

**Gas
Networks
Ireland**

Licence Compliance Framework

Final

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Licence Compliance Framework

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1. Introduction

Gas Networks Ireland (GNI) was established under the Gas Regulation Act 2013 as a subsidiary of Ervia. GNI is responsible for operating, maintaining and developing the Irish natural gas transmission and distribution systems.

This document describes the compliance environment in which GNI operates, including the various regulatory obligations placed upon the company, and the compliance framework it has established in order to comply with these obligations.

GNI and its subsidiary, GNI (UK), are holders of a number of licences from the regulatory authorities; the Commission for Regulation of Utilities (CRU) in Ireland, the Utility Regulator (UR) in Northern Ireland and Ofgem in the UK. The purpose of the framework is to ensure that GNI and GNI (UK) have internal processes and procedures in place to meet the requirements of the licences which are listed below.

- GNI is the holder of the following CRU Licences¹:
 1. Transmission System Operator Licence;
 2. Transmission System Owner Licence;
 3. Distribution System Operator Licence; and
 4. Distribution System Owner Licence;
- GNI is the holder of an Interconnector Licence granted by Ofgem.
- GNI (UK) is the holder of a Transmission Licence for the South-North Pipeline granted by the CRU;
- GNI (UK) is the holder of a Gas Conveyance Licence in Northern Ireland granted by UR; and
- GNI (UK) is the holder of an Interconnector Licence granted by Ofgem.

The “Regulatory Authorities” (CRU; UR; and Ofgem) have placed a number of regulatory requirements on GNI and GNI (UK).

GNI and GNI (UK) must ensure that internal policies, procedures and processes are in place to ensure that both organisations can ensure and demonstrate ongoing compliance with their licence requirements.

Although compliance obligations are individual under each regulatory regime, the degree of interdependence between the GNI and GNI (UK) systems is such that the compliance of each is essential to the other.

In accordance with the specific provisions of the CRU licences a Compliance Officer is appointed by GNI. The role of the Compliance Officer is to facilitate compliance by GNI with the regulatory requirements of the CRU licences. Although there is not an explicit obligation to have a compliance officer in GNI and GNI (UK)’s licences from Ofgem and UR, this approach to compliance is considered good practice and has been adopted for the purposes of ensuring regulatory compliance.

¹ The CRU is currently merging the Transmission System Operator and Owner Licences and the Distribution System Operator and Owner Licences.

The framework has been prepared to ensure that:

- (a) the management of GNI is confident that the business is being run in a manner that ensures licence compliance;
- (b) GNI staff have guidance in discharging their roles in a manner consistent with GNI's various compliance requirements; and
- (c) there are mechanisms in place to provide evidence to the Regulatory Authorities that GNI takes its compliance obligations seriously and has a robust compliance framework in place which is geared towards achieving compliance in all of its licensed activities.

Regulatory compliance permeates all aspects of GNI's business operations. The framework is designed to provide GNI with appropriate and efficient arrangements for meeting compliance obligations. It is intended to be fit-for-purpose in design, commensurate with the requirements of the various regulatory regime requirements, and consistent with the efficient operation of the business. GNI will regularly review the framework to ensure that it continues to meet the needs of the business whilst ensuring on-going compliance. The framework will be reviewed in situations where any of the licence provisions change.

2. Licence Compliance Framework

The framework will deliver a structured means of ensuring licence compliance. The framework is designed to provide assurance to the Compliance Officer, Senior Management and ultimately the Board that GNI and GNI (UK) are fully and demonstrably compliant with its regulatory requirements across all regimes.

2.1. Ongoing Licence Compliance

The purpose of the framework is:

- (a) to meet the legal and regulatory requirements by demonstrating to the Regulatory Authorities that GNI has a robust and comprehensive framework and underlying processes in place designed to test, verify, and maintain compliance with all licence conditions;
- (b) to ensure that all GNI staff understand the requirements of the licences, their individual and collective responsibilities for compliance and how to comply with them;
- (c) to empower GNI staff to identify, anticipate, investigate, rectify and prevent any compliance breaches. The framework aims to facilitate the timely reporting of breaches and performance to the Senior Management Team, the Boards of GNI and GNI (UK) and the relevant regulatory authority as appropriate;
- (d) to ensure that licence compliance is monitored and reported on at regular intervals;
- (e) to ensure that any changes to the licences are impact assessed in terms of demonstrating compliance with the new/amended provisions; and
- (f) to demonstrate to the GNI and GNI (UK) Boards that appropriate processes and procedures have been established by GNI Management in relation to licence compliance.

