

Annual EMR Compliance Report – 2019/20

Annual EMR Compliance Report

National Grid Electricity System Operator Limited

Prepared pursuant to paragraphs 2N.25 and 2N.26 of Special Condition 2N of the Electricity Transmission Licence granted to National Grid Electricity System Operator Limited (registered in England with number 11014226 and whose registered office is at 1-3 Strand, London WC2N 5EH) under section 6(1)(b) of the Electricity Act 1989

19th May 2020

1. Introduction

Paragraph 25 of Special Condition 2N of the Electricity Transmission Licence (“Licence”) granted to National Grid Electricity System Operator Limited (“NGESO”) requires NGESO 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 April 2019 to 31st March 2020 (“the Period”). On 1st April 2019, Special Condition 2N was removed from the NGET Licence and transferred to the new licence granted to National Grid Electricity System Operator Ltd (NGESO). This is NGESO’s first report relating to Special Condition 2N compliance.

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**” (“**CEMRI**”) 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” (“CEMRI”) 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

“NGESO” means National Grid Electricity System Operator Limited

“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 (a licence authorising a person to participate in the operation of an electricity interconnector (“an interconnector licence”))

“Shared Services” means shared corporate services (which shall not include regulatory services) as specified in the EMR compliance statement

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

“SO” means System Operator

“TO” means Transmission Owner

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, Compliance Champions in the System Operator, Finance and Business Services, IS, ESO Regulation, Procurement, 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 d.

The Compliance Champions within the ESO and Shared Services 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 Champions to challenge and review the framework and questions and share any compliance best practices identified.

A control framework review and workshops to cover each of the compliance statement themes and requirements therein, has been instigated. This is to review and understand the controls that are in place, agree a view of the level of effectiveness and agree any remediation actions required to strengthen controls or agree new controls to be embedded.

Following previous reportable incidents in the prior reporting period there was a Business Conduct review (Feb 19) and a Corporate Audit (May 19), which identified that the root cause for a number of the incidents in EMR related to insufficient change management and governance. Corporate Audit focussed on the effectiveness of EMR's change management framework and concluded that the EMR change management function lacked formality, consistency and structure, with an over reliance on individuals' knowledge heightening risk of error. A set of corrective actions were agreed to implement and embed a Change Governance Framework in to EMR that covers IS, non-IS change and projects. These were developed in Summer 2019 and are now in place. The Change Framework uses the principles of identify, define, deliver and close with an overarching EMR Change Control Policy to ensure all changes follow the correct change framework and apply the appropriate controls when raising, reviewing, accepting / rejecting change within EMR. All actions have been completed and a key deliverable of the framework has been to use a central location for all change documentation such as SOPs that are updated to ensure that all risks and controls are in place. Risk assessments have been conducted and these continue to be kept under review.

The Auction Monitor, Deloitte, has produced reports in relation to:

- (i) [The Capacity Market auction for delivery year 2020 to 2021 \(year ahead\)](#)
- (ii) [The Capacity Market auction for delivery year 2022 to 2023 \(three years ahead\)](#)
- (iii) [The Capacity Market auction for delivery year 2023 to 2024 \(four years ahead\)](#)

The scope covered the extent to which the Delivery Body ("DB") has complied with the requirements of Chapter 5 of the Capacity Market Rules, Regulations and the Auction Guidelines. The reports contain the opinion of the Auction Monitor for all 3 auctions as: "the actions performed by NGESO, in its role as the Capacity Market Delivery Body for Electricity Market Reform, have in all material respects, complied with the relevant sections of the Rules and Guidelines"

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.

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".

Throughout the period NGESO has been compliant with the relevant duties,

a) Objectives

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

- no unfair commercial advantage has arisen to any of NGESO's nor NGET's businesses (including the NGET TO) or any business of any Associate of NGET or NGESO;
- The EMR Functions have not been unduly influenced by any of NGESO's nor NGET's businesses (including the NGET TO) or any business of any Associate of NGESO or NGET.

