

Appendix I

National Grid Electricity Transmission plc Balancing Mechanism Audit

Review approach for the year ending 31 March 2007

PricewaterhouseCoopers LLP

13 March 2007

Review approach

For the year ending 31 March 2007

Table of contents

	Page
I Introduction-----	3
Basis for review-----	3
II Scope of the BM Audit as defined in the BSC -----	5
The compilation and submission of Final Physical Notification ('FPN') Data-----	5
The compilation and submission of Bid-Offer Data -----	6
The compilation and submission of Bid-Offer Acceptance Data -----	6
The submission of other data-----	7
III Relationship with the BSC Auditor-----	8
IV Key dates, materiality and reporting arrangements -----	9
Reporting-----	9
Materiality -----	10
Ways of working -----	10
Letter of representation -----	10
V Preliminary assessment of key risks-----	11
VI More detailed description of our proposed review approach-----	14
The compilation of Final Physical Notification data, Bid/Offer data and Bid/Offer Acceptance data-----	14
The transfer to the BMRA, SAA and BSCCo of validated FPN and Bid-Offer data, Bid-Offer Acceptance Data and other required data -----	15
General IT Controls Testing -----	15
Appendix A - draft of our proposed review opinion-----	17
Appendix B - summary of International Standards of Auditing applicable to this review -----	20

Review approach

For the year ending 31 March 2007

I Introduction

- 1.1 The introduction of the New Electricity Trading Arrangements ('NETA') on 27 March 2001 required National Grid Electricity Transmission plc ('NGET') to submit certain data to the Balancing Mechanism Reporting Agent ('BMRA') and Settlement Administration Agent ('SAA'). This obligation is set out in Section Q of the Balancing and Settlement Code ('BSC'), to which NGET as the Transmission Company is a signatory.
- 1.2 The BSC also requires NGET to appoint a Balancing Mechanism Auditor ('BM Auditor') to review the compilation and submission of the data referred to in paragraph 1.1 above. The results of the BM Auditor's work are to be forwarded to the BSC Auditor, who will issue an opinion on the operation of the Balancing and Settlement Systems and, in so doing, will place reliance on the work of the BM Auditor.
- 1.3 This document sets out our review approach in our role as BM Auditor for the year ending 31 March 2007. The document has two main purposes:
 - to communicate to NGET and the BSC Auditor our proposed approach to the BM Audit; and
 - to provide an internal planning document, at an overview level, of our review approach.

Basis for review

- 1.4 The basis for our appointment as BM Auditor is set out in Section H 5.1.6 of the BSC. This states that "The following matters shall be audited by an independent auditor of internationally recognised standing appointed by the Transmission Company (the "BM Auditor"):
 - (a) the compiling and submission of Final Physical Notification ('FPN') 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."
- 1.5 This Review Approach has been prepared by PricewaterhouseCoopers LLP and accepted by NGET as the basis for the current year's audit, as required in the contractual arrangements in place between PricewaterhouseCoopers LLP and NGET in respect of this audit.

Review approach

For the year ending 31 March 2007

- 1.6 Our review work will be carried out in accordance with the relevant International Standards of Auditing and Auditing Guidelines issued by the Auditing Practices Board which we consider relevant to this review. Our assessment of the current Auditing Standards and Auditing Guidelines that we consider appropriate for this review is set out in Appendix B.
- 1.7 We set out the remainder of this document as follows:
- *Section 2* an explanation of the scope of the BM Audit as set out in the BSC
 - *Section 3* a description of our relationship with the BSC Auditor
 - *Section 4* a description of the key dates, materiality and reporting arrangements applicable to the review
 - *Section 5* our preliminary assessment of the key risks that we perceive to be relevant to the review, and our proposed response to such risks
 - *Section 6* a more detailed description of our proposed review approach
 - *Appendix A* a draft of our proposed review opinion
 - *Appendix B* a summary of UK Auditing Standards and Guidelines that we consider applicable to this review
- 1.8 This document has been prepared in the expectation that both NGET and the BSC Auditor (as recipients of our report) will have sufficient knowledge of the Balancing and Settlement systems to understand and evaluate the contents without further background explanation.

