

Compliance Statement

National Grid Gas plc

Prepared pursuant to paragraph 2 of Special Condition 10B of the gas transporter licence treated as granted to National Grid Gas plc (registered in England with number 2006000) whose registered office is at 1-3 Strand, London WC2N 5EH under section 7 of the Gas Act 1986 which it holds in respect of the gas National Transmission System.

12th December 2016

Version Control

Version	Date of change	Summary of changes
2	19.09.05	Appendix 1 – Construction added to list of Shared Business Services. Ofgem approval not required. Letter to Ofgem confirming.
3	1.11.05	To reflect re-branding of Transco plc to National Grid Gas plc and National Grid Transco plc to National Gas plc. Courtesy letter to Ofgem to confirm.
4	31.01.11	To reflect organisational change with the appointment of a UK Executive Director and amendments to list of Shared Business Services.
5	17.07.12	To reflect organisational change to lead directors for NTS and RDN and creation of System Operator and Transmission Owner functions.
6	22.05.13	Updated to reflect licence changes effective from 1 April 2013 which renumbered Special Conditions C20 and C21 to Special Conditions 10B and 10C (RIIO)
7	10.06.14	Updated to reflect changes in job title from UK COO to Executive Director and from COO Gas Distribution to Director, Gas Distribution
8	03.10.16	Document updated to reflect changes made to the gas transporter licence granted to NGG plc in respect of the NTS and gas transporter licence granted to National Grid Gas Distribution Limited (NGGDL) as a result of those licences being held in separate legal entities with effect from 1/10/16

9	12.12.16	Compliance Statement Approved
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Introduction

This Compliance Statement (“Statement”) has been prepared to secure compliance with paragraphs 1, 2 and 4 of Special Condition 10B of the gas transporter licence (“GT licence”) held by National Grid Gas plc (“National Grid Gas”) in respect of the gas National Transmission System (“NTS”). The purpose of this statement is to describe the practices, procedures and systems which National Grid Gas has adopted (or intends to adopt) to secure compliance with its obligations under:

- Standard Special Condition A6 (Conduct of the Transportation Business); and
- Standard Special Condition A35 (Prohibition of Cross-Subsidies),

of its GT licence (together, “the Conditions”)

As required by paragraph 4 of Special Condition 10B, this statement sets out how National Grid Gas as the NTS licensee shall:

1. maintain appropriate managerial and operational independence of its transportation business in respect of the NTS from any associated gas transporter business;
2. secure that no breach of the requirements of the Conditions occurs as a result of any arrangements for access by any associated gas transporter business (or by any person engaged in, or in respect of) the associated gas transporter business with respect to:
 - (i) premises or parts of premises occupied by persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS;
 - (ii) systems for the recording, processing or storage of data to which persons engaged in, or engaged in respect of, the management or operation of the transportation business in respect of the NTS have access;
 - (iii) equipment, facilities or property employed for the management or operation of the transportation business in respect of the NTS; or
 - (iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the transportation business in respect of the NTS; and

3. manage the transfer of employees from the transportation business in respect of the NTS to any associated gas transporter business.

National Grid Gas will use its best endeavours to ensure compliance with the terms of this statement.

This statement can be amended only with the approval of the Authority.

Definitions

For the purposes of this statement, the following definitions apply:

associated gas transporter business Shall have the meaning set out in paragraph 8 of Special Condition 10B of the GT licence

Confidential Information Means information relating to or derived from National Grid Gas transportation business relating to the NTS, which is not published or legitimately in the public domain, and for the avoidance of doubt, includes information that is specific to an individual Distribution Network (“DN”) or to the NTS, the possession of which could confer an unfair commercial advantage on any DN through the making of operational or investment decisions BUT excludes information which

- (i) is disclosed by, or with the consent of, the DN to which the information relates;
- (ii) is made available to all gas transporters on an equal basis; or
- (iii) is publicly available;

