

National Grid Electricity System Operator Business Separation Compliance Annual Report 2022-23

Annual Compliance Report

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Foreword

Foreword from Paul Plummer, Chair of the ESO Compliance Committee



Dear Colleagues,

This is the fourth business separation report since the National Grid Electricity System Operator (ESO) became a legally separate business within the National Grid Group on 1st April 2019.

Independence of the ESO business provides transparency in ESO's decision-making and gives confidence that everything it does will promote competition and is ultimately for the benefit of consumers and the environment. ESO is at the forefront of how electricity is changing in Great Britain and our aim is to be able to operate the grid at zero carbon by 2025. We are finding new ways to keep the grid balanced, helping to meet net zero emissions targets and minimize costs for consumers. The energy sector is undergoing significant transformation and the Electricity System Operator (ESO) will become part of a new publicly owned organisation, the Future System Operator (FSO) providing a coordinated approach and taking on additional responsibilities. In particular, the FSO will advise the government on how to resolve challenges in the transition to a net zero energy system.

This report sets out how the ESO has complied with legal separation during the period between April 2022 and March 2023. It is also critical that the ESO continues to drive a broader cultural shift so that it operates independent of all market participants and stakeholders so the ESO can drive independent decision making and provide thought leadership.

As Chairperson of the Compliance Committee I oversee compliance of the Licensee with its specified business separation duties as prescribed in the ESO Transmission Licence and the detailed arrangements set out within the Compliance Statement, which has been approved by Ofgem¹.

The Compliance Committee convenes to provide oversight and independent challenge to ESO's performance in respect of its obligations. The Single Appointed Director has oversight of the work of the Compliance Officer and the Committee's terms of reference were reviewed and updated.

Prior to and following legal separation, ESO made significant changes to its processes and controls to ensure that it operates effectively as a legally separate entity with the National Grid Group. The regulatory framework provides for specific ESO and National Grid Group interactions the design and operation of which are as specified in the updated Compliance Statement. Reporting and provision of information is in line with the licence conditions. National Grid Group and ESO have developed improved ways of working to ensure an appropriate level of engagement on cross cutting issues. These interactions are overseen by the Compliance Committee to ensure independence.

The Compliance Officer has reviewed the business separation monitoring and has determined that an effective compliance control framework is in place. Outside of this opinion no concerns have been raised. The Compliance Committee observed that good progress is being made – the small number of breaches have been minor and inadvertent release of data.

There has been strong support from the ESO Board to the Executive in its management of the interface with National Grid Group Directors, including during challenging discussions such as around the Future System Operator. There has also been a robust challenge and support from the ESO Board, Compliance Committee and Audit & Risk Committee to ensure clarity of ESO requirements and delivery by National Grid Group of Shared Services.

In summary, maintaining strong compliance goes beyond the business separation structures, processes, controls and interactions – it is also about developing the right culture and ensuring the ESO interacts appropriately with the wider market. The culture, governance and controls are working well – they enable ESO to act independently, in the interest of all consumers, the energy market and society to deliver the challenge of Net Zero. The Board and Compliance Committee remains dedicated to building on this success in the transition to FSO and in the longer term.

Paul Plummer, Chair of Compliance Committee

¹ <https://www.ofgem.gov.uk/publications-and-updates/approval-eso-s-compliance-documents>

Executive summary

In April 2019 the ESO was legally separated from National Grid Electricity Transmission (NGET). The compliance period covers April 2022 to March 2023 (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 ESO 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 across all lines of defence to understand whether any key risks and issues have been identified through their processes. Processes have worked well, covering a range of controls across; provision of compliance advice, training, incident management and reporting, provision of System Operator Functions Information (SOFI) and to also manage movers in/out of ESO. The ESO has demonstrated that the compliance culture is strong, this is evidenced by a greater focus on improving local compliance controls.

The CO has assessed the overall outcomes of the ESO business separation controls to determine the level of compliance during the Period. The CO has established that there are effective compliance control frameworks in place. No complaints have been made in respect of compliance.

The following observations were made across the following themes:

ESO Governance & Managerial Separation:

The organisational design is compliant with the licence. The ESO is legally and functionally separate from NGET / NGT (National Gas Transmission) / 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, NGT and ROCB remain compliant and in accordance with the design set out in the Compliance Statement.