The scope of the framework extends to all of GNI's and GNI (UK)'s licensed activities as defined in their licences.

2.2. Licence Compliance Framework

The GNI Compliance Framework is set out in Figure 1 and comprises six key components:

1. Establish Compliance Objectives;
2. Identify Compliance Obligations;
3. Develop Compliance Culture;
4. Develop Compliance Process;
5. Implement Compliance Process and Manage Risk; and
6. Compliance Monitoring & Reporting.



Figure 1: GNI Licence Compliance Framework

1. Compliance Objectives

The licences place a number of obligations on GNI and GNI (UK) as asset owners and system operators. These obligations relate to the safe and economic operation of the network and connection to it. The principal objectives of the framework are to ensure structured, ongoing, efficient and demonstrable compliance with each licence obligation.

2. Compliance Obligations

In developing the framework, GNI has carried out a detailed assessment of its licence conditions in order to understand clearly what is expected of it by Regulatory Authorities. For each licence condition GNI has identified the requirements of the licence condition, the associated deliverables and the department that is responsible for compliance. Licence compliance is managed through the Integrated Assurance Framework (IAF). Details of the IAF are presented in Appendix II. The Gas Market Operator for Northern Ireland (GMO NI) manages relevant licence obligations (approximately 40%) on behalf of GNI (UK) under its Gas Conveyance Licence granted by the Utility Regulator (UR).

Appendices III, IV and V provides lists of the assigned departments responsible for the reports and documents required to be prepared pursuant to the current licences. Licence Compliance Champions ensure that licence compliance is supported and achieved within their department.

3. Compliance Culture

GNI acknowledges that compliance is an on-going commitment and not simply a matter of providing one-off documentary evidence of compliance to the Regulatory Authorities. GNI believes that establishing a culture of compliance is a pre-requisite for a successful compliance framework and is central to successfully meeting its compliance obligations. The responsibility for creating a culture of compliance rests with Senior Management. The Board and Management of GNI accepts that the framework will only succeed if Senior Management actively embrace the importance of compliance and set the standard within the company for proactive compliant behaviour. GNI has ensured that licence compliance is central to the culture of the organisation through the following:

- Senior Management sets aside the time necessary to address compliance issues and actively encourages employees to question and to obtain the views of managers and the Regulatory Affairs Department on all compliance matters.
- The Board of GNI approves the appointment of a Compliance Officer in accordance with the specific provisions of the CRU licences (a Compliance Officer appointment is not required in respect of the UR and Ofgem licences). The CRU licences each contain a condition regarding the appointment of and the role and duties of the Compliance Officer.

The duties and tasks assigned to the Compliance Officer include:

- (a) providing relevant advice and information to GNI for the purpose of ensuring its compliance with the relevant duties;
 - (b) recommending and establishing practices, procedures and systems to ensure GNI's compliance with the relevant duties;
 - (c) monitoring the effectiveness of the practices, procedures and systems adopted by GNI to ensure its compliance with the relevant duties;
 - (d) investigating any complaint or representation made to the Compliance Officer;
 - (e) recommending and advising upon the remedial action, which any such investigation has demonstrated, to be necessary or desirable;
 - (f) providing relevant advice and information to GNI for the purpose of ensuring its effective implementation of:
 - (i) the practices, procedures and systems adopted by GNI to ensure its compliance with the relevant duties;
 - (ii) any remedial action recommended in accordance with sub-paragraph (d); and
 - (g) reporting annually to the board of directors of GNI in respect of each year as to the Compliance Officer's activities and GNI's compliance with the relevant duties during the period covered by the report.
- The Regulatory Affairs team has engaged with all relevant GNI Managers to ensure that GNI is compliant with the licences. Each GNI Senior Manager has identified licence compliance champions who are responsible for ensuring that licence compliance is maintained within their department.
 - Policies² have been implemented that promote compliance and commit staff to discharging their roles in a manner consistent with the licence obligations. All GNI staff are bound by a Regulatory Code of Conduct. The purpose of this code is to set out the business' approach to compliance, particularly in relation to confidential information, non-discrimination and the role of the Compliance Officer. A copy of the Regulatory Code of Conduct is attached at Appendix VI. The Regulatory Code of Conduct is highlighted to

