

National Grid Electricity System Operator Business Separation Compliance Annual Report 2019-20

Annual Compliance Report

Version 1.1, March 2021



Foreword

Foreword from Paul Plummer, Chair of the ESO Compliance Committee



Dear Colleagues,

This is the first business separation report since the National Grid Electricity System Operator (NGESO) became a legally separate business within the National Grid Group.

Great Britain's electricity system is one of the oldest, and most complex, in the world. Every year NGESO moves 300 Terawatt Hours (TWh) of electricity - equivalent to 4 trillion kettles boiling at once – around our system, all whilst enabling the transformation to a sustainable energy system. The ESO's mission is to enable the transformation to a sustainable energy system and ensure the delivery of reliable, affordable energy for all consumers.

NGESO became a legally separate entity within the National Grid Group on 1st April 2019. Separating the ESO business from National Grid Electricity Transmission provides transparency in NGESO's decision-making and gives confidence that everything it does will promote competition and is ultimately for the benefit of consumers.

As Chairperson of the Compliance Committee I oversee compliance of the Licensee with its specified business separation duties as prescribed in the NGESO Transmission Licence and the detailed arrangements set out within the Compliance Statement, which is currently in draft form, pending Ofgem approval.

The Compliance Committee convened in April 2019, July 2019, September 2019 and May 2020 to provide oversight and independent challenge to NGESO's performance in respect of legal separation. During the Period a new Single Appointed Director (who oversees the work of the Compliance Officer) was appointed and the committee's terms of reference were reviewed and updated.

The compliance statement has also been updated during the period, to bring transparency to the Group structure, changes to dual fuel roles following the

announcement in December 2019 to reflect the changes to the OneSO operating model and also set out how the ESO's Directors are incentivised – this point is under discussion with Ofgem, with a view to implementing alternative arrangements.

During the Period the Compliance Officer has assessed the overall outcomes of the NGESO 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. Outside of this opinion no concerns have been raised.

This report details the level of compliance that has been achieved during the period between April 2019 to March 2020 against each of the parameters of legal separation. Prior to and following legal separation the ESO has made significant changes to its processes and controls to ensure that it operates effectively as a legally separate entity with National Grid Group.

The regulatory framework provides for NGESO and Group interactions and the design remains as specified in the compliance statement. Reporting and provision of information is in line with the licence conditions to ensure that the Group has appropriate oversight, for example management of risk and business continuity. The Group and NGESO have developed improved ways of working throughout the Period to ensure an appropriate level of engagement on cross cutting issues, (for example the response to COVID-19 and its thoughts on the Ofgem structure and governance review of NGESO).

Post April 2019, National Grid UK operated a 'One System Operator' model, comprising the ESO and Gas System Operator (GSO), to facilitate whole system thinking whilst observing strict rules around legal separation. National Grid UK have now simplified their internal operating model to transition the GSO into the National Grid Gas Transmission business from January 2020. The ESO will continue to work closely with gas colleagues and industry to maintain a whole system focus and approach as seen through, for example, the Future Energy Scenarios work.

In summary the design of legal separation, governance and controls are working well – it enables NGESO to operate legally separate within the National Grid Group enabling NGESO to operate more independently, in the interest of all consumers, the energy market and society.

Paul Plummer

Chair of Compliance Committee

Executive summary

In April 2019 the ESO was legally separated from National Grid Electricity Transmission (**NGET**). The compliance period covers April 2019 to March 2020 (the Period). During the Period the compliance Officer (CO) has undertaken monitoring to assess the effectiveness of the practices, procedures and systems adopted to secure compliance with the relevant duties.

As part of this process, Compliance Champions in NGENSO and NG Shared Services 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. 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. New processes were also introduced to provide compliance advice, training, incident management and reporting, provision of System Operator Functions Information (SOFI) and to also manage movers in/out of NGENSO.

The CO has assessed the overall outcomes of the NGENSO 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 complaints have been made in respect of compliance.*

The following observations were made across the following themes:

NGESO Governance & Managerial Separation:

The organisational design is compliant with the licence. The ESO is legally and functionally separate from NGET/NGG/Relevant Other Competitive Businesses (**ROCB**). The arrangements for managerial and operational separation including arrangements to ensure the independence of the licensee's management board, senior managers and staff from NGET, NGG and ROCB remain compliant and in accordance with the design set out in the Compliance Statement.

Financial Ringfencing: NGENSO has achieved an investment grade credit rating and is in the process of developing its separate statutory accounts which are subject to relevant accounting standards, which underpin separation of functions, costs and revenues. Assurance processes have been conducted throughout the period to enable NGENSO to issue Certificates to Ofgem to confirm that it is meeting its financial ringfence obligations.

Operational Separation: The NGENSO has managerial and operational separation from NGET, NGG and ROCB. The creation of NGENSO has been reflected into electricity industry codes so that interactions between the NGENSO and NGET are formalised in the same way that they are for other onshore and offshore transmission owners; many of the internal processes have been reviewed and redesigned to align with the code framework.

These changes ensure that NGENSO's day to day interaction with NGET is aligned with Scottish TOs and Offshore TOs.

Information Ringfencing: Ringfence controls have been embedded into ways of working across NGENSO, Shared Services and Group interactions. Extensive training and advice has been provided across the business. Group requests for information are in line with exceptions set out in the licence and compliance statement.

Employee Transfer, Moves and Talent Management:

An NGENSO audit confirmed that all moves had been evaluated and the process provided a good audit trail of the risks and sanctions put in place. There were only two cases (Senior Leaders moves) where additional controls were required to manage the perception risk around conflict of interest.

Employee Remuneration and Incentivisation:

NGESO's employees are incentivised on NGENSO metrics and outcomes. A Group Long Term Incentive Plan (LTIP) is also available for Directors and a limited number of managers. The long-term incentive plans were not awarded during the Period and are currently under review. The Directors' remuneration policy as required under Section 42(c) of the Electricity Act 1989 can be found on the NGENSO website.

Visual Identity: NGENSO has a distinct brand and identity which is used for all external and internal communications. Corporate Affairs operate a process to ensure that branding guidelines are followed. The NGENSO website has been enhanced recently to further improve user experience.

Physical Separation: NGENSO continues to operate predominately out of Faraday House and Wokingham with physical access controls in place across both sites. When working out of the Strand, no external meetings are conducted and NGENSO has its own dedicated area within the building. Access controls are reviewed on a quarterly basis and throughout the period process improvements have been made to ensure compliance.

Dual Fuel Roles and Activities: In December 2019, changes to the OneSO model were signalled resulting in the dual fuel roles being removed from the operating model. Prior to the changes, access controls, information ringfence arrangements and incentivisation were working well.

Shared Services: Shared services are an integral part of the NGENSO operating model. The strategic shared services (Legal, IT, HR, Corporate Affairs and Finance) have a dedicated business partner from the relevant function helping to ensure that provision of NGENSO services are ringfenced. Each shared service has appointed a compliance champion to ensure that the requirements and local arrangements are operating effectively.