Financial Ringfencing: ESO has maintained an investment grade credit rating and is in the process of preparing its separate statutory accounts for FY23 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 ESO to issue Certificates to Ofgem to confirm that it is meeting its financial ringfence obligations.

Operational Separation: The ESO has managerial and operational separation from NGET, NGT and ROCB. The creation of ESO has been reflected into electricity industry codes so that interactions between the ESO and NGET are formalised in the same way that they are for

other onshore and offshore transmission owners; processes were reviewed and continue to align with the code framework. These changes ensure that ESO'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 ESO, Shared Services and Group interactions. Extensive training and advice has been provided across the business. Group requests for information (have reduced significantly compared to previous years) are in line with exceptions set out in the licence and compliance statement.

Employee Transfer, Moves and Talent Management:

All moves were evaluated and good audit trail of the risks and sanctions are in place. There was one case (Senior Leader move) where additional controls were required to manage the perception risk around conflict of interest.

Employee Remuneration and Incentivisation:

ESO's employees are incentivised on ESO metrics and outcomes. An ESO Long Term Performance Plan (LTPP) is also available for Directors and a limited number of Senior Managers. The Directors' remuneration policy as required under Section 42(c) of the Electricity Act 1989 can be found on the ESO website.

Visual Identity: ESO operated 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 ESO website has been enhanced to further improve user experience to locate published documents.

Physical Separation: ESO 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 were conducted and ESO had its own dedicated area within the building. From January 2023 a new office location in central London was established allowing ESO colleagues access to work from the office and conduct meetings with external stakeholders. Access controls are reviewed throughout the Period.

Dual Fuel Roles and Activities: Following the changes to the SO operating model in December 2019, all dual fuel roles were removed from the operating model.

Shared Services: Shared services are an integral part of the ESO 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 ESO services are ringfenced. Each shared service has appointed a compliance champion who engages with their respective area and the CO 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 ESO 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. The ESO Legal Separation page on Grid:home (the internal intranet site) has been maintained, 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 cross the Group.
- Maintained an enhanced Starters, Movers and Leavers process and supporting frameworks to assess whether cooling off is required. Training – mandatory online training is in operation, but employees are proactive in seeking ad hoc refresher training for their teams / new starters.
- *Compliance summary: There continues to be good engagement with Compliance Champions and process owners to ensure that compliance is built into processes during the Period. There has been an ongoing 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. ESO employees are proactive in liaising with the CO to seek clarification and test understanding. High quality information has been provided to the CO during the Period (compliance returns and reports from shared services).*

Monitoring the effectiveness of practices, procedures and systems

- Processes are in place 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 number of control framework weaknesses are broadly similar year on year, as a consequence of the strong compliance culture. During the Period there have 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 Security Incident and Response Team (CSIRT) may run an investigation.
- 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 the Compliance Risk Management central system and monitored to completion and reported to the Compliance Committee.
- *Compliance summary: Where required the CO is a part of the CSIRT investigation. For issues reported directly to the CO, issues are triaged, and action plans agreed 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 ESO and Shared Services in respect of legal separation in May and June 2022 and February 2023.*
- *The Committee has full visibility / oversight of compliance performance.*

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**Business
Separation
Compliance
Annual Report
2022/23**

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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 2.3.28 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 April 2019 in accordance with ESO’s licence conditions. Since then version 1.6 has been updated. (<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

2.3 Part B and 2.3.20 (b) (i)

The ESO must ensure it is legally and functionally separate from NGET/NGT/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, NGT and ROCB.

Summary

This section sets out compliance against the requirements and summarises relevant observations during the period such as, activities of ESO Board through the year, significant changes (resignation / appointment of new Directors), addition of Committees to the Board, changes in ESO Executive Team delegations etc. No material changes were made during the period.

Compliance opinion

The organisational design is compliant with the licence. ESO is legally and functionally separate from NGET/NGT/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, NGT 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 ESO within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board sets ESO's strategic aims, ensures that the necessary financial and human resources are in place for ESO to meet its objectives and reviews management performance. The Board sets ESO'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 ESO, consistent with their statutory duties.

As agreed with Ofgem, the Board is chaired by the Director of ESO and includes five Independent Non-Executive Directors along with two additional members appointed from within ESO business and the ESO's Legal Counsel and Company Secretary. One of the five Independent Non-Executive Directors resigned at the end of 2022 and their replacement is currently being onboarded. Further information can be found at <https://www.nationalgrideso.com/who-we-are/meet-board>.

