

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

16 November 2005

Our ref: ER/DJG

Dear Sirs

Report on compliance with the Balancing Principles Statement for the year ended 30 September 2005 (“the Year”)

- 1 We have reviewed the extent to which National Grid Electricity Transmission plc (“National Grid”), in its procurement and use of Balancing Services, has complied with the Balancing Principles Statement (“BPS”) for the year ended 30 September 2005. We have undertaken this review in accordance with the Terms of Reference, dated 8 March 2004, which have been agreed between National Grid and ourselves.
- 2 Unless the context otherwise requires, words and expressions defined in the BPS, which is a document prepared by National Grid pursuant to Paragraph 5 of Condition 16 of its Transmission Licence, have the same meanings in this report as in that statement. During the Year, the BPS has been updated with there being versions as follows:
 - a) Version 4.1 dated 4 October 2004;
 - b) Version 4.2 dated 1 January 2005; and
 - c) Version 5.0 dated 2 September 2005.

Respective responsibilities of National Grid and Balancing Principles Statement Auditor

- 3 National Grid is responsible for taking all reasonable steps to ensure its compliance with the BPS, in respect of its use of Balancing Services. It is our responsibility, within the Terms of Reference, to review on a sample basis, the compliance of National Grid with the BPS in respect of the use of Balancing Services. This work is performed with a view to expressing an independent opinion as to whether any non-compliances with the BPS, which in aggregate we consider material, have come to our attention which would make us believe that National Grid has not complied with the BPS, in respect of Balancing Services.

Basis of review and scope of work

- 4 We have planned and performed our review in accordance with our Review Approach which we have agreed with National Grid and which is set out in our document “Supplement to the Balancing Principles Statement report for the year ended 30 September 2005” (“the Supplement”) which we have sent to both National Grid and the Office of Gas and Electricity Markets (“Ofgem”).
- 5 The Supplement provides a detailed description of the approach we have adopted to the review. In particular, it describes those aspects of Balancing Services that we have examined during our review and those which are outside the scope of this review. Our review included an examination, on a test basis, of both the Balancing Services procured and used by National Grid, and of the estimates and judgements made by National Grid in using Balancing Services. This report should be read in conjunction with the Supplement.
- 6 In reaching our conclusion we assessed the risk of a material breach of the way National Grid has used Balancing Services compared with the requirements of the BPS, whether caused by fraud or other irregularity or error, and determined the adequacy of procedures and controls established by National Grid to eliminate or reduce such risks.

Conclusion

- 7 Based on our review, nothing has come to our attention that causes us to believe that, for the Year, National Grid did not in all material respects procure and use the various aspects of Balancing Services covered by this review as described in the Supplement in accordance with the BPS.

Use of this report

- 8 This report is intended solely for the use of the Directors of National Grid and Ofgem. While we acknowledge that this report will be published on the National Grid website, this is for information purposes only and we do not intend that it should be relied upon by anyone other than the parties mentioned above.
- 9 The maintenance and integrity of that website is the responsibility of the Directors of National Grid. The work that we carried out does not involve consideration of the maintenance and integrity of that website and, accordingly, we accept no responsibility for any changes that may have occurred to this report since it was initially presented on the website.
- 10 This report has been prepared in the expectation that National Grid and Ofgem will have sufficient experience of Balancing Services to understand the scope of our review without further background explanation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors