

**TC Lincs OFTO Limited**

**Annual Report**

**Business Separation Compliance**

**April 2014 to March 2015**

**BD/BOW/COM/COMP/2014-2015/001-1**

**DOCUMENT AUTHORISATION SHEET**

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## 1. Introduction

We, TC Lincs OFTO Limited, are the licensee of the Lincs Offshore Transmission Owner licence (the licence).

The licence requires us, in carrying out our licensed activities, to put in place and maintain such systems of control and other governance arrangements which are necessary to ensure that we comply with our obligations contained within standard condition E6 (Prohibition of cross-subsidies), standard condition E7 (Restriction on Activity and Ring Fencing), and amended standard conditions E12-C1 (Conduct of the Transmission Business), E12-C2 (Separation and Independence of the Transmission Business) and E12-C3 (Restriction on use of certain information), E12 – C4 (Appointment of Compliance Officer).

This is the annual Compliance Report to Ofgem for the period 4<sup>th</sup> November 2014 to 31<sup>st</sup> March 2015 which has been produced by the licensee in accordance with Amended Standard Condition E12-C4 paragraph 8 which requires that the licensee shall produce a report in a form approved by the Authority:

- a. as to its compliance during the relevant year with the relevant duties; and
- b. as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to in paragraph 2 of amended standard condition E12 - C2 (Separation and Independence of the Transmission Business).

## 2. Compliance with the relevant duties

The latest version (dated 1<sup>st</sup> December 2014) of the business separation statement for the licensee, was approved by Ofgem on 1<sup>st</sup> December 2014, and can be found here

<http://www.transmissioncapital.com/projects/06/>.

The licensee has appointed a Compliance Officer to:

- Provide advice and information
- Attend Compliance Committee meetings
- Oversee Auditing Controls and Governance Arrangements
- Produce annual reports

Further detail on the activities of the Compliance Officer during the period covered by this report can be found in sub-section (f) below.

The licensee has established a compliance committee (being a committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the Compliance Officer and the compliance of the licensee with its relevant duties. The compliance committee reports to the board of directors of the licensee and includes:

- A director responsible for day-to-day compliance with the activities of this licence (Michael Gregory); and
- Other persons from within the licensee's business responsible for the management of regulatory issues relating to the licence.

The compliance committee meets on a quarterly basis and:

- Reviews reports from the Compliance Officer;
- Reviews quarterly compliance checklists;

- Reviews the conduct of any complaints; and
- Approves the Compliance Officer's report (annually).

In this period the compliance committee has received:

- No reports of any regulatory complaints; and
- No reports of any non-compliance with licence obligations.

The Compliance Officer has completed an annual audit of the implementation of the controls and governance arrangements as described within the compliance statement, including conditions E6 (Prohibition of Cross-Subsidies), E7 (Restriction on Activity & Ring Fencing), EC12 – C1 (Conduct of the Transmission Business), EC12-C2 (Separation and Independence of the Transmission Business) and EC12-C3 (Restriction on use of certain information). The annual audit concluded that in carrying out its licensed activities pursuant to Amended Standard Condition E12 – C2, the licensee has put in place and maintained such systems of control and governance arrangements which are necessary to ensure that the licensee complies with obligations contained in standard license condition:

- E6 (Prohibition of Cross-subsidies);
- E7 (Restriction on Activity and Ring Fencing);
- E12 – C1 (Conduct of the Transmission Business);
- E12 – C2 (Separation and Independence of the Transmission Business);
- E12 – C3 (Restriction on use of certain information);

And that no compliance related complaint had been received.

### **a) Amended Standard Condition E12-C1 (Conduct of the Transmission Business)**

Amended Standard Condition E12-C1 requires that:

1. The licensee shall conduct its transmission business in the manner best calculated to secure that no unfair commercial advantage is obtained including, in particular, any such advantage from a preferential or discriminatory arrangement.
2. The licensee shall secure and procure separate premises, equipment, systems for recording and storing data, facilities, staff, and property from those owned by the holder of a co-ordination licence and from those authorised to generate or supply electricity.

In respect of the first requirement, the business separation statement for the licensee sections 3 and 4 set out the measures taken by the licensee to ensure compliance with these requirements. In summary they are:

- Establish the licensee as a legally incorporated company whose sole business is the business to which the licence relates;
- Ensure that Transmission Capital Services (TCS) is the only affiliated business providing services to the licensee after licence grant and that TCS provides services to the licensee on an arms-length basis under a contract put in place at licence award; and
- Further procedures to govern and audit the actions of TCS as set out in section 3.17 of the business separation statement.

There has been 100% compliance with the requirements of the business separation statement in respect of these measures, evidence of which includes the following:

- Written confirmation has been received by every employee in the transmission business confirming that it has read the Code of Conduct;
- The employment contract conditions of every employee in the transmission business include confidentiality requirements.

In respect of the second requirement, the licensee is not a holder of a co-ordination licence and does not have any associated business that is authorised to generate or supply electricity, nor does it share any resources with such entities.

