

Annual EMR Compliance Report

National Grid Electricity Transmission plc

Prepared pursuant to paragraphs 2N.25 and 2N.26 of Special Condition 2N of the Electricity Transmission Licence granted to National Grid Electricity Transmission plc (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

30 June 2017

1. Introduction

Paragraph 25 of Special Condition 2N 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 EMR Relevant Duties (as defined in the licence) and implementation of the practices, procedures and systems adopted in accordance with the EMR compliance statement.

This is the annual report in respect of the period 1st May 2016 to 30th April 2017 (“the Period”).

Definitions

For the purpose of this report, unless otherwise indicated, the following definitions set out in Special Condition 2N (Electricity Market Reform) of the NGET licence apply:

“Associate” means:

- (a) an Affiliate or Related Undertaking of the licensee;
- (b) an Ultimate Controller (as defined in Standard Condition A1 (Definitions and interpretation)) of the licensee;
- (c) a Participating Owner of the licensee; or
- (d) a Common Control Company.

“EMR Administrative Team” means the team established or to be established by the licensee in accordance with paragraph 2N.7 of Special Condition 2N.

“EMR Compliance Officer” (“EMR CO”) means the compliance officer appointed or to be appointed by the licensee in accordance with paragraph 2N.19 of Special Condition 2N

“EMR compliance statement” is defined under paragraph 2N.14 of Special Condition 2N

“EMR Data Handling Team” means the team established or to be established by the licensee in accordance with paragraph 2N.5 of Special Condition 2N

EMR Relevant Duties” means the licensee’s obligations pursuant to Special Condition 2N

“EMR Functions” has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013

“Confidential EMR Information” means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee or any of its agents or representatives by virtue of the performance of EMR Functions by the licensee, but excluding:

- (a) all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence;
- (b) all Information which the licensee can demonstrate was lawfully in its written records prior to the date of disclosure of the same by the owner of the Confidential EMR Information or which it received from a third party independently entitled to disclose it; and
- (c) all Information properly received in the usual course of the licensee’s activities pursuant to paragraphs (a) to (c) (inclusive) of the definition of Permitted Purpose.

“Confidential EMR Administrative Information” means Confidential EMR Information disclosed to or acquired by the licensee by virtue of its role in performing EMR Administrative Functions.

“NGET” means National Grid Electricity Transmission plc

“Relevant Other Competitive Business” (ROCB) means the business of:

- (a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;
- (b) an Offshore Transmission Owner;
- (c) undertaking carbon capture and storage activities; or
- (d) owning and/or operating an entity participating in, or intending to participate in activities which require a licence under section 6(1)(e) of the Electricity Act 1989.

“Shared Services” means shared corporate services as specified in the EMR compliance statement

“Single responsible Director” has the meaning given in paragraph 2N.20 of Special Condition 2N

2. Compliance with the EMR relevant duties

The EMR Compliance Officer (EMR CO) has undertaken monitoring during the Period to assess the effectiveness of the practices, procedures and systems adopted to secure compliance with the EMR Relevant Duties.

As part of this process, Licence Advisers in System Operator, Electricity 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 objective as agreed with Ofgem are detailed below under paragraphs a to e.

The Licence Advisers provided positive assurance that the controls, frameworks and processes in place are adequate to secure compliance with the EMR Relevant Duties and evidence has been provided where necessary to substantiate the statements made. The EMR CO's team has met with the Licence Advisers to challenge and review the framework and questions and share any compliance best practices identified.

As part of the monitoring the EMR CO has liaised with the Risk, Compliance and Audit teams to understand whether any key risks and issues have been identified through their processes. An internal audit has also been carried out into EMR licence compliance. No material issues have been reported.

The EMR 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; a good level of compliance is being maintained”.

Throughout the period NGET has been compliant with the relevant duties.

a) Objectives

NGET has taken steps to ensure that, in carrying out the EMR Functions

- no unfair commercial advantage has arisen to any of NGET's businesses (including the NGET TO) or any business of any Associate of NGET;
- The EMR Functions have not been unduly influenced by any of NGET's businesses (including the NGET TO) or any business of any Associate of NGET.

NGET has efficiently and effectively carried out the EMR Functions during the Period against the principles of best regulatory practice.

NGET's organisational design gives clear role accountability and boundaries through separation of the System Operator (SO) function from the Transmission Owner (TO) function, each of which has separate lead directors. There are robust governance arrangements in place, including separate executive committees for the SO and the TO, which are responsible for managing the affairs of each business.

