



The Directors  
National Grid Gas plc  
National Grid House  
Warwick Technology Park  
Gallows Hill, Warwick  
CV34 6DA

24 June 2014

Dear Sirs

**Report on compliance with the UK Transmission System Management Principles Statement for the year ended 31 March 2014 (“the Year”)**

- 1 We have reviewed the extent to which National Grid Gas plc (“National Grid Gas”), in its procurement and use of system management and balancing services, has complied with the UK Transmission System Management Principles Statement (“Transmission SMPS”) in the Year.
- 2 Unless the context otherwise requires, words and expressions defined in the Transmission SMPS, which is a document prepared by National Grid Gas pursuant to Part C of Special Condition 8A of its Public Gas Transporter Licence, have the same meanings in this report as in that statement. All references to the Transmission SMPS refer to version 3.2, effective January 2013 and version 3.3, effective February 2014.

**Respective responsibilities of National Grid Gas and the UK Transmission System Management Principles Statement Auditor**

- 3 National Grid Gas is responsible for taking all reasonable steps to ensure its compliance with the Transmission SMPS in respect of its use of system management services. It is our responsibility, within our terms of reference, to review on a sample basis, the compliance of National Grid Gas with the Transmission SMPS in respect of the use of system management services. This work is performed with a view to expressing an independent opinion as to whether any non-compliances with the Transmission SMPS, which in aggregate we consider material, have come to our attention, which would make us believe that National Grid Gas has not complied with the Transmission SMPS in the use of system management 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 which we have agreed with National Grid Gas and which is set out in our document “UK Transmission System Management Principles Statement – Approach Document” (“the Supplement”), effective November 2013. This document sets out the objectives of our work and the nature of

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the opinion that we plan to issue for the Transmission SMPS review for the Year and has been sent to both National Grid Gas 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 system management 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 sample basis, of both the system management services procured and used by National Grid Gas, and of the estimates and judgements made by National Grid Gas in using system management services. This report should be read in conjunction with the attached Supplement.
- 7 In reaching our conclusion we assessed the risk of a material breach of the way National Grid Gas has used system management services compared with the requirements of the Transmission SMPS, whether caused by fraud or other irregularity or error, and determined the adequacy of procedures and controls established by National Grid Gas to eliminate or reduce such risks.

### **Opinion**

- 8 In our opinion, National Grid Gas has in all material respects procured and used system management services in compliance with the Transmission SMPS for the year ended 31 March 2014.

### **Use of this report**

- 9 This report is intended solely for the use of the Directors of National Grid Gas and Ofgem. While we acknowledge that this report will be published on the National Grid Gas 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 the National Grid Gas website is the responsibility of the directors of National Grid Gas. The work that we carried out does not involve consideration of these matters 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 National Grid Gas and Ofgem will have sufficient experience of system management services to understand the issues raised without further background explanation and to evaluate the contents of this report in the context of the scope of our work.

Yours faithfully,

A handwritten signature in black ink, consisting of a stylized 'C' followed by a flourish and a long horizontal line extending to the right.

PricewaterhouseCoopersLLP, Chartered Accountants