

# **National Grid Electricity Transmission plc (NGET)**

## **Annual Compliance Report in respect of Special Condition 9.18**

**This Report covers NGET's compliance with its licence obligations relating to Business Separation, Prohibition of Cross Subsidies, Ringfencing and Conduct of the Transmission Business**

**Reporting period: 1<sup>st</sup> May 2020 to 30<sup>th</sup> April 2021**

**Publication Date: 1<sup>st</sup> July 2021**

Prepared pursuant to paragraphs 26 and 27 of Special Condition 9.18 (Business separation requirements and compliance obligations) of the Electricity Transmission Licence treated as granted to National Grid Electricity Transmission plc (NGET) (registered in England with number 2366977 and whose registered office is at 1-3 Strand, London WC2N 5EH) under section 6(1)(b) of the Electricity Act 1989

## 1. Introduction

Paragraph 26 of Special Condition 9.18 of the Electricity Transmission Licence (“Licence”) granted to National Grid Electricity Transmission plc (“NGET”) requires NGET to produce an annual report in a form approved by the Authority covering its compliance during the relevant year with the specified duties (as defined in the Licence) and implementation of the systems of control and governance arrangements including the practices, procedures and systems adopted in accordance with the compliance statement.

This is the annual report in respect of the period 1<sup>st</sup> May 2020 to 30<sup>th</sup> April 2021 (“the Period”).

### Activities of the Compliance Officer (CO)

In summary, throughout the Period, the CO has:

- Reviewed the Compliance Statement to ensure that it remains effective and fit for purpose (see section 3).
- Communicated the requirements of the Compliance Statement to appropriate employees.
- Provided advice and information to directors, managers and staff on compliance with the specified duties, both pro-actively and in response to requests.
- Monitored the effectiveness of the systems of control and governance arrangements including the practices, procedures and systems put in place as set out in the Compliance Statement.
- Provided advice and information to directors, managers and staff to ensure the implementation of practices, procedures and systems put in place as set out in the approved Compliance Statement.
- Not received any reports where members of the managerial board have taken any decisions which are not in the interests of the business which they represent

As part of the other duties assigned to it during the period, the CO also:

- Managed the financial ring-fence certification and assurance process
- Managed the compliance reporting and Certificate of Assurance process
- Completed other licence related activities for NGET and National Grid Gas plc
- Provided an advisory service on compliance controls to National Grid’s regulated and non-regulated businesses
- Managed the National Grid UK programmes for ethics and the prevention of corruption and modern slavery
- Had oversight of investigations into allegations relating to breaches of National Grid’s ethical standards of business conduct
- Had oversight of UK General Data Protection Regulation (GDPR) compliance and records management activities

## 2. Compliance with the specified duties

The CO has undertaken monitoring during the Period to assess the effectiveness of the systems of control and governance arrangements including the practices, procedures and systems adopted to secure compliance by NGET with the specified duties.

As part of this process, Compliance Champions in several Directorates were asked to complete a business separation framework document based on targeted questions and describing the controls, frameworks and processes in place within their business areas to secure compliance with

the specified duties. Framework documents were approved by Directors as part of National Grid's compliance reporting and governance processes and Directors also oversee any improvement actions identified. The matters considered and the overall outcome for each relevant objective, as agreed with the Authority, are detailed below.

The Compliance Champions provided positive assurance that the controls, frameworks and processes in place are adequate to secure compliance with the specified duties and evidence has been provided where necessary to substantiate the statements made. The CO's team has met with the Compliance Champions to challenge and review the frameworks and questions and share any compliance best practices identified. As part of the monitoring the CO has liaised with the Risk, Compliance and Audit teams to understand whether any key risks and issues have been identified through their processes. NGET has adopted a three lines of defence assurance model with the first line being operations (who are responsible for managing risks and controls) and further risk-based assurance activities being carried out by the second and third line (Corporate Audit) teams.

