



Scottish and Southern Energy Power Distribution Limited

Report of the AIDNO Compliance Officer

For the year ended 31 March 2021



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Introduction

Condition 42 of the electricity distribution licences of Southern Electric Power Distribution plc (“SEPD”) and Scottish Hydro Electric Power Distribution plc (“SHEPD”) and Special Conditions 2B and 2I of the electricity transmission licence of Scottish Hydro Electric Transmission plc (“SHET”) require that transmission and distribution are managed in such a way that they do not restrict, prevent or distort competition elsewhere in the energy industry and that the confidentiality of related, commercially sensitive information is maintained. Other conditions of the licences prohibit cross subsidisation between separate businesses and discrimination between suppliers by the transmission and distribution businesses, in addition to a financial ring fence. SEPD, SHEPD and SHET are managerially and operationally run under the governance of their parent company, Scottish and Southern Energy Power Distribution Limited (“SSEPD” and “the licensee”).

Independent Distribution Network Operators (IDNOs) develop, operate and maintain local electricity distribution networks. IDNO networks are directly connected to the Distribution Network Operator (DNO) networks or indirectly to the DNO via another IDNO.

On 17 October 2019, The Gas and Electricity Markets Authority (“the Authority”) introduced modifications to existing Electricity Distribution Licences, including the introduction of Standard Licence Condition 42A (“SLC 42A”). SLC 42A addresses the situation where an affiliate of an existing DNO is granted an electricity distribution licence and therefore becomes an Affiliated Independent Distribution Network Operator (“AIDNO”).

On 8 April 2020, the Authority granted an Electricity Distribution Licence to Forbury Assets Limited (“FAL”). Forbury Assets Limited is a wholly owned subsidiary of SSE Enterprise Limited and under the ultimate control of SSE plc, the same parent undertaking as SSEPD. Forbury Assets Limited is therefore an AIDNO in relation to SSEPD (specifically SEPD and SHEPD)

Under the terms of SLC 42A, the licensee (being SSEPD) must put safeguards in place in respect of activities carried out by FAL in its Distribution Services Area to:

- manage and operate SSEPD’s distribution business in such a way that does not restrict, prevent or distort competition;
- prohibit the disclosure of confidential information by SSEPD to FAL except where that information is available to other distributors on an equal basis, or it relates to a customer of FAL; and
- ensure full managerial and operational independence of the distribution business from the AIDNO.

SSEPD must also have in place a Compliance Statement approved by the Authority setting out how it complies with the SLC 42A licence requirements and manages the transfer of employees from SSEPD to FAL.

SSEPD must also appoint a sufficiently independent and competent person to act as the AIDNO Compliance Officer. The Compliance Officer must report annually to the SSEPD board on compliance with SLC 42A, with the board then reporting to the Authority on how compliance has been ensured.

MHA Henderson Loggie, Chartered Accountants, is the AIDNO Compliance Officer appointed by SSEPD. On behalf of MHA Henderson Loggie, the Compliance Officer role is led by Gavin Black (Partner).



Overall approach

We have developed a Compliance Review Programme which details the monitoring and testing we consider necessary to ensure systems, procedures and controls are dealing effectively with separation as required by SLC 42A and SSEPD's AIDNO Statement of Compliance as agreed by the Authority.

Our main contacts throughout the year at SSE have been Fiona Hannon (Head of Group Compliance and Internal Business Separation Compliance Officer (BSCO)) and John Balfour (Head of Assurance - Networks). We hold quarterly update and review meetings with the Networks Business Assurance and Group Compliance teams. Networks Regulation is also represented at these meetings to advise on any regulatory aspects or changes in licence requirements and conditions. We also present our findings annually to the SSEPD board.

Networks Business Assurance sits within the Networks business and is the principal function used by the business to ensure compliance with the business separation licence obligations. Group Compliance is a corporate function, which is independent of the Networks business.

Wherever appropriate we have utilised SSEPD and SSE resource, including the Networks Business Assurance and Group Compliance teams, as part of our review, with our role in such circumstances being to review the scope of the work undertaken, the results and conclusions reached and any remedial action taken.

The Group Compliance team has also undertaken its annual review of Networks business separation, including the AIDNO requirements, and we have placed reliance on this. There were no recommendations or observations specific to SLC 42A compliance.