The ESO Board met on seven scheduled occasions during the Period. Additional Board meetings were scheduled to allow the Board to focus on key strategic or urgent matters impacting the Company. Where voting was required the Chairperson of the Board did not exercise a casting vote.

During the period there were two resignations and one appointment to the ESO Board and no changes were made to the Delegation of Authority.

ESO Compliance Committee

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

- Compliance with special condition 2.4 of the ESO licence Relevant duties of the Electricity Market Reform (EMR) role;
- Compliance with special condition 2.3 of the ESO 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 membership was updated to include Zoe Morrissey. Following Gregg Smith's resignation, Zoe Morrissey was duly appointed. The Compliance Committee reviewed its terms of reference during 2021/22 to reflect that it would focus primarily on Business separation matters as required under ESO licence and that it would meet at least three times to review compliance performance. The Committee convened three times.

ESO Audit & Risk Committee

The Audit & Risk Committee is a committee of the ESO Board of Directors, and its purpose is to:

- Assist the Board in its oversight of the Company's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls. Monitor, on behalf of the Board, the effectiveness and objectivity of internal and external auditors;
- Provide input to the Board in its assessment of business risks and determination of risk appetite as part of the overall setting of strategy for the Company;
- Assist the Board with its oversight of NGESO's risk management framework, monitoring its effectiveness through functional implementation in the 'second line of defence' and its performance to protect against and mitigate risks in the 'first line of defence'.

The Chair of the Audit & Risk Committee is Hannah Nixon (NED), and initially the membership was established as Paul Plummer (who stood down at the end of March 2021), Regina Moran also joined in November 2020 (both are NED's) and Duncan Burt. Following Duncan Burt's resignation Kayte O'Neil (Executive Director) was duly appointed. John Linwood joined in November 2021 and Regina Moran stood down at the end of December 2022. Paul Plummer re-joined the committee in May 2023. To enable appropriate shareholder oversight, the NEDs hold an annual meeting with the Chair of the National Grid plc Audit Committee. The Committee convened five times during the Period.

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 John Linwood, Hannah Nixon (NEDs) and Fintan Slye (Executive Director). The terms of reference had been expanded to review the remuneration policies and benefits framework for ESO employees to ensure that they support the strategic objectives, culture and values of the Company (and where appropriate, make recommendations to the Shareholder in respect of this). The terms of reference were further updated to formally reflect that Executives should be recused from discussions about their performance, which is standard practice. The committee provides twice annual performance evaluation feedback on the Chair of the Board to the Shareholder and on the ESO Executive Team to the Chair of the Board. The Committee convened three times during the Period.

Health, Safety & Wellbeing Committee

The Chair of the Health, Safety & Wellbeing Committee is John Linwood (NED), who was duly appointed following the resignation of Regina Moran (NED) and the members are Paul Plummer (NED) and Craig Dyke (Executive Member) who replaced Isabelle Haigh (Executive Member) in November 2022. The ESO is dedicated to ensuring the highest standards of health, safety and wellbeing for all staff, going beyond compliance with legal requirements and adopting a good practice model that benefits everyone. To support the Board with this ambition, it established the Health, Safety & Wellbeing Committee in November 2020, with responsibility for nurturing and promoting a positive attitude to health, safety and wellbeing as an integral part of the ESO's activities and to maintain an overall assessment of the key ESO health, safety and wellbeing specific risks. The Committee 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 ESO even clearer. Therefore, on 1 January 2020, the Gas System Operator (GSO) business was split from the ESO and integrated into the National Grid Gas Transmission business. In March 2021 the sale of a 60% majority stake in Gas Transmission and Metering (GT&M) was announced and in March 2022, it was confirmed that National Grid had entered into an agreement with a consortium led by Macquarie, together with Canadian-based BCI. In January 2023, the sale deal completed, and National Gas Transmission and National Gas Metering began operating on 1 February 2023.

ESO Managers and Staff

Monitoring of training has provided assurance that all Managers and Staff have been trained and are aware of their obligations in respect of legal separation. All ESO functions own and manage their regulatory obligations and controls relevant to the team, including business separation obligations via a Licence Matrix which is managed by ESO Regulation. The Licence Matrix sets out detailed legal and regulatory requirements and the control framework in place to manage that obligation. Periodical review of the Obligations are performed during the Annual and Interim Compliance Checklist process which captures key reminders to Managers to ensure

ESO Nominations Committee

The Nomination Committee is a committee of the ESO Board of Directors and its purpose is to

ongoing compliance covering Data,
H&S, Procurement and Business
Separation.

