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Public

Balancing Principles Statement Report for the period 1 April 2023 to 31 March 2024

NESO
National Energy System Operator

Contents

Introduction

The Balancing Principles Statement ('BPS') sets out, at a high level, the obligations and responsibilities of National Energy System Operator Limited ("NESO", previously National Grid Electricity System Operator Limited) in respect of the management of supply and demand over the Transmission System and has been written by NESO to be broadly consistent with NESO's Transmission Licence obligation to "operate the Transmission System in an efficient, economic and coordinated manner".

Standard Condition C16, paragraph 5(a) of the Transmission Licence requires NESO to:

"prepare a statement approved by the Authority [Ofgem] setting out (consistently with the Licensee's duty under paragraph 2 and consistently with its other duties under the Act [Electricity Act 1989] and the conditions of its Transmission License) the principles and criteria by which the Licensee will determine, at different times and in different circumstances, which balancing services the Licensee will use to assist in the operation of the Licensee's transmission system (and/or to assist in doing so efficiently and economically), and when the Licensee would resort to measures not involving the use of balancing services."

Further, Standard Condition C16, paragraph 5(d) requires that:

"The report prepared pursuant to sub-paragraph (c) shall be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the Licensee that they have carried out an investigation, the scope and objectives of which shall have been established by the Licensee and approved by the Authority, and they shall give their opinion as to the extent to which the Licensee has complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 8 of this condition."

It is to fulfil Standard Condition C16, paragraph 5(d), that NESO requires an independent external audit to be performed. For the year-ended 31 March 2024, PricewaterhouseCoopers LLP ('PwC') has been designated as the Balancing Principles auditor.

Scope of the Audit Engagement

Standard Condition C16 of NESO's Transmission Licence defines Balancing Services as:

- Ancillary Services;
- Offers and bids made in the Balancing Mechanism; and
- Other services available to NESO, which serve to assist it in operating the Transmission System in accordance with the Electricity Act 1989 and the Transmission Licence and/or in doing so efficiently and economically.

The BPS sets out the principles, criteria, and processes by which NESO determines, at different times and in different circumstances, which balancing services, NESO will use to assist in the efficient and effective operation of the Transmission System.

The purpose of the Balancing Principles assurance engagement is for the Balancing Principles auditor to form an independent opinion as to whether NESO, in all material respects, has carried out the activities comprising the Subject Matter Information as stated in the BPS (version 22.0, effective 1 April 2023) in respect of its procurement and use of Balancing Services during the year ended 31 March 2024.

For the purposes of the assurance engagement, the following activities as outlined in the BPS in relation to the procurement and use of Balancing Services are considered in-scope and form the 'Subject Matter Information':

- The receipt and validation of Settlement Data from market participants;
- The submission of data to market participants during the day-ahead and within-day balancing processes;
- NESO's adherence to internal operating procedures for activities that impact the call-off of Balancing Services during the day-ahead and within day balancing processes; and
- Bid Offer Acceptance in cost order during the day-ahead and within-day balancing processes.

The Reporting Criteria are the principles, criteria and processes, as outlined in the BPS, which relate to the Subject Matter Information.

Please note that the following activities as outlined in the BPS are out of scope for the purposes of the Balancing Principles assurance engagement:

- Emergency Instructions and Involuntary Reductions as described in the Code for use in preserving system security in exceptional circumstances;
- operational planning activities undertaken prior to the Day Ahead stage;
- specific requirements relating to actions extending beyond the end of the current BM window ('Beyond the Wall actions');
- engineering decisions taken in the calculation of transmission constraints and response/ reserve holdings;
- engineering decisions made in the call-off of Ancillary Services or acceptance of Bids and Offers in the balancing mechanism;
- the procurement of Balancing Services to provide services to external system operators via System-to-System Services;
- acceptance of arbitrage trades, or trades to reduce flows across Interconnectors, made within the Balancing Mechanism;
- the management and planning of Transmission System outages, including the treatment of BMUs disconnected by Transmission System faults;
- the implementation and operation of the Trans-European Replacement Reserve Exchange market;
- the use of 'other services' as referred to in the definition of Balancing Services in paragraph 4 (c) above; and
- the operation of the GB Transmission System in compliance with the National Electricity Transmission System Security and Quality of Supply Standard (NETS SQSS).

