

DSO Compliance Report 2009

ESB Networks Ltd

31st March 2010

Introduction

ESB Networks Ltd was vested as Distribution System Operator (DSO) on 1st January 2009 in accordance with the European Communities Regulations 2008 (S.I. 280 of 2008). ESB Networks Ltd subsequently prepared a Compliance Programme in accordance with Regulation 11 of S.I. 280. The Compliance Programme was approved by the CER in December 2009.

This Report outlines the activities undertaken by ESB Networks Ltd in relation to the implementation of the Compliance Programme during 2009.

Statutory and Licence Obligations

Regulation 12(1) of S.I. 280 of 2008 provides that within three months after the date of each anniversary on which it was established, the DSO shall prepare a compliance report about the implementation of its compliance programme during the twelve months ending on that date and shall submit it to CER for approval. The first such Report falls due therefore on 31st March 2010 and annually thereafter.

Condition 18 of the DSO Licence also requires the DSO to report to the Commission on the effectiveness of the practices, procedures and systems implemented by the Licensee under the Compliance Programme.

This Compliance Report addresses the requirements of both the Statutory Instrument and the Licence as outlined. This time-line for Reporting has been agreed with CER.

2009 Compliance Activity Overview

As 2009 was the first year of the operation of ESB Networks Ltd as DSO under the provision of SI 280, there was a significant amount of activity in developing and implementing the Compliance Programme. The following is a summary of the actions taken under the main areas.

1. Compliance Officer

- Condition 18 of the DSO Licence provides that the DSO shall appoint a Compliance Officer to monitor compliance with the Compliance Programme. The DSO Board appointed Mr Paul Stapleton Compliance Officer on 20th April 2009. The Compliance Officer reports to the Board of ESB Networks Ltd on compliance issues.

2. Management/Organisation Separation

- ESB Networks Ltd has its own Board operating independently of ESB in discharging the responsibilities of the Company as DSO. Two independent directors (Ms Gina Quin and Mr Des Geraghty) were appointed to the Board of ESB Networks Ltd with effect from 1st February 2009.
- The Directors of ESB Networks Ltd and the Senior Management Team have no day-to-day involvement in the management or operations of any ESB generation or supply businesses. The Senior Management Team report to the Managing Director of ESB Networks Ltd.
- The Compliance Officer has reviewed the performance targets for the Managing Director and Senior Management Team and is satisfied they relate solely to the performance of ESB Networks and are not linked in any way to the performance of ESB's supply or generation businesses.
- In accordance with Condition 32 of the DSO Licence, a Certificate of Resources was approved by resolution of the Board of ESB Networks Ltd on the 14th December 2009 confirming that the DSO has sufficient resources and financial facilities to enable the DSO carry on the Distribution Business for twelve months from the date of the Certificate. The Certificate was submitted to CER on 13th January 2010.
- ESB Networks Ltd and ESB continue to operate at arms length on the basis of an Operating Agreement and Personnel Agreement approved by CER.

3. Compliance Code of Conduct

- The Compliance Code of Conduct originally developed in 2002 to support separation of the Distribution business, has been recently revised and updated to reflect the further legal unbundling of the DSO and the establishment of ESB Networks Ltd. The revised Code which has been submitted to CER for approval applies to all ESB Networks staff, staff in other ESB business areas who procure services from, or on behalf of, ESB Networks and staff that carry out ESB corporate duties in relation to ESB Networks.
- The Code sets out the obligations of staff to ensure that no supplier or generator, including ESB's own supply and generation businesses gains a commercial advantage as a result of unfair discrimination, or access to confidential or commercially sensitive information relating to ESB Networks.
- The Code sets out the principles that ESB Networks staff must adhere to in carrying out their day to day duties and in particular covers:

- Confidential and Commercially Sensitive Information
- Restrictions on the transfer of information
- Staff Transfers
- Restrictions on access to premises and information systems
- Non- Discrimination

4. Staff Transfers

- The Senior Management team of ESB Networks Business unit was transferred to ESB Networks Ltd in accordance with the transfer plan and agreements have been put in place in respect of this transfer.
- Staff Transfer Business Separation Guidelines were revised and implemented within the ESB Networks HR process. In all cases where a staff member from ESB Networks is transferring to a different part of ESB Group, the transfer arrangements require that:
 - the staff member's IT access is revised,
 - the staff member does not bring commercially sensitive information in electronic or hard copy format to the new position,
 - commercially sensitive information is not subsequently disclosed.