3. Corporate Governance

2.3 Part B and 2.3.20 (b) (i)

The ESO must ensure it is legally and functionally separate from NGET/NGT/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, NGT and ROCB.

Summary

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

Governance

The updated Compliance Statement (V1.6) sets out the level of governance that is in place 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.

ESO is legally separate and operates independently of NGT, 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.

ESO's organisational design provides clear role accountability and boundaries through separation of the Electricity System Operator business. Each of the businesses (ESO/NGET/NGT/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.

During 2020/21 the ESO Director stood down from the UK Executive. At that time the reporting line was changed to report directly into the Chief Executive of National Grid. This change provides further clarity and separation of the ESO from other National Grid businesses.

UK Executive

The UK Executive Committee was disbanded in 2021, with the last UK Executive Committee meeting scheduled for 7 April 2021 in order to close out the financial year. Shared issues including Safety; Cyber Security; Brand & Group Purpose, Vision & Values; Corporate Social Responsibility; National Grid UK Employee Proposition; Talent Management; Union Liaison & Engagement are now discussed either at Group level or within the Business Unit.

and other key stakeholders, in respect of ESO 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 ESO 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 2.3 requirements (Paragraph 2.3.14(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 ESO Licence, in particular, the SOFI requirements and the licences of NGT and NGET. The membership comprises of:

- Chief Executive;
- 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.

ESO Committee (ESOC)

The purpose of the Committee is to provide Group oversight in respect of ESO matters which are required or requested to be considered by the NG Plc Board, but which cannot be considered through the traditional Group governance due to legal separation restrictions. The duties include:

- guiding NG Plc in its relations with shareholders

shareholder and others are understood and met.

The members of the Board receive a report on the information shared with the ESOC and a monthly report of key issues is shared with both the Board and ESOC. All information provided to date has met the requirements of the licence. The Non-Executive Directors have met on one occasion with the Chief Executive of the Plc during the Period (September 2022) and also had oversight of all 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 ESO; to persons in Dual Fuel roles; where ESO 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 ESO adhered to the regular reporting cycles and provided Monthly Reports, and Quarterly Business Review (QBR) with ESOC.

The licence permits sharing System Operator Functions Information for the purpose of effective corporate oversight. ESO 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 ESO. This process is centrally managed by the Director of ESO's office and provides full transparency of the information provided. The ESOC reviews the requests and the reports are also available to the ESO 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 was appraised of its obligations as a part of the ultimate controller undertakings (UCU), which require the parent not to take any action that would put ESO in breach of its obligations. Ofgem was also informed that the parent had been appraised of its obligations under the UCU (this will be repeated at the NG Plc Board on the 17 July 2023). The parent did not call in any matters for approval during the Period. To ensure compliance with the SOFI restrictions, summarised above, ESO 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 ESO licence.

During the period the compliance culture has been strong and effective. There have been 31 low impact information related compliance issues and 1 medium impact issue which related to inadvertent release of data. The number of control framework weaknesses has increased during the period reflecting a strong compliance culture and desire to improve controls. The enterprise wide compliance framework has been used to assess the criticality and control effectiveness. The National Grid group

ESO Board

The role of the ESO Board is to provide entrepreneurial leadership of the ESO within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures 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

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.

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

4. Financial Ringfencing

2.3.4 and 2.3.7

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, NGT and ROCB

Commentary

This section sets out how ESO 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. No material changes were made during the period.

Prohibition of cross subsidies

ESO will publish its separate statutory accounts by the statutory deadline of December 2023. 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 ESO is operated separately from NGET, NGT 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). ESO has in place general services agreements (GSAs) with various entities within the Group which set out the services ESO provides and receives. The GSAs ensure that services provided and received remain appropriate.

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 & Risk 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 (July 2022) the ESO 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 ESO over the next 12 months. The certificate explains that ESO has a committed revolving facility agreement in place with a core group of relationship banks. Cash flow projections for the forthcoming year have been subject to various types of scenario analysis within the planning and budgeting process. The analysis demonstrated that it is reasonable to believe that the bank facilities are sufficient. In addition to the committed bank facilities, ESO has access to intra group loan facilities. New certificates will be issued in the Summer of 2023, following Board approval.

