



KPMG LLP
Audit
15 Canada Square
Canary Wharf
London E14 5GL
United Kingdom

Tel +44 (0) 20 7311 1000
Fax +44 (0) 20 7311 3311
DX 157460 Canary Wharf 5

Nigel Smith
Chief Financial Officer
ELEXON Limited
Fourth Floor
350 Euston Road
London NW1 3AW

1 September 2014

Dear Sirs

BSC Auditor's Independent Reasonable Assurance Report (the 'Report') to ELEXON Limited on the Funding Shares calculations with respect to the Balancing and Settlement Code and Code subsidiary documents

We were engaged by ELEXON Limited to report on ELEXON's application of the Balancing and Settlement Code and Code Subsidiary Documents (the 'Code') with respect to the Funding Shares calculations for the year ended 31 March 2014, in the form of an independent reasonable assurance conclusion about whether the Funding Shares calculations as described in the Code have been applied, in all material respects, based on the provisions within the Code, taking into account the effective date of any revision or amendment made to the Code and Code Subsidiary Documents.

Responsibilities of ELEXON

ELEXON are responsible for properly applying the provisions of the Code and performing the Funding Shares calculations accordingly.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of calculations associated with the Funding Shares in accordance with the Code, that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to examine the Funding Shares calculations governed by the Code and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board.

That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the Funding Shares calculations as described in the Code have been applied, in all material respects, based on the provisions within the Code.

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Funding Share calculations as described in the Code whether due to fraud or error.



In making those risk assessments, we have considered internal controls relevant to the Funding Shares calculations in accordance with the Code in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the internal controls of ELEXON over the calculations associated with the Funding Shares in accordance with the Code.

Reasonable assurance is less than absolute assurance.

Limitations of our opinion with respect to Funding Shares calculations associated with the Code

Our opinion does not include verification of the input data back to source. ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves. In particular, the determination of Annual Net Main Costs as defined in the Code, section D4.1(a), and any other information sourced from the audited Financial Statements is excluded from our scope.

The application of the Funding Shares calculations in allocating Amounts in Default by the Funds Administration Agent ('FAA') is also specifically excluded from the scope of our assurance procedures, although the allocation of associated BSC Costs shares amongst Trading Parties is included.

The above limitations are not exhaustive, and a more detailed description of all scope exemptions is provided in the appendices to this Report.

Criteria

Our opinion is provided with respect to the extent to which, in all material respects, the Funding Shares calculations as described in the Code have been applied based on the provisions within the Code.

A description of the background to the Funding Shares and details of our scope are set out in the appendices to this Report. The appendices set out the activities which are subject to assurance (the subject matter), including our scope exemptions, and the relevant provisions of the Code to which these activities must comply (the criteria used to evaluate the subject matter).

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this Report and appendices.

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

In our opinion, in all material respects, the Funding Shares calculations associated with the Code have been performed in accordance with the relevant provisions of the Code, taking into account the effective date of any revision or amendment made to the Code.

The Funding Shares calculations associated with the Code have been evaluated against the criteria as discussed above and in the appendices. These criteria have been developed only for the purposes of our opinion and should not be considered suitable for any other party or in any other context.

Restriction on the use of our report

In accordance with the terms of our engagement, this independent reasonable assurance report on the Funding Shares calculations being performed in accordance with the Code has been prepared for Trading Parties to the Code, the BSC Panel and ELEXON solely in connection with the provision of reasonable assurance with respect to the extent to which the Funding Shares calculations associated with the Code have, in all material respects, been performed in accordance with the Code and for no other purpose or in any other context.



Our Report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel or ELEXON for any purpose or in any context. Any party other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel or ELEXON who obtains access to our Report or a copy thereof and chooses to rely on our Report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel and ELEXON for our work, for this independent reasonable assurance Report, or for the conclusions we have reached.