### **b) Amended Standard Condition E12 – C2 (Separation and Independence of the Transmission Business)**

Amended Standard Condition E12-C2 requires that:

1. The licensee, in carrying out its licensed activities, shall put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition E6 (Prohibition of Cross-subsidies), standard condition E7 (Restriction on Activity and Financial Ring Fencing), and amended standard condition E12 - C1 (Conduct of the Transmission Business).
2. The licensee shall have in place, and use its best endeavours to ensure compliance with, a statement (the business separation statement), approved by the Authority, describing the practices, procedures and systems which the licensee has adopted (or intends to adopt) to secure compliance with paragraph 1, and shall publish this on its website.
3. The requirements of paragraph 1 include the establishment of separate boards of directors for the transmission business and for any associated businesses, and that each director fulfils its role as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the board he or she is a member of has been established.

The business separation statement was approved by the Authority on 1<sup>st</sup> December 2014 and published upon its website on 1<sup>st</sup> December 2014.

The business separation statement for the licensee sections 3 and 4 set out the measures taken by the licensee to ensure compliance with these requirements. In summary they are:

- The production of separate ring fenced accounts;
- Establish the licensee as a legally incorporated company whose sole business is the business to which the licence relates;
- Appoint a separate board of directors for the licensee;
- Operates and maintain the business through a series of contractual arrangements with independent third parties and an affiliated undertaking negotiated on arm's length commercial terms; and
- Not acquiring shares or other investments other than investments acquired in the usual and ordinary course of the licensee's treasury management operations.

The Authority's consent has been provided in respect of International Public Partnerships Limited and its affiliates ("IPP") and Amber Infrastructure Group Holdings Limited and its affiliates ("Amber") to

arrangements that enable the sharing of certain resources. Such consent shall cease to have effect if IPP or Amber or any of their affiliates or related undertakings were to become authorised under the Electricity Act 1989 to generate, supply, distribute or coordinate or direct the flow of electricity. In such circumstances the licensee shall notify the Authority of any such change.

There has been 100% compliance with the requirements of the business separation statement in respect of these measures.

### **c) Amended Standard Condition E12-C3 (Restriction on use of certain information)**

Amended Standard Condition E12-C3 requires that:

1. Any information relating to or deriving from the management or operation of the transmission business shall, for the purposes of this condition, be treated as confidential information.
2. The licensee shall not (and shall procure that its affiliates and related undertakings shall not) disclose or authorise access to confidential information to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of any other business of the licensee; or to any other person, except in the circumstances set out in paragraph 3 of Amended Standard Condition E12-C3.

The business separation statement for the licensee sections 3, 4 and 7 set out the measures taken by the licensee to ensure compliance with these requirements. In summary they are:

- Restrict access to IT systems to appropriate authorised users;
- Keep separate operational systems used to manage the transmission business from those used to manage other businesses;
- Restrict access to the licensees' financial information to those persons directly or indirectly involved in the licensees' business; and
- Ensure the employment contracts of all relevant staff and contractors contain suitable confidentiality provisions.

There has been 100% compliance with the requirements of the business separation statement in respect of these measures, evidence of which includes the following:

- The employment contract conditions of every employee in the transmission business include confidentiality requirements;
- All relevant systems are pass word protected and restricted to employees of the transmission business.

### **d) Standard Condition E6 – Prohibition of cross-subsidies**

Standard Condition E6 requires that:

1. The licensee shall procure that the transmission business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the licensee or of an affiliate or related undertaking of the licensee.

The business separation statement for the licensee section 3.16 sets out that the licensee primarily operates and maintains its transmission system through a series of contractual arrangements with

independent third parties and an affiliated undertaking TCS and that the nature of these arrangements means that the costs incurred are negotiated on arm's length commercial terms. There have been no new contractual arrangements put in place between the licensee, any other business of the licensee, or any affiliated or related undertakings, since licence grant.

There has been 100% compliance with the requirements of the business separation statement in respect of these measures.

### **e) Standard Condition E7 – Restriction on Activity and Ring Fencing**

Standard Condition E7 requires that:

1. Save as provided by paragraphs 3 and 4 of Standard Condition E7, the licensee shall not conduct any business or carry on any activity other than the transmission business.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
  - a. shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
  - b. shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the transmission business; or
  - c. investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.

The business separation statement for the licensee section 3 sets out the measures taken by the licensee to ensure compliance with these requirements. In summary they are:

- Establish the licensee as a legally incorporated company whose sole business is the business to which the licence relates; and
- The licensee is prevented by financing agreements from acquiring shares or other investments other than investments acquired in the usual and ordinary course of its treasury management operations.

There has been 100% compliance with the requirements of the business separation statement in respect of these measures and there have been no share purchases or investments falling outwith the exceptions to the prohibition in Standard Condition E7 paragraph 2.

