

## Corporate Responsibility Procedure E/S-5

# Corporate Responsibility Reporting Principles

### Document change control

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## 1 Purpose

The purpose of this document is to set out the basis for preparation of the Corporate Responsibility Information (CRI) of the Operating and Financial Review with the Annual Report (the Report). This document formalises existing reporting principles which have been in place in prior years. It focuses on key reporting principles and practices; it is not intended to provide prescriptive or exhaustive guidance.

This document will be managed as a controlled document. It sets out:

- An explanation of the scope of CR
- Reporting boundaries
- How material corporate responsibility (CR) issues are identified;
- How acquisitions are treated for the purposes of CR reporting;
- How CRI (text and data) is authored and controlled;
- Preferences in terms of the use of international / national reporting protocols, standards and conversion factors; and,
- Company specific definitions and determinations

## 2 Corporate Responsibility scope

For the purposes of these Principles, Corporate Responsibility will be taken to include:

- Public, occupational and process safety
- Occupational health
- Environmental management, including climate change and electric and magnetic fields
- Human resources
- Business ethics and human rights
- Social policy and community investment

## 3 Reporting boundaries

The scope of CR reporting shall include all wholly-owned subsidiary companies and Joint Ventures where material to the corporate responsibility performance of the Company.

For reporting treatment of acquisitions and disposals, see section 4.

The reporting period shall be 1 April to 31 March. Material exceptions to this relate to certain greenhouse gas emission source data, specifically:

1. methane emissions for UK and US gas distribution networks ('gas year' as defined by regulation); and,
2. UK gas transmission system gas-fuelled compressors (Calendar year).

#### **4. Treatment of acquisitions and disposals**

Recognising that any acquired company is likely to use different definitions and reporting processes with respect to corporate responsibility performance data, these data will not be aggregated with legacy data until after the first full year of ownership (e.g. if the company is acquired in September 2008, aggregated data will not be reported until the end of the 2009/10 reporting year).

However, where practicable, National Grid's CR- related Key Performance Indicators shall include performance data relating to acquired companies in a disaggregated form. Exceptions to this rule, which will be fully disclosed in the Report, are where:

- There are restrictions in preventing the collection and integration of data (e.g. incompatible or missing data);
- It is not possible to verify the completeness and accuracy of these data; or,
- The acquisition occurs within the last quarter of the reporting year.

In the event of a disposal, where practical, the previous years' aggregated performance data shall be represented in the Report to identify the contribution made to the total by the disposed company together with when reporting ceased. Where practical, data for a disposed company will be reported up to the date of sale.

#### **5 Determination of material issues for reporting**

Prior to the commencement of the annual reporting cycle (currently December each year), a review of CR-related subject areas shall be carried out to determine the material CR issues to be included in the Report.

The review shall consider:

- The Company Risk Register
- Matters taken by the Board Risk & Responsibility Committee during the preceding year
- Any changes in regulation in respect to public reporting
- Discussion with CR analysts held during the preceding year
- Changes in reporting requirements of CR benchmarks and ratings (e.g. DJSI / FTSE4Good)
- Developing best practice in CR reporting

Where a change in the issues to be reported (or the manner in which they are reported, for example a change in regulation in respect to reporting) is identified, this shall be communicated to the Board Risk & Responsibility Committee.

## 6 Reporting of SHE issues

It is our intention for controls over the reporting of CR information to take into account generally recognised frameworks for control design and implementation (for example the COSO framework).

The Company has established controls and reporting processes by which SHE matters identified by operational management are reported to the Executive and Risk & Responsibility Committees. This process is set out in Appendix i.

## 7 Content authoring and control

CR related activities across the Company are managed by a number of corporate- or/or business-level functions, as set out below;

<b>Subject area</b>	<b>Functional responsibility</b>
Public, occupational and process safety  Occupational Health  Environmental management, excluding climate change and contaminated land.	UK and US Safety, Health, Environment and Security (SHES)
Climate change, contaminated land, social policy and community investment, human rights and generic CR statements	Corporate Affairs
Electric and Magnetic fields	UK Asset Management
Human resources	Corporate Human Resources
Business ethics	Company Secretariat

Functions responsible for CR activities shall be responsible for preparing Corporate Responsibility Information (text and data) relating to their area for inclusion in the Report. The Functions shall also be responsible for completeness and accuracy as well as for providing verification evidence for said information.