In accordance with the licence requirements of Special Condition 2N, a Single Responsible Director for EMR has been appointed and is responsible for the EMR teams within the System Operation directorate of the NGET SO. NGET operates and complies with all of the legislation, licence, regulations, rules and codes applicable to NGET in carrying out the EMR Functions and has an open and positive relationship with Ofgem, BEIS and other industry stakeholders.

NGET is a separate legal entity from the ROCB and all commercial arrangements with ROCB are entered into on an arm's length basis and normal commercial terms (ALBNCT). Pricing of services between NGET 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 behalf of the NGET and ROCB respectively. This approach is taken to ensure that any conflict of interest is avoided and ALBNCT arrangements are negotiated and observed.

A Code of Conduct is in place which applies to the EMR teams and has provisions within it prohibiting members of the EMRAT and EMRDHT teams from taking decisions which would unduly discriminate in favour of any NGET business or affiliate. The EMR CO is responsible for promoting a culture of compliance across the whole of National Grid and works with Licence Advisers in NGET and other National Grid businesses to educate, impart knowledge and share best practice on compliance matters.

b) Legal and functional separation of NGET and 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 EMR 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, including those discharging EMR Functions are 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 EMR compliance statement. The Board of Directors of NGET are separate to those of the ROCB (see section 7 below)
- NGET continues to have separate statutory accounts which are subject to relevant accounting standards, which underpin separation of function, costs and revenues.
- 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 Governance Policy for the Pricing of Intra business and Third Party Services. 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 Compliance Officer's intranet website and is promoted through the network of Licence Advisors
- NGET does not conduct or carry out any activity other than the Transmission Business or other de minimis activities (each as defined in the NGET 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 Senior Managers reporting to 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 1 of the EMR compliance statement and for services which constitute de minimis activities (see section 6 below).
- Buildings and Access Controls are in place and employees of NGET are employed in separate premises, to those employees of the ROCB. Employees involved in the EMRAT have been assigned a secure access controlled area separated from other NGET employees, which is closely monitored and controlled by the EMRAT management team. Employees who visit premises which are not their normal place of work are treated as visitors in line with National Grid policy.

c) *EMR Data Handling Team*

To test the effectiveness of controls in place regarding the EMRDHT, the EMR CO has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to the EMRDHT. The following arrangements remain in place to ensure that the team has been set up and is operated, supervised and managed in a manner compliant with Special Condition 2N.

All members of EMRDHT, including new starters, have signed a confidentiality undertaking (non-disclosure agreement). The EMRDHT has also put in place appropriate systems and procedures for the storage, anonymisation and control of CEMRI. All CEMRI information is held on secure NG servers, with only EMRDHT members having access. The EMRDHT operates to a management procedure to ensure that all CEMRI data is anonymised before it is presented to any person who is not a member of the EMRDHT and only provided if it is for a permitted purpose as set out within Special Condition 2N.6A, 12, 13 and 13A. This procedure ensures that there is a multiple step verification process, with one team member extracting the data and another team member checking and approving the data.

The EMRDHT has put in place and will continue to maintain document and information security policies for the receipt of CEMRI. If requested to run a future Call for Evidence (CfE), an IS system to manage CfE will be set up. This will be a secure password protected web portal for the recording, processing and storage of CEMRI. Functionality will be put in place by NG IS to ensure that only members of the EMRDHT have access to the CfE information.

d) *EMR Administrative Team*

To test the effectiveness of controls in place regarding the EMRAT, the EMR CO has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to the EMRAT. The following arrangements remain in place to ensure that the team has been set up and is operated, supervised and managed in a manner compliant with Special Condition 2N.

All members of EMRAT, including new starters, have signed a confidentiality undertaking (non-disclosure agreement). Members of the EMRAT are only engaged in EMRAT functions and no other activities of NGET, except for activities which are part of their role as an NGET Manager or employee, such as attendance at management meetings, companywide improvement initiatives, and training courses.

The accommodation of the EMRAT is effective in restricting access by persons who are not members of the EMRAT. The EMRAT is located in a dedicated secure office, which has swipe card access to restrict access so that only EMRAT members may enter.

The EMRAT has also put in place appropriate systems and procedures for the storage, anonymisation and control of CEMRAI. All CEMRAI information is held on secure NG servers, with only EMRAT members and members of the EMR IS project team having access. The EMRAT operates to a management procedure to ensure that all CEMRAI data is anonymised before it is presented to any person who is not a member of the EMRAT and only provided if it is for a permitted purpose as set out within Special Condition 2N.8A, 12, 13 and 13A. This procedure ensures that there is a multiple step verification process, with one team member extracting the data and another team member checking and approving the data.