Review approach

For the year ending 31 March 2007

II Scope of the BM Audit as defined in the BSC

- 2.1 The overall scope of the BM Audit is defined, as referred to above, in Section H 5.1.6 of the BSC. Our review will include:
- (a) reviewing the relevant computer systems and/or internal operating procedures that NGET have in place that enable us to achieve the specific objectives as set out in paragraph 1.4 above;
 - (b) testing on a sample basis to the extent we think necessary, the ongoing operation of the relevant computer systems and/or internal operating procedures during the year subject to review; and
 - (c) testing on a sample basis to the extent we think necessary, the data processed by the relevant computer systems and/or internal operating procedures during the year subject to review.
- 2.2 Section H 5.1.6 of the BSC refers to Section Q: Balancing Mechanism Activities of the BSC where the obligations on NGET in respect of the compilation and submission of Balancing Mechanism data is described in more detail. We describe below the scope of the BM Audit by reference to the Balancing Mechanism activities described in Section Q of the BSC.

The compilation and submission of Final Physical Notification ('FPN') Data

- 2.3 Section Q 6.2.1 (a) of the BSC requires NGET, as the Transmission Company, to send to the SAA in respect of each Settlement Day, "the Final Physical Notification Data established pursuant to paragraph 3.2 [of Section Q] in respect of each Settlement Period within such Settlement Day" within the target time of 15 minutes following the end of the relevant Settlement Day. Section Q 6.1.11 requires the same data to be submitted to the BMRA not later than 15 minutes following Gate Closure.
- 2.4 In respect of the Final Physical Notification Data, the scope of the BM Audit covers:
- (a) the submission of FPN data to the SAA and BMRA; and
 - (b) the timeliness of the provision of such data against the target times set out in Section Q of the BSC.
- 2.5 The scope of the BM Audit will not include the application of default FPN Data required where Physical Notification Data for a Settlement Period is not provided by a BM Unit prior to Gate Closure.

Review approach

For the year ending 31 March 2007

The compilation and submission of Bid-Offer Data

- 2.6 Section Q 6.2.1 (d) of the BSC requires NGET to submit Bid-Offer data to the SAA in respect of each Settlement Period within 15 minutes of the end of the relevant Settlement Day. Section Q 6.1.12 requires the same data to be submitted to the BMRA not later than 15 minutes following Gate Closure.
- 2.7 In addition to the above, Section Q 4.2.1 of the BSC sets out an obligation on NGET to apply default data to Bid-Offer Pair data in the event that, “in respect of a relevant BM Unit and a Settlement Period, no Bid-Offer Pairs are received by the Transmission Company...”
- 2.8 In respect of Bid-Offer data, the scope of the BM Audit covers:
- (a) the submission of Bid-Offer data to both the SAA and BMRA;
 - (b) the timeliness of the provision of such data against the target times set out in Section Q of the BSC; and
 - (c) the application of default data to Bid-Offer Pair data.

The compilation and submission of Bid-Offer Acceptance Data

- 2.9 Section Q 5.1 and 5.3 of the BSC describe on what basis NGET may accept Bid-Offer Data and in what form the notification of the resulting Acceptance must take. Section Q 5.2 details data items with which the Acceptance must be consistent for the Acceptance to be considered valid. Finally, Sections Q 6.1.12 and 6.2.1 (e) require, respectively, NGET to submit Acceptance Data to the BMRA in respect of each Settlement Period not later than 15 minutes following Gate Closure and to submit the same data to the SAA within 15 minutes of the end of the relevant Settlement Day.
- 2.10 In respect of Acceptance Data, the scope of the BM Audit covers:
- (a) the preparation of data in respect of the acceptance of a Bid or Offer in the Balancing Mechanism;
 - (b) the validity of the Acceptance Data prepared by reference to its consistency with the data items detailed in paragraph 5.2 of Section Q of the BSC;
 - (c) the submission of Acceptance Bid-Offer data to both the SAA and BMRA; and
 - (d) the timeliness of the provision of such data against the target times set out in Section Q of the BSC.