The Head of Function of each function providing Corporate Responsibility Information shall provide a written statement to the Head of Climate Change and Corporate Responsibility confirming the completeness and accuracy of

said information prior to formal approval of the Annual Report and Accounts by the Audit Committee.

Confirmation that the CR-related content has been verified and approved by the relevant Heads of Function shall be communicated to the Disclosure Committee.

## 8 Reporting of greenhouse gas emissions and use of conversion factors

The World Resources Institute Greenhouse Gas Reporting Protocol - a Corporate Accounting Reporting Standard (March 2004, revised) shall be used as the basis for reporting the Company's greenhouse gas emissions. Details of how National Grid interprets the treatment of electricity transmission and distribution network losses are set out in appendix ii below.

Where internationally recognised greenhouse gas emission conversion factors do not exist, or where conversion factors vary between countries of operation, UK conversion factors shall be adopted except where the use of those relating to other countries provides for greater accuracy or is necessary to comply with local regulatory reporting requirements (e.g. electricity kWh to CO<sub>2</sub> emissions conversion factors depend on generation mix and may vary between countries).

The baseline used for calculating the percentage reduction in greenhouse gas emissions shall be reviewed and revised each year to take into account any acquisitions and disposals. The detail of any changes shall be recorded and presented in the climate change section on the Company website. This shall include:

- 1) Policy in terms of baseline "years" and basis for selection of the baseline;
- 2) Recalculation policy including:
  - a. Any significant threshold applied
  - b. Recalculation in response to structural change (e.g. acquisitions and disposals)
  - c. Changes in calculations methodology or improvements in accuracy of factors applied
  - d. Discovery of significant errors

Note: We do not report all the required information specified in the WRI Corporate Accounting and Reporting Standard in the Report. All required information shall be reported on our website.

## 9 Company specific definitions

The following are Company specific definitions:

**Lost Time Injuries:** An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time

off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of the Company's premises, plant or activities, which was reported to the supervisor at the time and subject to appropriate investigation.

**Employee Lost Time Injury Frequency Rate:** The number of lost time injuries statistically an employee will sustain during his or her working life. Working life is taken to be 100,000 hours.

**Significant Environmental Incidents:** An incident that results in or may result in significant environmental damage, there is potential for the company to be prosecuted by a regulatory body and/or is likely to lead to adverse public perception. (Definition is equivalent to UK Environment Agency 'Category 1' incident)