NGESO has efficiently and effectively carried out the EMR Functions during the Period against the principles of best regulatory practice. A separate external audit found that for Capacity Market Auctions these in all material respects, complied with the relevant sections of the Rules and Guidelines.

National Grid Electricity System Operator Limited (NGESO Limited) is a legally separate entity within the National Grid Group performing the electricity system operator (ESO) role in Great Britain. NGESO has autonomy in decision making on matters related to its licensed duties and the day-to-day operation of the ESO business in accordance with its Articles of Association and Reserved Matters. It is governed by its own board of directors with at least three Non-Executive Directors (NEDs). From a governance perspective, the ESO Executive Teams has delegated authority from the ESO Board. The ESO Executive Team is responsible for directing the affairs of the ESO business relating to strategy, markets, operations and financial performance.

Following legal separation in April 2019 a single OneSO structure was retained, comprising the GSO and ESO. However, on 1 January 2020 the ESO and GSO were separated to be managed separately and Gas System Operator became part of Gas Transmission. This was to provide even greater transparency and clarity about the management of the gas and electricity networks and the changes provide necessary clarity for employees and external stakeholders and make the legal separation of the ESO even clearer. In accordance with the licence requirements of Special Condition 2N, a Single Responsible Director for EMR was appointed and was responsible for the EMR teams within the NGESO. NGESO operated and complied with all the legislation, licence, regulations, rules and codes applicable to NGESO in carrying out the EMR Functions and has an open and positive relationship with Ofgem, BEIS and other industry stakeholders.

NGESO is a separate legal entity from the ROCB and all commercial arrangements with ROCB are entered on an arm's length basis and normal commercial terms ("ALBNCT"). Pricing of services between NGESO 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 NGESO 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 was in place which applied to the EMR teams and had provisions within it prohibiting members of the EMR Administrative Team ("EMRAT") and EMR Data Handling Team ("EMRDHT") teams from taking decisions which would unduly discriminate in favour of any National Grid business or affiliate. The EMR CO is responsible for promoting a culture of compliance across the whole of National Grid ESO and works with Compliance Champions in NGESO and other National Grid businesses to educate, impart knowledge and share best practice on compliance matters.

a) *Legal and functional separation of NGESO and relevant other competitive businesses*

To test the effectiveness of controls in place to ensure that there is legal and functional separation of NGESO 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 NGESO business (including those that were discharging EMR Functions) are carried out separately from the ROCB:

- NGESO is 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 NGESO are separate to those of the ROCB (see section 6 below)
- NGESO will publish its own separate statutory accounts which are subject to relevant accounting standards, which underpin separation of function, costs and revenues. The accounts will be published by December 2020
- NGESO 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, NGESO 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 Compliance Champions
- NGESO does not conduct or carry out any activity other than the System Operator Business or other de minimis activities (each as defined in the NGESO licence) or activities to which the Authority has given its consent in writing.
- NGESO employees engaged in the management and operation of NGESO (up to and including Senior Managers reporting to the NGESO 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.
- Buildings and Access Controls are in place and employees of NGESO are employed in separate premises, to those employees of the ROCB. Employees involved in the EMRAT were assigned a secure access controlled area separated from other NGESO employees, which was 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.

b) *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 were in place to ensure that the team had been set up and was 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 was held on secure National Grid servers, with only EMRDHT members having access. The EMRDHT operated to a management procedure to ensure that all CEMRI data was anonymised before it was presented to any person who was not a member of the EMRDHT and only provided if it was for a permitted purpose as set out within Special Condition 2N.6A, 12, 13 and 13A. This procedure ensured that there was a multiple step verification process, with one team member extracting the data and another team member checking and approving the data.

The EMRDHT had 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 National Grid IS to ensure that only members of the EMRDHT have access to the CfE information.

c) *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 remained in place to ensure that the team had been set up and was 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 were only engaged in EMRAT functions and no other activities of NGENSO, except for activities which were part of their role as an NGENSO Manager or employee, such as attendance at management meetings, company wide improvement initiatives, and training courses.

