

# Annual Compliance Report 2015

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June 2016



## 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 2015. 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 2015

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. These reports are also presented to the Compliance Board which reviews progress of any associated actions on an on-going basis. 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.

The Compliance Board is tasked with monitoring the established EirGrid Group Compliance Process and in particular, to ensure that it continues to be consistently applied throughout the Group and is fit for purpose. The Compliance Board meets at least quarterly and has ensured that there is a consistent and effective approach to compliance with all statutory and licence requirements. The duty of non-discrimination is one of the obligations that is managed by this process.

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.

In 2015 EirGrid's independent Internal Audit & Compliance Function completed audits of compliance with the requirements of the Grid Code and compliance with the requirements of its operating licenses – in particular the specific Licence requirements in regard to the duty to hold confidential and commercially sensitive information securely. The Internal Audit & Compliance Function also confirmed that the recommendations made in compliance reports completed in 2013/2014 had or were in the process of being actioned as previously agreed with management.

A summary of the work completed was presented by the Head of Internal Audit & Compliance to the EirGrid Executive Team and the Audit Committee. A further programme of compliance audits will be

completed in 2015/16 which will include follow up reviews to ensure that management have addressed the points raised in the previously completed reviews.

Details of a number of audits and review carried out in 2015 are set out below.

## 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*;

- **Duty of Non-Discrimination Review** – the aim of this compliance review was to determine how the non-discriminatory obligations are adhered to in the business processes established by EirGrid in the operation of the system and access to the East West Interconnector (EWIC). Based on the agreed scope and tests performed it was concluded that established business processes are operating in a non-discriminatory manner;
- **Transmission Loss Adjustment Factors (TLAF) – East West Interconnector (EWIC)** – the purpose of this audit was to review the internal controls in place over the EWIC TLAF calculation process as carried out by EirGrid as part of the annual TLAF setting process and specifically:
  - Ensuring the EWIC has been set-up to an appropriate level of representation for TLAF/load flow studies in the TLAF model by the Planning Support & Tariffs team;
  - Ensuring that there is clear process/documentation around the setup of the EWIC in the TLAF process;
  - Ensuring that in the TLAF processes/scripts, the TLAF calculated at the EWIC transmission bus/station (i.e. the bus at Deeside, Wales) is equivalent to that calculated at any other transmission bus/station; and
  - Considering if future control environment improvements can be made in particular concerning the processing of EWIC in the TLAF calculation.

We established that the setup of the EWIC in the TLAF model is supported by a clearly defined documented business process. We performed walkthroughs of the EWIC TLAF calculation process including its setup in the TLAF model for the 2014/2015 tariff cycle. In addition, we successfully re-calculated the TLAF for both the EWIC and a nearby generator from source data to final publication and conclude that the correct process was followed for these TLAFs.

We concluded that the design of the internal control environment is appropriate and in general, operating effectively. Overall based on our assessment and testing of the controls, we concluded that **SATISFACTORY ASSURANCE** can be provided.

- **Trading & Settlement Code (TSC) – SEMO** – based on an agreed scope and tests performed it was concluded that the enduring process of monitoring SEMO compliance to the TSC obligations and maintenance of the TSC Compliance Register is operating in a consistent manner;

- **Market Non-Discrimination (SEMO)** – the aim of this compliance review was to determine how the non-discriminatory obligations are adhered to in the business processes established by SEMO in the carrying out of its functions of Single Electricity Market Operator. It was concluded that established business processes are operating in a non-discriminatory manner and do not distinguish between the users or classes of users;
- **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 2015 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 1<sup>st</sup> January 2015 to 31<sup>st</sup> 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 14<sup>th</sup> 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 2015 include, *inter alia*;

- **Outturn Availability**

In September 2015, the [SEM Committee](#) published its decision paper, SEM-15-071, on the “*Process for the Calculation of Outturn Availability*” following extensive engagement and consultation over a four year period between the RAs (CER and the Utility Regulator for NI), TSOs (EirGrid and SONI) and Industry. Subsequently, the TSOs undertook to compile a document to provide clarity to industry on the implementation of the decision. This paper, along with a number of queries, was provided to the RAs (in advance of publication) to which

a response was received in early January 2016. In particular the TSOs sought clarity on the SEMC statement that: *“The SEMC decision paper applies equally to planned outages on the Distribution system as it does to planned outages on the Transmission system.”* While the TSOs did not question the point that the principles of Outturn Availability apply to both the Transmission system and Distribution system, it was noted that outages to the Distribution system were outside of scope of the consultations and are not within the control of the TSOs. In January 2016 the RAs upheld the TSOs understanding that SEM-15-071 does not apply to outages on the distribution system. However all generators within the remit of the TSOs, be they transmission or distribution connected, will be treated in a consistent manner, in terms of the calculation of outturn availability, where impacted by transmission system outages.

- **Reduction in Donegal Constraint Groups**

In October 2015, the TSOs (EirGrid and SONI) submitted a letter to the SEM Committee informing them that, effective from 1 January 2016, there would be a reduction in size of the Donegal Constraints Group. When the Donegal Constraint Group was originally established, it was expected that the constraint group would reduce in size after a given number of transmission reinforcements were made. For reference, the relevant papers are SEM-11-105, SEM-12-076 (including TSO report) and SEM-13-012. The letter informed that these transmission reinforcements were now complete and EirGrid would implement the size reduction. In November 2015, the SEMC confirmed that the contents of the report were discussed at SEMC 98 on 29 October 2015 and the report was noted by the Committee.

- **Withdrawal of Connection Agreement Review 2 (CAR2) Submission of December 2014**

Under CER/13/145 the CER directed EirGrid to review the regulated, contractual documents for Connection and Transmission Use of System every eighteen months and to consult publicly on any proposed changes before submitting them to the CER for approval. Further to a request from the CER, EirGrid in December 2014 submitted the Connection Agreement Review 2 (CAR2) papers to CER for review in advance of commencing the public consultation process.

In August 2015 EirGrid submitted a request to CER to withdraw the CAR2 Submission due to the passage of time since the submission was made and having not received approval to commence the public consultation process. EirGrid advised CER that it was of the view that a further review of the submission was required in order to update and amend the documents to take account of further changes since their submission. In August 2015 the CER approved of this proposal.