Review approach

For the year ending 31 March 2007

The submission of other data`

- 2.11 Section Q 6 of the BSC requires NGET to notify the BMRA and SAA of various other data items during the course of the Settlement Day. The required data and the target timescales by which it should be submitted to the BMRA and SAA are detailed in Sections Q 6.1 to Q 6.4 and include:
- (a) data that BM Units submit to NGET, such as: Dynamic Data Sets; Maximum Export Limit and Maximum Import Limit; and Quiescent Physical Notification data. NGET is required to submit any change in this data to the BMRA within the target time of 5 minutes following the receipt of the notification of the change and to submit any changes to the SAA within 15 minutes of the end of the Settlement Day to which the change relates;
 - (b) data that is calculated by NGET, such as: demand forecast, indicated margin, indicated imbalance, indicated demand, indicated generation on both a national and zonal basis; Initial National Demand Out-turn; Balancing Services Adjustment Data and Applicable Balancing Services Volumes generation data. NGET is required to submit forecast data on a rolling basis for 52 week, 2 week and day ahead timescales. The required frequency and submission target times for this data is set out in Sections Q 6.1 to Q 6.4; or
 - (c) notification of System Warnings as required by Section Q 6.1.14.
- 2.12 In respect of other data described in Sections Q 6.1 to Q 6.5, the scope of the BM Audit covers:
- (a) the submission of the data to the SAA, the BSCCo and the BMRA as required; and
 - (b) the timeliness of the provision of such data against the target times set out in Section Q 6.
- 2.13 Where Ofgem approves Modification Proposals to the BSC, and those changes have an impact on the sections of the BSC within the scope of the work conducted for the purposes of the BM Audit, we will amend our testing accordingly. There have been no such changes in the period from 1 April 2006 to date.
- 2.14 Ofgem may approve additional Modification Proposals to the BSC during the year to 31 March 2007, and those approvals result in an amendment to the BSC with an implementation date prior to 31 March 2007, we will assess the implications of the modifications in respect of the BM Audit and amend our audit work accordingly.
- 2.15 The scope of the BM Audit does not include the calculation of the data in paragraph 2.11(b) above, in particular it does not include the calculation of Balancing Settlement Adjustment Data and Applicable Balancing Services Volumes which are required in the calculation of System Sell Price and System Buy Price. The scope of the BM Audit does also not include the validity of data submitted on behalf of BM Units to NGET, but is restricted to reviewing the onward submission of this data to the BMRA, SAA or ECVAA, as required.

Review approach

For the year ending 31 March 2007

III Relationship with the BSC Auditor

- 3.1 The work carried out by the BM Auditor is to provide assurance to the BSC Auditor that activities for which NGET is responsible and that are within the scope of the BM Audit, as defined in the BSC, are performed in accordance with the requirements of the BSC. As such the BSC Auditor will be copied with all formal reports, as described later in this document, prepared as a result of the BM Audit.
- 3.2 In addition, the BSC Auditor has the right to attend formal planning meetings between the BM Auditor and NGET and also the clearance meetings that will be held in each review year.
- 3.3 We have agreed with NGET that we will liaise with the BSC Auditor both in the preparation of this approach document and as our review progresses such that the BSC Auditor is kept informed on the progress of our review and any significant issues arising. However, the BSC Auditor acknowledges that any oral or draft reporting, which we might provide, will not constitute our definitive opinions and conclusions. These will be contained solely in our formal reports.

Review approach

For the year ending 31 March 2007

IV Key dates, materiality and reporting arrangements

4.1 The BSC Panel has agreed that the BSC Auditor should issue his opinion for the year ending 31 March 2007. We have planned the BM Audit for the year ending 31 March 2007 so that the results arising from the BM Audit can be subsumed as part of that BSC Audit opinion.

Reporting

4.2 We plan to produce our final reports for the year ending 31 March 2007 by 11 May 2007.

4.3 In addition to the year end opinion, if we consider it appropriate, we will prepare a BM Audit Issues report setting out any specific control issues which we identify and which we believe are of sufficient importance to warrant communication to NGET and the BSC Auditor.

4.4 All our reports will be addressed to NGET with a copy being provided to the BSC Auditor for him to rely on. It is our intention that as recipients of our reports, NGET and the BSC Auditor will be able to rely upon those reports, with the BM Auditor owing no duty of care to any other party.

4.5 All documents will be discussed with NGET's Network Operations Director, or his nominee, before being issued.

4.6 The reporting arrangements in prior periods have been such that the results of our work have been subsumed within the overall BSC period-end review opinion. The BSC Auditor has then delivered the BSC Audit Report to the BSC Panel, and provided a copy of that report to each Trading Party, Ofgem and the Transmission Company. Furthermore, in preparing his BSC period-end review opinion, the BSC Auditor has previously placed some reliance on our audit work as detailed in our Approach documents relating to prior periods.

