

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 its distribution networks)

24 June 2016

1. Introduction

Paragraphs 6 and 7 of Standard Special Condition A34 of the Gas Transporter Licence (“Licence”) granted to National Grid Gas (“NGG”) in respect of the RDNs, require NGG to produce an annual report covering compliance during the reporting period with the relevant duties (as defined in the licence) and its implementation of the practices, procedures and systems adopted in accordance with the Compliance Statement.

This is the annual report in respect of the period 1 May 2015 to 30 April 2016 (“the Period”).

2. Compliance with the relevant duties

The Compliance Officer (CO) has undertaken monitoring during the period to assess the effectiveness of practices, procedures and systems adopted to secure compliance with the licence conditions 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 Distribution Network Strategy, Distribution Stakeholder Delivery, Distribution Customer Operations, Distribution Operations, Distribution Processes, Distribution Network Alliances, Shared Services Finance, IS, Regulation, Non- Regulated Businesses and Procurement 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*

The licensee has a compliance statement in place as required under paragraph 4 of Standard Special Condition A33 which describes the practices, procedures and systems adopted by NGG to secure compliance with its obligations under that condition.

To test that the arrangements described in the compliance statement are effective, the following questions have been asked:

- Does your directorate have any interactions with Metering? If yes, please describe what the role of your directorate is and how you ensure an unfair advantage is not provided to Metering?
- Please describe the arrangements (relevant to your directorate) which ensure Gas Distribution does not provide an unfair advantage through
 - *governance and decision making structures*
 - *Premises*
 - *Use of equipment facilities and property*
 - *Information & information systems*
 - *Services of persons*
 - *Transfer of employees*
 - *Cross subsidy*
- Please confirm that the compliance statement remains an accurate reflection of arrangements in place.
- Are you aware of any breaches to the compliance statement which have not been reported to the compliance officer? If yes, please provide an explanation and the measures taken to prevent a re-occurrence.
- Does your directorate manage contractual arrangements for, or deliver any Transportation Services? If yes, please describe the role of your directorate and which teams are involved.
- What processes are in place to ensure all customers are treated on an equal basis when:
 - agreements are put in place
 - when services are delivered?
- Please describe any specific training for employees for employees involved in these activities
- What detective measures are in place to identify process failures?
- Please provide evidence to demonstrate processes are being followed in practice.
- Does your directorate hold information which could potentially provide another group company with an unfair advantage if shared inappropriately? This could be information held about third parties or information about the licensed businesses which is not in the public domain and which could potentially provide a group business with an unfair advantage such as information on commercial arrangements, network strategy, operational activities, etc.
- If yes, please describe the type of information which is held and which teams within your directorate manage that information?

- Are there any industry codes or other documents which set out the rules for sharing information? If yes, please identify these particular documents.
- What controls are in place to ensure this information is not shared inappropriately when answering queries from other group businesses or in meetings with other group businesses?
- Please explain the processes in place to manage access rights in respect of the systems, SharePoint sites or shared drives which you have identified.
- Please explain how your directorate manages the transfer of employees to ensure that access to systems holding commercially sensitive information is not retained and that the employee does not retain any hard copies of commercially sensitive information
- Please explain how new starters and existing staff are made aware of general business separation obligations and Compliance Rules
- Please provide evidence to demonstrate training and processes are carried out in practice.

Based on the information received through the monitoring process, the CO has reported that the Compliance Statement remains an accurate reflection of the arrangements in place and the CO has reported that the licensee has been compliant during the reporting period.

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 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 Gas Distribution and Metering 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 Gas Distribution and NGM have been compliant with the obligations in this condition not to give or receive a cross subsidy between each other or any other National Grid business.