The CO has assessed the overall outcomes of the business separation monitoring to determine the level of compliance which has been achieved during the period as being: *"An effective compliance control framework is in place with a good level of compliance being maintained"*. No material issues have been reported with regards to business separation between NGET and ROCB and compliance with the specified duties.

#### Part A: Legal and functional separation of NGET and the relevant other competitive businesses

To test the effectiveness of controls in place to ensure that there is legal and functional separation of NGET and ROCB, the CO has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to Finance, Treasury and Company Secretariat. The following arrangements remain in place to ensure that the NGET business is carried out separately from the ROCB:

- NGET remains a separate legal entity from the ROCB as set out within the Company Structure Chart within Appendix Two of the SC 9.18 Compliance Statement. The Board of Directors of NGET is separate to those of the ROCB.
- NGET does not hold any investments or shares in the ROCB directly or indirectly, so does not have an entitlement to vote at the general meetings of any of the ROCB
- For services, which are not covered by licence formula or industry charging statements, NGET has a policy in place for the pricing of intra business and third-party services (the Pricing Governance Procedure). The policy is in place to secure that consistent pricing is applied for services provided to group companies and third parties. It is published on the CO's intranet website and is promoted through the network of Compliance Champions.
- NGET does not conduct or carry out any activity other than the Transmission Business or other de minimis activities (each as defined in the Licence) or activities to which the Authority has not given its consent in writing.
- NGET employees engaged in the management and operation of NGET (up to and including the NGET Board) are not simultaneously engaged in the management and operation of the ROCB, other than for the provision of Shared Services as set out within Appendix 2 of the SC 9.18 Compliance Statement and for services which constitute de minimis activities.
- Buildings and Access Controls are in place and employees of NGET are employed in separate premises, to those employees of the ROCB. Employees who visit premises which are not their normal place of work are treated as visitors in line with National Grid policy.

As part of assurance activities carried out throughout the Period, the following opportunities to improve controls were identified. The latest combined NGET Assurance Plan has delivered 2<sup>nd</sup> line assurance reviews across each function within NGET which has assessed a sample of the key controls that enable the business to mitigate its key risks and compliance obligations. The plan has delivered multiple audits and identified multiple improvement actions across 9 different assurance themes. The control framework has been improved through identification of controls linked to key risks and this will form the basis of future assurance plans which will be led by a new role, the Quality Assurance Manager within NGET.

Standard condition B5 (Prohibition of cross subsidies)

NGET has put in place systems of control and governance arrangements to ensure that NGET does not give any cross subsidy to or receive any cross subsidy from any other business of NGET or of an affiliate or related undertaking of NGET, including any of the ROCB.

During the Period NGET's statutory accounts have been created and are maintained separately to those of ROCB, to ensure separation of function, cost and revenues. The statutory accounts were audited by Deloitte and published on the National Grid website. In auditing the accounts, Deloitte reviewed NGET's agreed procedures which enable them to review NGET's compliance with its licence obligations relating to the prohibition of cross subsidy and discrimination and no material changes were made to these procedures during the Period.

NGET submitted a Cost and Outputs Regulatory Reporting Pack (C&O RRP); Revenue Regulatory Reporting Pack (RRRP) and Regulatory Financial Performance Report (RFPR) to Ofgem on 31<sup>st</sup> July 2020. NGET also submitted a Network Data Assurance Report (NetDAR) to Ofgem on 28<sup>th</sup> February 2021 which provided additional assurance that the data contained within these reports was accurate and complete.

On 19 May 2020, the National Grid plc Board was reappraised of the Ultimate Controller Undertaking granted to NGET which confirms that neither National Grid plc nor any of its subsidiaries will cause NGET to breach any of its licence conditions, for example, through misuse of information, inappropriate conduct or misuse of NGET's assets or resources. National Grid plc also undertakes to provide any information required to satisfy any information request received from Ofgem.

Standard condition B6 (restriction on activity and financial ringfencing)

NGET does not conduct or carry out any activity other than Transmission Business or de minimis activities, or activities to which Ofgem has given its consent in writing. These activities are included, where relevant, in the RFPR and RRRP and C&O RRP.