4.7 We are also aware that in prior periods ELEXON Limited ('ELEXON'), on behalf of the BSC Panel, has produced in conjunction with the BSC Auditor a version of the BSC Audit report that was suitable for publication. This version of the BSC Audit report has been posted on the ELEXON web-site as well as being provided to any person who may request it. The report posted to the website contained a statement from ELEXON informing all readers that it was not intended that they should be able to place reliance on the opinion.

4.8 To meet the requirements of Section H 5.7.4 of the BSC in respect of providing all participants with an appropriate level of transparency of the BM Audit, it has been previously agreed by NGET, ELEXON and PwC that the BM Audit report provided to the Directors of NGET shall be made available on the NGET website. Whilst access to this report has not been restricted, it is subject to the agreement by the reader of certain terms and conditions

Review approach

For the year ending 31 March 2007

Materiality

4.9 The BM Audit will be undertaken using the same level of materiality as is set for the BSC Audit. For the year ending 31 March 2007 we understand that the materiality for the BSC Audit will be 1.65TWh. Accordingly, we will use a materiality of 1.65TWh for the BM Audit for the year ending 31 March 2007.

Ways of working

4.10 If we identify any significant issues arising from our review, these will be brought promptly to the attention of the Network Operations Director at NGET, or his nominee.

4.11 We will hold meetings with the Network Operations Director, or his nominee, at the end of our visit, to discuss the overall findings of our work.

Letter of representation

4.12 To increase our assurance in those areas of our review where we are unable to obtain adequate corroborative evidence and it is reasonable for us to expect such evidence not to be available, we are likely to request a letter of representation from NGET's Group Director, UK & US Transmission, for the year ending 31 March 2007. This letter of representation will need to be dated not earlier than one week before the date of our review opinion.

Review approach

For the year ending 31 March 2007

V Preliminary assessment of key risks

- 5.1 In planning our review, we assess the risk of a significant non-compliance of the areas within the scope of our review. Our assessment of risk is principally obtained from:
- (a) our understanding of the processes and procedures relevant to the Balancing Mechanism activities undertaken by NGET and within the scope of the BM Audit;
 - (b) the risks noted during the BM Audit for the period ended 31 March 2006; and
 - (c) regular discussions with senior employees of Network Operations.
- 5.2 Throughout our work, we will continue to monitor developments that impact Balancing Mechanism activities and where we identify a resulting risk in respect of our review we will assess the risk and determine an appropriate review response. Circumstances may result in us increasing the number of days or areas to be reviewed. Any change to the extent of our review will be discussed and agreed with NGET prior to commencing such work.
- 5.3 We intend to select eight Settlement Days for testing in the year ending 31 March 2007. The selection of the particular days to be reviewed will be based solely on our assessment of risk, and will represent a mix of “normal” days and other days where circumstance would suggest a higher risk of non-compliance with the BSC. This may include weekends, clock change days or days around a specific event.
- 5.4 We have identified the following specific matters and areas of change to Balancing Mechanism activities that, by their nature, represent areas of risk. These may impact the compliance of NGET with the requirements of the BSC for the year ending 31 March 2007, and we intend to address each risk by performing appropriate levels of testing as we consider necessary.

Review approach

For the year ending 31 March 2007

Risk	Our response
<p>System changes</p> <p>The introduction of NETA required NGET to develop and implement new computer systems and surrounding processes relating to Balancing Mechanism activities. In turn, this required Network Operations staff to become familiar with new operating procedures and controls. These systems have been in place for in excess of 5 years, but there continue to be revisions to the systems and procedures as the BSC is refined and changed.</p>	<p>We will maintain close contact with Network Operations staff at NGET and follow up all instances of ‘operator error’ to assess whether such incidents should be considered isolated incidents or indicative of a more systematic misunderstanding or control weakness in the system. We will also consider initially increasing the sample size for substantive tests until we have accumulated evidence that controls and procedures are operating consistently as required</p>
<p>Implementation of BETTA</p> <p>The major change to the BM in recent audit periods has been the implementation of BETTA, which introduced GB-wide trading arrangements. The arrangements went live in April 2005 without experiencing any significant delays or problems.</p>	<p>This risk is no longer applicable.</p>
<p>System failures</p> <p>System failures and the actions required to subsequently recover systems and potentially data are events that increase the risk of error or actions that are not consistent with the BSC.</p>	<p>Through discussion with Network Operations staff and review of help desk fault logs, we will identify any system problems experienced, including failures of EDL/EDT links. We will determine the impact of any such failures on operational activities and review recovery actions taken.</p>