Duties and tasks of the Compliance Officer

During the Period the CO has completed the following activities across the parameters of legal separation. The main duties and relevant observations are set-out below:

Provision of advice and Information

- The CO has provided advice to NGESO Directors, Managers, Senior Leaders of Transactional and Strategic shared services and other personnel to secure compliance with the relevant duties.
- Legal separation controls have operated for many years in National Grid and there is a strong culture of compliance. To bring to life the new requirements, a knowledge base has been launched to communicate a) policy and guidance materials across all parameters of legal separation and b) compliance processes and reporting mechanisms. This resource is continually updated to foster a sense of knowledge sharing and best practice.
- Introduction of Advice Hotline– to support the initial transition across the early months.
- Development of a Champions networks and resources to enable NGESO and Shared Services monitor and improve local controls.
- Deployed an enhanced Starters, Movers and Leavers processes and supporting frameworks have been established to access whether cooling off is required.
- Training – mandatory online training is in operation, but employees are proactive in seeking adhoc refresher training for their teams / new starters.
- *Compliance summary: The request for support and advice has stabilised during the period. There has been a focus on SOFI and access controls during the Period to ensure that employees are aware of the restrictions in sharing and receiving information. Guidance has also been developed to help employees understand a) how to identify and manage SOFI and b) how to ensure the information is restricted. NGESO employees are proactive in liaising with the CO to seek clarification and test understanding. The quality of information provided to the CO has also improved during the period (compliance returns and reports from shared services).*

Monitoring the effectiveness of practices, procedures and systems

- Processes have been established to monitor and report non-compliances and near misses. As part of the monitoring process, the effectiveness of the local controls were tested and reviewed and risks identified where appropriate.

- Each Champion submitted their framework to the CO who has conducted challenge and review sessions throughout the Period to discuss the robustness of the process controls in place. The CO has also liaised with the wider assurance providers to verify reports and information.

- *Compliance summary: During the Period two notable compliance issues occurred relating to the inadvertent release of information associated with SAP4H. Following the incidents full investigations were conducted and remediations put in place. Ofgem were informed at the time due to the number of external customers impacted. The information contained SOFI – (customer account / non-sensitive information).*

During the Period there has been a number of low impact / materiality compliance issues requiring improvement. The issues were predominately related to the inadvertent release of information. Most of the issues were self-detected and improvement actions have been put in place to address the root cause (human factors / manual processes). These issues did not confer an unfair advantage.

Investigating complaints

- Development of processes and networks to enable complaints to be reported to the CO.
- *Compliance summary - No complaints were received during the period.*

Advising on remedial actions

- When an issue is reported it is triaged to assess the impact and materiality in line with Corporate compliance policy. Depending upon the issue the Cyber Information Security Team (CIST) may run an investigation (as it did for the two reportable SAP4H issues).
- Where the issue relates to legal separation the CO is a member of the investigation and advises on remediation and action plans. Action plans are captured in a central system and monitored to completion are reported to the Compliance Committee.
- *Compliance summary: Where required the CO is a part of the CIST investigation. For issues reported directly to the CO, issues are triaged, and actions plans agreed with either NGESO or Shared Services as necessary and included in reports to the Compliance Committee.*

Reporting and advice to the compliance committee

- *The CO reported to the Compliance Committee on the performance of NGESO and Shared Services in respect of legal separation in April 2019, July and September 2020.*
- *Compliance summary: The Committee has full visibility / oversight of compliance performance.*

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**Business
Separation
Compliance
Annual Report
2019/20**

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1. Introduction

What is this document?

The annual compliance report sets out how the ESO has worked within the parameters of legal separation over the last year as set out in the Compliance Statement. The report provides transparency on how the ESO has remained compliant and notes any business separation compliance weaknesses or breaches, and what we are doing to rectify them.

The compliance report produced in accordance with paragraph 20.28 must in particular:

- a) detail the activities of the compliance officer during the relevant period covered by the compliance report;
- b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the compliance statement;
- c) set out the details of any investigations conducted by the compliance officer, including:
 - i) the number, type and source of the complaints or representations on which such investigations were based;
 - ii) the outcome of such investigations; and
 - iii) any remedial action taken by the licensee following such investigations; and
- d) be accompanied by a certificate (“the compliance certificate”), in a form approved by the Authority

Changes to the Compliance Statement

The compliance statement version 1.0 was submitted to Ofgem in accordance with NGESO’s licence conditions. Since then version 1.1 has been updated to reflect the changes to the OneSO operating model, directors’ incentives and changes to the corporate group structure. Once the statement is approved by Ofgem it will be published on the ESO website (<https://www.nationalgrideso.com/who-we-are/compliance-statements>)

How is this document structured?

This document reports on how we have implemented the practices, procedures and systems described in the ESO Compliance Statement. To make it easy to follow, we use the same chapter structure as the Compliance statement. You can read about our compliant design in the Compliance Statement, and understand how we have maintained compliance over the year in the chapter of the Compliance Report with the same title.

The first nine chapters cover the main parameters of separation:

- ESO Governance & Managerial Separation
- Corporate Governance
- Financial Ringfencing
- Operational Separation
- Information Ringfencing
- Employee Transfer, Moves and Talent Management
- Employee Remuneration and Incentivisation
- Visual Identity
- Physical Separation

The following two chapters report back on the areas of:

- Dual Fuel Roles and Activities
- Shared Services

In all these chapters we share feedback on how we have maintained and assured compliance over the period, and provide commentary on the activity of the year where needed.

2. ESO Governance & Managerial Separation

20 Part B and 20.20 (b) (i)

The ESO must ensure it is legally and functionally separate from NGET/NGG/ROCB and confirm the arrangements for managerial and operational separation including arrangements to ensure the independence of the licensee's management board, senior managers and staff from NGET, NGG and ROCB.

Summary

The section sets out compliance against the requirements and summarises relevant observations during the period such as, activities of NGESO Board through the year, significant changes (resignation / appointment of new Directors), addition of Committees to the Board, changes in NGESO Executive Team delegations etc. Recognising that the NEDs do not have the controlling majority on NGESO Board, this section sets out how the Chair's casting vote has been used through the year.

Compliance opinion

The organisational design is compliant with the licence. NGESO is legally and functionally separate from NGET/NGG/ROCB. The arrangements for managerial and operational separation including arrangements to ensure the independence of the licensee's management board, senior managers and staff from NGET, NGG and ROCB remain compliant and in accordance with the design set out in the Compliance Statement.

No complaints were made, or investigations conducted, in respect of this parameter.

ESO Board

National Grid ESO's board of directors have a crucial role in overseeing the ESO's ambition of being able to operate a zero carbon electricity system by 2025, along with the delivery of its business strategy, objectives and plan.

The Board's role is to also provide entrepreneurial leadership of NGESO within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets NGESO's strategic aims, ensures that the necessary financial and human resources are in place for NGESO to meet its objectives and reviews management performance. The Board sets NGESO's values and standards and ensures that its obligations to its shareholders and others are understood and met. All directors act in what they consider to be the best interests of NGESO, consistent with their statutory duties.

As agreed with Ofgem, the Board is chaired by the Director of NGESO and includes three Independent Non-Executive Directors along with three additional members appointed from within NGESO business. Further information can be found at <https://www.nationalgrideso.com/who-we-are/meet-board>.

The NGESO Board met on eight occasions during the Period. Where voting was required the Chairperson of the Board did not exercise a casting vote. During the period there was one resignation and appointment to the NGESO Board and no changes were made to the Delegation of Authority.

ESO Compliance Committee

The Board of NGESO established a compliance committee in accordance with the requirements of its licence. The Compliance Committee is charged with supporting the NGESO Board in effectively carrying out several of its duties, particularly those relating to:

- Compliance with special condition 2N of the NGESO licence Relevant duties of the Electricity Market Reform (EMR) role;
- Compliance with special condition 2O of the NGESO licence – Business Separation requirements; and
- Assurance regarding the wider Compliance of the Group/ESO frameworks that are in place, insofar as they relate to licence and code activity.