² Ervia policies relevant to the Licence Compliance Framework Document are listed in Appendix VII

staff as part of periodic compliance training. Ervia's Code of Business Conduct for directors and managers underlines the public profile of GNI and the regulatory and public scrutiny focused on its operations. It highlights the responsibilities of those fulfilling positions of responsibility in the organisation and sets out the company's expectation that their conduct should be beyond reproach; and

- A comprehensive compliance training and awareness programme has been established and this is provided to all staff. The training programme is delivered to staff on a periodic basis, and as part of the induction programme to new staff. The training covers the following topics:
 - an overview of the purpose and reasons for regulation including an understanding of monopoly behaviour and incentives;
 - the legal framework for utility regulation in Ireland;
 - the role of CRU, Ofgem and UR including regulatory tools and enforcement powers;
 - the role of the Compliance Officer; and
 - GNI's Licence Compliance Framework and compliance processes and procedures, anti-competitive behaviour, non-discriminatory behaviour and treatment of confidential information.

4. Licence Compliance Processes

The Regulatory Affairs team engages with each department on a quarterly basis to ensure that ongoing compliance is maintained. A detailed review of the licences has led to the development of a number of compliance processes. Condition 23 of the CRU TSO licence and Condition 25 of the CRU DSO licence also require that systems, processes, and procedures are implemented in GNI in order to ensure its System Operator licences are complied with, for example:

- Prohibition of cross-subsidisation – Regulatory Affairs has a compliance monitoring role to ensure that GNI does not give any direct or indirect cross-subsidy to, or receive any direct or indirect cross-subsidy from, any other related business; and
- Prohibition of anti-competitive behaviour – GNI is required not to prevent, restrict or distort competition to any appreciable extent in any market relating to the supply, distribution, transmission or storage of natural gas. Regulatory Affairs has a compliance monitoring role in relation to this obligation.

The Licence Compliance Framework (set out in this document) is operated by the Regulatory Framework Manager and forms the basis of the Compliance Officer's Report. The framework is reviewed regularly by the Regulatory Affairs team to ensure that it continues to meet GNI's and GNI (UK)'s compliance commitments. The licences cover a broad range of technical, market-focused, regulatory and financial conditions. The Regulatory Framework Manager, the Regulatory Affairs team and the Compliance Officer work closely with other departments as appropriate in order to encourage compliance. All departments in GNI are obliged to act in compliance with the licences and to support the Compliance Officer in discharging their duties under the licences.

In operating the Licence Compliance Framework the Regulatory Framework Manager, Compliance Officer and the Regulatory Affairs team engage in managing GNI's compliance processes and procedures.

5. Licence Compliance Risk Assessment

At the outset the licences have been reviewed from a risk-based perspective in order to identify potential compliance risks. An overall risk emerging from this process has been assessed in accordance with GNI's Risk Management Framework in terms of their probability and impact. The first phase assessment has been completed for the CRU licences. Each CRU licence condition has been reviewed to meet the requirements of the Integrated Assurance Framework, the second phase assessment will incorporate the requirements in relation to the UR and Ofgem licences.

The following key risks exist:

- Reputational risk of GNI failing to comply with licence obligations;
- Risk of a regulatory penalty as a result of GNI failing to comply with licence obligations; and
- Risk of an administrative sanctions for failing to comply with CRU licence obligations.

6. Compliance Monitoring and Reporting

In monitoring compliance, the Regulatory Authorities rely largely on the utility to self-assess licence compliance and to report as required. The licences require specific regular reports on the performance of the licensee's functions as outlined in their licences. A list of all reports required pursuant to the licences is provided in Appendices III, IV and V.

GNI's compliance processes are managed by the Regulatory Affairs team which monitors compliance through the operation and oversight of these processes as part of the Licence Compliance Framework.

The Regulatory Affairs team carries out quarterly reviews of licence compliance. This review is to assess the completeness of all obligations and ensures an appropriate owner is assigned to each obligation. Compliance with each obligation is also assessed.

The IAF matrix is updated to provide a summary of this review. Details of any submissions to the Regulatory Authorities are recorded. Where a potential gap is identified a mitigating action is taken to resolve the gap. Details of relevant communications with the Regulatory Authorities are also included in the IAF matrix. Sign-off by all Heads of Department is obtained quarterly.