Review approach

For the year ending 31 March 2007

Risk	Our response
<p>Manual data entry during outages</p> <p>Where data is required to be input manually into the system, there is a greater risk of error than where this is performed electronically using a stable and proven system. Also, where system failure, including failure of communication links, requires fall back to manual processes there is again a greater risk of error as operations staff implement processes they are less familiar with.</p>	<p>As part of our more detailed planning for the assignment we will identify key manual inputs and interactions with the systems and will tailor our review work programme to address the inherent risk of these activities.</p> <p>As above we will identify, through discussion with Network Operations staff and review of appropriate event logs, periods where manual processes were implemented and develop appropriate tests to review the validity of actions taken.</p>

Review approach

For the year ending 31 March 2007

VI More detailed description of our proposed review approach

6.1 We design our testing to provide reasonable, but not absolute, assurance that Balancing Mechanism activities are carried out in accordance with the requirements of the BSC. Our review will comprise a review of relevant computerised and manual systems coupled with compliance testing of Network Operation's internal controls and substantive testing of data. Where adequate control processes exist we will seek to place reliance on them. In areas where we have identified specific risks, or where weaknesses have been identified in the operation of specific internal controls, these compliance tests will be supplemented by substantive tests of detail of the relevant underlying data.

6.2 Our proposed work can be divided into the main areas shown below (although this is not intended to be an exhaustive list).

The compilation of Final Physical Notification data, Bid/Offer data and Bid/Offer Acceptance data

6.3 Validity of data:

- Sample testing of Bid/Offer acceptances, confirming that the required data is present
- Sample testing Final Physical Notification data to ensure correctly derived from Initial Physical Notification data

6.4 Default data:

- Sample testing Bid/Offer data items that have been defaulted, confirming that the correct default data has been applied
- Sample testing defaulted Bid/Offer data items, confirming that a valid Bid/Offer data submission was not made by the market participant

6.5 Incidents/exceptions:

- Reviewing incidents where electronic transfer has been interrupted and actions taken to ensure no data files have been lost/duplicated
- Reviewing any correspondence/help desk queries from market participants questioning rejection of a data file

Review approach

For the year ending 31 March 2007

The transfer to the BMRA, SAA and BSCCo of validated FPN and Bid-Offer data, Bid-Offer Acceptance Data and other required data

6.6 Accuracy, completeness and timeliness of data:

- Confirming on a sample basis that data (e.g. validated FPN from “operational database”, bids/ offers accepted from log file) agrees to data written to the BMRA/SAA/Balancing and Settlement Code Company (“BSCCo”) directory
- Confirming on a sample basis that data written to the BMRA/SAA/BSCCo directory agrees to valid data held within SORT (e.g. validated FPN from “operational database”, bids/ offers accepted from log file)
- Confirming on a sample basis that the date and time that data was written to the BMRA/SAA/BSCCo directory is within the agreed target timescales

6.7 Incidents/exceptions:

- Reviewing any incidents where electronic transfer has been interrupted and actions taken to ensure no data files have been lost/ duplicated
- Reviewing any correspondence / help desk queries from market participants questioning rejection of a data file

General IT Controls Testing

6.8 A feature of Balancing Mechanism activities is the increased reliance on automated procedures embedded within the IT system (“programmed procedures”) compared to the scheduling process in place prior to NETA. The majority of transactions regarding input and output of data will be sent and processed electronically. Consequently, we plan to obtain assurance over these procedures by reviewing the strength of the IT controls existing over these areas.

Review approach

For the year ending 31 March 2007

6.9 Our review will focus on:

- Controls over changes to the IT applications supporting the BM activities;
- Controls over the operations supporting the BM environment;
- Controls over access to programs and data;
- Controls over development activity; and
- Controls over governance of the IT function supporting BM activities.