Yours faithfully

KPMG LLP

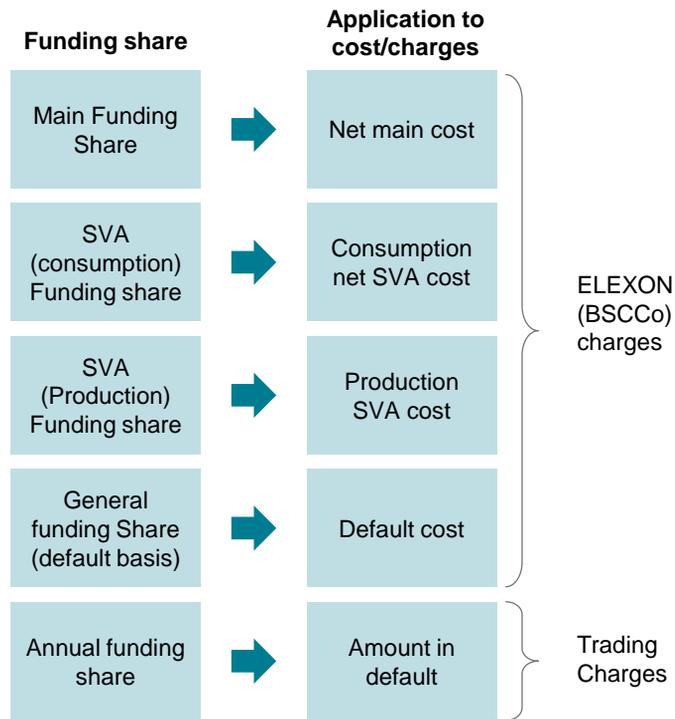
KPMG LLP
15 Canada Square
Canary Wharf
LONDON
E14 5GL

Scope – Appendix A

Background

Funding Shares facilitate the sharing of costs associated with the operations of the BSCCo (ELEXON) between Trading Parties in the electricity market. Different Funding Shares are calculated and applied relating to different cost areas.

Each of these cost areas are allocated as follows:



The basis for calculating the Funding Shares is set out in the Balancing and Settlement Code ('BSC') Section D. The Funding Share calculations are performed by ELEXON Limited ('ELEXON') based on data provided internally and from various other parties.

Funding shares are calculated and invoiced each month based on the most up to date information available at the time of calculation. A reconciliation exercise is performed at the end of each year based on the final version of the source data and reconciling bills/credits are issued accordingly.

A schedule, the "BSC Costs Invoice Supporting Information", is sent along with each invoice containing details of the Funding Shares and units used in the calculations.

Basis for our assurance work

We have been appointed as BSC Auditor by ELEXON. The requirement for providing assurance over the calculation of the Funding Shares by the BSC Auditor is set out in Section H of the BSC and Code Subsidiary Documents (the 'Code').

The Funding Shares are recalculated within 28 Days of the publication of the audited accounts of ELEXON, acting as BSCCo, and the costs to which the Funding Shares are applied are based on these audited amounts. The last published accounts of ELEXON cover the period from 1 April 2013 to 31 March 2014.

We are responsible for performing a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' ("ISAE 3000") issued by the International Auditing and Assurance Standards Board.

Our opinion is designed to give reasonable, but not absolute, assurance that certain Funding Shares calculations performed by ELEXON and which are included in the scope of our assurance engagement are performed in line with the provisions of the Code. Whether a specific issue will give rise to a qualification of our assurance opinion is a judgement made by us as BSC Auditor.

Scope – Appendix A

Relevant BSC Sections

The Funding Shares calculations are defined by the Balancing and Settlement Code Section D as follows:

- “Main Funding Shares” as defined by BSC Annex D-1, Part 1;
- “SVA (Consumption) Funding Shares” as defined by BSC Annex D-1, Part 2;
- “SVA (Production) Funding Shares” as defined by BSC Annex D-1, Part 3;
- “General Funding Shares” (applied on a default basis to create Default Funding Shares) as defined by BSC Annex D-1, Part 4; and
- “Annual Funding Shares” as defined by BSC Section D1.2.1(e).