Furthermore, those aspects of the reporting criteria and/or activities comprising the Subject Matter Information that involve engineering decisions that NESO make are expressly excluded from the scope. Additionally, it is not the responsibility of the Balancing Principles auditor to:

- confirm that the BPS is consistent with the Transmission Licence and/or any other legislation/statutory obligations;
- confirm that system security has always been maintained; and/or
- review the accuracy of forecast demand as prepared by NESO compared to actual demand.

In interpreting the BPS and the rules, the Balancing Principles auditor will rely on NESO's interpretation for which it is responsible.

Directors' Statement on National Energy System Operator Limited's Balancing Principles Statement Report 2024

As the Directors of National Energy System Operator Limited ("NESO", previously National Grid Electricity System Operator Limited) we confirm that we are solely responsible for the preparation of the Balancing Principles Statement Report 2024 (the "Report"), including this Directors' Statement, and ensuring the reported information is supported by appropriate books and records. We confirm the Report provides a complete, accurate and balanced reflection of NESO's performance in relation to the Subject Matter Information, as defined below, and discloses, with supporting rationale, matters relevant to the intended users of the Report.

We are also responsible for interpreting the requirements of the NESO's Transmission Licence; and drafting, updating and owning the Balancing Principles Statement Version 22.0, effective 1 April 2023 (the "BPS") and for complying with the activities comprising the Subject Matter Information, as defined below and as stated in the BPS in respect of our procurement and use of Balancing Services during the year ended 31 March 2024. Our responsibilities include designing, implementing and maintaining systems, processes and internal controls over information relevant to the evaluation or measurement of the subject matter information, which is free from material misstatement, whether due to fraud or error, against the reporting criteria and ensuring those criteria are relevant and appropriate to NESO and the intended users of the Report. The Reporting Criteria are the principles, criteria and processes, as outlined in the BPS, which relate to the Subject Matter Information.

The activities set out below in relation to NESO's procurement and use of Balancing Services comprise the Subject Matter Information for the purpose of this Statement:

- The receipt and validation of Settlement data from market participants;
- The submission of data to market participants during the day-ahead and within-day balancing processes;
- NESO's adherence to internal operating procedures for activities that impact the call-off of Balancing Services during the day-ahead and within day balancing processes; and

- Bid Offer Acceptance in cost order during the day-ahead and within-day balancing processes.

All other principles, criteria and processes contained within the BPS are considered out-of-scope for the purposes of this Statement.

We confirm, to the best of our knowledge and belief, that we have, for the year ended 31 March 2024:

- established objective reporting criteria that is appropriate (including interpreting the Transmission Licence conditions where we considered necessary and appropriate) within the BPS;
- established and operated the activities comprising the Subject Matter Information in accordance the requirements of the BPS;
- designed, implemented and maintained internal controls and processes over information relevant to the activities comprising the Subject Matter Information and the BPS;
- presented information, including the reporting criteria, in a manner that provides relevant, complete, reliable, unbiased/neutral, comparable and understandable information; and
- performed the activities comprising the Subject Matter Information in accordance with the principles, criteria and processes, as outlined in the BPS, which relate to the Subject Matter Information.

Craig Dyke
For and on behalf of the Board of Directors of National Energy System Operator Limited
29 April 2026

Balancing Principles auditor's Independent Reasonable Assurance Report to the Directors of National Energy System Operator Limited

The Board of Directors of National Energy System Operator Limited ("NESO", previously National Grid Electricity System Operator Limited) engaged us to obtain reasonable assurance on whether NESO has, in its procurement and use of Balancing Services, in all material respects, performed the activities comprising the Subject Matter Information, as set out below, in accordance with the principles, criteria and processes as outlined in the Balancing Principles Statement Version 22.0, effective 1 April 2023 (the "BPS") which relate to the Subject Matter Information, also set out below and referred to in the Director's Statement, for the year ended 31 March 2024.