The Chair of the Compliance Committee is Paul Plummer (NED) and initially the membership was established as Gillian Merron, Kayte O'Neill and Duncan Burt. Following Duncan Burt's resignation, Rosin Quinn was duly appointed. The Compliance Committee reviewed its terms of reference during 2019/20 to reflect that it would focus primarily on Business separation matters as required under NGESO licence and that it would meet at least three times per year going forward. The Committee convened three times during the period.

ESO Audit Committee

The Audit Committee is a committee of the NGESO Board of Directors and its purpose is to:

- Monitor the integrity of the financial statements of the Company;
- To provide oversight to the financial reporting and audit processes;
- Review the effectiveness of the Company's system of internal controls and its compliance with relevant laws and regulations and;
- To provide oversight to the identification, assessment and reporting of business risks.

The Chair of the Audit Committee is Hannah Nixon (NED), and initially the membership was established as Paul Plummer (NED) and Duncan Burt. Following Duncan Burt's resignation Kayte O'Neil (Executive Director) was duly appointed. To enable appropriate shareholder oversight, the NEDs hold an annual meeting with the Chairman of the National Grid plc Audit Committee. The Committee convened six times during the period.

ESO Nominations Committee

The Nomination Committee is a committee of the NGESO Board of Directors and its purpose is to make recommendations to the Board in respect of:

- the composition of the Board; and
- Non-Executive Director appointments.

The Chair of the Nominations Committee is Gillian Merron (NED) and the members are Hannah Nixon (NED) and Fintan Slye (Executive Director). There have been no changes to scope or the membership of this committee during the Period. The Committee was established in November 2019 and convened three times during the period.

Changes to operating the OneSO operating model

In April 2019 National Grid Electricity System Operator (ESO) was legally separated from the rest of the National Grid UK business, to remove any

perceived conflicts of interest and offer greater transparency of the ESO operations.

Internally, National Grid UK retained a single OneSO structure, comprising the gas system operator and electricity system operator. However, it became clear that bringing together the gas system operator and gas transmission business would provide greater clarity for our staff and external stakeholders and would make the legal separation of the NGESO even clearer.

Therefore, on Wednesday 1 January 2020, the Gas System Operator (GSO) business was split from the ESO and integrated into the National Grid Gas Transmission business. Of the roughly 215 affected SO employees, 186 worked exclusively for the GSO operations teams sitting in the National Grid Group site in Warwick. As such these employees, continued to report to their existing line-managers. The remaining 30 employees moved into equivalent teams that already exist within the Gas Transmission Business, or into new teams that will align under the existing GSO leadership.

To deliver the changes to the operating model a delivery programme was established to provide governance and oversight. A key consideration was to ensure that the changes were compatible with the parameters of legal separation. Each of the affected areas undertook a compliance risk assessment, which was reviewed by the Compliance Officer, reported to the Programme Steering Committee for oversight and signoff. The CO is content that the arrangements in place are compliant. Enduring controls will be strengthened as IS implement updated data access controls in accordance with the Data BMS. All the movers followed the movers and leavers policy and processes to ensure legal separation compliance.

NGESO Managers and Staff

All Managers and Staff have been trained and are aware of their obligations in respect of legal separation. Each team within the NGESO implemented a 'My Obligations List' (MOL) during the Period. The Obligations list details all legal and regulatory obligations and controls relevant to a team, including business separation obligations. "Mini MOLs" are in place at lower levels of management, setting out detailed legal and regulatory requirements for sub-teams, and the control framework in place to manage that obligation. MOLs are updated twice a year, and form the basis of the day-to-day good practice in compliant operation of all teams in NGESO.

3. Corporate Governance

20 Part B and 20.20 (b) (i)

The ESO must ensure it is legally and functionally separate from NGET/NGG/ROCB and confirm the arrangements for managerial and operational separation including arrangements to ensure the independence of the licensee's management board, senior managers and staff from NGET, NGG and ROCB.

Summary

This section provides details of NGESO's Corporate Governance; how compliance is achieved and relevant observations during the period in relation to this parameter of separation.

Governance

The Compliance Statement sets out that level of governance that has been established to give effect to legal separation. The Compliance Statement is an accurate account of the arrangements that have been put in place and which have operated throughout the Period. No complaints have been made in respect of this parameter of legal separation.

NGESO is legally separate and operates independently of NGG, NGET and Relevant Other Competitive Business" ("ROCB") which 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.

NGESO's organisational design provides clear role accountability and boundaries through separation of the System Operator business. Each of the businesses (NGESO/NGET/NGG/ROCB) have separate directors. There are robust governance arrangements in place, including separate executive committees, which are responsible for managing the affairs of each business.

UK Executive

The purpose of the Committee is to direct the affairs of the UK Business with a focus on safety, driving strategic change, financial performance, governance, customer stakeholder strategy and the culture of the UK Business. The objectives of the Committee are to demonstrate alignment to the purpose, vision and values of the UK Business, take shared ownership to facilitate delivery and ensure alignment of the UK organisations as a whole. The membership comprises of:

- UK Executive Director
- Director of Electricity System Operator
- Director Electricity Transmission & Group Electricity Chief Engineer
- Director Gas Transmission
- Director UK Regulation
- Director Capital Delivery
- UK Chief Information Officer
- UK Chief Financial Officer
- UK General Counsel & Company Secretary
- UK HR Director
- Director UK Corporate Affairs
- Chief Procurement Officer

ESO Committee

The purpose of this National Grid Group executive level committee (ESOC) is to provide Group oversight in respect of NGENSO matters which are required or requested to be considered by the NG Plc Board, but which cannot be considered through the traditional Group Executive Committee route due to legal separation restrictions. The duties include:

- guiding NG Plc in its relations with shareholders and other key stakeholders, in respect of NGENSO matters, including staff, regulators, politicians, environmental interests and the media;
- keeping under review and ensuring the adequacy and effectiveness of internal control and risk management of NGENSO matters;
- keeping under review and ensuring the adequacy and effectiveness of controls in respect of compliance with the Licence, in particular SOFI obligations and on a 6-monthly basis considering the SOFI requests made by the NG Plc Board or otherwise made under the shareholder exemption to the section 20 requirements (Paragraph 20.14(h)); and
- Use of shared services and compliance of group policies. The Committee also monitors safety, financial and operational performance.

The Committee and each of the Members at all times ensure the discussions at any Committee meeting and the consideration and circulation and any disclosure of materials for the meeting complies with the NGENSO Licence, in particular, the SOFI requirements and the licences of NGG and NGET. The membership comprises of:

- Chief Executive;
- UK Executive Director;
- Group General Counsel and Company Secretary;
- Director of Electricity System Operator; and
- Group Chief Financial Officer.

Prior to the Committee meeting the Committee Chair and Technical Secretary, with the support of the Group General Counsel and Company Secretary or ESO Legal Business Partner consider whether the agenda creates any conflicts of interest or business separation issues and how best to manage (on a case by case basis). Any identified instances are recorded in the minutes and the relevant agenda item is removed from the agenda.

During the Period there have been no changes to the membership of the committee or standard reporting.

NGESO Board

The role of the NGENSO Board is to provide entrepreneurial leadership of the NGENSO within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensure that the necessary financial and human resources are in place to meet its objectives and review management performance. The Board should set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

The members of the Board receive a report on the information shared with the ESOC. All information provided to date has met the requirements of the licence.

The Non-Executive Directors have met once with the Chief Executive of the Plc during the Period and have oversight of key information being shared with ESOC.