These Funding Shares are used in the derivation of the following charges:

| Charge type | Definition |
|--|--|
| ELEXON (BSCCo) Charges | These are defined by BSC Annex D-4. The calculation applies the values of Main Funding Shares, SVA (Consumption) Funding Shares, SVA (Production) Funding Shares, and Default Funding Shares. |
| Trading Charge (Amounts in Default) | These are defined by BSC Section N. The calculation applies the values of Annual Funding Shares. |

Scope of the Funding Shares Assurance Engagement

The BSC Panel agreed the Scope of the Funding Shares Assurance Engagement by the BSC Auditor in May 2014. The objectives of the Funding Shares Assurance Engagement are as follows:

A. Funding Shares and associated Charges for 2013/14

Assurance procedures over the calculation of the Main Funding Shares, SVA (Consumption) Funding Shares, SVA (Production) Funding Shares, and General Funding Shares (applied on a default basis) and associated BSC Cost shares for 2013/14 through to the BSC Costs Invoice Supporting Information provided to Trading Parties; and

B. Annual Funding Shares for 2013/14

Assurance procedures over the calculation of the Annual Funding Shares for 2013/14 through to the files sent to the FAA for their use in calculating Amounts in Default.

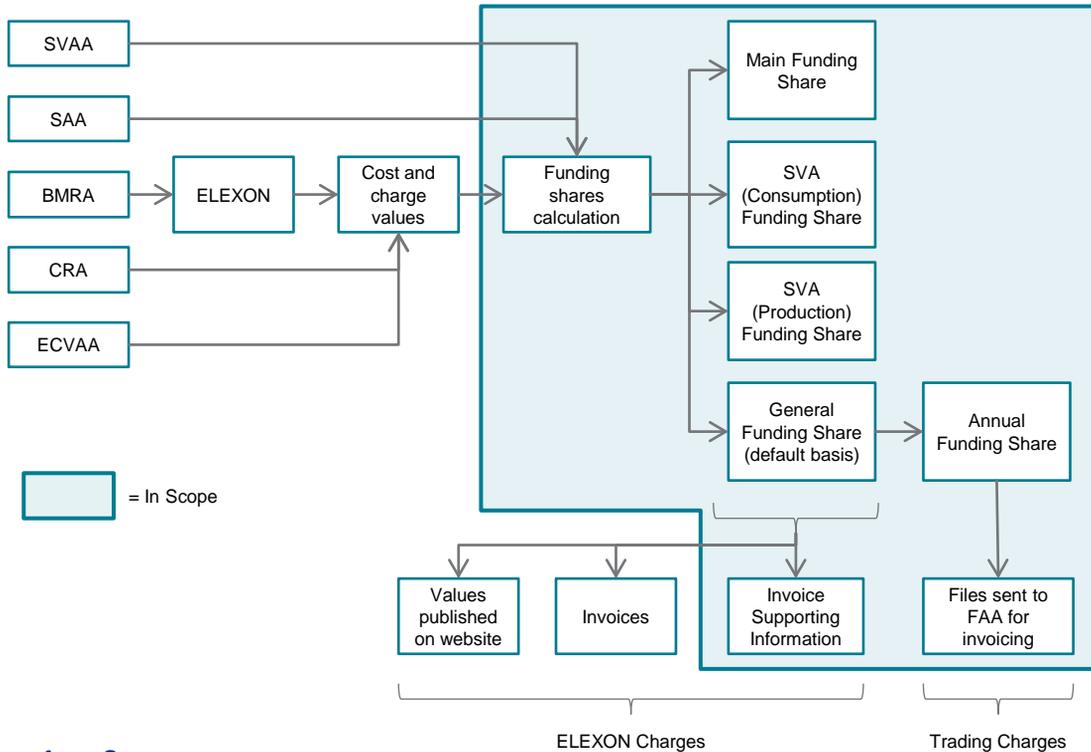
The procedures performed as part of the Funding Shares Assurance Engagement cover the accuracy of the data provided on the BSC Costs Invoice Supporting Information for 2013/14 by considering the way the amounts have been calculated by ELEXON's Funding Shares Calculation Model from the data input by ELEXON.

The Funding Shares Assurance Engagement does not include verification of the input data back to source. A review of source data was performed by the previous BSC Auditor for the financial year ended 31 March 2010, with no issues being reported. As a result, ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves.

The diagram on the next page provides a summary how the scope covers the input and output values provided.