NGET provided certificates to Ofgem on 21<sup>st</sup> July 2020 regarding compliance with financial ringfencing and sufficiency of operational and financial resources as required by Standard Condition B7 Availability of Resources, and as approved by the NGET Board on 21<sup>st</sup> July 2020.

*Special condition 9.17 (Prohibited activities and conduct of the transmission business)*

NGET does not hold and will not seek to hold a transmission licence that has Section C (System Operator Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

NGET conducts its transmission business to secure that no unfair commercial advantage is granted to itself, any affiliate or undertaking, any user of the national electricity transmission system (NETS) or any other transmission licensee, through a preferential or discriminatory arrangement. NGET has complied with all its obligations relevant to the specified duties under industry Codes during the Period and treated all commercially sensitive information as confidential, using this information to perform its regulatory duties. NGET treats all customers on a fair and equitable basis and in complying with the Codes, does not obtain an unfair commercial advantage in conducting its transmission business, and equally does not provide an unfair commercial advantage to any affiliate or related undertaking in conducting its transmission business.

Employees of NGET have received appropriate training and guidance on the information sharing restrictions. There have been targeted briefings and communications from the CO during the Period, to remind employees of the compliance rules.

The Pricing Governance Policy, as referenced in section 2, has been used for provision of services which are not covered by a licence formula or industry charging arrangements, during the Period.

*Separation of NGET from NGESO Limited and restrictions on use of System Operator Functions Information (SOFI)*

NGET is legally and financially separate from NGESO Limited, with independent management and separate premises, operations and information systems. NGET has complied with the separation arrangements which NGESO has put in place and has not sought or procured any unfair commercial advantage during the period. Specific obligations regarding restrictions on the use of SOFI are explained below.

The relationship that NGESO has with NGET is on an arm's length basis, normal commercial terms and on a similar footing to the relationship that NGESO has with other transmission owners. Accordingly, some systems, data and processes have been separated to comply with the provisions required by the SO/TO Code (STC), which both NGESO and NGET are parties to. Key areas include operational processes relating to making connections offers, creating annual charging statements and calculation of charges, provision of network modelling information as well as asset maintenance planning and interactions between control rooms and responding to industry Code developments. During the Period, where NGET has received SOFI to operate these processes as permitted by the NGESO licence, SOFI has been classified and stored in accordance with NGET's internal standards for data management. Relevant NGET employees, agents and contractors have completed a computer-based training module on SOFI and received briefings by the CO and NGET compliance team as required.

During the period, NGET has been compliant with its obligation not to use any SOFI which it has received as a result of NGESO failing to comply with its own licence obligations. The CO has been advised of potential incidents and has observed that NGET controls are working well. The

National Grid Internal Cyber helpline and the NGESO Compliance Officer have been promptly notified of potential incidents in accordance with the agreed response procedure.

#### Shared Services Operating Model

Shared Services have been provided by and to NGET during the Period in accordance with the Compliance Statement and a licence consent, granted to NGET on 31<sup>st</sup> March 2021 on an evergreen basis.

Arms-length agreements continue to be in place for the provision of these Shared Services, including those services delivered to ROCB businesses. NGET has used a cost allocations methodology to allocate all costs between all National Grid group businesses that used the services during the Period. The costs and revenues related to delivery of Shared Services were included within the RFPR, the RRRP and the C&O RRP and RIGS return on 31st July 2020.

Separate business partners are in place for each Shared Service function where appropriate and to maintain client confidentiality. Through the compliance frameworks, directors of Shared Services functions have confirmed that Shared Services systems are partitioned as appropriate, to ensure confidentiality of commercially sensitive data and also protection of personal data, as required by the General Data Protection Regulation 2016 (GDPR) and Data Protection Act (2018).

Shared Services functions which support multiple National Grid businesses have completed reviews during the Period to ensure that systems and processes are in place to ensure that correct access and permissions have been applied to shared systems and data.