ESO has maintained its investment grade credit rating as required by Standard Condition B10 (Credit Rating of the Licensee) from Moody's. The current rating is Baa1 with a stable outlook and was announced on 20 May 2022 (see <https://www.nationalgrid.com/investors/debt-investors/credit-ratings>).

Restriction on Activity and Financial Ringfencing

To test the effectiveness of controls in place to ensure that there is legal and functional separation of ESO from other businesses within the NG Plc

Treasury and Company Secretariat. The following arrangements remain in place to ensure that the ESO business is carried out separately from NGET, NGT and ROCB:

- ESO remains a separate legal entity from NGET, NGT and any other ROCB as set out within the Company Structure Chart within the Compliance Statement.
- The Board of Directors of ESO are separate to those of NGET, NGT and ROCB.
- ESO employees engaged in the management and operation of ESO (up to and including Senior Managers reporting to the ESO Board) are not simultaneously engaged in the management and operation of NGET, NGT or ROCB.
- ESO 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 CORESO.
- ESO does not hold any investments or shares in NGET, NGT or ROCB directly or indirectly, so does not have an entitlement to vote at the general meetings.

Group, the ESO Compliance Officer has reviewed business separation frameworks with the relevant directorates and has asked targeted questions to Finance,

5. Operational Separation

2.3.20 (b) (i)

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

Commentary

This section sets out the arrangements that ESO has put in place to secure operational separation of ESO within NG Plc. It details the relevant industry codes that have been amended to reflect that ESO and NGET are legally separate. No material changes were made during the period.

The ESO continues to have operational and managerial separation in place from all other National Grid Businesses, Chapter 2 - ESO Governance & Managerial Separation sets out the detailed structural arrangements that are in place. On June 8th 2020, the Director of ESO's reporting line changed from the UK Executive Director to the Chief Executive of National Grid Plc. As a part of these changes the UK Executive Director stood down from ESO Committee and the Director of ESO stood down from the UK Executive. The ESO operates separately from the other National Grid businesses, Chapter 3 - Corporate Governance sets out how the ESO fits into the corporate governance through the ESO Committee.

The creation of ESO required that the interactions between ESO 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 were reviewed and redesigned to align with the code framework. These changes ensure that ESO's day to day interaction with NGET is aligned with Scottish TOs and Offshore TOs. To achieve this separation industry codes changes / or updates during the period 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, ESO has reviewed all its internal business procedures and processes between the ESO and NGET. Significant process redesigns were made in six operational areas.

Connections - The interaction between ESO 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 ESO like other TOs.

Charging – Prior to legal separation, 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

statement to ESO 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 ESO and NGET are represented separately and will propose modifications in relation to their respective licenced activities. ESO 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 ESO 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 ESO. 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; ESO 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 ESO 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 ESO and Relevant Other Competitive Business such as electricity interconnectors. The measures to achieve business separation between the ESO 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 ESO subsidiary.

Business Separation Arrangements

ESO 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 five 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 area 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.

the information to ESO. NGET's access to ESO's charging systems has been removed and NGET now needs to provide a charging

6. Employee Transfer, Moves and Talent Management

2.3.20 (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 the ESO has complied with this parameter of legal separation. It also summarises relevant observations during the period in relation to the number of movers. No material changes were made during the period.

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.

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 has processes which include undertaking a risk assessment of every move out of ESO. 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 to the employee 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.

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.

no real or perceived conflicts of interest.

During the period 95 employees joined the ESO of which 35 moved into the ESO from other parts of National Grid. All movers into the ESO 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 into the ESO, the relevant compliance officer considered whether there were any conflicts of interests / or cooling off period required.

Talent discussions are held within the 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.

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. ESO 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 ESO business and all employees undertaking dual fuel roles were transferred across to ESO. After April 1st, 2019, employees joining the ESO from other National Grid businesses were moved to the ESO as their contractual employer; anyone leaving the ESO 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 did not facilitate the participation of an Electricity licensee in the Gas DB Pension scheme. As such, ESO was not able to support the pension benefits that relate to the Gas DB Scheme. To retain these people in ESO, and ensure they were not at a detriment as a result of separation, those individuals continued to work for ESO, but their legal employer remained unchanged.