Other monitoring and review work was undertaken directly by us including areas such as operational and managerial separation, staff training, data confidentiality and branding.

Our approach focuses on the AIDNO Statement of Compliance prepared by SSEPD and the requirements of SLC 42A.

Our report is structured in line with the AIDNO Statement of Compliance. It sets out the results of our review and our assessment of SSEPD's compliance with the terms of that Statement and accordingly with SLC 42A.

We have not been required to meet with the Authority this year and have not been contacted by them.



Managerial and operational independence of SSEPD

We consider there are several distinct facets which are important in achieving managerial and operational separation as required by the licences and Ofgem. These include legal and physical separation, autonomous boards with autonomous decision-making processes, appropriate contractual and service level agreements, data confidentiality and branding of the separated businesses.

FAL is operated as a separate legal entity under the SSE Enterprise division. SSE's Electricity Distribution business has always been and continues to be run entirely separate from Enterprise and any other SSE plc business areas or interests. This includes physical and systems access restrictions.

The board of SSEPD is completely independent of the boards of SSE Enterprise and FAL with no common directors. The SSEPD board has a strong mix of executive and non-executive members, including 5 non-executive directors (2 of whom are sufficiently independent as defined in the licences). The SSEPD board is supported by the Distribution Executive Committee, which includes SSEPD directors and senior management from across the Networks business. They are supported further by experienced senior Networks, legal and regulation personnel. Where FAL obtains support from corporate functions such as legal and regulation, this is provided by different individuals from those working with the Networks business.

The SSEPD board has clearly defined terms of reference and a remit which allows the SSE Group to continue to meet its corporate objectives whilst satisfying the licence requirements. In addition, the corporate governance policy has been approved by the PLC board which recognises the role of the SSEPD board and empowers it with prime responsibility for protecting the independence and confidentiality of commercially sensitive information. In this regard, the Capital Authorisation Corporate Policy continues to partially exempt SSEPD from the group's Capital Expenditure Approval Procedure to ensure confidential information is not made available to executives or staff who should not have access to it.

We have relied on the detailed work undertaken by Networks Business Assurance to confirm business separation processes and procedures are being followed. This has included detailed site security checks in the current and previous years, although due to physical access and travel restrictions arising from COVID-19, this activity has been significantly curtailed during the current year. Whilst further improvements are needed to ensure consistency of physical separation controls and practices across all sites our work has confirmed that the culture throughout the organisation relating to separation remains robust and has increased as a result of the continuing emphasis on all compliance issues throughout the Networks business and the group generally.

We monitor the effectiveness of strategic data confidentiality, autonomy of decision making of the Networks business and corporate governance issues. This involved reviewing relevant board and committee minutes and considering the operation of the decision-making process with directors and officers.

Whilst absolute separation would not be consistent with SSE's shareholder and stewardship responsibilities, systems, procedures and structures have been implemented and continue to operate to ensure the key objectives of separation have been met. In particular, the group structure has allowed effective managerial and operational independence within the group's strategic plan. Underpinning this is a philosophy whereby access to information and data is prevented where separation requires it, and we consider its implementation has been robust. Where systems enhancement or development is undertaken, separation issues are considered.

There are occasions where small numbers of non-Networks staff, including SSE Enterprise, will have access to certain parts of Networks systems as necessary for the performance of their duties, mainly in relation to the provision of services for the Networks business. In such circumstances, which are reducing over time through systems developments, we found effective procedures and systems to be in place to consider the business separation risks and ensure these are mitigated.

SSEPD's stated policy is to maintain a separate identity from other parts of SSE plc, including SSE Enterprise. SSEPD continues to operate under the brand Scottish & Southern Electricity Networks ("SSEN") and that branding continues to be effective in confirming the separation of Networks from other SSE business areas. This is reinforced in the marketplace through the branding of vehicles, sites, PPE and publications. SSE Enterprise also maintains its own brand identity which is separate from that of the Networks business.

