

National Grid Gas plc

Annual Compliance Report

Prepared pursuant to paragraphs 6 and 7 of Standard Special Condition A34 of the Gas Transporter Licence granted to National Grid Gas plc (registered in England with number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH) under section 7 of the Gas Act 1986 (as amended) in respect of the National Transmission System

30 June 2017

1. Introduction

Paragraphs 6 and 7 of Standard Special Condition A34 of the Gas Transporter Licence ("Licence") granted to National Grid Gas plc ("NGG") requires NGG to produce an annual report covering compliance during the reporting period with the relevant duties (as defined in the licence). This is the annual report in respect of the Period 1st May 2016 to 30th April 2017 ("the Period").

2. Compliance with relevant duties

The Compliance Officer (CO) has undertaken monitoring during the period to assess the effectiveness of the practices, procedures and systems that NGG has adopted to secure compliance with the licence conditions as set out below which are defined under paragraph 1 of Standard Special Condition A34, as being the relevant duties.

As part of this process, Licence Advisers in System Operator, Gas Transmission Owner, Capital Delivery, Shared Services Finance, IS, Regulation, Procurement, NG Ventures, Corporate Affairs and Tax and Treasury 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 relevant duties. The matters considered and the overall outcome for each relevant duty are detailed below under paragraphs a and b.

The Licence Advisers provided positive assurance that the controls, frameworks and processes in place are adequate to secure compliance with the relevant duties and evidence has been provided where necessary to substantiate the statements made. The CO's team has met with the Licence Advisers to challenge and review the framework 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. No issues have been reported.

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, no significant non-compliances have occurred during the reporting period."

Throughout the Period NGG has been compliant with the relevant duties.

a) Standard Special Condition A33 – Restriction on Use of Certain Information and Independence of the Transportation Business

NGG has a Compliance Statement in place, approved by the Authority on 12th December 2016 which describes the practices, procedures and systems which NGG has adopted to secure compliance with paragraphs 2, 3 and 6 of Standard Special Condition A33.

To test the effectiveness of controls in place to ensure compliance against the requirements of the Compliance Statement, the CO has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to System Operation, Gas Transmission Operator, Capital Delivery, Shared Services Finance, IS, Regulation, Procurement, NG Ventures, Corporate Affairs and Tax and Treasury.

The following arrangements remain in place to ensure that NGG maintains managerial and operational systems which prevent the MRSB (National Grid Metering Limited) from having access to confidential information other than as permitted by paragraphs 2(a) and 2(b) of Standard Special Condition A33; and that NGG at all times manages and operates the Transportation Business in a way calculated to ensure that it does not restrict, prevent or distort competition in the supply of electricity or gas, the shipping of gas, the generation of electricity, the production of gas, any trading business or the supply of meter related services or of meter reading services.

Managerial and Operational Independence of the Transportation Business from its Meter Related Services Business and its meter reading business (MRSB):

- The management of NGM is separate and independent from the management structure of NGG meaning that all operational decisions are taken separately by the respective Boards and Executive committees of NGG and NGM
- The Director of NGM has full management responsibility for the MRSB. The Director of NGM is not a member of the NGG Board or Gas Transmission Executive Committee and they retain full autonomy over the operational activities and management decisions of the MRSB.
- The separated MRSB is contracted to NGG for the delivery of the meter related services and meter reading services that NGG is obliged to provide by its Licence and through the Network Code
- All employees and agents of both NGG and NGM are subject to Codes of Conduct and Compliance Rules, which provide guidance on the disclosure of commercially sensitive information between NGG and NGM

Independent Branding of the Transportation Business from MRSB:

- The Authority granted consent to NGG on 30th September 2016, which relieves NGG of its obligation to implement separate branding for the Transportation Business from the MRSB.

Use of equipment, facilities, property and personnel employed by the Transportation Business:

- NGG is located in a separate building to that of the MRSB
- There is a methodology in place to ensure that there is a transparent and cost reflective allocation for charges for any equipment, facilities, property and personnel employed by NGG that are utilised for the provision of MRSB

Manage the transfer of employees from the Transportation Business to/from MRSB:

- There is an employee transfer process in place which is overseen by the CO
- Where employees move between NGG and NGM an employee transfer checklist is completed in all instances, which demonstrates the removal of access to systems containing commercially sensitive information before the transfer takes place.
- The CO also provides a briefing to the individual concerned for all employees transferring between NGG and NGM

Based on the information received through the monitoring process, the CO has reported that NGG and NGM are compliant with the obligations included within the Compliance Statement.

b) Standard Special Condition A35 – Prohibition of Cross Subsidies

To test the effectiveness of controls in place to prevent a cross subsidy, the following questions were asked of the relevant directorates covering contract management, revenue allocation and pricing of services.

- Are you aware of any services being provided which are not covered by a written agreement?
- Please confirm that all transportation business provided by your directorate is carried out on an arms-length basis, normal commercial terms.
- Does your directorate provide any assets or resources free of charge?
- Is your directorate responsible for putting in place contracts with other group businesses and third parties for non-transportation business?
 - If yes, has the Pricing Governance Policy been used for services where pricing is not determined through an industry code, licence formula or charging statement?

Business areas responsible for setting up contractual arrangements for non-transportation business (i.e. within the scope of the Pricing Governance Policy) are asked to complete a separate spreadsheet detailing the description of services, parties, term, value of service, treatment of revenue and confirmation that a pricing proposal has been completed to ensure consistent pricing/commercial terms are applied where the same service is applied to group companies and third parties.

Contracts for Shared Services covered by the Common Services Consent do not fall within the scope of the Pricing Governance Policy. Finance are asked to explain the methodology and process in place to ensure that there is no cross subsidy arising between NGG or any other National Grid business through the allocation of costs and revenues for Shared Services.

Based on the information received through the monitoring process, the CO has reported that NGG and NGM are compliant with the obligation not to give or receive a cross subsidy between each other or any other National Grid business.

3. Activities of the Compliance Officer

a) Provision of advice

- During the period the CO has provided advice to NGG and the Compliance Committee in respect of the relevant duties
- Briefings have been provided by the CO to Directors and management teams to ensure business separation compliance issues are considered as part of day to day business.
- During the reporting period general communications took place across the business to raise awareness and refresh knowledge of the existing business separation rules.

b) Monitoring

The CO has undertaken monitoring during the period to assess the effectiveness of practices, procedures and systems adopted to secure compliance. The monitoring process and the reported outcomes are described fully in paragraph 2 of this report.

c) Investigations Conducted

There have been no complaints or representations during the reporting period which have arisen from the relevant duties defined in paragraph 1 of Standard Special Condition A34 and therefore no investigations have been conducted.

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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