

Annual Compliance Report 2016

July 2017



1 Introduction and Background

EirGrid is separately licensed as Transmission System Operator (TSO) and Market Operator (MO) by the Commission for Energy Regulation (the Commission). These licences both contain Conditions respecting the Duty of Non Discrimination – Condition 17 of the TSO licence and Condition 9 of the MO licence respectively.

Licence Condition - Duty of Non Discrimination

- 1. In carrying out its functions under this Licence, the Licensee shall not discriminate unfairly between persons or classes of persons, or between system users or classes of system users, particularly in favour of its subsidiaries, associated or affiliated undertakings, joint ventures or shareholders.*
- 2. The Licensee shall establish a compliance programme on the measures taken to ensure that discriminatory conduct by it or its employees is prevented, which shall include specific obligations imposed on its employees to prevent discrimination.*
- 3. The Licensee shall report to the Commission at intervals of not more than one year, in such form as the Commission determines, specifying the measures taken and the level of compliance in relation to paragraph 2. The report shall be published by the Licensee in such manner as shall be determined by the Commission.*

This short document is in fulfilment of paragraph 3 of the above Conditions for the year 2016. It follows a format which was the subject of discussion with the Commission for Energy Regulation (CER) and which has been employed in fulfilment of this Condition in previous years.

EirGrid has prepared this report in the context of the nature of its activities as a fully regulated business and in the recognition that:

- It is engaged in little or no competitive activity.
- It is not a vertically integrated entity with neither generation nor supply interests.
- There is a Licence requirement for the sharing of information between its System Operator and Market Operator roles.

2 Approach 2016

EirGrid takes seriously its obligation to ensure that it complies with all relevant statutory requirements and regulatory obligations. The Board and Executive of EirGrid are fully committed to ensuring that EirGrid has appropriate and effective procedures to ensure that it meets all its legal and regulatory obligations. EirGrid has in place a compliance framework which clearly defines roles and responsibilities with regard to compliance. It recognises that it operates in a highly regulated environment and that there are ever increasing legal requirements. EirGrid has empowered its managers to be responsible for ensuring that it meets its obligations and that they take corrective action when they become aware of any non-compliance issues.

In EirGrid an independent Internal Audit & Compliance Function continually assesses whether the compliance framework operates as intended. An annual programme of compliance audits is completed including a review of Licence obligations to keep commercial information confidential and to ensure that it does not discriminate unfairly/unduly in operating its business. The resulting reports are discussed and agreed with the relevant managers with the aim of improving the processes and procedures for ensuring EirGrid is compliant. A summary of the report findings and progress of the audit programme is discussed with the Executive and Board via the Audit Committee. The compliance audit programme and reporting process therefore help to ensure that EirGrid meets all of its obligations.

EirGrid has satisfied its obligations under these licence conditions in the following ways.

2.1 Regulated Processes

EirGrid is a regulated business by statute and licence. EirGrid is subject to regulatory rules and oversight regarding contractual terms, Trading & Settlement Code, Grid Code, Transmission Planning & Security Standards, Statement of Charges, and Connection Offer Process etc.

An annual programme of compliance audits is completed including a review of licence obligations to keep commercial information confidential and to ensure that it does not discriminate unfairly/unduly in operating its business.

EirGrid has established a comprehensive suite of policies and procedures in relation to ethics which are applicable to all employees, third parties and contractors, specifically:

- **Information Security** (Acceptable Use Policy, Access Control Policy, Document Control Policy, Information Security Incident Management Policy, Information Security Policy, Internet and Email Security Policy, Third Party Security Policy). The Head of Internal Audit & Compliance/Compliance & Assurance Officer is an independent member of the Cyber Security Forum which oversees Information Security related risks; and
- **Ethics** (Directors Code of Conduct, Employee Code of Conduct, Disclosure of Interests Policy & Procedures, SONI Ethical Dealing Policy, Ethics in Public Office Act Policy).

EirGrid is not aware or been advised of any incident/ occasion where it has been accused of or found to have acted in a discriminatory fashion.

