

National Grid Company plc

Regulatory Accounts

2002/03

Responsibilities

in respect of the preparation 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.

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. 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 post-NETA are reported within the consolidated transmission business.

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.

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.

Report of the auditors to National Grid Company plc

We have examined the summary Regulatory Accounts of National Grid Company plc ("the Licensee" or "the Company") on pages 3 to 8 which comprise the profit and loss account, the balance sheet, the cash flow and the related notes to the summary Regulatory Accounts.

Basis of preparation

The summary Regulatory Accounts have been extracted from the full Regulatory Accounts for the year ended 31 March 2003. The full Regulatory Accounts were prepared under the historical cost convention (as modified by the revaluation of certain fixed assets), the accounting policies set out in the statement of accounting policies and in accordance with Condition 5 of the Licensee's transmission licence ("the Transmission Licence").

The Regulatory Accounts present details only in respect of the Separate Businesses (as defined on page 1) of the Licensee and do not show information in respect of the other business operations of the Licensee.

Respective responsibilities of the Licensee and Auditors

The directors of the Licensee are responsible for preparing the Regulatory Accounts in accordance with Condition 5 of the Transmission Licence and the accounting policies set out in the statement of accounting policies. Our responsibility is to report to you our opinion as to whether the summary Regulatory Accounts are consistent with the full Regulatory Accounts.

This statement, including the opinion, has been prepared for, and only for, the Licensee in accordance with Condition 5 of the Transmission Licence and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our audit of the full Regulatory Accounts 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 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 8 are consistent with, and have been properly extracted from, the full Regulatory Accounts for the year ended 31 March 2003 on which we issued an unqualified report on 19 May 2003.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
19 May 2003

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

In October 2002, following the merger of National Grid Group plc and Lattice Group plc, the ultimate parent undertaking changed its name from National Grid Group plc to 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 business 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", 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.

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 and strategic spares, are stated at cost less provision for obsolescence.

f) Turnover

Turnover primarily represents the amounts derived from the transmission of electricity and the provision of related services. It includes inter-separate business and intra-Group 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	
		2003 £m	2002 £m	2003 £m	2002 £m
Turnover - continuing operations		1,303.6	1,240.7	60.7	63.1
Operating costs	1	(755.3)	(716.0)	(39.7)	(42.9)
Operating profit - continuing operations					
- Before exceptional reorganisation costs		548.3	524.7	21.0	20.2
- Exceptional reorganisation costs		(26.1)	(39.8)	-	-
Total operating profit	7	522.2	484.9	21.0	20.2

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	
		2003 £m	2002 £m	2003 £m	2002 £m
Tangible fixed assets	2	3,758.6	3,461.5	132.9	145.5
Current assets					
Stocks		13.8	12.1	-	-
Debtors	3	4,890.4	4,646.2	516.0	483.3
		4,904.2	4,658.3	516.0	483.3
Creditors (amounts falling due within one year)	4	(316.7)	(378.0)	(1.9)	(3.1)
Net current assets		4,587.5	4,280.3	514.1	480.2
Total assets less current liabilities		8,346.1	7,741.8	647.0	625.7
Creditors (amounts falling due after more than one year)	5	(92.0)	-	(0.3)	-
Provisions for liabilities and charges	6	(8.0)	(17.9)	-	-
Net assets employed		8,246.1	7,723.9	646.7	625.7
Capital employed	7	8,246.1	7,723.9	646.7	625.7

Cash flow statements

for the years ended 31 March

	Note	Transmission		Interconnectors	
		2003 £m	2002 £m	2003 £m	2002 £m
Net cash inflow from operating activities	8	662.7	699.1	34.2	33.5
Capital expenditure					
Payments to acquire tangible fixed assets		(420.0)	(300.5)	(0.6)	(1.5)
Receipts from disposals of tangible fixed assets		1.1	-	-	-
Transfers from other businesses		-	0.3	-	(11.1)
Net cash outflow for capital expenditure and financial investments		(418.9)	(300.2)	(0.6)	(12.6)
Net cash inflow before financing		243.8	398.9	33.6	20.9
Represented by:					
Movement in inter-business balances		243.8	477.7	33.6	20.9
Decrease in cash		-	(78.8)	-	-
		243.8	398.9	33.6	20.9

The accounts on pages 3 to 8 inclusive were approved by the Board of Directors of National Grid Company plc on 19 May 2003 and were signed on its behalf by :

S J Holliday, Director

N Moore, Director

Notes to the accounts

1. Operating costs

	Transmission		Interconnectors	
	2003	2002	2003	2002
	£m	£m	£m	£m
Depreciation	181.4	165.8	13.5	13.3
Payroll costs	77.3	81.4	0.5	0.5
Rates	94.5	97.5	3.2	3.1
Balancing Services Incentive Scheme direct costs	251.6	203.8	-	-
Other operating charges	150.5	167.5	22.5	26.0
	755.3	716.0	39.7	42.9

Operating costs in respect of the transmission business include research and development costs amounting to £4.0m (2002 - £6.2m).