Reporting and Sharing of information

The licence provides for SOFI to be shared in certain circumstances, where: there is a requirement to do so in law or licence condition; to Shared Services providing services to NGESO; to persons in Dual Fuel roles; where NGESO has obtained written consent, or to the Shareholder (NG Plc) for the purpose of a) effective group oversight; b) matters required to be referred to it for approval or c) to satisfy reporting requirements prescribed by law or regulation.

During the Period NGESO adhered to the regular reporting cycles for Monthly Performance Review (MPR), Monthly Oversight Report, Quarterly Business Review (QBR) and Quarterly Performance Review (QPR).

The licence permits sharing System Operator Functions Information for the purpose of effective corporate oversight. NGESO has established a process for managing information provided for the purpose of corporate oversight. Only members of the ESO Committee (ESOC) can make requests to NGESO. This process is centrally managed by the Directors of NGESO's office and provides full transparency of the information provided. The ESOC reviews the requests and the reports are also available to the NGESO Board. The parent ensures that information received complies with the exemption criteria and that the information is not used for any other purpose. The parent is also appraised of its obligations annually as a part of the ultimate controller undertakings (UCU), which require the parent not to take any action that would put NGESO in breach of its obligations. Ofgem is informed each year of that the parent has been appraised of its obligations under the UCU. The parent did not call in any matters for approval during the Period. To ensure compliance with the SOFI restrictions, summarised above, NGESO has developed and maintained a code of conduct covering the disclosure of SOFI. Good compliance has been achieved throughout the Period with the code of conduct to ensure that employees, agents, contractors and advisors do not directly or indirectly disclose SOFI information to others, in contravention of the NGESO licence.

During the period the compliance culture has been strong and effective. As discussed earlier, there have been 58 low impact compliance related issues whereby information has been shared inadvertently. The enterprise wide compliance framework has been used to assess the criticality and control effectiveness. The National Grid group assesses incidents and control frameworks against an agreed enterprise wide compliance framework, that operates across the group. This sets out what the parameters are and the definitions of low medium and high criticality. The Compliance Management Group Procedure sets out the process and provides a guide to assessing incidents. The related issues were assessed as a low impact (as defined by the compliance process), did not confer an unfair advantage and were largely attributable to human factors. The issues have diminished (Q1 22, Q2 18, Q3 11, Q4 7). during the Period as ways of working and processes have bedded in.

4. Financial Ringfencing

20.4 and 20.7

The ESO must ensure compliance with Standard Condition B5 (Prohibition of Cross Subsidies), B6 (Restriction on Activity and Financial Ringfencing);

To the extent required by law, the ESO must ensure its accounts are maintained, audited and reported separately from NGET, NGG and ROCB

Commentary

This section sets out how NGESO has complied with the requirement not to give or receive a cross subsidy from any other business or affiliate of NG Plc and how it maintained compliance with restrictions on activity and the requirements of the financial ringfence.

Prohibition of cross subsidies

NGESO will publish its separate statutory accounts by the statutory deadline of 31st December 2020. The accounts are subject to relevant accounting standards, which underpin separation of function, costs and revenues. A full copy of the statutory Report and Accounts and Report of the Auditors for the ESO will be publicly available via Companies House.

The NGESO is operated separately from NGET, NGG and ROCB. The Finance Team ensure processes are in place which allocate costs appropriately across each business and its shared services. The way that the costs are apportioned for these services is through the Cost Allocation Methodology (CAM). NGESO has in place general services agreements (GSAs) with various entities within the Group which set out the services NGESO provides and receives. The GSAs were reviewed in January 2020 to reflect changes to the OneSO operating model.

The financial processes are also subject to the Sarbanes-Oxley (SOX) Act 2002, which requires management's opinion on the effectiveness of internal control over financial reporting. Reporting is provided to the Audit Committee from the Group Controls Team and is based on a Group-wide programme to comply with the requirements of section 404 of the SOX Act 2002

During the Period NGESO issued an Availability of Financial Resources certificate as required under licence which sets out how it has considered its financial resources and financial facilities to operate the NGESO. The certificate explains that NGESO has a committed revolving facility agreement in place with a core group of relationship banks. Cash flow projections for the forthcoming year (projected forward from 1 April 2019 when the ESO business was purchased) have been subject to various types of scenario analysis within the planning and budgeting process. Prior to COVID-19 impacts, the analysis demonstrated that it is reasonable to believe that the bank facilities are sufficient. In addition to the committed bank facilities, NGESO may have access to intra group loan facilities.

NGESO received its investment grade credit rating as required by Standard Condition B10 (Credit Rating of the Licensee) from Moody's as part of the ESO separation process. The current rating is Baa1 with a stable outlook. At the time of writing this report the credit rating was being re-evaluated.

Restriction on Activity and Financial Ringfencing

To test the effectiveness of controls in place to ensure that there is legal and functional separation of NGESO from other businesses within the NG Plc Group, the NGESO Compliance Officer 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 is carried out separately from NGET, NGG and ROCB:

- NGESO remains a separate legal entity from NGET, NGG and any other ROCB as set out within the Company Structure Chart within the compliance statement.
- The Board of Directors of NGESO are separate to those of NGET, NGG and ROCB.
- 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 NGET, NGG or ROCB.
- NGESO does not conduct or carry out any activity other than the transmission business or activities to which the regulator has given its formal consent or direction, e.g. in respect of ownership of ELEXON, ENTSO-E membership and NGET's shareholding in CORESO.
- NGESO does not hold any investments or shares in NGET, NGG or ROCB directly or indirectly, so does not have an entitlement to vote at the general meetings.

5. Operational Separation

20.20 (b) (i)

The ESO must demonstrate managerial and operational separation from NGET, NGG and ROCB.

Commentary

This section sets out the arrangements that NGENSO has put in place to secure operational separation of NGENSO within NG Plc. It details the relevant industry codes that have been amended to reflect that NGENSO and NGET are legally separate.

The creation of NGENSO required that the interactions between NGENSO and NGET were formalised in the electricity industry codes in the same way that they are for other onshore and offshore transmission owners. Many of the internal processes have been reviewed and redesigned to align with the code framework. These changes ensure that NGENSO's day to day interaction with NGET is aligned with Scottish TOs and Offshore TOs. To achieve this separation industry codes changes have been made, using the relevant code governance arrangements.

Industry Codes Modification

All proposed changes to the GB electricity industry codes were approved via the appropriate code governance processes. These included changes to:

1. the Connection and Use of System Code (CUSC)
2. the System Operator-Transmission Owner Code (STC)
3. the Grid Code (GC)
4. the Balancing and Settlement Code (BSC)
5. the Distribution Connection and Use of System Agreement (DCUSA)
6. the Distribution Code (DCODE)

To comply with the updated industry regulatory framework, NGENSO has reviewed all its internal business procedures and processes between the NGENSO and NGET. Significant process redesigns were made in six operational areas.

Connections - The interaction between NGENSO and NGET in relation to managing a customer connection to the transmission network in England and Wales has been formalised in the STC and aligned with other TOs. In accordance with the STC, NGET now has to enter into a formal commercial arrangement (TO Connection Offer) with NGENSO like other TOs.

Charging – Previously, the ESO calculated the appropriate Transmission Network Use of System (TNUoS) element for the transmission network in England and Wales. In line with the STC, and in line with the activity of the other TOs, NGET now performs this calculation and passes the information to NGENSO. NGET's access to NGENSO's charging systems has been removed and NGET now needs to provide a charging statement to NGENSO to enable its development of the GB charging statement.