Scope – Appendix A

Summary of Scope Diagram



Exclusions from Scope

As explained above, our Funding Shares assurance procedures focus primarily on the calculation process. For the avoidance of doubt, the areas listed in the table below are outside of the scope of the Funding Shares Assurance Engagement:

| Areas out of scope | Reason for exclusion |
|---|--|
| Verification of data input by ELEXON back to source. | <p>Our BSC Funding Shares assurance procedures examine the process for performing the calculations and allocations defined by the BSC.</p> <p>In relation to Funding Shares, these processes are performed primarily by ELEXON based on data provided. The scope of our procedures focuses on the calculations performed, rather than the accuracy of the input data.</p> <p>ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves.</p> |
| Verification of the Funding Shares calculations that are performed by Third Parties before being input into the Funding Shares System. These are described in Appendix B. | <p>These calculations were included as part of the review of source data during the BSC Funding Shares Assurance Engagement for FY10, which was performed by the previous BSC Auditor, without any exceptions being reported.</p> <p>There are no current plans to extend the scope of the Funding Shares Assurance Engagement to include this review this year.</p> |

Scope – Appendix A

Exclusions from Scope (cont.)

| Areas out of scope | Reason for exclusion |
|---|--|
| Verification of the total BSC and SVA Costs provided by ELEXON to which the Funding Shares are applied. | Cost information is sourced from audited Financial Statements which are available to Trading Parties. |
| Consideration of the principles underlying the definition of the Funding Shares, and any related costs and charges. | The Funding Shares Assurance Engagement examines compliance with the BSC, not the validity of the underlying principles applied. |
| Consideration of the accounting policies adopted by ELEXON in accounting for its transactions, costs and revenues. | The application of appropriate accounting policies are not defined within the BSC. Such matters are considered by the ELEXON statutory auditors. |
| Judgements applied by ELEXON in cases where alternative versions of input data are applied. | In calculating the values of the Funding Shares, ELEXON may in certain cases apply judgement in the selection of the most appropriate input data (e.g. where there may be conflicting, or incomplete, data available). There is no BSC requirement for these judgements to be formally documented, although any such instances will be highlighted by our assurance procedures and will be discussed with ELEXON. |
| The application of Annual Funding Shares in allocating Amounts in Default by the FAA. | The BSC Audit covers the application of the Funding Shares only in allocating the associated BSC Costs shares amongst Trading Parties as defined above. |
| Any amendments made subsequent to our procedures. | As assurance providers we are only able to test information provided at the time of our work. Subsequent changes to data or systems may lead to changes in the results. However, it is assumed that the version of data or systems made available to us will be the latest available and will remain unchanged before submission of results by ELEXON. |
| General controls over the IT infrastructure within ELEXON. | The application of appropriate general IT controls and suitability of infrastructure are not defined within the BSC. Such matters are considered by the ELEXON statutory auditors. |

Specific exclusions where the calculation defined is performed by a Third Party – Appendix B

Certain elements of the Funding Share calculation are performed by Third Parties before being input into the Funding Shares system. For these elements, we will be unable to verify that the calculations performed in relation to the determination of Funding Shares have been made in accordance with the Code. These are noted in the following tables:

| Credited Energy Volumes | |
|---------------------------------|---|
| Code Requirement | The Code requires net CVA Production and CVA Consumption values for Trading Parties to be included in the calculation of Main Funding Shares. |
| Method Applied by ELEXON | Single net CVA Production and CVA Consumption Figures are provided to, and used by ELEXON in the calculation. |
| Impact on our procedures | This aspect of the Funding Shares calculation is out of scope for our procedures. |

| Corrected Correctable Supplier Deemed Take | |
|--|--|
| Code Requirement | The Code requires a summation of Corrected Correctable Supplier Deemed Take values relevant to the Trading Parties to be included in the calculation SVA (Consumption) Funding Shares. |
| Method Applied by ELEXON | The summed values of Corrected Correctable Supplier Deemed Take value are provided to, and used by ELEXON in the calculation. |
| Impact on our procedures | This aspect of the Funding Shares calculation is out of scope for our procedures. |



cutting through complexity

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.