The accommodation of the EMRAT was effective in restricting access by persons who are not members of the EMRAT. The EMRAT was in a dedicated secure office, which has swipe card access to restrict access so that only EMRAT members may enter. The EMRAT has relocated to a dedicated section of Faraday House, with the same controls remaining in place. Faraday House has a separate entrance to National Grid House with no go-between access for employees. This prevents uncontrolled interaction between ESO employees and other National Grid employees. All non-ESO employees visiting Faraday House will be treated as external visitors, with restricted access, and escorted at all times in the ESO working areas.

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

The EMRAT had 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 had 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 was 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 was 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 November 2019.

Contracts for Difference

During the period, NGESO 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 was 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 was 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.

d) *Restriction on the use of Confidential EMR Information*

Both the EMRAT and the EMRDHT teams used 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 were appropriate systems and procedures for the storage, anonymisation and control of CEMRI.

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

3. EMR Compliance Statement

The Compliance Statement continued to be an accurate reflection of the compliance arrangements in place until 31st March 2020. NGESO have ongoing responsibility for updating and publishing the document. The Compliance Statement has been updated to reflect consequential changes as a result of NGESO separating from NGET.

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 NGESO during the period by completing the following activities:

- The EMR CO has provided advice to NGESO 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 communications 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 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 the System Operation function ensure compliance with EMR related obligations. Workshops have also been held with the EMR CO's team and Licence Champions to ensure consistent interpretation of information sharing restrictions and to identify compliance best practice.
- The EMR CO has instigated a control framework review and workshops to cover each of the compliance statement themes and requirements therein. This is to review and understand the controls that are in place, agree a view of the level of effectiveness and agree any remediation actions required to strengthen controls or agree new controls to be embedded.
- All National Grid employees in relevant roles and within the EMR teams are required to complete periodic e-learning training courses 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 NGENSO remained 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 included 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

NGESO has not received any complaints, as set out in paragraph 23 of Special Condition 2N, during the Period. There were no reportable incidents during the Period.

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

The EMR CO has made reports to the Single Responsible Director and the NGENSO Compliance Committee in April, July and September 2019.

5. Certificate of Compliance

The NGESO Certificate of Compliance in respect of Special Condition 2N Electricity Market Reform was approved by a resolution of the Board of Directors of NGESO for signature by the Single Responsible Director on 19th May 2020. A copy of the certificate is attached at Appendix 1 of this report.

6. Boards of Directors for NGESO

The Directors for the Board of NGESO for the period are shown in Appendix 2.

The ESO is governed by its own board and various committees to the board. The ESO Board has delegated authority from the National Grid Group Board and has autonomy in decision making on matters in relation to the ESO, in line with its terms of reference.

7. 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.

8. 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

UK Legal

National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA

Special Condition 2N

National Grid Electricity System Operator Limited

Certificate of Compliance

**in respect of Special Condition 2N Electricity Market Reform
for the period 1st April 2019 to 31st March 2020**

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

I hereby certify on behalf of NGESO, 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

Roisin Quinn, Single Responsible Director in respect of Compliance with the EMR Relevant Duties

Date

Approved by a resolution of the NGESO Board members on 19th May 2020

Appendix 2 – Directors of NGESO

Name	Title	Appointed	Resigned
Megan Barnes	Director	30.11.2018	01.04.2019
Clive Burns	Director	30.11.2017	01.04.2019
Duncan Burt	Director, Operations	01.04.2019	17.02.2020
Gillian Merron	Non-Executive Director	01.04.2019	
Hannah Nixon	Non-Executive Director	01.04.2019	
Kayte O'Neill	Head of Markets	01.04.2019	
Paul Plummer	Non-Executive Director	01.04.2019	
Roisin Quinn	Head of National Control and ESO Chief Engineer	01.03.2020	
Fintan Slye	Director, Electricity System Operator	01.04.2019	
Claire Tuckman	Finance Director	01.04.2019	
Lawrence Hagan	Company Secretary	16.10.2017	01.04.2019
Chantal Ackon	Joint Company Secretary	01.04.2019	04.10.2019

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