The EMRAT has detailed on-boarding and off-boarding processes to ensure that control is maintained over physical access to the EMRAT office and access to CEMRI and CEMRAI through information systems.

Capacity Mechanism

The EMRAT has established document and IS security policies for the receipt of CEMRI in relation to the capacity mechanism. During the Period, systems were used to enable industry participants to submit pre-qualification data and documents.

The system is provided on a platform which allows applicants to submit data in to a secure area on the system to be reviewed and processed by EMRAT under the requirements of the Capacity Market Rules. The system is a fully developed solution which restricts access to CEMRI and CEMRAI to the information owners and the relevant EMRAT members.

In accordance with the approved Capacity Market (CM) Rules and timetable, results of the pre-qualification process were published into the public domain in October 2016.

Contracts for Difference

During the period, NGET established and followed document and information security policies for the receipt of CEMRI for Contracts for Difference (CfD). During the Period, systems were used to enable industry participants to submit registration data and documents.

The system is provided on a platform which allows applicants to submit data in to a secure area on the system to be reviewed and processed by EMRAT. The system is a fully developed solution which restricts access to CEMRI and CEMRAI to the information owners and the relevant EMRAT members.

Restricted access to the system is available for Ofgem, BEIS and the Low Carbon Contracts Company so that these delivery partners can engage with various aspects of the CfD Round as required under the CfD Regulations.

e) Restriction on the use of Confidential EMR Information

Both the EMRAT and the EMRDHT teams use all reasonable endeavours to manage the process for the storage, anonymisation and control of CEMRI to persons whom are not members of either team and ensure that it is not possible to identify the generation set or the owner or operator, which is the subject of that CEMRI. There are appropriate systems and procedures for the storage, anonymisation and control of CEMRI.

A register is kept to record where CEMRI is disclosed to Shared Services personnel, other employees, external contractors, agents and advisers in order to carry out their functions or in order to enable NGET to perform its EMR Functions. Recipients of CEMRI understand the restrictions that apply and sign a confidentiality acknowledgement as required by Special Condition 2N.13(b)(ii). The register is known as the Confidential EMR Disclosure list and is maintained within the EMRAT team by the Stakeholder and Support Manager and within the EMRDHT by the EMR Modelling Manager.

3. EMR Compliance Statement

A copy of the approved Compliance Statement dated 19th October 2015 is published on the National Grid corporate website

The Compliance Statement has been updated to take account of the closure of certain data incidents which occurred in 2015 and also updated following Ofgem's approval of the Compliance Statement for Special Condition 2O on 30th September 2016. The updated Compliance Statement will be submitted to Ofgem for approval and then published on National Grid's website.

4. Duties and tasks of the EMR Compliance Officer

a) Provision of advice and Information

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

- The EMR CO has provided advice to NGET Directors, Managers and other personnel in respect of the relevant duties.
- The EMR CO has delivered targeted briefings to the EMRAT and EMRDHT teams to explain the restrictions on sharing of CEMRI data and to reinforce the Code of Conduct.
- The EMR CO has also provided similar briefings to the wider NGET and ROCB businesses so that these employees are aware of the restrictions in sharing and receiving EMR related data and to ensure that these functions do not receive an unfair commercial advantage.

- The EMR CO has implemented a companywide communications programme to ensure awareness of the EMR functions and the sensitivities surrounding the use and management of CEMRI. Bulletins and other communication materials have been produced for team meetings and published on the National Grid's internal intranet system.
- There is also a network of Licence Advisers in place who promote awareness of licence obligations, promote a culture of compliance and facilitate compliance monitoring within their functions. The Licence Advisers within the System Operation function ensure compliance against NGET and EMR related obligations. Workshops have also been held with the EMR CO's team and Licence Advisers to ensure consistent interpretation of information sharing restrictions and to identify compliance best practice.
- All employees across the UK business of National Grid and within the EMR functions who are involved in the pricing, negotiation or delivery of contracts are required to complete eLearning training courses every two years on Business Separation and Competition Law, which include modules on information sharing restrictions.

b) Monitoring

The EMR 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 EMR Relevant Duties.

Each directorate has in place a Business Separation Framework which is a framework 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 System Operation includes the relevant obligations for EMR and they have built the necessary controls into their framework.