### **f) Amended Standard Condition E12-C4 - Appointment of Compliance Officer**

Amended Standard Condition E12-C4 requires that:

1. The licensee shall, following consultation with the Authority, appoint and at all times engage a competent person (who shall be known as the "Compliance Officer") for the purpose of facilitating compliance by the licensee with this condition and with standard condition E6 (Prohibition of Cross-subsidies), standard condition E7 (Restriction on Activity and Financial Ring Fencing), amended standard condition E12 - C1 (Conduct of the Transmission Business) and

amended standard condition E12 - C2 (Separation and Independence of the Transmission Business) and amended standard condition E12 - C3 (Restriction on use of certain information) (the “relevant duties”).

2. The licensee shall ensure that the Compliance Officer is not engaged in the management or operation of the licensee’s transmission system or the activities of any associated business.
3. The licensee shall establish a compliance committee (being a committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the Compliance Officer and the compliance of the licensee with its relevant duties.
4. The licensee shall procure that the Compliance Officer is provided with such resources and access as he or she might reasonably expect to require for the fulfilment of the duties and tasks assigned to him or her.
5. The licensee shall make available to the Compliance Officer a copy of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the relevant duties.
6. The duties and tasks assigned to the Compliance Officer shall include providing relevant advice and information to the licensee and monitoring the effectiveness of the practices, procedures and systems adopted by the licensee and reporting thereon.
7. As soon as is reasonably practicable following each annual report of the compliance officer, the licensee shall produce a report in a form approved by the Authority as to its compliance during the relevant year with the relevant duties and to its implementation of the practices, procedures and systems adopted in accordance with the business separation statement. The report produced by the licensee in accordance with paragraph 8 of Amended Standard Condition E12-C4 shall:
  - (a) detail the activities of the Compliance Officer during the relevant year;
  - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the business separation statement;
  - (c) set out the details of any investigations conducted by the compliance officer; and
  - (d) be accompanied by a certificate, approved by a resolution of the board of directors of the licensee and signed by a director pursuant to that resolution, on the degree to which the licensee has achieved compliance with its relevant duties and that the report of the compliance officer fairly presents the licensee’s compliance with its relevant duties.
8. The licensee shall, as soon as reasonably practicable, submit to the Authority a copy of the report produced in accordance with paragraph 8 of this condition along with any supporting information and the licensee shall also publish a copy of the report on its website.

Lisa Woolhouse of Jacobs Engineering had been employed as Compliance Officer for TC Lincs OFTO Limited during the period covering this report. Miss Woolhouse is an accomplished senior manager with over 20 years’ experience of regulated licensed utility business management and energy markets.

The Compliance Officer is not engaged by the licensee on any activities other than those described in this Amended Standard Condition E12-C4.

The licensee has established a compliance committee which meets quarterly.

The Compliance Officer has been provided with such resources and access as she might reasonably expect to require for the fulfilment of the duties and tasks assigned to her, including:



- Face-to-face meetings with relevant staff;
- Attendance at compliance committee meetings; and
- Copies of the licensee's license, contracts, board minutes and other documentation.

There have been no complaints covered by paragraph 5 above in the period to which this report relates.

The Compliance Officer's activities in the period covered by this compliance report are summarised in the following table:

<b>Key Activities</b>	<b>Work carried out</b>
Advice and information	For the preparation of: <ul style="list-style-type: none"> <li>■ Compliance Statement</li> <li>■ Code of Conduct</li> <li>■ Complaints procedure</li> <li>■ Annual Compliance Reporting</li> <li>■ Ongoing Compliance Monitoring</li> </ul>
Compliance Committee Meetings held on 22 <sup>nd</sup> May 2014, 29 <sup>th</sup> July 2014, 13 <sup>th</sup> November 2014, and 13 <sup>th</sup> March 2015	Attendance and monitoring of controls and governance arrangements necessary to comply with license conditions and monitor procedures and practices described within the compliance statement. The Compliance Officer attended meetings in May and November only as on the remaining two occasions there were no matters to report.
Auditing Controls and Governance Arrangements	Annual audit of the implementation of the controls and governance arrangements as described within the compliance statement, including conditions E6 (Prohibition of Cross-Subsidies), E7 (Restriction on Activity & Ring Fencing), E12 – C1 (Conduct of the Transmission Business), E12-C2 (Separation and Independence of the Transmission Business) and E12-C3 (Restriction on use of certain information) (see section 2 above for the conclusions of this annual audit).
Annual reporting	Reporting to the Compliance Committee Meeting and OFTO Boards as to activities during the period and fulfilment of other tasks assigned.

This document is the report referred to in paragraph 7 above.

#### Certificate of Compliance

A Certificate of Compliance approved by a resolution of the board of directors of the licensee and signed by a director pursuant to that resolution, on the degree to which the licensee has achieved compliance with its relevant duties and that the report of the compliance officer fairly presents the licensee's compliance with its relevant duties, is attached as Appendix A.

### **3. Who to contact for more info**

For further information in respect of this Compliance Report please Email Dominik Adamus (dominik.adamus@transmissioninvestment.com).