6.10 In addition, we will record and test any controls, which we assess as key and therefore on which we intend to rely.

Review approach

For the year ending 31 March 2007

Appendix A - draft of our proposed review opinion

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

11 May 2007

Reference: ER/DG

Dear Sirs

Balancing Mechanism Auditor's report for the year ended 31 March 2007

- 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 ("National Grid") within the Balancing and Settlement Code ("BSC"), for the year ended 31 March 2007. 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 Terms of Reference agreed between ourselves and National Grid, dated 8 March 2004.
- 3 Our Terms of Reference include an agreement limiting the total liability of PricewaterhouseCoopers LLP to National Grid 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 National Grid and Balancing Mechanism Auditor

- 5 National Grid'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 National Grid to appoint a BM Auditor to review the compilation and submission of the data referred to in paragraph 5.

Review approach

For the year ending 31 March 2007

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;
- (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.

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 National Grid 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 13 March 2007 ("Approach Document"), as previously distributed to National Grid and the BSC Auditor. The Approach Document includes specific reference to the 1.65TWh level of materiality that we have agreed with National Grid 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 National Grid 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 National Grid to eliminate or reduce such risks.

Opinion

11 In our opinion, National Grid has complied with the BSC, in all material respects, during the year ended 31 March 2007, 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

Review approach

For the year ending 31 March 2007

- (d) The submission of other data by the Transmission Company pursuant and in accordance with Section Q6.

Use of this report

- 12 This opinion is intended solely for the use of the Directors of National Grid 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 National Grid'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 their role as BSC Auditor)

Review approach

For the year ending 31 March 2007

Appendix B - summary of International Standards of Auditing applicable to this review

ISA Title	Applicability
200 Objective and general principles governing an audit of financial statements	Applicable. Although not a financial statements audit, the objectives and principles governing a financial statement audit are applicable to the BM Audit.
210 Terms of audit engagements	Applicable.
220 Quality control for audit work	Applicable.
230 Audit Documentation	Applicable.
240 The auditor's responsibility to consider fraud in an audit of financial statements	Applicable.
250 Consideration of laws and regulations in an audit of financial statements	Not applicable. The ISA applies to law and regulations that may materially affect financial statements. The objective of the BM Audit is to establish compliance with stated regulations.
260 Communication of audit matters with those charged with governance	Applicable.
300 Planning an audit of financial statements	Applicable.
315 Understanding the entity and its environment and assessing the risks of material misstatement	Applicable
320 Audit materiality	Applicable.
330 The auditor's procedures in response to assessed risks	Applicable
402 Audit considerations relating to entities using service organizations	Not applicable. No contractual relationships exist with Service Organisations.
500 Audit evidence	Applicable.
501 Audit evidence- additional considerations for specific items	Applicable

Review approach

For the year ending 31 March 2007

Appendix B - summary of International Standards of Auditing applicable to this review

ISA Title	Applicability
505 External confirmations	Applicable (independent confirmation of events)
510 Initial engagements - opening balances	Not Applicable as this is not a financial audit
520 Analytical procedures	Applicable.
530 Audit sampling and other means of testing	Applicable.
540 Audit of accounting estimates	Not applicable. No estimates used.
545 Auditing fair value measurements and disclosures	Not applicable, no valuation of assets involved
550 Related parties	Not applicable. No related party disclosure required as not a financial statements audit.
560 Subsequent events	Applicable.
570 Going concern	Not applicable. Not a financial statements audit.
580 Management representations	Applicable.
600 Using the work of another auditor	Applicable in so far as BM Audit report relied on by BSC Auditor.
610 Considering the work of internal audit	Applicable.
620 Using the work of an expert	Not applicable. No plans to use other experts.
700 The Auditor's report on financial statements	Applicable, in so far as an opinion is issued as a result of the review.
701 Modifications to the independent auditor's report	Applicable, in so far as an opinion is issued as a result of the review.
710 Comparatives	Not Applicable
720 Other information in documents containing audited financial statements	Not applicable. Other information containing audited financial statements is not relevant to the scope of the BM Audit.

Review approach

For the year ending 31 March 2007

Appendix B - summary of International Standards of Auditing applicable to this review

ISA Title	Applicability
800 The auditor's report on special purpose audit engagements	Applicable, in so far as an opinion is issued as a result of the review.