As at the start of the Period the number of employees who were members of the Gas Defined Benefits team was 22. As a result of the Gas Transmission and Metering sale, all ESO employees who continued to participate in the Gas DB Scheme after the 2019 legal separation were novated across into the Electricity DB Scheme (in which NGESO legally and financially participates) for their future pensionable service (and past service if they so elected to transfer). This took place from April 2022 as part of Gas sale activities.

There remains one individual working for the ESO who participates in Section A of the Gas Scheme. A novation of employer and pension scheme exercise would need to take place prior to ESO separation, co-ordinated by NG Group Pensions.

There was 1 senior leader mover where additional controls were applied to ensure that there were

7. Employee Remuneration and Incentivisation

2.3.20 (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. No material changes were made during the period.

Incentivisation of ESO employees

The arrangements relating to ESO staff, manager and leader's annual performance assessment were changed at Legal Separation so that it is based only on ESO metrics (with the exception of safety metrics, which are UK wide metrics). The ESO's employees' objectives were cascaded from the Director of ESO throughout the ESO leadership teams and managers. Performance against the objectives were monitored through the performance year.

Incentivisation of dual fuel employees

The Licence provides for dual fuel employees, however following the changes to the OneSo model, which were introduced in January 2020, no dual fuel roles continue to exist.

Long term performance plan

Prior to separation, senior leaders as well as certain selected managers participated in the National Grid Group Long Term Performance Plan (Group LTPP) which was a shares based scheme. Following separation, this was considered to no longer align with the requirements of the NGENSO licence and as such, for financial year 2019/20 onwards, a replacement long-term performance plan, with comparable value to that provided by the Group LTPP, was established to ensure NGENSO can continue to attract, incentivise and retain NGENSO Senior Leaders.

The ESO senior leadership roles which participate in the ESO LTPP scheme are the ESO Director, Director of Transformation, Head of National Control, Head of Networks, Head of Strategy & Regulation, Head of Markets, ESO Finance Director, ESO CIO and ESO Senior Legal Business Partner. 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 ESO's remuneration policy (which included LTPP) and approach for the year ended 31 March 2023 and is available on the ESO website.

and approved annually by the National Grid Group Chief Executive. Levels of remuneration of the other ESO executive directors are reviewed and approved annually by the ESO Remuneration Committee, in order to ensure they are appropriate and continue to attract, retain and motivate senior leaders of sufficient quality to deliver the objectives of ESO.

The key mechanics of the ESO Long Term Performance Plan are as follows:

- The scheme pays out in cash not shares. No dividend equivalents accrue therefore as this is a cash plan; similarly, there will be no minimum shareholding requirement;
- The value approximates 'the ESO share price movement' by having the target value flex with the value of NGENSO, using an internal measure of the total equity value of the NGENSO business, adjusted as appropriate for dividends paid and any other cash to/from shareholders;
- The performance/vesting period will continue to be 3-years;
- This structure should result in award levels, over the long-term, similar to that which would have been expected to be delivered under the existing Group LTTP scheme;
- The same malus and clawback provisions apply as for the Group LTP

Consideration is given to the requirements in the ESO Licence regarding ESO staff incentivisation being linked to the performance of ESO only. The remuneration includes salaries, bonuses and reward packages.

8. Information Ringfencing

2.3.13, 2.3.14 and 2.3.20 (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 2.3.14

2.3.20 (b) (ii) & 2.3.20 (c)

The ESO must ensure that systems for recording, processing or storage of data which ESO staff have access to cannot be accessed by NGT, 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. No material changes were made during the period.

ESO has taken a broad interpretation to the scope of SOFI in practice to mean all information that is owned, acquired or produced by ESO 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 ESO as the system operator, not exclusively only Section C activities.

Compliance with this broad interpretation is achieved via a range of controls. Throughout the period the CO identified several control framework weaknesses associated with the management of data and inadvertent release of 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 ESO, Shared services and NG Plc, as discussed above, opportunities have been identified during the Period to improve the control environment. ESO has migrated away from shared drives to Office 365, which improves data controls and access management. ESO 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: ESO 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 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.

advantage by soliciting SOFI from an ESO employee.

Business separation compliance: During the Period ESO 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 ESO 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 ESO and the CO receives real-time notifications of any prospective move into / from ESO 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 ESO systems and data and email account.

Information shared with Group: A process is in place 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. 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 National Grid 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.