The process is administered and monitored by the HR Shared Services function.

- The position of Managing Director of ESB Networks Ltd changed twice during the previous 15 months. In both instances, their secondment agreements were terminated and the procedures set out in the Staff Transfer Business Separation Guidelines and the Code of Compliance were fully implemented. This involved inter alia revoking IT access, the return of keys and access cards and obtaining confirmation that commercially sensitive information would not be brought to the new position.

5. Separate Accounts

- The separation of the accounts (including financial accounting system ledgers and Bank Accounts) of ESB Networks Ltd was completed in early 2009. ESB Networks Ltd continues to have separate bank accounts to which income received is lodged and from which payments are made.
- The Regulatory Accounts for ESB Networks Ltd for 2009 have been prepared and audited and will be submitted to CER in April 2010.

6. Compliance Activity Programme

- The DSO Compliance Programme included a Compliance Activity Programme whereby the person responsible for the relevant area in the Networks business is required to sign off on an annual basis that the necessary measures and controls have been put in place to ensure compliance with Licence requirements. The key areas for which this applies in the Compliance Activity Programme were:
 - Premises Separation
 - National Customer Contact Centre
 - IT Separation
 - Accounts
 - Staff Briefing and Training
 - Staff Transfers
 - Connections to the Distribution System
 - Wind Generation Connections
 - Metering and Data Services
 - Services carried out at supplier request
 - Regulatory
 - Legal
- The Compliance Officer has received a signed sign-off sheet from the manager of each of these relevant areas confirming compliance with the DSO Licence obligations. No material compliance breaches were identified in this process. [Copies of the sign-off sheets are available to CER on request]. A number of these areas were independently tested on behalf of the Compliance Officer.
- In addition, the Compliance Officer engaged ESB Group Internal Audit to undertake a comprehensive review of compliance procedures. The auditors' findings are set out in Section 9 below.

7. Review of Confidentiality Arrangements

- In 2009 the Compliance Officer carried out a review of the confidentiality arrangements in place in MRSO, DUoS (Distribution Use of System) Billing and Retail Market Design service (RMDS). The Compliance Officer was satisfied that appropriate measures have been taken in these areas to ensure the confidentiality of commercially sensitive information.

8. Management and Staff Communications

- A presentation on DSO Licence requirements was made to the Board of ESB Networks Ltd in April 2009 and a presentation on the compliance programme was made to the DSO Board in June 2009

- The Senior Management Team of ESB Networks has also been fully briefed on compliance requirements.
- Staff have been briefed in relation to the confidentiality and business separation requirements set out in the DSO Licence.
- Staff have also been fully briefed in relation to the requirement of non-discrimination set out in Condition 12 of the DSO Licence.

9. Audits

- ESB Group Internal Audit carried out an audit of ESB Networks Ltd in September 2009. The Group Internal Auditor reported that there is an effective level of compliance by ESB Networks Ltd with the relevant Ministerial and Regulatory consents and with the governance arrangements approved by ESB Board.
- No breaches were identified and it was noted that all legal documents and key arrangements as required under S.I. 280 of 2008 and by CER are in place. [A copy of the Audit Report is available to CER on request].

Summary/Conclusion

ESB Networks Ltd has undertaken a very significant programme during 2009 to establish and maintain an effective Compliance Framework to ensure adherence to and compliance with the requirements of S.I. 280 of 2008 and the DSO License in relation to non-discrimination and independent operation of the DSO and the Separation of the Distribution Business.

I am satisfied that the Framework established is comprehensive, is operating effectively and has been adequately tested and reviewed. No material compliance breaches have been identified.

This Compliance Report is submitted for Approval of the Commission.

Paul Stapleton
Compliance Officer
ESB Networks Ltd.

31st March 2010