Our reasonable assurance opinion

In our opinion, based on the procedures performed and evidence obtained, NESO has, in respect of its procurement and use of Balancing Services, in all material respects, performed the activities comprising the Subject Matter Information in accordance with the Reporting Criteria for the year ended 31 March 2024.

Subject Matter Information and Reporting Criteria

The Subject Matter Information comprises the activities set out below in relation to NESO's procurement and use of Balancing Services which should be subject to the audit by the BPS auditor as required by Standard Condition C16, paragraph 5(d) of NESO's Transmission Licence:

- The receipt and validation of Settlement data from market participants;
- The submission of data to market participants during the day-ahead and within-day balancing processes;
- NESO's adherence to internal operating procedures for activities that impact the call-off of Balancing Services during the day-ahead and within day balancing processes; and
- Bid Offer Acceptance in cost order during the day-ahead and within-day balancing processes.

The Reporting Criteria are the principles, criteria and processes, as outlined in the BPS, which relate to the Subject Matter Information.

All other rules, principles, criteria, processes, and controls described in the BPS or required by the Transmission Licence are excluded from the scope of our independent assurance report.

Unless the context otherwise requires, words and expressions defined in the BPS, which is a document prepared by NESO pursuant to Paragraph 5(d) of Standard Condition C16 of its Transmission Licence, have the same meaning in this independent assurance report.

Inherent limitations

Because of their nature, the activities comprising the Subject Matter Information (whether alone, or in conjunction with other activities required under the BPS) may not prevent or detect and correct all errors or omissions in the procurement and use of Balancing Services. Furthermore, our opinion is based on historical information and the projection to future periods of any evaluation or conclusions about NESO's performance of the activities comprising the Subject Matter Information in respect of its procurement and use of Balancing Services would be inappropriate.

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Responsibilities of the Directors

As explained in the Directors' Statement on page 6 of the Balancing Principles Statement Report 2024 (the "Report"), the Directors of NESO are responsible for:

- preparing the BPS and establishing suitable Reporting Criteria against which to assess its procurement and use of Balancing Services. This includes: interpretating the NESO Transmission Licence conditions where they consider necessary and appropriate; and designing, implementing and maintaining policies, systems, processes and internal controls to support the activities comprising the Subject Matter Information, to achieve outcomes which are free from material misstatement, whether due to fraud or error; ensuring that performance of the activities comprising the Subject Matter Information are relevant and appropriate to NESO in the context of its procurement and use of Balancing Services, and the intended users of the Report;
- performing the activities comprising the Subject Matter Information in accordance with the Reporting Criteria; and
- producing the Report (other than this Balancing Principles auditor's Independent Reasonable Assurance Report to the Directors of National Energy System Operator Limited, and Appendix A – Assurance Approach sections), including underlying information and a statement of directors' responsibility, which provides a complete, accurate and balanced reflection of NESO's performance in relation to the Subject Matter Information and discloses, with supporting rationale, matters relevant to the intended users of the Report.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain reasonable assurance as to whether NESO has, in its procurement and use of Balancing Services, in all material respects, performed the activities comprising the Subject Matter Information in accordance with the Reporting Criteria;
- forming an independent opinion, based on the evidence we have obtained; and
- reporting our opinion to the Directors of NESO.

Professional standards applied

We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board.

Our independence and quality control

We have complied with the Institute of Chartered Accountants in England and Wales Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards).

We apply the International Standard on Quality Management (UK) 1 and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Materiality

We are required to plan and perform our work to assess the risks of material misstatement in the Subject Matter Information.