Code – Pre-separation, the ESO represented both NGET and the ESO at relevant industry code panels and raised modifications to the codes on behalf of both entities. Now, both NGENSO and NGET are represented separately and will propose modifications in relation to their respective licenced activities. NGENSO retains the role of Code Administrator for CUSC, GC, STC and SQSS, and will treat any modification raised by NGET like any other industry participants.

Network Investment – The TOs provide network data to NGENSO which is used to produce the Electricity Ten Year Statement (ETYS), creating the Great Britain system model and coordinating transmission investment plans across GB (the Network Options Assessment, NOA). The ESO used to collate this data on behalf of NGET; following separation, NGET is managing its own network data and providing this information to NGENSO. For clarification, the Network Options Assessment (NOA) process was already separated within the ESO with enhanced business separation controls between the ESO and NGET. The NOA activities, and the respective roles of the ESO, NGET and other TOs were already in line with the arrangements for operational separation and remain unchanged.

Outage Planning – Before separation, the ESO supported development of outage proposals in the transmission network in England and Wales, as well as reviewing the outage plans from all TOs. Now, in line with the STC, the ESO is no longer involved in this initial development of outage proposals for NGET; NGENSO continues to review proposals from all TOs.

Operational Control - Accountabilities and responsibilities between the Transmission National Control Centre (TNCC) run by NGET and the Electricity National Control Centre (ENCC) run by NGENSO are aligned with the requirements of the STC. For example, previously the TNCC undertook the Distribution Network Owner (DNO) liaison role and operational switching unilaterally for the transmission networks in England and Wales. Now the DNO liaison for system operational activities has been transferred to the ENCC; and TNCC needs to agree with the ENCC regarding operational switching for their network

ESO and National Grid Ventures

Business separation arrangements were already in place prior to 1 April 2019 between NGENSO and Relevant Other Competitive Business such as electricity interconnectors. The measures to achieve business separation between the NGENSO and NGET reinforce these existing barriers, as does the creation of the new ESO Board and the revision of the National Grid corporate governance arrangements to accommodate the new NGENSO subsidiary.

Business Separation Arrangements

NGENSO has put in place business separation arrangements to ensure that it operates independently from the rest of National Grid. This is further supported by a Group level committee the ESOC, ESO Board and appointment of four Non-Executive Directors. A compliance committee has also been established to monitor the effectiveness of the arrangements. Prior to go-live of legal separation a number of changes were made to the Industry Codes to further support legal separation. Each are of the System Operator also undertook compliance readiness assessments which were signed off by each of the functional directors. These structural changes have ensured that the ESO operates independently and is unbiased in its decisions.

NGENSO Forward Plan (see NGENSO website) sets out the ambitious plans for NGENSO to deliver its mission to enable the transformation to a sustainable energy system to ensure delivery of reliable, affordable energy for all consumers.

6. Employee Transfer, Moves and Talent Management

20.20 (b) (iv)

The ESO must ensure it has arrangements in place to manage the transfer of employees between the ESO and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, such arrangements to include treating all such transfers as sensitive and accordingly subject to the review of the compliance officer.

Commentary

This section sets out how NGESO has complied with this parameter of legal separation. It also summarises relevant observations during the period in relation to the number of movers.

National Grid Group operates a corporate employee transfer process for all new hires (starters), employees who transition within the Group (movers), and those who leave the Group entirely (leavers). The HR policy requires a comprehensive checklist to be completed and declaration signed off by the mover, the existing and future line manager, to confirm that all controls and actions have been completed prior to the move. It is made clear that any breach of the policy could be considered a breach of contract, and therefore deemed as gross misconduct, which may lead to dismissal. The sanctions reinforce the importance that is placed on adhering to the policy and helps to drive a positive compliance culture.

NGESO has made changes to how it manages the movement of employees into, around and out of the ESO. The key change being that all moves from ESO to another part of the National Grid business are classed as sensitive moves and subject to review by the CO. All moves were assessed in line with the policy.

The CO established new processes which include undertaking a risk assessment of every move out of NGESO. The risk assessment considers the nature of the existing role and proposed role, access to SOFI and systems and whether the move confers an unfair advantage. All movers during the Period were risk assessed, compliance controls validated, and briefing delivered to reinforce the employee about their compliance obligations and the implications of non-compliance. The mover also signs a personal declaration to confirm that they have met the compliance controls and understood their obligations. Every manager and employee is responsible for ensuring adherence to the process. Movers are required to inform the CO if they are considering a move. HR notify the CO of any potential move and provide regular reporting on movers. Once a move has been agreed and progressed in the HR systems, this triggers wider controls to a) ensure the correct allocations of costs, b) changes to IS access controls and c) updates to central people information systems.

During the period 52 employees (including 12 graduates) transferred out of NGESO, to other parts of National Grid— all internal moves were treated as sensitive and were assessed for conflicts. All movers completed the corporate movers process, complied with Compliance Officer requirements and were also given a briefing to reinforce the obligations and ongoing requirements. In addition, and in all cases the movers were also required to inform stakeholders of their move and to stand down from external engagement.

There were 2 senior leaders where additional controls were applied to ensure that there were no real or perceived conflicts of interest. In one case (for the internal move), the leader was moved with immediate effect to another part of National Grid and involved a change of location where specific NGENSO knowledge was of no commercial benefit or competitive advantage. In the other case (external mover), the individual moved out of role with immediate effect to manage a project to coordinate the delivery of NGENSO reports relating to the August Power outages. Both cases were discussed with Ofgem during the reporting period.

During the period 125 employees joined NGENSO of which 42 moved into NGENSO from other parts of National Grid. All moves into the NGENSO are required to complete relevant legal separation training and are briefed on local controls by their team manager. Where a move occurs from another part of National Grid in to NGENSO, the relevant compliance officer considered whether there were any conflicts of interests / or cooling off period required.

Talent discussions are held within ESO, where talent is identified and assessed against performance potential and drive. Development and career plans for those identified as talent are discussed by the ESO Executive team. ESO talent information is shared with the National Grid Group talent team and this information forms part of UK and Group talent pool discussions. Broadening moves for Senior talent are encouraged across the wider National Grid business. NGENSO is both an importer and exporter of talent in and out of the National Grid group. In 2019-20 there were 3 talent moves into NGENSO from other National Grid businesses and 2 talent moves out of NGENSO to other National Grid businesses

Vacancies are often advertised externally at the same time as internally to ensure the best candidates are selected for the next stage of the recruitment process. NGENSO vacancies advertised on the National Grid external careers site refer to National Grid ESO throughout and state that ESO is “a separate company within the National Grid Group”. Employee transfers to the ESO in line with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), all employees dedicated to NGENSO business and all employees undertaking dual fuel roles were transferred across to NGENSO. After April 1st 2019, employees joining NGENSO from other National Grid businesses were moved to NGENSO as their contractual employer; anyone leaving NGENSO but remaining with National Grid Group had their contract moved to the relevant company within National Grid Group.

In April 2019, 38 employees who were members of the Gas Defined Benefits (DB) Pension scheme couldn't be transferred. The regulatory funding regime does not facilitate the participation of an Electricity licensee in the Gas DB Pension scheme. As such, NGENSO is not able to support the pension benefits that relate to the Gas DB Scheme. To retain these people in NGENSO, and ensure they are not at a detriment as a result of separation, these individuals will continue to work for NGENSO, but their legal employer will remain unchanged.

