

## Standard Condition B1 – Regulatory Accounts

### **Part A: Application and purpose**

1. This condition applies for the purpose of ensuring:
  - (a) the licensee prepares and publishes regulatory accounts within the meaning of paragraph 3 (b); and
  - (b) that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records and reporting arrangements for the consolidated transmission business as are necessary to enable the licensee to comply with that obligation

### **Part B: Preparation of accounts**

2. For the purposes of this condition, but without prejudice to paragraph 6, the licensee shall prepare regulatory accounts for each financial year ending on 31 March.
3. Unless the Authority otherwise consents, the licensee must:
  - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting records and other records as are necessary so that the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, each of the businesses referred to in paragraph 1 are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee; and
  - (b) prepare, on a consistent basis from such accounting records in respect of each financial year, regulatory accounts (including notes thereto and statements of the accounting policies adopted) of the licensee comprising:

- (i) a profit and loss account (or, as appropriate, an income statement);
- (ii) a statement of total recognised gains and losses (or, as appropriate, a statement of changes in equity and if appropriate a statement of recognised income and expense);
- (iii) a balance sheet;
- (iv) a cash flow statement;
- (v) a corporate governance statement in respect of the whole business to which this licence relates;
- (vi) a directors' report in respect of the whole business to which this licence relates;
- (vii) an operating and financial review in respect of the whole business to which this licence relates; and
- (viii) a statement showing separately and in appropriate detail the amounts of any revenue, cost, asset, liability, reserve or provision which has either been:
  - (aa) charged from any ultimate controller of the licensee, together with any subsidiary of such ultimate controller (other than the licensee or its subsidiaries) in relation to the provision of goods or services to the licensee;
  - (bb) charged from the licensee together with any subsidiary of the licensee in relation to the provision of goods or services to any ultimate controller of the licensee together with any subsidiaries of such ultimate controller (other than the licensee or its subsidiaries); or
  - (cc) determined by apportionment or allocation to the licensee or between any other business of the licensee or affiliate or related undertaking together with a description of the basis of the apportionment or allocation;

provided that the obligations in (aa), (bb) and (cc) above shall only apply to goods and services received or supplied for the purposes of the consolidated transmission business.

4. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written approval, the licensee shall not in relation to the regulatory accounts in respect of a financial year change the bases of charge or apportionment or allocation referred to in paragraph 3(b)(viii) from those applied in respect of the previous financial year.
5. Where, in relation to the regulatory accounts in respect of a financial year, the licensee has, in accordance with paragraph 4 above, changed such bases of charge or apportionment or allocation or changed any of its accounting policies or the application of those accounting policies from those adopted for the immediately preceding financial year, the licensee shall, if directed by the Authority in writing, in addition to preparing regulatory accounts on those bases which it has adopted, also prepare such regulatory accounts on the bases and the accounting policies and the application of its accounting policies which applied in respect of that immediately preceding financial year.
6. Regulatory accounts and information in respect of a financial year prepared under paragraph 3(b) shall, so far as reasonably practicable and unless otherwise approved by the Authority having regard to the purposes of this condition, have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under sections 226 and 226A or, where appropriate, section 226B of the Companies Act 1985 and shall comply with all relevant accounting and reporting standards currently in force which have been issued or adopted by the Accounting Standards Board or, if the regulatory accounts and information have been prepared under section 226B of the Companies Act 1985, by the International Accounting Standards Board.

**Part C: Audit and delivery of accounts**

7. Unless the Authority otherwise consents, the licensee shall:

- (a) procure, in relation to its regulatory accounts:
    - (i) an audit by an appropriate auditor of such parts of those accounts and the directors' report and operating and financial review as are specified in the Companies Act 1985 as being required to be so audited as if the licensee were a quoted company and they were the statutory accounts of the licensee prepared under sections 226 and 226A or, as appropriate, section 226B of the Companies Act 1985 drawn up to 31 March, and
    - (ii) a report by that auditor, addressed to the Authority, stating whether in the auditor's opinion those accounts fairly present the financial position, financial performance and cash flows of or reasonably attributable to the licensee in accordance with the requirements of this condition; and
  - (b) deliver to the Authority those accounts and the auditor's reports referred to in sub-paragraph (a)(ii) and paragraph 8 as soon as is reasonably practicable, and in any event prior to their publication under Part D and not later than 31 July following the end of the financial year to which the regulatory accounts relate.
8. The licensee shall take all appropriate steps within its power to procure, in relation to its regulatory accounts:
- (a) that the audit referred to in paragraph 7(a)(i) verifies whether the obligation to avoid discrimination and cross-subsidies specified in Article 19 of Directive 2003/54/EC of the European Parliament and of the European Council of 26 June 2003 has been respected by the licensee; and
  - (b) that the appropriate auditor reports separately on that matter from his report under paragraph 7(a)(ii) addressed to the Authority.
9. For the purposes of paragraphs 7 and 8, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which

includes a term requiring that the audit of the regulatory accounts of the licensee must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with either section 226A or 226B of the Companies Act 1985.

#### **Part D: Publication of regulatory accounts**

10. Unless the Authority otherwise directs, after consulting the licensee, the licensee shall publish its regulatory accounts with the exception of the part of such regulatory accounts which shows separately the amounts charged, apportioned or allocated and describes the bases of charge or apportionment or allocation respectively required under paragraph 3(b)(viii), and any other information agreed by the Authority in writing to be confidential:
  - (a) as a stand-alone document in accordance with this condition;
  - (b) by 31 July following the end of the financial year to which the accounts relate;
  - (c) on a website used by the licensee in its ordinary course of business (where the regulatory accounts should be reasonably accessible to any person requiring them); and
  - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
  
11. A copy of the regulatory accounts must be provided free of charge:
  - (a) to the Consumer Council no later than the date on which the regulatory accounts are published; and
  - (b) to any person requesting a copy.

#### **Part E: Interpretation**

12. References in this condition to sections of the Companies Act 1985 are references to those provisions as amended, substituted or inserted by the relevant provisions of the Companies Act 1989, and if such provisions of the Companies Act 1989 are not in force at the date on which this condition takes effect, it must be construed as if such provisions were in force at such date.
13. A consent under paragraph 3 or directions under paragraphs 4 or 5 may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
14. In this condition:
  - (a) “consolidated transmission business” means the consolidation, for regulatory accounting purposes, of the businesses referred to in the definition of “transmission business” as defined in standard condition A1 (Definitions and Interpretation)
  - (b) “corporate governance statement” means a statement which describes how the principles of good corporate governance have been applied to the licensee and which a quoted company is required to prepare pursuant to the Combined Code on Corporate Governance issued under the Financial Services Authority’s listing rules and interpretations on corporate governance (and, for the purposes of this condition, the requirement for a quoted company to prepare such a statement is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).
  - (c) “directors’ report” means a report having the coverage and content of the directors’ report which a quoted

company is required to prepare pursuant to sections 234, 234ZZA and 234ZZB of the Companies Act 1985 (and, for the purposes of this condition, the requirement for a quoted company to prepare such a report is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).

- (d) “operating and financial review” means a review having the coverage and content of the operating and financial review which a quoted company is required to prepare pursuant to section 234AA of the Companies Act 1985 and in accordance with Schedule 7ZA thereof (and, for the purposes of this condition, the requirement for a quoted company to prepare such a review is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).
- (e) “quoted company” has the meaning attributed to it by the Companies Act 1985.