

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

The Gas and Electricity Markets Authority
9 Millbank
LONDON
SW1P 3GE

17 December 2009

Our ref: ER/DJG

Dear Sirs

Report on compliance with the Balancing Principles Statement for the year ended 30 September 2009 ("the Year")

- 1 We have reviewed the extent to which National Grid Electricity Transmission plc ("NGET"), in its procurement and use of Balancing Services, has complied with the Balancing Principles Statement ("BPS") for the year ended 30 September 2009. We have undertaken this review in accordance with the with the Form of Agreement 4538/03/SW agreed between ourselves and National Grid Company Plc on 8 March 2004, and subject to Amendment Number 3 which was agreed on 7 August 2008.
- 2 Unless the context otherwise requires, words and expressions defined in the BPS, which is a document prepared by NGET 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:
 - Version 8.0 dated 1 April 2008; and
 - Version 9.0 dated 1 April 2009.

Respective responsibilities of NGET and Balancing Principles Statement Auditor

- 3 NGET 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 NGET 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 NGET has not complied with the BPS, in respect of Balancing Services.

Basis of review and scope of work

- 4 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'.
- 5 We have planned and performed our review in accordance with our review approach dated 13 November 2009, which we have agreed with NGET and which is set out in our document "Supplement to the Balancing Principles Statement report for the year ended 30 September 2009" ("the Supplement") which we have sent to both NGET and the Office of Gas and Electricity Markets ("Ofgem").
- 6 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 NGET, and of the estimates and judgements made by NGET in using Balancing Services. This report should be read in conjunction with the Supplement.
- 7 In reaching our conclusion we assessed the risk of a material breach of the way NGET 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 NGET to eliminate or reduce such risks.


Conclusion

- 8 Based on our review, nothing has come to our attention that causes us to believe that, for the Year, NGET 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

- 9 This report is intended solely for the use of the Directors of NGET and Ofgem. While we acknowledge that this report will be published on the NGET 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.
- 10 The maintenance and integrity of that website is the responsibility of the Directors of NGET. 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.
- 11 This report has been prepared in the expectation that NGET and Ofgem will have sufficient experience of Balancing Services to understand the scope of our review without further background explanation.

Yours faithfully


PricewaterhouseCoopers LLP, Birmingham
Chartered Accountants and Registered Auditors