

Annual Business Separation Compliance Report



Prepared in accordance with Special Condition 4F of the Gas Transporter Licence that was granted to Cadent Gas Limited (registered in England with number 10080864 and whose registered office is at Ashbrook Court, Central Boulevard, Prologis Business Park, Coventry, CV7 8PE) under section 7 of the Gas Act 1986 (as amended) which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry pursuant to paragraph 19 of schedule 7 to the Utilities Act 2000

16 May 2019



Introduction

This is the annual report prepared in accordance with Special Condition 4F of Cadent Gas Limited's ("**Cadent**") Gas Transporter Licence (the "**Licence**"). It sets out the results of a review in respect of the following:

- the relevant duties performed by the Business Separation Compliance Officer ("**BSCO**");
- the implementation of practices, procedures and systems as set out in the statement prepared in accordance with Special Condition 10B of National Grid Gas Plc's ("**NGG**") Gas Transmission Licence (the "**NTS Licence**"); (the "**Statement**"); and
- Any investigations carried out under Special Condition 4F of the Licence.

This is the annual report in respect of the period 1 April 2018 – 31 March 2019 ('**the Period**').

Further context

On 1 October 2016, NGG's gas distribution business was moved into a separate company and became a separate legal entity within the wider National Grid group structure. On 31 March 2017, a majority shareholding of this new entity (**Cadent**) was sold to new owners.

National Grid plc continues to hold a significant shareholding in Cadent and is therefore considered to be an "Ultimate Controller" (as defined in Special Condition A3 of the Licence) of both NGG (which has retained the gas transmission system) and Cadent (which now owns and operates the distribution network that was previously owned by NGG). Therefore, the licence conditions in respect of the business separation of the transmission system and the distribution network remain in place. However, this is expected to change following the sale of National Grid's remaining shareholding in the summer of 2019. Following this, National Grid will no longer be an Ultimate Controller of Cadent Gas Limited and therefore the condition will no longer apply.

From 1 October 2016, a Cadent representative was also appointed as BSCO under Cadent's licence.

One of Cadent's core values is 'commitment'. This value underpins Cadent's guide to ethical business conduct ("**Always Doing the Right Thing**"), which specifically includes a commitment to, and guidance on, business separation.

The legal separation of Cadent from NGG, has reduced the risk of a breach of the regulatory safeguards that exist in respect of business separation. Data separation will remain a low, and ever reducing, residual risk until the information systems infrastructure has been completely separated, which is expected to be during 2019. An issue has been identified in relation to existing access controls (as set out in the Statement) which have been addressed. The business separation controls have been assessed and despite an identified control weakness the BSCO is not aware of any breaches of the business separation obligations during the Period.

Relevant duties performed by the BSCO

In summary, during the Period, the BSCO has complied with the relevant duties set out in Special Condition 4F. This has specifically included the following:

a) Provision of advice and information to Cadent, including directors and the Business Separation Compliance Committee (“BSCC”) for the purpose of ensuring the licensee’s compliance with relevant duties.

The BSCO has provided advice to Cadent, including the BSCC, in respect of the relevant duties and the practices, procedures and systems adopted in accordance with the Statement.

In addition, a new computer based training programme has been developed and delivered to all managers and relevant staff. The development of our intranet has also provided an opportunity to share further information about business separation with the business.

b) Monitoring the practices, procedures and systems adopted in accordance with the Statement.

The BSCO has reviewed the controls outlined in the Statement. This was conducted through a series of interviews and a review of supporting documentation.

(i) Managerial independence – Cadent, as an independent legal entity, has its own Board of Directors and BSCC (which reported into the Cadent Board during the Period). The BSCC has also reported to the National Grid plc Audit Committee. To preserve the independence of the BSCO, they sit within the General Counsel department.

In line with corporate governance good practice, director’s conflicts of interests are reviewed at the start of each Board committee meeting, to ensure that changes in director responsibilities are continually be assessed in relation to business separation.

(ii) Operational independence – premises: In accordance with the Statement, the identified higher risk (investment and control room) teams continue to be located at separate sites. Swipe access remains the primary means of physical access control across Cadent. This means that NGG staff are treated like all other external visitors.

Operational independence – systems: Where Cadent and National Grid Gas continue to share the same systems, access controls, as described in the Statement, continue to segregate Cadent’s systems from those of National Grid. A control weakness was identified in relation to the operation of access controls on a shared drive, a resolution has been identified and is being rolled out. Further details are included in the investigating complaints section below.

In some instances, systems have now been duplicated and Cadent have a separate version of the system, independent to that used by National Grid. Where historic National Grid data has now been deleted from those Cadent systems there is no longer a need to rely on access controls.

The compliance rules which underline expected employee behaviour, including in respect of business separation, remain in place. Information in relation to these rules and expectations have been made available across Cadent through our internal intranet site. This reinforces the computer-based business separation training which was updated during the period and is undertaken by all management and relevant staff. As well as educating new starters, there is a requirement for business separation refresher training every two years. This is mandated and monitored through a network of assurance champions.

(iii) Use of equipment, facilities, property and personnel – Any services provided to or from National Grid group are provided under formal, written contracts, which have been prepared on an arm's length basis. Assurance was also provided to the BSCO from Cadent's executive management team through the 'Financial Ring Fence Assurance' process.

(iv) Transfer of employees – As Cadent and National Grid are part of different Group structures, an employee moving between the businesses can no longer transfer but would have to resign from one organisation and join the other as a new starter. This has further strengthened the existing business separation controls.

As a result of this review, the BSCO has assessed that the Statement is still an accurate reflection of the controls in place in respect of business separation.

Compliance with Special Standard Condition A35 (Prohibition of Cross-subsidy).

Based on the evidence presented, the BSCO has reported that Cadent is compliant with the obligation not to give or receive a cross-subsidy from the National Transmission Service ("NTS") or any other National Grid company.

Compliance with Special Standard Condition A6 (Conduct of Transportation business).

Based on the evidence presented, the BSCO has reported that Cadent is compliant with the obligation not to give or receive a commercial advantage from the NTS or any other National Grid company.

c) Investigating complaints

A control weakness was identified and reported to the BSCO in relation to access controls. This related a subset of information stored on a shared

drive, which was visible to both NG and Cadent users. The investigation into the technical failures was led by the IS team and suitable controls have now been put in place to ensure that only Cadent users can see the Cadent folders. Cadent are expected to have a separate shared drive by the end of September 2019 at which point access controls will no longer be needed.

d) Reporting to the BSCC

The BSCO has reported to the BSCC within the Period.

Further Information

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

Cadent Gas Limited
General Counsel Department
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Prologis Park
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