Of the total Group audit fee, £624,000 (2002 - £601,000) is attributed to the Separate Businesses and is included within other operating charges. Of this, £272,000 (2002: £270,000) relates specifically to regulatory reporting, £275,000 (2002: £255,000) to the audit of the consolidated statutory accounts of National Grid Company plc and £77,000 (2002: £76,000) to other services.

Exceptional reorganisation costs of £26.1m (2002: £39.8m) were charged to operating profit in 2002/03 as the Transmission business enacted restructuring plans to rationalise the number of business locations and streamline business processes.

Notes to the accounts

2. Tangible fixed assets

	Transmission £m	Interconnectors £m
Gross value at 1 April 2002	5,181.8	390.4
Additions	390.2	0.6
Disposals	(45.8)	(0.1)
Transfer capital contributions to deferred income	124.5	0.3
Transfers from other businesses	0.3	-
Gross value at 31 March 2003	5,651.0	391.2
Depreciation at 1 April 2002	(1,720.3)	(244.9)
Charge for the year	(181.4)	(13.5)
Disposals	44.5	0.1
Transfer capital contributions to deferred income	(35.2)	-
Transfers from other businesses	-	-
Depreciation at 31 March 2003	(1,892.4)	(258.3)
Net asset value at 31 March 2003	3,758.6	132.9
Net asset value at 31 March 2002	3,461.5	145.5

	2003 £m	2002 £m	2003 £m	2002 £m
The net asset value comprises:				
Land and buildings	83.2	77.4	-	-
Plant and machinery	3,047.7	2,907.0	119.9	132.5
Assets in the course of construction	601.8	451.6	12.9	12.8
Motor vehicles and office equipment	25.9	25.5	0.1	0.2
	3,758.6	3,461.5	132.9	145.5

	2003 £m	2002 £m	2003 £m	2002 £m
The net asset value of land and buildings comprises:				
Freehold	76.3	70.5	-	-
Long leasehold (over 50 years)	2.7	2.7	-	-
Short leasehold (under 50 years)	4.2	4.2	-	-
	83.2	77.4	-	-

Notes to the accounts

3. Debtors

	Transmission		Interconnectors	
	2003	2002	2003	2002
	£m	£m	£m	£m
Trade debtors	22.8	12.3	3.9	0.3
Inter-separate business balances	4,825.8	4,582.0	508.7	475.1
Other debtors	5.8	6.5	-	-
Prepayments and accrued income	36.0	45.4	3.4	7.9
	4,890.4	4,646.2	516.0	483.3

Included within transmission other debtors are amounts falling due after more than one year of £2.4m (2002:£2.9m)

Inter-Separate Business balances substantially represent accumulated net income. Cash is received within the corp division of National Grid Company plc rather than within the Separate Businesses.

4. Creditors (amounts falling due within one year)

	Transmission		Interconnectors	
	2003	2002	2003	2002
	£m	£m	£m	£m
Trade creditors	213.3	323.4	0.3	0.3
Accruals and deferred income	40.3	22.1	0.7	1.7
Social security and other taxes	21.7	20.9	0.9	1.0
Other creditors	41.4	11.6	-	0.1
	316.7	378.0	1.9	3.1

The analysis of 'trade creditors' and 'accruals and deferred income' have been split in the above disclosure. In previous years they have been aggregated.

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

	Transmission		Interconnectors	
	2003	2002	2003	2002
	£m	£m	£m	£m
Accruals and deferred income	92.0	-	0.3	-

6. Provisions for liabilities and charges

	Transmission		Interconnectors	
	£m		£m	
At 1 April 2002		17.9		-
Additions		6.5		-
Utilised in the year		(16.3)		-
Other Movements		(0.1)		-
At 31 March 2003		8.0		-

The provisions balance at 31 March 2003 relates to onerous costs in respect of vacant property and are expected to be utilised over 5 years. The provisions at 31 March 2002 also included severance and reorganisation costs.

Notes to the accounts

7. Movement in capital employed

	Transmission £m	Interconnectors £m
At 1 April 2002	7,723.9	625.7
Operating profit for the year	522.2	21.0
At 31 March 2003	8,246.1	646.7

8. Cash flow statements

Reconciliation of operating profit to net cash inflow from operating activities:

	Transmission		Interconnectors	
	2003 £m	2002 £m	2003 £m	2002 £m
Operating profit	522.2	484.9	21.0	20.2
Depreciation	181.4	165.8	13.5	13.3
Profit on disposal of tangible fixed assets	(0.2)	-	-	-
Increase in stock	(1.7)	(0.1)	-	-
(Increase) / decrease in debtors	(0.4)	84.9	0.9	(2.2)
(Decrease) / increase in creditors	(28.7)	(54.3)	(1.2)	2.2
(Decrease) / increase in provisions	(9.9)	17.9	-	-
Net cash inflow from operating activities	662.7	699.1	34.2	33.5

Included within the movement in creditors in the year, is the effect of a non-cash transaction of £89.3m (Transmission) and £0.3m (Interconnectors). This relates to the transfer of capital contributions from fixed assets to accruals and deferred income on 1st April 2002.