GNI also has a policy of reporting all material breaches to the Regulatory Authorities as soon as they become aware of them.

GNI employees are bound by a Regulatory Code of Conduct (*GNI/PD/75*) and the Ervia Employee Code of Business Conduct (*ERVIA/PD/16*). All GNI employment contracts include confidentiality provisions that are designed to prevent inappropriate disclosure of sensitive information. The Ervia Employee Code of Business Conduct makes provisions for employees to raise compliance concerns.

The Licence Compliance Framework will be reviewed on an annual basis and any changes will be reported to Senior Management.

2.3. Summary of Controls/Compliance

The key controls in ensuring licence compliance are summarised below:

1. Approach to Compliance:

- a. Detailed matrices are prepared which map specific licence conditions to identified owners within GNI.
- b. Sign off by specific departments on licence conditions as pertain to that department, with integral links to the IAF.
- c. Nominated compliance champions within each GNI department to create a culture of compliance and progress the demonstration of compliance.
- d. A signed copy of the annual Compliance Officer report is submitted to the Ervia Audit and Risk Committee in March. A copy of the report is issued to the CRU early in Q2 each year.

2. Reviews and Amendments:

- a. Quarterly reviews of these detailed matrices are undertaken.
- b. Any gaps in licence compliance are identified, and mitigating actions are undertaken to resolve the gap.
- c. Phase one has covered a detailed review of the CRU licences, the second phase involved a detailed analysis of the UR and Ofgem licences..

3. Documentation:

- a. An audit trail of key compliance documents is held by the Regulatory Affairs team. This will include the date of the most recent submission and date of approval by the Regulatory Authority (where applicable). Files are saved on the departmental shared drive and in the "compliance @gasnetworks.ie" mailbox.
- b. A key demonstration of compliance with the licence provisions is the quarterly IAF submissions by each department, which will call out the specific demonstration of adherence with licence provisions applicable to that department.

4. Training

- a. Targeted workshops take place with each department compliance champion to ensure awareness of their licence compliance requirements and their reporting responsibilities in the event of a potential non-compliance issue.
- b. General training provided to all staff periodically on licence compliance.

Figure 2 below provides an overview of GNI's Licence Compliance Framework.



Figure 2: Overview of Licence Compliance Framework

Appendix I – Links to Licences³

CRU Licences

Distribution

[Distribution System Operator Licence](#)

[Distribution System Owner Licence](#)

Transmission

[Transmission System Operator Licence](#)

[Transmission System Owner Licence](#)

[GNI \(UK\) South-North Pipeline Transmission Licence](#)

Ofgem

GNI (UK) [Interconnector Licence](#)

Note: Standard conditions 10 & 11 not in effect. They are suspended from operation in this licence

GNI [Interconnector Licence](#)

Note: Standard conditions 10 & 11 not in effect. They are suspended from operation in this licence

Utility Regulator

[Gas Conveyance Licence for GNI \(UK\) Ltd.](#)

³ Licence Links are subject to change with licence updates.

Appendix II – Overview of Integrated Assurance Framework and Licence Compliance

GNI has a responsibility under Section 10.1 of the Code of Practice for the Governance of State Bodies for ensuring that an effective system of internal control is maintained and operated.

The Integrated Assurance Forum (IAF) is a tool to manage key activities within a business area and ensure that these activities are being completed. It is evidence that business as usual activities are being delivered. It is based on the concept of a “compliance circle”.

To ensure a consistent approach across the organisation the IAF was put in place in Q3 2016. The IAF committee meets quarterly to ensure that all assurance activities and required signoffs in the organisation are co-ordinated and evidenced in a structured manner.

This culminates with the IAF, at year-end, providing assurance to the Board on the effectiveness of the controls, thereby allowing the Board to sign-off on their Compliance Statement which is a part of the Annual Report. On a quarterly basis the IAF gives the MD assurance that controls are operating effectively, if there are weakness in the internal control system flag them so that they can be addressed. Having reviewed the output from each area the MD will sign a consolidated Part A document on behalf of GNI.

This sign-off is confirming that:

- All critical processes have been identified and reported;
- Key Controls have been operated, monitored and reported for these processes;
- Any identified risks or internal audit issues have been reported in relation to these processes.