Operational decisions means the operational decisions made by National Grid Gas in relation to its transportation business in respect of the NTS, including the following areas:

- (i) allocating offtake rights, including Permitted Maximum Daily Quantity and pressure commitments;
- (ii) contracting for flow rate flexibility and diurnal storage;

- (iii) operational management of flow rate flexibility and diurnal storage; and
- (iv) contracting for and calling interruption and scheduling of maintenance

Shared Business Services means the business units within National Grid plc that provide support services to any associated gas transporter business and National Grid Gas including human resources, legal, IS and procurement. A list of National Grid's Shared Business Services is attached in Appendix 1.

1. Managerial independence of NTS from any associated gas transporter business

National Grid Gas will adopt an organisational structure in respect of the NTS to secure that Standard Special Condition A6 is not breached through any inappropriate managerial decisions in relation to the NTS. To secure this:

National Grid Gas and any associated gas transporter business will have management which is independent of the other by virtue of these businesses being separate legal entities, each with its own Board of Directors, who will be responsible for the operational and financial performance of the transportation business in respect of which it has been appointed.

A compliance committee shall be established as a sub-committee of the NGG Board of Directors, to which the Business Separation Compliance Officer (whose role is described below) shall report: The compliance committee will include the Director of Regulation (or equivalent position) having responsibility for regulatory matters within National Grid Gas. The compliance committee will also include the two Sufficiently Independent Directors who are members of the NGG board and have been appointed pursuant to Standard Special Condition A42 of the GT Licence. The compliance committee will report directly to the board of National Grid Gas

The compliance committee will also report to the group Audit Committee of National Grid plc. The Audit Committee includes both executive and non-executive directors of National Grid plc in its membership and is directly responsible to the board of National Grid plc.

This governance structure is set out in Appendix 2.

National Grid Gas will also appoint a Business Separation Compliance Officer ("BSCO") on a permanent basis to perform inter alia all of the duties set out at paragraph 6 of Special Condition 10C.

The independence of the BSCO is secured through:

- reporting to the General Counsel;
- a separate reporting line to the Compliance Committee established in accordance with Special Condition 10C; and
- a strong stewardship link to the Audit Committee of National Grid plc, which includes non-executive directors in its membership.

The duties of the Audit Committee include audit and review of internal controls, risk assessment and compliance. As part of these duties, it is envisaged that the Audit Committee will review the activities of the BSCO twice yearly and, additionally, will consider with immediate effect any breaches/potential breaches of this Compliance Statement, brought to its attention by the BSCO.

2. Operational Independence of NTS from any associated gas transporter business

National Grid Gas will implement appropriate systems to ensure that its staff involved in the operation of the NTS will not unduly discriminate in favour of any associated gas transporter business over the non associated gas transporter business in the way that they make Operational Decisions, consistently with paragraph 1 of Standard Special Condition A6.

In particular, National Grid Gas will ensure that:

- (i) NTS System Operation activities and System Operation activities of any of the associated gas transporters are conducted in geographically separate locations;
- (ii) Operational separation will be in place as explained in further detail in Paragraph 3 below; and
- (iii) a code of compliance (“Compliance Rules”) will be implemented for all NTS staff with the responsibility for making Operational Decisions which prohibits those staff from taking Operational Decisions which would unduly discriminate in favour of any associated gas transporter business and against other system users, in particular non associated gas transporter businesses. Section 7 outlines the scope for the Compliance Rules.

3. NTS accommodation and information systems

As part of ensuring that no unfair commercial advantage arises from access by any staff of any associated gas transporter business (or any of its staff or agents) to Confidential Information concerning the NTS, National Grid Gas will ensure that appropriate controls are put in place so that no Confidential Information concerning the NTS becomes available to any associated gas transporter business as a result of access by the staff or agents of the associated gas transporter business to:

- (i) premises occupied by the staff and agents of the NTS or
- (ii) information systems used by the NTS.