The ongoing training of staff on confidentiality and the seriousness with which SSEPD and SSE would regard any breaches continues to ensure the underlying philosophy and approach adopted by SSE in this area is maintained. Completion of the business separation e-learning training package continues mandatory for those who have been specifically identified and this covers the separation requirements in respect of the AIDNO. This e-learning module also forms part of the induction and training programme for new starters and was updated during the year to ensure it remains fit for purpose and continues to facilitate effective training. Business separation training must be completed by all relevant Networks and Corporate personnel annually and completion statistics are monitored regularly by the Networks Business Assurance team. This ensures that training is completed, and action is taken, such as IT and physical access restrictions, where training has not been undertaken within the required timescales. As of 31 March 2021, 16% (2020: 16%) of relevant employees had not completed the training in the required timescales and further measures should be taken to bring this up to date.

SSE places particular emphasis on confidentiality clauses in contracts of employment and regularly reinforces the importance of confidentiality, clearly setting out the disciplinary process which would follow any breach. There have been no disciplinary proceedings during the year under separation, confidentiality or competition law conditions of employment.



Access to confidential information

SSEPD has procedures in place to ensure access to information specifically designated as confidential is restricted at all times.

As well as the site security checks undertaken, IT systems audits are a core part of the Networks Business Assurance programme and a sample of key Networks systems have been reviewed during the year. Where follow up actions are identified, these are agreed with the business and are followed up regularly to ensure they are addressed appropriately and timeously.

In addition, Group Compliance focuses on systems access and controls as part of their annual audit scope which provides a further layer of control to the regular work undertaken by Networks Business Assurance.

We continue to meet quarterly with the Networks Business Assurance and Group Compliance teams to ensure the improvements in monitoring controls that have been applied thus far continue in 2021/22 and that recommendations made by Group Compliance are fully embedded in the business.

There are a number of service level agreements (“SLAs”) involving the Networks business that are in place, all of which have appropriate clauses on data confidentiality. Networks Business Assurance maintain a detailed list of all SLAs and have instigated a programme to ensure that these are regularly reviewed, remain fit for purpose and have ownership clearly assigned to them. We did not identify any SLAs between SSEPD and FAL or SSE Enterprise in relation to electricity distribution.

In addition, the cross-subsidy reports prepared by EY and audited regulatory accounts have not raised any material concerns from Ofgem.



Staff transfers

Detailed procedures are in place around staff transfers from the Distribution business to the AIDNO, and to any other SSE business areas. This includes detailed consideration of potential business separation implications and ensuring any risks are mitigated with individuals being briefed and signing specifically drafted documentation to confirm their awareness of their obligations under the licence. There were no such transfers during the year under review.



Responsibility for ensuring compliance

SSE Group Compliance maintains an i-Comply portal, which houses key regulatory and legislative obligations for all of its businesses, with detailed rules being assigned to business owners. This provides a holistic view of the regulatory regime and ensures that it is centrally maintained, regularly updated and that ownership for compliance is clearly assigned.

In addition, the dedicated Business Separation SharePoint site within the SSE intranet provides access to a vast array of business separation policies, procedures and guidance material as well as information regarding assurance and monitoring activities undertaken. There is also a separate Networks Business Separation email address for raising, capturing and responding to any potential business separation related matters that may arise from time to time. This is recorded in the business separation issues log, and we are satisfied that none of the issues identified have resulted in any specific business separation problems.

In addition to the work carried out by Networks Business Assurance, there are further lines of defence in the form of Group Compliance and Group Audit. Business separation, including AIDNO compliance, is reviewed annually by Group Compliance.

The internal Business Separation Compliance Officer provides further advice to Networks Business Assurance, and to the SSEPD board who are ultimately responsible for compliance with the licence conditions, including SLC 42A.

As an independent external compliance officer, our approach brings an objective review of the practices, procedures and systems in place or planned to help ensure the conditions of SLC 42A and the AIDNO Statement of Compliance are being achieved.



Complaints

We have established a procedure with SSE's Regulation and Group Compliance teams whereby any complaints received relating to separation will be advised to us setting out the investigation work to be undertaken by SSEPD. We will review details of SSEPD's response to the complainant and any remedial action taken or proposed and we will consider if we should undertake our own investigation. Whilst there can be no guarantee that every relevant complaint would be dealt with by the Regulation or Compliance teams, we are satisfied all material complaints would be notified to them.

We have received confirmation that there have not been any complaints of a business separation nature notified to the Regulation or Compliance teams this year.



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