As part of the monitoring process, the effectiveness of the controls are tested and reviewed and risks identified where appropriate. Each Licence Adviser has submitted their framework to the EMR CO who has conducted challenge and review sessions to discuss the robustness of the controls in place. The EMR CO has also liaised with the wider National Grid Risk, Audit and Compliance teams to verify the outputs.

c) Investigations Conducted

NGET has not received any complaints, as set out in paragraph 23 of Special Condition 2N, during the Period. The EMR CO has not conducted any investigations during the period.

The EMR Compliance Officer has worked with Ofgem to close out the data incidents from 2015. NGET provided a letter to the Authority on 14th July 2016 confirming that NGET have completed all of the actions and recommendations as set out by the external independent auditor. The recommendations of the external independent auditor included recommendations on information flows and end to end ownership including security controls; core systems criteria and controls; end user computing tools, an updated operating policies and procedures of the pragmatic guide and other findings. The Compliance Statement has been updated and will be sent to the Authority for approval.

The EMR Compliance Officer is satisfied that NGET has complied with Ofgem's requirements and that NGET's policies, processes and procedures are designed to ensure compliance with SLC 2N (12) and Regulation 65 (1). Delivery of the Action Plan has been overseen by the Single

Responsible Director for NGET and the NGET plc Board. Ofgem have monitored completion of the Action Plan and completed a final review with NGET in July 2016. Neither incident had a material impact on the overall delivery of EMR during the relevant period.

d) Report to the single responsible director and the Compliance Committee by the EMR CO

The EMR CO has made a report to the Single Responsible Director and the NGET Compliance Committee twice during the reporting period in June and November 2016.

5. Certificate of Compliance

The NGET Certificate of Compliance in respect of Special Condition 2N Electricity Market Reform was approved by a resolution of the Board of Directors of NGET for signature by the Single Responsible Director on 30 June 2017. A copy of the signed certificate is attached at Appendix 1 of this report.

6. De Minimis Services

The de minimis services which NGET has provided to the ROCB during the period are as follows.

- Services provided by Commercial Electricity Services (CES) relating to land fees, Wayleaves, and security services

7. Boards of Directors for NGET and ROCB

The Directors for the Boards of NGET and ROCB for the period are shown in Appendix 2.

8. Minimum Posting Periods

Details of all employees who have moved into or out of the EMRAT and EMRDHT teams have been referred to the EMR CO. Employees moving into the teams have signed the Confidentiality Undertaking, received a briefing on the EMR Code of Conduct and been trained on the processes in place to manage CEMRI. Employees moving out of the teams have been reviewed by the EMR CO in accordance with the EMR compliance statement and the EMR CO has provided exit briefings and reminded them of their obligations under the terms of the Confidentiality Undertaking and contract of employment.

All employee transfers for the EMR Administration Team have been in accordance with the minimum posting periods set out in Appendix 8 of the EMR compliance statement. There have been no exceptions during the Period.

9. Further Information

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

EMR Compliance Officer
National Grid Electricity Transmission plc
Legal Department
National Grid House
Warwick Technology Park
Gallows Hill

Warwick
CV34 6DA

Appendix 1 – NGET Certificate of Compliance in respect of separation between NGET (EMR Functions) and Relevant Other Competitive Businesses and EMR ring fence

Special Condition 2N

National Grid Electricity Transmission plc

Certificate of Compliance

in respect of Special Condition 2N Electricity Market Reform

Capitalised terms have the meanings given to them in the NGET Licence.

I hereby certify on behalf of NGET, that to the best of my knowledge, information and belief having made due and careful enquiry, the report of the EMR Compliance Officer fairly represents the licensee's compliance with the EMR Relevant Duties.

Signature

Phil Sheppard, Single Responsible Director in respect of Compliance with the EMR Relevant Duties

