

# **Annual Compliance Report**

## **National Grid Electricity Transmission plc**

Prepared pursuant to paragraphs 27 and 28 of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) 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

**30 June 2017**

## 1. Introduction

Paragraph 27 of Special Condition 20 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 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 2016 to 30<sup>th</sup> April 2017 (“the Period”).

### Definitions

For the purpose of this report, unless otherwise indicated, capitalised terms which are not defined below shall have the meanings given to them in the NGET Licence.

“**National Grid**” means the National Grid group of companies.

“**NGET**” means National Grid Electricity Transmission plc.

“**Special Condition**” means a special condition of the Licence.

“**Standard Condition**” means a standard condition of the Licence.

“**Systems**” means the IT systems developed to support delivery of Relevant System Planning Activities.

“**System Operator Functions**” means the activities of the licensee pursuant to the obligations under Section C of the Licence, for which there are no equivalent obligations under Section D or Section E, of the standard licence conditions contained in an electricity transmission licence. For NGET, System Operator Functions are those activities reporting into the Director, System Operator as set out within Appendix Four of the Compliance Statement which are undertaken by the teams of System Capability, Data and Modelling, Technical Economic Assessment and Economics.

## 2. Compliance with the specified 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 Specified Duties.

As part of this process, Licence Advisers in System Operation, 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 Specified Duties. The matters considered and the overall outcome for each relevant objective as agreed with Ofgem are detailed below under paragraphs a to c.

The Licence Advisers 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 Licence Advisers 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. An internal audit has also been carried into RSPA licence compliance. No material 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; 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 Relevant System Planning Activities

- 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 System Operator Function performing Relevant System Planning Activities has 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 Relevant System Planning Activities 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 2O, a Single Appointed Director for Special Condition 2O has been appointed and is responsible for the system capability, economics, data and modelling and technical economic assessment teams within the Network Capability Electricity area of the NGET SO. NGET operates and complies with all of the legislation, licence, regulations, rules and codes applicable to NGET in carrying out Relevant System Planning Activities and has an open and positive relationship with Ofgem 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 system capability, economics, data and modelling and technical economic assessment teams and has provisions within it prohibiting members of these teams from taking decisions which would unduly discriminate in favour of any NGET business or affiliate. The 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 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 Relevant System Planning Activities 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 20 compliance statement. The Board of Directors of NGET are separate to those of the ROCB.
- 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 Advisers
- 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 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 20 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 who visit premises which are not their normal place of work are treated as visitors in line with National Grid policy.

### ***c) Restrictions on the use of Relevant System Planning Information***

To test the effectiveness of controls in place regarding the system capability, economics, data and modelling and technical economic assessment teams, the CO has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to the relevant teams.

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 20.

These teams have put in place and will continue to maintain document and information security policies for the recording, processing and storage of RSPI. All RSPI is held on secure NG servers, with only these team members having access. The teams operate to a management procedure to control all RSPI presented to any person who is not a member of the System Operator Function to ensure it is only provided if it is for a permitted purpose as set out within Special Condition 20.13. 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.

An IS system has been put in place in order to process RSPI received from transmission owners (TOs), offshore developers, interconnector operators and once appointed, competitively appointed transmission owners (CATOs). There is a secure, segregated, company specific system portal for each of the TOs, offshore developers, interconnector operators and (future) CATOs for the recording, processing and storage of RSPI.

The IS system has been designed to enable each of the TOs, offshore developers, interconnector operators and CATOs to upload their RSPI and for those employees, agents, contractors and advisers who are engaged in System Operator Functions to be able to securely download this information. The IS system is designed to ensure that each respective TO, offshore developer, interconnector operator and CATO can only view their own RSPI. Functionality has been put in place such that only members of the System Operator Functions have access to the full RSPI provided by each TO, offshore developer, interconnector operator and CATO. The Electricity Network Development Manager is accountable and responsible for the IS system.

### **3. Compliance Statement and Compliance Documents**

The 20 Compliance Statement was approved by Ofgem on 30<sup>th</sup> September 2016 and a copy of the approved Statement has been published on the National Grid corporate website. The CO considers that the approved compliance statement is an accurate reflection of the arrangements in place.

### **4. Duties and tasks of the Compliance Officer**

#### ***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 the system capability, economics, data and modelling and technical economic assessment teams, to explain the restrictions on sharing of RSPI data and to reinforce the Code of Conduct.
- The 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 RSPA related data and to ensure that these functions do not receive an unfair commercial advantage.
- The CO has implemented a companywide communications programme to ensure awareness of the System Operator Functions and the sensitivities surrounding the use and

management of RSPI. 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 Operator Function ensure compliance against the NGET licence and 2O related obligations. Workshops have also been held between the CO's team and Licence Advisers to ensure consistent interpretation of information sharing restrictions and to identify compliance best practice.
- All employees across the whole of National Grid and within the System Operator Function who are involved in the pricing, negotiation or delivery of contracts are required to complete e-learning training courses every two years on Business Separation and Competition Law, which include modules on information sharing restrictions.

### ***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 2O Specified 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 the System Operator Function includes the relevant obligations for RSPA 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 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.

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

NGET has not received any complaints, as set out in paragraph 26.d of Special Condition 2O, during the Period so therefore no investigations have been conducted.

The CO has made a report to the Single Appointed 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 2O business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities was approved by a resolution of the Board of Directors of NGET for signature by the Single Appointed 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. 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:

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 and Relevant Other Competitive Businesses and conduct of the SO in performing RSPA**

## **Special Condition 20**

**National Grid Electricity Transmission plc**

**Certificate of Compliance**

**in respect of Special Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) of the NGET Transmission Licence**

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

In accordance with paragraph 28 (d) of Special Condition 20 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 Compliance Officer fairly represents NGET's compliance with the Specified Duties.

*Signature* .....

*Phil Sheppard, Single Appointed Director*

*Date* .....

Approved by a resolution of the NGET Board on 30 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	
	<del>Christopher Murray</del>	<del>Chair of the NGET Board</del>	<del>11.02.2016</del>	<del>27.07.2016</del>
	<del>Mark Ripley</del>	<del>Director, UK Regulation</del>	<del>01.10.2014</del>	<del>24.06.2016</del>
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	
	<del>Paul Sullivan</del>	<del>CCS Strategy &amp; Partnering Manager</del>	<del>02.01.2014</del>	<del>01.07.2016</del>
	<del>Christopher Woodall</del>	<del>Head of Programme Management</del>	<del>21.09.2015</del>	<del>01.07.2016</del>
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