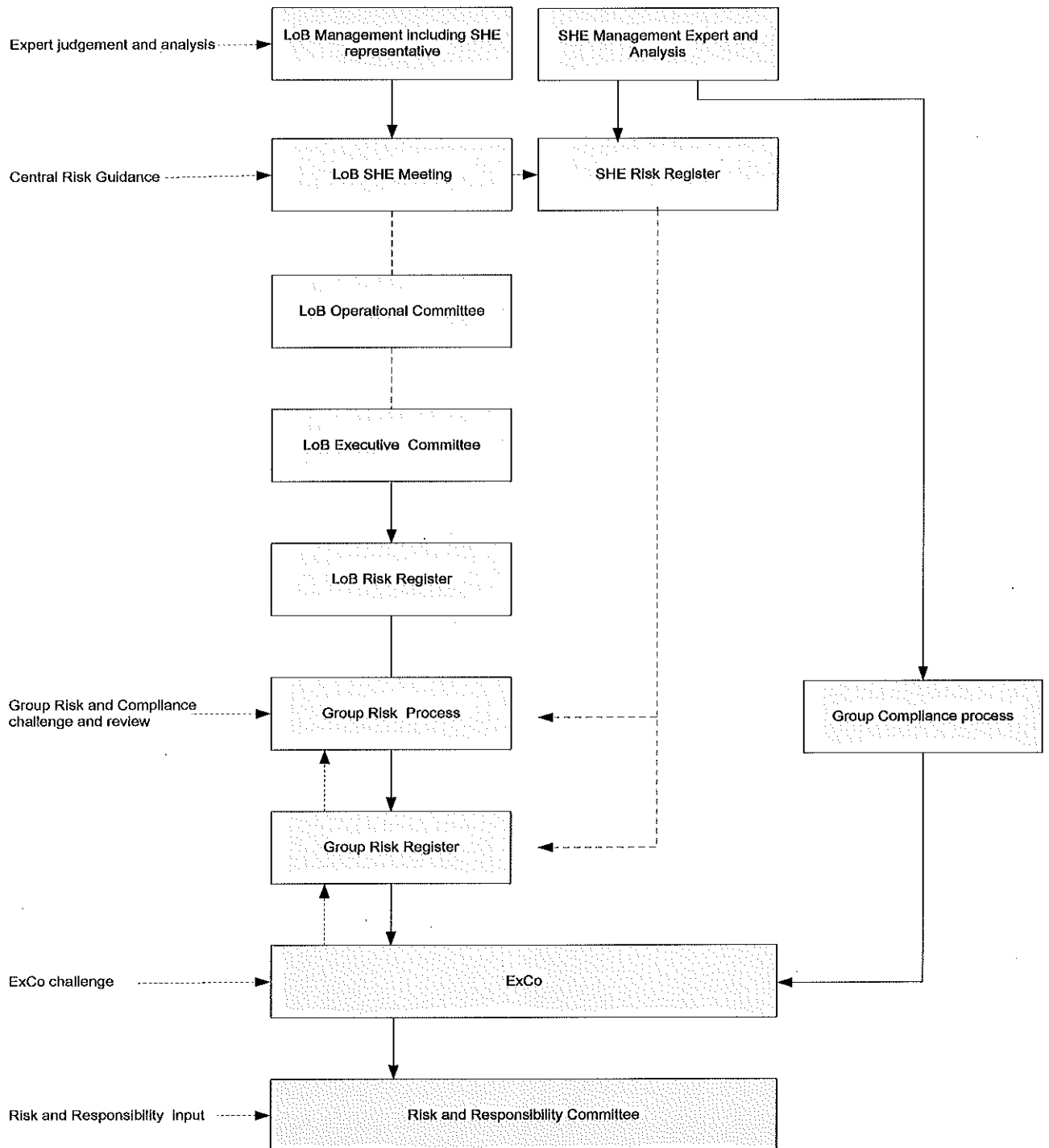
# Appendix i

## SHE Issue reporting process

### Supporting guidance/ Process

### Procedure Steps

The diagram shows the process employed for reporting of material SHE matters, identified by Operational Management, to the ExCo and Risk and Responsibility Committee



**Rationale for the treatment of electricity transmission and distribution losses for the purpose of greenhouse gas emission public reporting.**

**Background**

The World Resources Institute, Greenhouse Gas Reporting Protocol's Corporate Accounting and Reporting Standard, Revised Edition, March 2004 ("the standard") recommends that greenhouse gases are reported in three 'scopes' (Scope 1, Scope 2 and Scope 3). These scopes are defined on page 25 of the standard as follows:

***"Scope 1: Direct GHG emissions***

*Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment. Direct CO<sub>2</sub> emissions from the combustion of biomass shall not be included in scope 1 but reported separately (see chapter 9). GHG emissions not covered by the Kyoto Protocol, e.g. CFCs, NO<sub>x</sub>, etc. shall not be included in scope 1 but may be reported separately (see chapter 9).*

***Scope 2: Electricity indirect GHG emissions***

*Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated.*

***Scope 3: Other indirect GHG emissions***

*Scope 3 is an optional reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services."*

By its very nature, the standard is generic. It sets out to provide guidance to all industrial sectors on a global basis. Management are responsible for applying judgement to interpret the standard and therefore we need to apply judgement to classify National Grid's own emissions between scope 1, 2 and 3. Some sector guidance is provided, however, the standard does not take into account (or provide by example) the various ownership structures relevant to National Grid.