Date

Approved by a resolution of the NGET Board members on 30th June 2017

Appendix 2 – Directors of NGET and Relevant Other Competitive Businesses

Company	Name	Title	Appointed	Resigned
National Grid Electricity Transmission plc	Andrew Agg	Group Tax and Treasury Director	01.06.2013	
	David Wright	Director Electricity Transmission Owner and Group Electricity Chief Engineer	01.10.2014	
	Clive Elphick	Sufficiently Independent Director	01.04.2014	
	Catherine Bell	Sufficiently Independent Director	01.04.2014	
	Rachael Davidson	UK General Counsel and Company Secretary	11.02.2015	
	Cordelia O'Hara	Director, UK System Operator	24.09.2015	
	Alan Foster	UK, Chief Financial Officer	01.01.2016	
	Christopher Bennett	Director, UK Regulation	25.06.2016	
	Nicola Shaw	Executive Director, UK	27.07.2016	
	Christopher Murray	Chair of the NGET Board	11.02.2016	27.07.2016
	Mark Ripley	Director, UK Regulation	01.10.2014	24.06.2016
National Grid Interconnectors Limited	David Whincup	Assistant Company Secretary	10.09.2014	
	Jon Butterworth	Director of Non-Regulated Businesses (NRB) Entity	01.03.2015	
	Hooper, Nick	Lead Finance Business Partner NRB	01.03.2015	
	Nick Sides	Head of Interconnectors	01.03.2015	
	Alice Morgan	Assistant Company Secretary	01.03.2016	
	Aarti Singhal	Director Investor Relations	14.06.2016	
National Grid Interconnector Holdings Limited	David Whincup	Assistant Company Secretary	10.09.2014	
	Jon Butterworth	Director of Non-Regulated Businesses (NRB) Entity	01.03.2015	
	Nick Sides	Head of Interconnectors	01.03.2015	
	Ian Graves	Director, European Business Development	18.01.2016	
	Martin Cook	Head of Business Development	27.04.2016	
	Terence McCormick	Head of Corporate Development and Markets	27.04.2016	
	Alice Morgan	Assistant Company Secretary	24.05.2016	
Britned Development Limited	Alexander Hartman	Director, Britned Development Ltd	01.01.2004	
	Guido Fricke	Director, Britned Development Ltd	02.11.2011	
	Nick Sides	Head of Interconnectors	01.04.2015	

	Jon Butterworth	Director of Non-Regulated Businesses (NRB) Entity	17.07.2015	
	Alice Morgan	Assistant Company Secretary	10.05.2016	
	David Whincup	Assistant Company Secretary	10.05.2016	
National Grid Carbon Limited	David Whincup	Assistant Company Secretary	10.09.2014	
	Martin Cook	Head of Business Development	01.12.2015	
	Ian Graves	Director, European Business Development	01.07.2016	
	Alice Morgan	Assistant Company Secretary	15.12.2016	
	Paul Sullivan	CCS Strategy & Partnering Manager	02.01.2014	-01.07.2016
	Christopher Woodall	Head of Programme Management	21.09.2015	01.07.2016
National Grid Offshore Limited	Martin Cook	Head of Business Development	01.12.2015	
	Ian Graves	Director, European Business Development	28.01.2015	
	Terence McCormick	Head of Corporate Development and Markets	27.04.2016	
	Alice Morgan	Assistant Company Secretary	24.03.2016	
	David Whincup	Assistant Company Secretary	24.03.2016	
	Zac Richardson	Head of Project Development	01.05.2016	
Nemo Link Limited	David Whincup	Assistant Company Secretary	02.09.2014	
	Stephen Adams	Head of Commercial, Non- Regulated Business	01.12.2015	
	Markus Berger	Elia appointment	27.02.2015	
	Jon Butterworth	Director of Non Regulated Businesses (NRB) Entity	27.02.2015	
	Ilse Tant	Elia appointment	27.02.2015	
	Frank Vandenberghe	Elia appointment	27.02.2015	
	Nick Hooper	Finance Business Partner, Non-Regulated Business	21.09.2015	
	Alice Morgan	Assistant Company Secretary	01.03.2016	
National Grid IFA 2 Limited	David Whincup	Assistant Company Secretary	14.07.2014	
	Nick Sides	Head of Interconnectors	01.04.2015	
	David Luetchford	Head of IFA2	15.02.2016	
	Terence McCormick	Head of Corporate Development and Markets	27.04.2016	
	Zac Richardson	Head of Project Development	01.05.2016	
	Alice Morgan	Assistant Company Secretary	20.10.2016	
National Grid North Sea Link Limited	David Whincup	Assistant Company Secretary	02.09.2014	
	Jon Butterworth	Director of Non-Regulated Businesses (NRB) Entity	23.03.2015	

	Stephen Adams	Head of Commercial, Non- Regulated Business	21.09.2015	
	Nick Hooper	Finance Business Partner, Non-Regulated Business	01.12.2015	
	Alice Morgan	Assistant Company Secretary	15.12.2016	
National Grid Viking Link Limited	David Whincup	Assistant Company Secretary	20.06.2014	
	Ian Graves	Director, European Business Development	27.04.2016	
	Andrew McIntosh	Project Director, Commercial, European Business Development	27.04.2016	
	Zachary Richardson	Head of Project Development	01.05.2016	
	Oliver Wood	Project Director	27.04.2016	
	Alice Morgan	Assistant Company Secretary	17.10.2016	

Reviewed – June 2017

Next planned review – June 2018