Licence compliance is monitored by using the existing IAF processes and linking key organisational activities to the obligations under the licence conditions. The sign-off process of the associated key activities is used to verify licence compliance, identify gaps and register any risks associated with licence compliance. This assists the Compliance Officer with the performance of their duties as per the Licences.

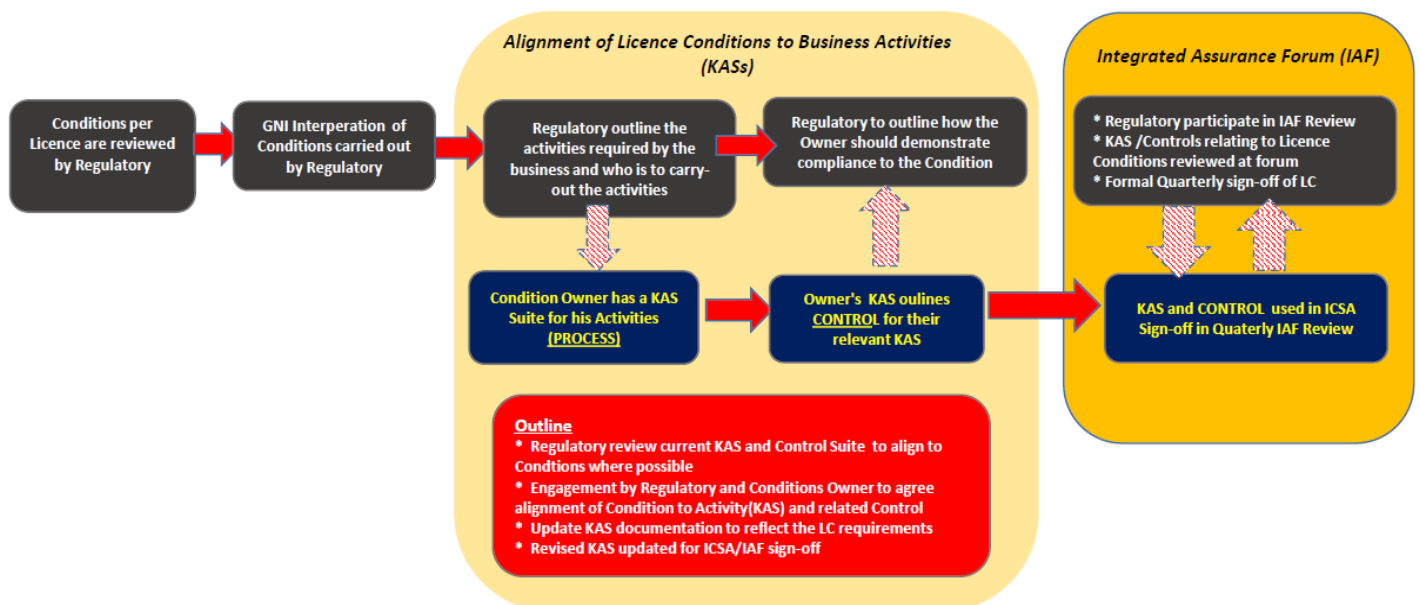


Figure 3: Overview of Integrated Assurance Framework

Appendix III – Reports/documents required pursuant to the CRU Licences

No.	Licence Condition	Report	Frequency	Responsibility⁴
TSO 3 DSO 3	General Function	As per compliance with conditions 14 (TSO), 11 (TAO), 15 (TSO), 19 (TAO), 24, (TSO), 26 (TAO), 31 (TSO), 26 (TAO), 15 (DSO), 10 (DTAO), 17 (DSO), 11 (DAO), 26 (DSO), 19 (DAO), 33 (DSO) and 26 (DAO).	Submit reports as per conditions	RA + ALL
TSO 12	Transmission System Standards	Compliance with Transmission System Standard	Annually	TC
TSO 13 TAO 9 DSO 13 DAO 9	Operating Security Standards	Compliance with Operating Security Standards	As required by CRU	Asset Ops
TSO 15 TAO 11 DSO 17 DAO 11	Safety Case	Safety Case	Updated as required	HSQ
TSO 7 TAO 5 DAO 5 DSO 7	Relevant Assets	Register of Relevant Assets	As Specified by the Commission	Asset Mgmt.
TSO 24 TAO 19 DSO 26 DAO 19	Regulatory Accounts	Annual Audited Accounts	Annually	Finance
DSO 11 TSO 11	Long Term Development Statement	Network Development Plan (NDP)	Annually	Asset Mgmt.
TSO 17 TAO 13	Transmission System Performance	Customer/Systems Performance Reports	Annually	RA
TSO 23 TAO 18 DSO 25 DAO 18	Compliance Officer	Compliance Officer's Report	Annually	RA
DSO 33 DAO 26 TSO 31 TAO 26	Environment	Environment Policy	As required by CRU	Sustainability Team
TSO 21 TAO 16 DSO 23 DAO 16	Records and Reporting	conditions 8 (DSO), 7 (DAO)(Revenue protection), 9 (GPRO), 10 (Provision of Metering Services), 15 (DSO), 10 (DAO)(NGEM) 19 (DSO), 13 (DAO)(Overall Standards of performance as DSO) and 21 (Customer service code and complaints handling procedure) conditions 8 (TSO), 7 (TAO) (Revenue protection), 9 (GPRO), 10 (Provision of Metering Services), 14 (TSO), 10 (TAO) (NGEM) 17 (TSO), 13 (TAO) (Overall Standards of performance as TSO) and 19 (Customer service code and complaints handling procedure).	Submit reports as per conditions	RA