Based on our professional judgement, we determined materiality for the Subject Matter Information as, where a failure on NESO's part to perform activities as required by the Reporting Criteria would, in our opinion, result in a reasonable professional person, considering NESO's adherence to the BPS in the round, forming a different view as to whether NESO had complied with the BPS in its procurement and use of Balancing Services, dependent as to whether or not the matter was disclosed to them. In applying our judgement, we also considered the following factors:

- the number of persons and entities affected by the failure to perform activities comprising the Subject Matter Information;
- the effect of an adjustment which affects (in the past or the current audit period) whether NESO has carried out the activities comprising the Subject Matter Information in accordance with the Reporting Criteria, or is likely to affect the future;
- whether a misstatement is the result of an intentional or unintentional act;
- the extent to which the actual outcome would have been different had the activities comprising the Subject Matter Information in respect of the procurement and use of Balancing Services as set forth in the BPS had been carried out; and
- the aggregate impact of any failure to comply with the BPS.

Summary of work performed

We performed a reasonable assurance engagement. A reasonable assurance engagement involves performing procedures to obtain evidence about the Subject Matter Information in relation to the Reporting Criteria. The nature, timing and extent of procedures selected depend on professional judgement, including the assessment of risks of material misstatement, whether due to fraud or error, in the Subject Matter Information. In making those risk assessments, we considered internal control relevant to NESO's performance of the activities comprising the Subject Matter Information.

We have performed our work in accordance with our Assurance Approach which is included as Appendix A of the Report. Our work included an examination, on a test basis, of both the Balancing Services procured and used by NESO, and of relevant estimates and judgements made by NESO in procuring and using Balancing Services.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Furthermore, those aspects of the activities comprising the Subject Matter Information that involved engineering decisions that NESO made are excluded from the scope. Additionally, it is not the responsibility of the BPS auditor to:

- confirm that the BPS is consistent with the Transmission Licence and/or any other legislation/statutory obligations;
- confirm that system security has always been maintained; nor
- review the accuracy of forecast demand as prepared by NESO compared to actual demand.

In interpreting the BPS and NESO's Transmission Licence requirements, we relied on NESO's interpretation for which it is responsible.

Other information

The information included in the 'Introduction' section and Appendix B of the Report ("other information") is presented by NESO to provide additional information. The directors are responsible for the other information. Our assurance opinion does not extend to the other information and, accordingly, we do not express any form of assurance thereon. In connection with our assurance of the Subject Matter Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Subject Matter Information or our knowledge obtained during the assurance engagement, or otherwise appears to contain a material misstatement of fact. If we identify an apparent material inconsistency or material misstatement of fact, we are required to perform procedures to conclude whether there is a material misstatement of the Subject Matter Information or a material misstatement of the other information, and to take appropriate actions in the circumstances.

Use and distribution of our report

Our report, including our opinion, has been prepared solely for the Board of Directors of NESO in accordance with the agreement between us dated 1 October 2020, as amended (the "agreement") in connection with the requirement for independent assurance specified in Standard Condition C16, paragraph 5(d) of NESO's Transmission Licence. Our report must not be made available to any other party save as set out in the agreement. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and NESO for our work or this report except where terms are expressly agreed between us in writing.

Where the Report (including our independent assurance report) is published on a website by NESO, it shall be subject to the conditions of access specified in the agreement between us and NESO. The maintenance and integrity of that website is the responsibility of NESO; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the Report or our independent assurance report or the BPS when presented on that website.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Watford
29 April 2026

Appendix A - Assurance Approach

We designed our audit approach and testing to provide reasonable assurance that the activities comprising the Subject Matter Information had been carried out in accordance with the BPS, which consisted of the following, in respect of NESO's procurement and use of Balancing Services:

a) obtained an understanding of the computer systems and/or internal operating procedures that NESO has established;
b) tested on a sample basis, to the extent we considered necessary, the ongoing operation of the IT systems and/or internal operating procedures relevant to the activities comprising the Subject Matter Information for the period 1 April 2023 to 31 March 2024; and
c) tested on a sample basis, to the extent that we considered necessary, the data processed by the relevant IT systems and/or internal operating procedures for the period 1 April 2023 to 31 March 2024.

