant property. The balance is expected to be utilised over the next 10 years.

## Notes to the accounts

### 7. Movement in capital employed

	Transmission £m	Interconnectors £m
At 1 April 2003	8,246.1	646.7
Operating profit for the year	477.8	28.8
<b>At 31 March 2004</b>	<b>8,723.9</b>	<b>675.5</b>

### 8. Cash flow statements

Reconciliation of operating profit to net cash inflow from operating activities

	Transmission		Interconnectors	
	2004 £m	2003 £m	2004 £m	2003 £m
Operating profit	477.8	522.2	28.8	21.0
Depreciation	199.0	181.4	6.0	13.5
Profit on disposal of tangible fixed assets	-	(0.2)	-	-
(Increase) / decrease in stock	2.7	(1.7)	-	-
(Increase) / decrease in debtors	(49.4)	(0.4)	(3.7)	0.9
Increase / (decrease) in creditors	125.9	(28.7)	1.1	(1.2)
(Decrease) in provisions	(1.7)	(9.9)	-	-
<b>Net cash inflow from operating activities</b>	<b>754.3</b>	<b>662.7</b>	<b>32.2</b>	<b>34.2</b>