⁴ Regulatory Affairs (RA), Technical Competency (TC), Management (Mgmt.), Operations (Ops.)

TSO 29 TAO25 DAO 24 DSO 31	Code of Operations	Code of Operations	Updated as required	RA
TSO 10 DSO 10	Provision of Meter Data Services	Code of Practice for Metering and Data Services		RA
DAO 10	Natural Gas Emergency Plan	Compliance with directions from the National Gas Emergency Manager	Updated as required	Asset Ops
DSO12	Distribution System Standards	Compliance with Distribution System Standards	Annually	TC
DSO 19 DAO 13	Distribution System Performance	Customer/Systems Performance Report	Annually	RA

Appendix IV – Reports/documents required pursuant to the Ofgem Licences

No.	Licence Condition	Report/Document	Frequency	Responsibility⁵
Ofgem 3	Compliance with bilateral agreements	Bilateral agreements and any amendments to these agreements, must be provided by the licensee to Ofgem for its approval	Updated as required.	RA
Ofgem 4	Provision of information to the Authority	Submit such adhoc information and reports, as Ofgem may reasonably require	As required by Ofgem	RA + ALL
Ofgem 6	Separation of accounts	Annual audited accounts	Annually	Finance
Ofgem 11A	Approval of terms for access to the licensee's interconnector	Submit for approval by Ofgem a statement, setting out the access rules for access to the interconnector	Updated as required	RA
Ofgem 13	Capacity availability	Publish on website open, transparent and non-discriminatory capacity allocation mechanisms	Updated as required	RA

⁵ Regulatory Affairs (RA)

Appendix V – Reports/documents required pursuant to the UR Licence⁶

No.	Licence Condition	Report/Document	Frequency	Responsibility⁷
UR 1.2	Separate Accounts for Separate Business	Annual audited accounts	Annually	Finance
UR 1.3	Provision of information to the Authority	Submit such adhoc information and reports, as UR may reasonably require	As required by UR	RA + ALL
UR 2.2	Conveyance Charges, Other Terms for the Conveyance of Gas and the Provision of Conveyance Services	Provide UR with documentation to assist with calculation of annual conveyance charges including but not limited to the calculation of Forecast Required Revenue for the next Gas Year; the Actual Controllable Operating Expenditure for the previous Gas Year	Annually	Finance

⁶ In certain circumstances, such requests are delivered to UR via the Gas Market Operator for Northern Ireland (GMO NI). GMO NI has its own licence compliance framework – *GMO NI Compliance Governance Procedure*.

⁷ Regulatory Affairs (RA)

Appendix VI – Regulatory Code of Conduct

Supporting GNI to comply with its licences' obligations, the Regulatory Code of Conduct guides on key elements including business separation, non-discriminatory practices, anti-competitive behaviour and the prohibition of subsidisation across business units.

See the Regulatory Code of Conduct [here](#)

Appendix VII –Ervia Policy Documents relevant to the Licence Compliance Framework

PD/9 Protected Disclosure Policy

PD/16 Employee Code of Business Conduct

PD/32 Disclosure of Information

PD/82 IT Acceptable Usage

PD/18 Disposal of Assets

PD/79 Competition Code of Conduct

PD/45 Incident Reporting