2.2 Audits & Reviews

As part of the annual review of Licence obligations to keep commercial information confidential and to ensure that it does not discriminate unfairly/ unduly in operating its business, a number of audits and process reviews were conducted, *inter alia*;

- **Grid Code Compliance Review** – the aim of this compliance review was to determine the effectiveness of the enduring processes for monitoring compliance to the Grid Code obligations. The review confirmed that the Grid Code Compliance Register is operating in a consistent manner;

- **Statutory Compliance Review** – the objectives of the audit were to assess the effectiveness of the systems of control over the management of the Statutory Compliance Register, and in particular to ensure that:
 - EirGrid Statutory Obligations are identified and managed effectively;
 - EirGrid Statutory Obligations are recorded in line with the Compliance Framework;
 - Responsibilities for EirGrid Statutory Obligations have been appropriately assigned; and
 - Adequate controls/business processes exist to ensure that EirGrid Statutory Obligations are managed.The review confirmed that the Statutory Compliance Register is operating in a consistent manner;

- **Transmission Use of System (TUoS) Billing Process Audit** – this internal audit assessed and tested the system of control over the TUoS billing process, and in particular sought to ensure that:
 - The meter data and standing data uploaded to the Counterparty Settlement and Billing system (CSB) is complete;
 - The tariff has been applied correctly and that controls over changes to the tariff are adequate. The evidence was available to prove that all meter data received in the billing system has been billed;
 - An audit trail is maintained to provide evidence that exceptions have been checked and dealt with appropriately;
 - The recommendations made in the previous reports have been actioned;
 - The resettlement process has adequate controls that ensure that it meets its objectives and that these controls are operating effectively; and
 - The accuracy of the billing data was maintained during the cutover and parallel running of both Access and CSB in SONI.

Based on this assessment and testing of the controls currently in operation, the findings of the review concluded that **FULL ASSURANCE** can be provided over EirGrid TUoS Billing; and

- **SEMO Bank Account Management & Credit Cover** – the aim of this audit was to provide independent assurance that there are adequate and effective controls over the payments made by SEMO to market participants and that there are adequate processes in place for the calculation, collection and return of credit cover. The audit included:

- Performing a walkthrough of the SEMO banking and credit cover processes and identifying the key controls in operation;
- Testing controls over bank account creation and validation;
- Ensuring bank eligibility requirements are in accordance with the Agreed Procedures;
- Validating that bogus or fraudulent bank accounts are not accepted by the SEMO;
- Reconciling payments paid to market participants and in accordance with the Code;
- Ensuring clearly defined process documents were in place defining the controls over Security Cover;
- Testing controls over the issuing of Credit Cover Increase Notices; and
- Specific consideration of the controls over authenticating Letters of Credit.

Overall, based on the findings from this review we provided **SATISFACTORY ASSURANCE** over the system of internal control for these processes.

In addition to the above internal independent reviews, the annual Market Audit of SEM for 2016 was performed on behalf of the Regulatory Authorities under the Trading and Settlement Code requirement (Section 2 of the TSC paragraphs 2.131 to 2.143). The opinion provided by the Market Auditor for the period 1st January 2015 to 31st December 2015 was that “SEMO has, **in all material aspects, complied with the Code and relevant Agreed Procedures** as set out in the Terms of Reference for the 2014 Market Audit published by the Regulatory Authorities on 14th August 2015”.

2.3 Human Resource Related Approach

EirGrid sets out and reinforces the obligation of all staff in regard to their duty to not discriminate unfairly through a number of HR policy documents and procedures;

- **Code of Conduct**

EirGrid maintains a Code of Conduct document, within which an obligation in regard to the duty of Staff to not discriminate unfairly is set out. This document has been approved by the Commission in accordance with the licence. It applies to all employees irrespective of level or location and forms part of the contractual arrangements for EirGrid staff.

- **Anti-Bribery Policy**

In addition to the Code of Conduct EirGrid has in place an Anti-Bribery Policy for both directors and employees. This policy both bolsters and makes transparent EirGrid’s position in this important area which is key to ensuring that EirGrid acts in a transparent and non- discriminatory fashion.

- **Staff Induction & Ongoing Awareness**

The need for compliance with the licence requirements to both protect commercially sensitive and confidential information and to not unfairly discriminate is reinforced at induction to all staff. EirGrid continues to ensure staff are aware of their obligations through the normal company communication channels.

2.4 Establishment of principle and practice

EirGrid has further kept the CER updated in respect of situations which have arisen during the period where the possibility might exist that EirGrid could be perceived as acting in an unduly discriminatory manner. This, recognising that the very nature of EirGrid's role means it must from time to time employ subjective judgement in analysing complex technical matters. In a number of instances where such situations have arisen EirGrid has engaged with the CER and sought to put in place underlying frameworks where that judgement may be exercised. Examples of such instances in 2016 include, *inter alia*;

Changes to Membership of the Boards of EirGrid Group Entities

In July 2016 the SEM Committee published an information paper titled '*Mitigation measures for potential conflicts of interest in the EirGrid Group*' (SEM-16-041). Section 3 of the paper recommended that some changes be made to board structures of EirGrid Group, following consideration of market participants' views and information tabled by RAs, particularly in relation to the TSOs and the East West Interconnector. The required changes were enacted as of 22 December 2016 and the SEM Committee was informed on 10 January 2017.