3. Implementation of the practices, procedures and systems adopted in accordance with the Compliance Statement

a) Overview of Compliance Framework

- National Grid recognises that embedding the correct culture and staff training/ awareness are key facilitators in equipping National Grid to satisfy business separation licence conditions. The CO spends a proportionate amount of time in proactively engaging in these activities.
- The CO has ensured a high level of awareness of the licence conditions and Compliance Rules through general awareness communications, such as slides via team talk, or through targeted briefings to particular teams or new starters. In addition the CO has set the requirement for the business separation e-learning module to be completed every two years. The CO has provided guidance to employees and management teams on the parameters which it is allowed to operate under, covering topics such as information sharing restrictions, avoiding cross subsidy and business conduct.
- Monitoring has been used to underpin the proactive actions that the CO takes to embed the correct processes, training and culture. Monitoring is seen as an important aspect of the compliance framework as it:
 - reinforces the importance of business separation within National Grid,
 - helps focus National Grid's businesses on the key issues,
 - requires positive assurance as to the controls the relevant businesses and departments deploy, and
 - provides a basis for benchmarking best practice and for providing feedback on any improvement actions that are identified.

b) Information & Information Systems separation

- Employees from the Metering business do not have access to information systems and filing systems containing confidential information about the gas distribution business. The CO has received confirmation through the monitoring process that reviews of access rights of relevant shared areas take place to ensure only appropriate access rights are retained.
- During the year employees have been reminded through general communication messages of the importance of removing access to systems as they move between roles and the need to manage distribution lists and access to calendars
- There is a separate HR process through which the CO is informed of employees moving between National Grid's separate businesses. The CO actively notifies leaver's managers of business separation obligations. The CO requires positive confirmation from the leaver's manager that access to relevant systems has been removed along with any relevant electronic data on the employee's pc and any hard copies of relevant information. Process documents are in place to facilitate this activity.

- A process has been put in place by the CO with IS which specifically captures business separation criteria at the point of information system design to ensure that relevant data/information is ring-fenced. This is designed to ensure that business separation issues are addressed up front.

c) *Physical Separation & Independent Management*

- Pursuant to the written consent of Ofgem, NGG is relieved of its obligation to implement separate branding for the transportation business to the branding used for National Grid Metering.
- The gas distribution business is located in separate accommodation from the Metering business.
- Swipe access controls are in place so employees may only access their designated building and where employees visit a building that is not their designated place of work they are treated as visitors.
- A process remains in place with National Grid's office facilities team to ensure consideration is given to business separation licence obligations prior to any office space being reallocated to National Grid's businesses.
- The gas distribution business maintains a separate and independent management structure for the transportation business from the management of the Metering business.
- The CO continues to be independent of the transportation and Metering business management structures. The CO reports to National Grid's UK General Counsel and Company Secretary. This ensures the CO is not unduly influenced by the management teams of those businesses.

d) *Legal and Financial*

- NGG is a separate legal entity from the Metering business.
- NGG continues to have separate statutory accounts which are subject to relevant accounting standards and underpin separation of function, costs and revenues.
- Services that are provided between NGG Distribution and Metering are on arm's length basis and normal commercial terms ('ALBNCT') and are therefore subject to formal written agreements.
- Pricing of services between NGG and affiliates is on a fully absorbed cost basis in line with a formal National Grid policy.
- Where appropriate separate lawyers are assigned to take instructions from and act on to behalf of the distribution and Metering businesses respectively. This approach is taken to ensure that any conflict of interest is avoided and ALBNCT arrangements are negotiated and observed.

e) *Culture and Training*

- The CO continues to maintain a network of Licence Advisers to help promote business separation awareness and engender a culture of compliance within the business. Regular contact is maintained with the licence advisers and workshops are held

periodically to ensure consistent interpretation of information sharing restrictions and to identify compliance best practice.

- The CO's intranet website has a comprehensive range of business separation compliance educational material containing full copies of the licences and the Compliance Rules.
- Briefings are provided when required to new starters and leavers within National Grid's licensed businesses. The purpose of these briefings is to ensure new starters and leavers understand the licence restrictions on information sharing and business separation issues.
- Induction material is provided to new starters to ensure they understand the restrictions around information sharing. This is one of the means by which the Compliance Rules continue to be communicated.
- The principles of business separation are further reinforced through an e-learning module. Employees who have access to commercially sensitive information or who are involved in the pricing, negotiation or delivery of contracts are required to recomplete the e-learning training every two years.

4. 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 and the practices, procedures and systems adopted in accordance with the compliance statement.
- 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.

Enquiries regarding this report should be addressed to the Compliance Officer at the following address:

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