During the Period the number of employees who are members of the Gas Defined Benefits team has reduced, In January the number reduced to 33, largely due to the changes to the OneSO operating model. At the end of the Period the number further reduced to 30.

7. Employee Remuneration and Incentivisation

20.20 (b) (v)

The ESO must demonstrate arrangements relating to the recruitment and employment of the licensee's employees and the incentivisation of the licensee's managers which, save for managers in Dual Fuel Roles engaged in Dual Fuel Activities, will be linked to the performance of the licensee only.

Commentary

This section confirms compliance against the incentivisation requirement and summarises relevant observations during the period in relation to this parameter of separation.

Incentivisation of ESO employees

The arrangements relating to NGENSO staff, manager and leader's annual performance assessment were changed at Legal Separation so that it is based only on NGENSO metrics (with the exception of safety metrics, which are UK wide metrics). The NGENSO's employees' objectives were cascaded from the Director of NGENSO throughout the NGENSO leadership teams and managers. Performance against the objectives were monitored through the performance year, however due to impacts associated with COVID19, calibrations on managers' individual performance are being set uniformly across NGENSO employees with awards being made in July 2020.

Incentivisation of dual fuel employees

The incentivisation of dual fuel employees considers metrics across both gas and electricity SO activities and objectives and is a part of the annual performance plan (APP). The number of dual fuel roles did not change between 1 April to 31 December. Following the changes to the OneSo model, which were introduced in January 2020, no dual fuel roles continue to exist. The performance award of the dual fuel employees for 2019/20 will take into account their respective performance objectives which relate solely to the licensee.

Long term performance plan

National Grid Group has traditionally had a Long-Term Performance Plan (LTPP) for all senior leaders (principally Directors and Senior Leaders) across the Group. This operates alongside an APP. However, since 1 January 2020, following the changes to the OneSo model and discussions with Ofgem, it is no longer considered appropriate to have a LTPP which is based on Group performance for NGENSO employees. As such, new arrangements are being agreed with Ofgem.

The ESO senior leadership roles which participate in the NGENSO LTPP scheme are the ESO Director, Director of Operations, Head of National Control, Head of Networks, Head of Commercial, Head of Strategy & Regulation and Head of Future Markets. There is also scope for some lesser LTPP allocations to be made to a very small number of managers who have performed exceptionally through the year.

Remuneration Policy of Directors and Senior Leaders

The remuneration policy of directors is also set out in a statement of compliance under Section 42(c) of the Electricity Act 1989 (as amended by

Section 61 of the Utilities Act 2000). The statement sets out NGENSO's remuneration policy (which included LTPP) and approach for the year ended 31 March 2020 and is available on the NGENSO website. All payments are subject to the review and approval of the Group Executive Committee and Remuneration Committee of National Grid plc's (being the ultimate holding company of NGENSO) Board of Directors.

The Director of NGENSO is subject to a mandatory shareholding requirement which requires shares to be held, equivalent to at least 100 percent of salary.

The ESOC agree remuneration of NGENSO's senior leaders. Consideration is given to the requirements in the NGENSO Licence regarding NGENSO staff incentivisation being linked to the performance of NGENSO only. The remuneration includes salaries, bonuses and reward packages.

8. Information Ringfencing

20.13, 20.14 and 20.20 (c)

The ESO must ensure that all employees (inc. contractors, consultants etc.) ensure that SOFI is not shared with or used by anyone outside of the ESO other than as per the exceptions in 20.14

20.20 (b) (ii) & 20.20 (c)

The ESO must ensure that systems for recording, processing or storage of data which ESO staff have access to cannot be accessed by NGG, NGET or ROCB employees.

Commentary

This section sets out the level of compliance achieved against the requirement to comply with the requirements to operate an information ringfence.

NGESO has taken a broad interpretation to the scope of SOFI in practice to mean all information that is owned, acquired or produced by NGESO in carrying out its obligations under Section C of the licence, or information which if disclosed could lead to perceptions of conflict of interest or conferring unfair advantage on other parts of NG Group. This definition of SOFI is a broad interpretation as it operates to restrict information associated with NGESO as the system operator, not exclusively only Section C activities.

Compliance with this broad interpretation is achieved via a range of controls. During the Period NGESO has reported two issues to Ofgem relating to the inadvertent release of non-sensitive internal customer account information, as a part of the deployment of a new SAP-4H information system. The release of the information did not confer an unfair advantage and as a part of the review customers were also made aware of the issue. The impact of this issue was not considered to be material. Throughout the period the CO identified several control framework weaknesses associated with the management of data and information. Action plans have been put in place to improve controls, processes and to prevent the release of SOFI.

The arrangements to manage the SOFI ringfence are generally working well across NGESO, Shared services and NG Plc, as discussed above, opportunities have been identified during the Period to improve the control environment. NGESO manages compliance reporting in accordance with Group policies and procedures.

Controls in place to prevent SOFI being shared

Code of Ethical Business Conduct: The Group recognises that a compliance-aware and responsive workforce is a key element of a good Compliance Management system and has reinforced this through the development of the Code of Ethical Business Conduct. The Group Wide Code ensures that all relevant managers and employees are made fully aware of:

- the importance that is attached to compliance;
- their compliance obligations and what is expected of them;
- the possible consequences for both themselves and the business of noncompliance; and
- how they can obtain advice on compliance issues should they require it.

SOFI Code of Conduct: NGESO continues to operate the SOFI code of conduct. It applies to anyone engaging with the ESO, including ESO employees, external resources (e.g. agents, contractors and advisers) who are involved in performing system operator functions and dual fuel employees who require access to, or need to share, SOFI to perform these roles. It also applies to shared services employees who require access to or

need to share SOFI to perform their shared services functions in support of the ESO.

All other UK National Grid Group employees are aware of the code and that they must not seek to obtain an unfair commercial advantage by soliciting SOFI from an ESO employee.

Business separation compliance: During the Period NGENSO has ensured that it has appropriate compliance arrangements in place to monitor and report compliance, at least on a twice-yearly basis to the ESO Committee (ESOC). The reporting to the ESOC covers a broad range of compliance themes in line with the Group Compliance Procedure, which also includes Business Separation. The compliance reporting includes the performance of NGENSO and its shared services.

Movers and leavers process: The starters, movers and leavers process is a Group wide process, it is owned by HR and it covers the end to end lifecycle associated with colleagues moving around / leaving National Grid. The process also applies to NGENSO and the CO receives real-time notifications of any prospective move into / from NGENSO to ensure that the move can be considered to establish whether the move is sensitive and requires any further sanctions or cooling off period. Throughout the period, all moves were considered by the CO, which involved a) risk assessment to be conducted to inform whether cooling off is required, b) a CO briefing, reminding the individual of their obligations and signed confirmation, and c) completion of the HR movers checklist to ensure compliance with access controls to remove access to NGENSO systems and data and email account.

Information shared with Group: A process has been established to monitor SOFI requests made by Group. Requests are made via members of the ESOC only for purpose of Shareholder oversight, matters for approval, or to comply with reporting requirements. The full report has been shared with Ofgem providing an overview of the requests made during the period. All requests made were in line with the agreed process and the parent was reappraised of its obligations under the terms of the UCU.

In respect of matters reserved for shareholder approval, there were no matters that were called in during the period

Data Business Management System

The Data Management BMS standard applies to all National Grid employees or contractors who carry out work on behalf of any National Grid business. All employees are required to work in accordance with the BMS standard.