National Grid Gas considers that the primary areas in which there is potential for the associated gas transporter business to gain an unfair commercial advantage by accessing Confidential Information are in relation to system operation and investment planning activities. These are areas of particular focus for National Grid Gas when considering its obligations in relation to the Conditions.

National Grid Gas considers that a greater degree of control is necessary for system operation and investment planning activities than for other activities. As a result, it proposes the following: -

(A) NTS accommodation: National Grid Gas will:

- locate system operations for the NTS in separate accommodation from that of the associated gas transporter business;
- locate the associated gas transporter business control centre (“DNCC”) and the gas network control centre (“GNCC”) at separate sites;
- locate NTS and associated gas transporter business staff performing investment planning functions in separate accommodation to prevent any inappropriate sharing of Commercially Sensitive Information; and
- ensure that where an employee is designated to a particular building they will only have swipe access to that building. If the employee visits a building that is not their normal place of work they will be treated as an external visitor

(B) NTS information systems: National Grid Gas will

- restrict access to computer systems as required by the provisions of paragraph 4 of Condition 10B to prevent the sharing of Confidential Information,
- ensure that it does not circulate management accounting information about the NTS to any associated gas transporter business.

National Grid Gas will also reinforce its culture of ‘non discrimination’ through the adoption of the Compliance Rules, which will be applicable to the staff and agents of the NTS and Shared Business Services.

4. Use of equipment, facilities, property and personnel employed by NTS

National Grid Gas will ensure that no unfair commercial advantage and/or cross subsidy is provided to any associated gas transporter business by the NTS through:

- the transparent and cost reflective allocation of the charges for equipment, property and personnel (together “facilities”) employed by the NTS which are utilised for the provision of works or services to any associated gas transporter business and
- ensuring that any use of facilities owned or operated by the NTS by any associated gas transporter business is charged at an appropriate rate to avoid any discrimination or cross-subsidy in favour of that associated gas transporter business.

5. Transfer of employees from NTS

National Grid Gas will manage the transfer of employees from NTS to any associated gas transporter business to ensure that any NTS employee who transfers to any associated gas transporter business does not possess Confidential Information that was acquired less than three months before the date of any such transfer.

6. Emergency assistance

In the event of an emergency it may be necessary for the NTS and any associated gas transporter business system operations to be run from one control room for the duration of the emergency in accordance with emergency procedures. During this time and for a limited period while the emergency is being dealt with information about the NTS and associated gas transporter business may be visible to each other for the duration of the emergency. The associated gas transporter business will be required not to use any confidential information received during such emergency for any purpose not connected with

the emergency. During this time, records of emergency duration and staff attendance shall be kept in accordance with existing emergency procedures.

7 Compliance Rules

National Grid Gas will put in place a set of Compliance Rules to drive the correct staff behaviour and reinforce business separation as set out in this Statement. The Scope of the Compliance Rules includes guidance on:

- NTS Operational Decisions,
- Disclosure of Confidential Information about the NTS,
- Managing the delivery of NTS commercial agreements, and
- Correct allocation of costs to avoid cross subsidy between NTS and any associated gas transporter business

The Compliance Rules will provide that any deliberate breach of the Rules will be treated by National Grid Gas as a disciplinary offence.

Further information

Requests for further information about this statement should be addressed for the attention of the Business Separation Compliance Officer at:

National Grid Gas plc
Legal Department
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Appendix 1

Shared Business Services

- Finance
- Human Resources
- Business Development
- Legal
- IS
- Regulation & Government Affairs
- Procurement & Logistics
- Public Relations
- Planning & Environment
- Health & Safety
- Audit
- Insurance
- Tax
- Property Management
- Transactional Finance
- Transactional Human Resources
- Facilities Management
- Services provided by Construction

Appendix 2 National Grid Gas plc UK Governance Structure including the Compliance Committees