The standard states that GHG accounting and reporting shall be based on the following principles: relevance, completeness, consistency, transparency and accuracy. These principles are intended to underpin all aspects of GHG accounting and reporting, and in particular to guide the implementation of the

standard when the application of the standards to specific issues or situations is ambiguous.

The key area of our interpretation relates to the classification of emissions related to losses on our electricity transmission and distribution networks. Our interpretation, with its supporting basis, is provided below, with explanation of the resulting reporting treatment. Relevant contextual information is provided to assist understanding of the rationale.

### **National Grid's electricity transmission and distribution (T&D) networks**

National Grid owns and/or operates electricity T&D networks in both the UK and US, and these can be summarised as follows:

**UK:** National Grid owns and operates the electricity transmission network in England and Wales. It does not generate, purchase for sale or supply electricity.

**US (Networks acquired with KeySpan):** National Grid manages on behalf of the Long Island Power Authority (LIPA) the electricity networks on Long Island. It also owns generation plant on Long Island (100% of output is contracted to LIPA), but the fuel (natural gas and oil) for these is purchased by LIPA. National Grid does not own the electricity generated or transmitted across the LIPA network.

**US (excluding KeySpan):** National Grid owns and operates electricity transmission and distribution networks in several New England states. In contrast to the previous two ownership structures, National Grid is obligated by regulation to purchase and supply some of the electricity transmitted across its network in its role as "supplier of last resort". However, it does not derive any profit from this supply business – the cost of the electricity purchases being treated as a pass through cost.

### **Classification of the indirect electricity greenhouse gas emissions resulting from losses on the electricity T&D networks**

The standard states, "Consistent with the Scope 2 definition, emissions from the generation of purchased electricity that is consumed during transmission and distribution are reported in scope 2 by the company that owns or controls the T&D operation" (page 27). We believe that, in substance, the standard is seeking to focus reporting on those emissions that the company has ability to control.

It also states that, "An important aspect of relevance is the selection of an appropriate inventory boundary that reflects the substance and economic reality of the company's business relationships, not merely its legal form. The choice of the inventory boundary is dependent on the characteristics of the company, the intended purpose of information, and the needs of the users" (page 8).

Against that context, management has classified the indirect electricity greenhouse gas emissions resulting from losses on the electricity T&D networks as Scope 3 on the following ground:

**National Grid has limited ability to control the reduction of these losses.**

The key matters impacting the extent of the T&D loss-related emissions include:

1. Type of fuel burnt in generation
2. Physical distance between source of generation and supply

National Grid's ability to influence or control these matters are as follows:

- National Grid has no control or influence over the selection of fuel burnt at these power plants in order to generate electricity.
- National Grid has either no or only limited / weak influence over the location of power plant with respect to centres of demand and thus magnitude of resistance losses (the location of which are also outside of its control).
- As the percentage of renewable generation increases, the associated greenhouse gas emissions resulting for T&D network losses decreases (recognising that the kWh losses remain the same).
- In the US, where National Grid is obliged to purchase and supply some of the electricity transmitted across its network, the regulatory requirements restrict its ability to select sources of the electricity that would help reduce losses.

Note as a comparison, National Grid also owns gas transmission and distribution networks for which we take ownership of the GHG emissions. We report the emissions related to losses on these networks as Scope 1 on the basis that:

- 'Losses' on these are associated with methane leakage from pipes and joints across the company owned networks (and not at the point of production as is the case for electricity).
- National Grid has the ability to control losses through the replacement of assets.

Further to the above points, the efficiency of the electricity T&D infrastructure has some impact on the size of the T&D loss. National Grid has control over the efficiency of owned infrastructure through asset replacement, however based on currently available technology, reductions through asset replacement would have a limited impact on loss-related emissions.

### **Reporting treatment**

We provide consolidated reporting of our Scope 1 and 2 emissions. We separately disclose the total electricity T&D losses as part of Scope 3 with an explanation of the key reasons for classification, enabling the user of the report to assess our total emissions performance.