#### Recruitment and Talent Management

During the period, the CO has supported the NGET Assurance and HR teams in providing good quality inductions for new recruits to NGET. Where employees, agents and contractors have moved into NGET from other parts of National Grid Group (including ROCB), the CO has worked with line managers and the NGET Assurance team to ensure that they understand the compliance rules and receive a compliance briefing, where appropriate.

Where employees, agents and contractors moved out of NGET (which includes graduates and apprentices), they completed the movers' checklist and for moves from NGET to ROCB, the CO also completed exit briefings with these individuals to review the circumstances of each move and apply compliance controls, where appropriate.

Where employees left National Grid altogether, National Grid's standard processes apply to ensure system accesses are revoked.

### **3. Part B: Compliance Statement and Compliance Documents**

The SC 9.18 Compliance Statement was approved by Ofgem on 2<sup>nd</sup> July 2019 and a copy of the approved Statement has been published on the National Grid website. The CO has updated the Compliance Statement during the Period to update the Single Appointed Director and references to the RIIO 2 licence. These changes are not material. A copy of the updated Statement has been provided to Ofgem for information. The CO considers that the Compliance Statement is an accurate reflection of the arrangements in place.

#### **4. Part C: Appointment of a compliance officer and compliance reporting**

##### ***a) Provision of advice and Information***

The CO has fostered a culture of compliance within NGET during the period by completing the following activities:

- The CO has provided advice to NGET Directors, managers and other personnel in respect of the specified duties.
- The CO has delivered targeted briefings to NGET and Shared Services employees to discuss and explain the business separation arrangements between NGET and ROCB and the control framework in place to manage and monitor compliance with the specified duties.
- The CO has implemented a corporate communications programme to ensure awareness of the business separation requirements and compliance obligations contained within Special Condition 9.18. Bulletins and other communication materials have been produced for team meetings, the Compliance Community of Practice and published on the CO's intranet website.
- There is also a network of Compliance Champions in place who promote awareness of licence obligations, promote a culture of compliance and facilitate compliance monitoring within their functions. The Compliance Champions within NGET and Shared Services functions manage and monitor the application of control frameworks intended to secure compliance against the NGET licence and SC 9.18 related obligations. Workshops have also been held with the CO's team and Compliance Champions to ensure consistent interpretation of information sharing restrictions and to identify compliance best practice.
- Relevant employees within NGET and Shared Services completed computer-based training on business separation in 2020.

##### ***b) Monitoring***

The CO has undertaken monitoring during the period to assess the effectiveness of the practices, procedures and systems to ensure that NGET remains compliant with the SC 9.18 specified duties.

Each directorate has in place a Business Separation Framework which is based on a set of targeted questions and designed to ensure that all business functions remain compliant with the relevant licence obligations. The Business Separation Framework for NGET includes the relevant obligations for SC 9.18.

As part of the monitoring process, Compliance Champions assess the effectiveness of controls and put in place appropriate improvement plans if weaknesses are detected and this process is subject to Director approval. Each Compliance Champion has submitted their framework to the CO who has conducted challenge and review sessions to discuss the robustness of the controls in place. The CO has also liaised with the wider National Grid Risk, Audit and Compliance teams to verify the outputs. Further assurance is provided by Corporate Audit for key risk areas.

##### ***c) Investigations Conducted***

NGET has not received any complaints, as described in paragraph 27.d of Special Condition 9.18, during the Period. There have been no investigations conducted regarding the specified duties

during the Period and no employees have been reported as breaching the compliance obligations or the Compliance Statement. There have been no associated disciplinarys or dismissals during the Period.

## **5. Certificate of Compliance**

The NGET Certificate of Compliance in respect of Special Condition 9.18 business separation requirements and compliance obligations was approved by a resolution of the Board of Directors of NGET for signature by the Single Appointed Director on 23<sup>rd</sup> June 2021. A copy of the signed certificate has been provided to Ofgem separately.

## **6. Further Information**

Any enquiries regarding the content of this report should be addressed in the first instance to the Compliance Officer at the following address:

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Warwick Technology Park  
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Warwick  
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