The leaders across NG are required to ensure that the requirements are embedded across all levels of the organisation. The following commitments apply to all data that is created, collected, held, used, shared, transformed, published, or processed by National Grid. They apply to both structured data (i.e. organised and searchable) and unstructured data (i.e. not organised and not readily searchable) at all stages of its lifecycle, including any historical data that is used by the business.

NGENSO has completed a programme of work during the Period to embed the Data Management Standard and following principles:

- data is an asset – it has a purpose, cost-value and lifecycle;
- data is managed and secure – all data is subject to ownership, governance and protection from unauthorised access throughout its full lifecycle (from planning and collection through to retention and disposal);

- data is fit for purpose – data meets the required level of quality for its intended uses;
- data is standardised – in terms of its definition, format, content and categorisation providing the ability to link differing forms of related data together;
- data has a single authoritative source – for all data there shall be a single and identified authoritative (master) source;
- data is accessible – appropriate access to the data required to carry out roles and activities; and
- data is published – any data we publish should be defined, appropriate, quality assured and verifiable.

Ongoing management of the controls is maintained by the data owner(s) and the Data Quality and Governance Manager. Ongoing oversight is provided to the CO.

Access arrangements in place for recording, processing and storage of data

Access controls are in place to ensure appropriate access to systems and data. Systems are either operational or non-operational. Operational systems are those which facilitate and carry out NGE SO licensed activities. Non-operational systems are those that support the functioning of NGE SO business, but are not directly related to licensed activity such as its SAP system, or HR data management tools.

Data is also stored and shared across a range of repositories:

- Grey IT – typically operational systems, created and managed locally by teams in NGE SO and is managed via the NESO’s Data Management Library;
- Sharepoint sites – for document storage related to specific teams, roles and activities, both operational and non-operational is managed via NGE SO’s Data Management Library and local teams;
- Shared drives – for document storage related to specific teams, roles and activities, both operational and non-operational is managed via IS;
- Distribution lists – that may be used to share SOFI is managed via IS; and
- Mailboxes – email addresses or inboxes is managed via IS. All NGE SO employees have a ESO domain email address.

During the period NGE SO has implemented a Data Management Library (DML). The DML records all operational NGE SO information, setting out the confidentiality classification, data owner, system owner, and level of controls in place. The DML will continue to be one of the principal NGE SO data controls and is updated in-line with the movers and leavers data.

An information access ringfence is maintained across all NG businesses and employees to ensure that they only have access to appropriate data and systems. The ringfence is maintained as a part of the movers and leavers process. For the employees who moved within / departed National Grid their access permissions were updated and revoked.

Compliance incidents

Each of the Shared Services has a Compliance Champion who is responsible for reporting incident management details into the National Grid enterprise wide compliance system. All NGE SO related incidents were thoroughly discussed and immediate and longer-term action and control

improvements agreed. The breach management process is well established, and reminders are circulated frequently to Champions.

The NGESO Compliance Handbook, sets out how to identify SOFI, how to protect SOFI, when and how SOFI can be disclosed, and what to do in the event of a SOFI breach.

The majority of issues related to Information Ringfence parameter of legal separation, examples are:

- Distribution lists – where individuals had left NGESO and joined other businesses within the group who should have been removed from the distribution list following Legal Separation.
- Incorrect recipients - relate to emails sent to incorrect recipients within National Grid. These are caused by either the incorrect recipient being chosen from the internal address book or the auto populate function being used in MS Outlook
- Email attachments - incidents related to incorrect attachments or information within attachments being shared. For these incidents, the email was sent to the correct recipient, in terms of the content and context of the email, but an incorrect attachment was included. Examples include, data in attachments being shared due to being incorrectly classified and internal forecast information that should have been removed prior to sharing.

For the avoidance of doubt, none of the issues created an unfair advantage and all incidents were assessed as low impact. The full details of the issues were shared with Ofgem for transparency. To prevent further reoccurrence, remediation and action plans have been implemented across the following themes:

- Process review and control framework assessment;
- Updates to operating procedures, training and sharing of lesson learnt
- Deployment of data business management standard cyclical audits cover all elements of ISO 9001 Quality Management
- cyclical audits cover all elements of ISO 9001 Quality Management
- Updates distribution lists and access controls
- Mapping of data flows and nodes to enable controls to be monitored via the data management library
- Measures implemented to avoid using predictive short cuts within MS Outlook and disabling auto-populate on 'To' field in Outlook
- Engagement with compliance colleagues to improve awareness of review of controls
- Introduction of a new enterprise wide compliance reporting tool

9. Visual Identity

20.20 (b) (vi)

The ESO must demonstrate how the ESO has developed and will maintain a new visual and corporate identity (distinct from RRB and ROCB)

Commentary

This section sets out how NGESO has developed and maintained a unique and distinct visual identity from National Grid Plc.

NGESO identity

As a part of legal separation, NGESO created a new ESO identity and brand to establish a lasting change for the business, its employees, customers and stakeholders. This included transforming its physical appearance through new logos, imagery and colour palettes and the way its employees present and identify themselves through changing its behaviours and culture. The new brand and identity differentiate NGESO from the rest of the National Grid businesses whilst maintaining the brand recognition of National Grid Group as a supportive parent company. The identity has operated throughout the Period, it has been an important component of legal separation of NGESO in creating a distinct and independent brand from NG Plc.

Digital presence

NGESO operates under its own website domain (www.nationalgrideso.com) to help customers find information they require more easily and ensure the NGESO has a clearly separate online identity. As a part of the digital strategy NGESO Twitter and LinkedIn accounts have been created. All NGESO employees also have an ESO email address and NGESO branded email footer. This is an important part of the identity but also plays an important part in wider compliance controls (e.g. access controls).

The NGESO brand and identity is used for all external and internal communications. Corporate Affairs operate a process to ensure that branding guidelines are followed and to provide advice and guidance about external and internal communication activity. The NGESO website has been enhanced during the Period to further improve user experience and as a result the user bounce rate has reduced, and the average time visitors spend on the website has increased.

NGESO templates

During the Period new PowerPoint and Word templates were in use (and centrally controlled) to reinforce the NGESO brand. These include reports, letters, meeting agendas, meeting minutes and board paper templates. NGESO has also created a new mailchimp template for internal and external communications. All NGESO's IS user profiles operate with NGESO screensavers, branding and templates to reinforce brand distinction.

NGESO representation

Through the period legal separation training was rolled out to ensure that employees were aware how to represent NGESO externally and how best to reinforce the new brand and purpose: that NGESO is neutral within industry, seeking to develop and facilitate market-based solutions that deliver value for consumers. NGESO provides the industry with transparency on its governance and decision making so that stakeholders can see and ultimately trust that it is impartial. Corporate Affairs has developed detailed processes and guidance to maximise brand and consumer value.

10. Physical Separation

20.9 and 20.20 (b)(ii)

The ESO must ensure that arrangements are in place which restrict physical access of anyone engaged in the management or operation of ROCB or RRB (excluding Dual Fuel roles) to any ESO premises occupied by ESO staff or to any equipment, facilities or property employed for the management or operation of the ESO.

Commentary

This section sets out how physical separation is working. Physical separation refers to the buildings that NGENSO occupies to carry out its business, and the access rules and restrictions around those buildings.

NGESO locations

NGESO employees predominately operate over two locations in Warwick and Wokingham. There is also a dedicated office within the corporate headquarters in the Strand office, London. At the time of separation, access lists were implemented for NGENSO staff and its shared services employees. Where shared services are not based in an NGENSO location but regularly attend the NGENSO location, the employee is granted dual access to allow access to enter their home / relevant NGENSO location. New lanyards are in place which clearly distinguish between NGENSO, shared services, contractors and visitors across sites.