In performing our assurance engagement, we assessed the risk of a material non-compliance with the activities comprising the Subject Matter Information, with areas of the BPS within the scope of our assurance engagement. In areas where we identified specific risks, or where weaknesses were identified in the operation of certain internal processes or controls, these compliance tests were supplemented by substantive tests of detail of the relevant underlying data.

We selected several half-hour periods within Settlement Days for testing across the reporting period 1 April 2023 to 31 March 2024. The selection of the Settlement Days (and subsequently half-hour periods within) reviewed was based solely on our assessment of risk and application of our sampling methodology. Our samples included a mixture of "normal" days and "other" days (e.g., a day where an outage has occurred), in order to ensure that we were able to test all relevant in-scope areas of the BPS which we are required to assure.

Where it was more efficient for us to do so, we used technology enabled audit tools and ran tests for the entire selected sample day. These methods involved the use of data interrogation tools to perform automated tasks such as matching two or more types of records, identifying patterns and looking for anomalies.

Where we did not find sufficient samples of events/activities on the selected sample days we selected data from additional days to ensure that the sample sizes selected continued in line with our sampling methodology.

Through-out the period of execution of our work we monitored developments that had a potential impact on the call-off of Balancing Services, and where we identified a potential risk in respect of our assurance engagement, we assessed the risk and determined an appropriate response.

The work that we carried out can be summarised as follows:

1) The receipt and validation of Settlement data from market participants

- Compared the Settlement Data (Physical Notifications, Bid/Offer Data and Maximum Export Limit/ Maximum Import Limit Data) sent by the BMUs against the information processed by the NESO systems and notified to the Balancing Mechanism Reporting Agent (BMRA);
- Re-performed controls that confirmed the completeness and validity of the receipt of Settlement Data (by reviewing acknowledgement, acceptance and rejection files returned to the BMU);

- Confirmed the appropriate application of re-declarations, and additional information were submitted via other means (e.g., by telephone); and
- Confirmed the relevant application of default data where required, through sample testing.

2) The submission of data to market participants during the day-ahead and within-day balancing processes

- Compared the Settlement Data in the NESO systems with the information notified to the BMRA;
- Confirmed the appropriate submission of demand forecast data to the BMRA within the required timescales, through sample testing; and
- Tested controls over changes or additions to BMU data to the NESO systems.

3) NESO's adherence to internal operating procedures for activities that impact the call-off of Balancing Services during the day-ahead and within day balancing processes

- Sample tested to check that the System Operating Plan reflected the transmission constraints and response/reserve holdings during the day-ahead and within day balancing processes and that it was prepared in accordance with documented procedures; and
- Confirmed the completeness and accuracy of the list of BM Start Up and STOR contracts, through sample testing.

4) Bid Offer Acceptance in cost order during the day-ahead and within-day balancing processes

- Inspected Bids/Offers for the sample Settlement Days to confirm whether those accepted represented the least cost available. Where this was not the case, reviewed any explanation provided by NESO control engineers and substantiated this explanation against the available information;
- Reviewed explanations provided by NESO for instances where the least cost Bid/Offer was not accepted for reasonableness. Please note, we are not, by profession, engineers and our challenge on engineering decisions was therefore limited as to whether the explanation seemed to us reasonable; and
- Considered whether there has been any obvious bias against BMU participants.

5) General IT Controls Testing

Most transactions involving the input and output of data are sent and processed electronically. The integrity of these transactions may therefore be impacted by the robustness of the IT control environment. Consequently, we obtained an understanding of the IT general controls through testing which covered the following domains and applications (SPICE, SORT, Salesforce, OGDS, and Oracle MFT):

- Program changes;
- Computer Operations; and
- Access to programs and data.

This testing was not designed to provide us with sufficient appropriate evidence on which to form an assurance conclusion over the design and operation of controls and accordingly we do not express such a conclusion.

Appendix B – Balancing Principles Statement

Please find below the link to the Balancing Principles Statement applicable for the year ended 31 March 2024:

Version 22.0, effective 1 April 2023, covering the period 1 April 2023 to 31 March 2024.