ESO has established the Data Team to maintain the Data Management Standard and following principles:

- Data is an asset: It has value for our organisational purpose
- Data is compliant: It is aligned to our regulatory and statutory obligations
- Data is managed: It is subject to accountability
- Data is fit-for-purpose: It is of the right quality for the outcomes sought
- Data is known and understood: It is identified, defined, and described

All other UK National Grid Group employees are aware of the code and that they must not seek to obtain an unfair commercial

- Data has interoperability: It is relatable to external standards and across internal systems

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 ESO licensed activities. Non-operational systems are those that support the functioning of ESO 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 ESO and is managed via the ESO's Data Management Library;
- SharePoint sites – for document storage related to specific teams, roles and activities, both operational and non-operational is managed via ESO'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 ESO employees have an ESO domain email address.

During the period ESO has operated a Data Management Library (DML). The DML records all operational ESO 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 ESO 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 ESO 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 ESO 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 ESO and joined other businesses within the group who should have been removed from the distribution list

- Data has a single source: It has a designated master location

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

For the avoidance of doubt, none of the issues created an unfair advantage and all information related incidents (except for one) 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 lessons learnt
- Deployment of data business management standard cyclical audits cover all elements of ISO 9001 Quality Management
- Self assessment covers all elements of ISO 9001 Quality Management
- Updates to distribution lists and access controls
- Updating data flows and nodes to enable controls to be monitored via the data management library and Data Team
- 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
- Operation of a new enterprise wide compliance reporting tool

- 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

9. Visual Identity

2.3.20 (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 ESO has developed and maintained a unique and distinct visual identity from National Grid Plc. No material changes were made during the period.

ESO identity

As a part of legal separation, ESO 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 ESO 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 ESO in creating a distinct and independent brand from NG Plc.

Digital presence

ESO operates under its own website domain (www.nationalgrideso.com) to help customers find information they require more easily and ensure the ESO has a clearly separate online identity. As a part of the digital strategy ESO Twitter and LinkedIn accounts have been created. All ESO employees also have an ESO email address and ESO 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 ESO 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 ESO website has been enhanced during the Period to further improve user experience.

ESO templates

During the Period ESO PowerPoint and Word templates were in use (and centrally controlled) to reinforce the ESO brand. These include reports, letters, meeting agendas, meeting minutes and board paper templates. All ESO's IS user profiles operate with ESO screensavers, branding and templates to reinforce brand distinction.

ESO representation

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

10. Physical Separation

2.3.9 and 2.3.20 (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 ESO occupies to carry out its business, and the access rules and restrictions around those buildings.

ESO locations

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

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-ESO employees visiting Faraday House are treated as external visitors, with restricted access, and escorted at all times in the ESO working areas. Access lists and lanyards are maintained to provide controlled access to only ESO and relevant shared services employees. Guidance on how to apply for access to ESO sites is available on the ESO Legal Separation Grid:home page (a resource that has been established to support education and compliance with the parameters of legal separation). The facilities team with the CO 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 ESO employees or shared services employees working on ESO projects. There are also some shared services employees working 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) ESO 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 was provided for ESO employees visiting the Strand. Whilst the licence does not prohibit ESO employees from using NG's Corporate HQ in London, guidance was issued to prevent meetings with external stakeholders or customers, which also applied to shared services employees working for the ESO. This arrangement was in place until January 2023 when a new office location on Great Portland Street in central London was established, allowing ESO colleagues access to work from the office and conduct meetings with external stakeholders. 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 ESO complied with the policy). Where access was required for shared services employees, the relevant Business Partner submitted a request to the CO.

11. Dual Fuel Roles and Activities

2.3.20 (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. No changes were made during the period.

During the Period no Dual Fuel roles existed.

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 ESO even clearer.

ESO 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 ESO operating model going forward. The ESO organisational structure has been updated and included in the revised Compliance Statement.

12. Shared Services

2.3.20 (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 confirms compliance in respect of how shared services operate, it discusses the level of service provision to the ESO and relevant observations during the period in relation to this parameter of separation. No changes were made during the period.

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 the ESO. 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 Grid:home page (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 Grid:home page. Each Business Partner is the main interface with the ESO and meetings / teleconferences are organised such that only those relevant to the ESO business are present / on the call and party to ESO 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 the ESO and, has also appointed a compliance champion to help each area embed and test controls on an enduring basis.

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 ESO Licence. To ensure that the controls are working effectively the CO re-evaluates the control environment for each of the shared services at least annually 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. The compliance culture across the ESO 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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