Warwick: To comply with this parameter, Faraday House was created on the same site as National Grid House. Faraday House has a separate entrance to National Grid House with no go-between access for employees. It also has separate facilities for employees, including food and beverage outlets, showers and car parking. This prevents uncontrolled interaction between ESO employees and other National Grid employees. All non-NGESO employees visiting Faraday House are treated as external visitors, with restricted access, and escorted at all times in the NGENSO working areas. Access lists and lanyards are maintained to provide controlled access to only NGENSO and relevant shared services employees. Guidance on how to apply for access to NGENSO sites is available on the NGENSO Knowledge Base (a resource that has been established to support education and compliance with the parameters of legal separation). The facilities team conduct regular audits of the access log, which is updated as part of the starters, movers and leavers process.

Wokingham: The Wokingham site is the location of the Electricity National Control Centre and is predominantly NGENSO employees or shared services employees working on ESO projects. There are also some shared services employees working for Corporate Pensions (a transactional shared service) housed on this site. As Wokingham is a Critical National Infrastructure site, additional controls are in place, which prevent access to the site, without pre-approved authorisation. Once on site, access is only permitted into the office building for a) employees / contractors based at Wokingham, b) NGENSO employees or relevant shared services not normally based at Wokingham or c) approved visitors, who are escorted at all times.

London: A dedicated, and secure area has been provided for NGENSO employees visiting the Strand. Whilst the licence does not prohibit NGENSO employees from using NG's Corporate HQ in London, guidance has been issued to prevent meetings with external stakeholders or customers. This guidance also applies to shared services employees working for the NGENSO who are meeting customers / stakeholders on behalf of the NGENSO.

During the Period, site access records across all sites were updated as a part of the starters, movers and leavers policy (all moves out of NGENSO complied with the policy). Where access was required for shared services employees, the relevant Business Partner submitted a request to the CO. Access controls and lanyards were updated during the Period via the facilities team, who also update and review the lists.

11. Dual Fuel Roles and Activities

20.20 (b) (vii)

Provide a description of the Dual Fuel Activities and Dual Fuel Roles.

Commentary

This section provides an update on how the dual fuel roles and activities have operated during the Period and sets out changes to the OneSO operating model.

In April 2019 the Electricity System Operator (ESO) was legally separated from the rest of the National Grid UK business. Internally National Grid UK operated a 'one System Operator' model, comprising the ESO and Gas System Operator (GSO), to facilitate whole system thinking whilst observing strict rules around legal separation. To bring this operating model to life, it introduced the concept of Dual Fuel leadership team, employees and activities to support delivery of the following key outputs:

1. Leading an integrated System Operator, equipped to support realisation of UK energy policy;
2. Cross-fuel insights and tools for the energy sector; and
3. Leading whole energy system thinking and solutions.

However, throughout the Period it became clear that by bringing together the gas system operator and gas transmission business it provided necessary clarity, for our staff and external stakeholders whilst making the legal separation of the NGESO even clearer.

NGESO remains committed to supporting Whole System thinking as the best approach to future network planning and therefore continue to publish the existing Whole System publications, though with greater clarity and transparency on the collaboration between National Grid entities. For example, as with this year, the ESO will continue to create and publish the Future Energy Scenarios, with contributions from National Grid Gas and other energy sector stakeholders continuing to feed into the ESO's analysis.

During the Period there were no changes to the number of dual fuel roles under the One SO operating model. Following the review and decision taken in December 2019, the dual fuel roles and activities will not be a necessary feature of the NGESO operating model going forward. The NGESO organisational structure has been updated and included in the revised Compliance Statement.

12. Shared Services

20.20 (b)(iii)

The ESO must set out the treatment of Shared Services across the ESO and ROCB and RRB including a list of the services. Treatment will include – for certain Shared Services – the provision of a dedicated business partner arrangement to ensure any real or perceived conflict of interests are addressed;

Commentary

This section confirm compliance in respect of how shared services operate, it discusses the level of service provision to NGESO and relevant observations during the period in relation to this parameter of separation.

The shared service delivery model

The compliance statement sets out the shared service delivery model that was put in place in April 2019 to support NGESO. There have been no changes to the structural design of service delivery model. The strategic shared services are:

Finance and Business Services; Corporate Affairs; Legal; Human Resources (HR); and Information Technology (IT). Transactional activities are provided by teams that are shared with other entities in the Group (for example Tax and Treasury).

In preparation for Legal Separation a business readiness impact assessment was undertaken by each of the Shared Services areas and signed off by the relevant director to attest that the business partnering arrangements were fit for purpose. Since that time the Legal Separation Knowledge Base (webpage on the internal National Grid intranet, which serves to be a central point for information for all employees) has been enhanced with information and guidance on what is SOFI and how to manage SOFI. Training has been delivered to relevant employees in Shared Services at Team Talks (monthly team meetings which include the dissemination of corporate messages) and 'Ways of Working' documents have been produced, to bring clarity around how the interface works, all of which are available on the Legal Separation Knowledge Base. Each Business Partner is the main interface with NGESO and meetings / teleconferences are organised such that only those relevant to the NGESO business are present / on the call and party to NGESO information. Information is on a need to know basis and in strict adherence with SOFI restrictions.

Team design, accountabilities and training

Each of the strategic shared services has in place a dedicated Business Partner to interface into NGESO and, also appointed a compliance champion to help each area embed and test controls on an enduring basis. The CO operates a champions network to support the delivery of a) control framework testing, b) provision of advice and c) support the sharing of best practice.

Shared Services complied with the requirements of the starters, movers and leavers process and ensured that third parties and contractors have arrangements in place to protect SOFI. All new employees and contractors received legal separation training.

Enduring compliance

Each of the shared services undertook a compliance readiness assessment prior to April 2019, to ensure that it had made the necessary changes to deliver services in compliance with the NGESO Licence. To ensure that the controls are working effectively the CO re-evaluates the control environment for each of the shared services at least biannually to ensure that it is meeting

the licence requirements and Corporate policy in respect of business separation.

During the Period all shared services were found to operate a compliant design. There were two data issues associated with the implementation of the new SAP4H system, which resulted in non-confidential customer information being inadvertently released. Each of the affected parties were notified and Ofgem was also informed at the time. A formal internal review was conducted, and changes made to IS testing procedures to prevent the issue from occurring again.

The compliance culture across the NGENSO and its shared services is strong. All of the shared services have implemented ways of working to deliver against the requirements of the data BMS – which is one of the key controls for managing data and protecting access to SOFI. The Business Partners have effective controls in place to ensure that any SOFI information is protected and only used for the purpose it was intended. The Compliance Officer activities for this purpose include:

- Delivering ongoing training to Business Partners
- Providing ongoing advice and guidance
- Ongoing engagement with Compliance Champions
- Compliance community of practice to brief out lessons learnt and engagement with champions
- Reviewing the individual bi-annual Business Separation compliance returns of Shared Services departments, as a framework for testing compliance and seeking assurance on controls relating to commercially sensitive information and SOFI
- Reviewing the 'Ways of Working' documents to ensure that sufficient controls are prescribed therein
- Compliance reporting in line with compliance procedure
- Reviewing processes that are in place

Encouraging Shared Services colleagues to report any compliance incidents or breaches with the support of the relevant Business Partner, and providing a route for investigating on these and providing advice on remedial actions and improvements to controls

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