

Scottish Hydro Electric Transmission plc

Compliance Annual Report 2020/21

1. Introduction

This report is for the year to 31 March 2021, as required by special licence condition 2H.9 for Scottish Hydro Electric Transmission plc (SSEN Transmission).

The report summarises the licensee's compliance with the Relevant Duties and provides an update on the implementation of the practices, procedures, and systems adopted in accordance with the joint Statement of Compliance which is published on the Scottish and Southern Electricity Networks (SSEN) website. In addition, the report details the activities of the Compliance Officer throughout the year including reference to any investigative work necessarily undertaken.

As such, this report should be read in conjunction with the current Scottish and Southern Energy Power Distribution Limited (SSEPD) Statement of Compliance and the external Compliance Officer's Report 2020/21 (provided by MHA Henderson Loggie), both of which are published on the SSEN [website](#).

2. Compliance with the Relevant Duties

2.1 Review Work

SHE Transmission has demonstrated compliance with special licence condition 2H.12, Relevant Duties, through the business separation review work undertaken by the external Compliance Officer, Group Compliance, Transmission Assurance Team and Networks Business Assurance over the course of 2020/21. The Group Compliance function is independent of the operations of SHE Transmission and its parent, SSEPD, reporting directly into the General Counsel directorate (as part of Corporate Services) of the SSE Group. Networks Business Assurance was a specialist joint team within SSEPD carrying out regular assurance checks on behalf of both the Distribution and Transmission business management teams.

To facilitate greater independence in the operation of Transmission and Distribution, a decision was made to establish a separate business assurance function for Transmission. During 2020/21 the transition of business separation assurance related activity from the existing Network Business Assurance Team to the Transmission Assurance Team continued. While this transition was originally expected to fully complete in 2020/21, due to the impacts of Covid 19, the transition slowed and will now complete in 2021/22. While still providing some limited business separation advisory support and checks to Transmission, the Network Business Assurance team has now been renamed the Distribution Business Assurance team and will become solely focused on Distribution in 2021/22.

From the review work undertaken, no significant issues were identified, and overall indications are that staff are aware of the need to maintain the confidentiality of SHE Transmission information as required. In addition, there have been no reports of cross subsidy breaches between SHE Transmission and other Affiliates or Related Undertakings, as evidenced through the annual EU Cross Subsidy report prepared by SHE Transmission which is reviewed by EY using agreed upon audit procedures and sent to Ofgem.

The Compliance Officer role, as stipulated in special licence condition 2H.8, was performed during reporting year 2020/21 by the external audit firm MHA Henderson Loggie. Between April 2020 and March 2021, the external Compliance Officer has had full and open access to all staff and documentation to complete this work. Regular meetings have been held with key stakeholders from the business, Networks (now known as Distribution) Business Assurance, Networks Regulation and Group Compliance to assist the external Compliance Officer in monitoring ongoing business separation compliance. As part of his role, the external Compliance Officer has assessed the robustness of SSEPD's managerial and operational independence, systems, branding, staff

transfers, training arrangements, protection of confidential information and complaints. A summary of his assessment has been captured in the external Compliance Officer's annual report and presented to the SSEPD Board. No material issues were identified within this report, with the external Compliance Officer satisfied that SHE Transmission continues to comply with its stated business separation policy by implementing and enforcing procedures and controls commensurate with that policy. The external report also acknowledges the independent review work of Group Compliance which highlighted some observations that will be considered for 2021/22. These include: i) reviewing procedures to ensure clear distinction between the Internal and External Compliance Officer and work instructions with respect to preparing the Annual Compliance Report; ii) ensuring up to date managers and suppliers are identified in SLA documentation; iii) ensuring Information System owners are reminded of the requirement to undertake regular audits in line with the documented procedures for their systems; iv) considering how to embed Business Separation training at corporate level and v) increasing awareness of the staff transfer process.

It should be noted that the re-appointment of the external Compliance Officer is considered by the SSEPD Board every year, normally during Quarter 1 of the financial year.

2.2 Managerial and Operational Independence of SSEPD

SHE Transmission is a wholly owned subsidiary of Scottish and Southern Energy Power Distribution Limited (SSEPD), which itself is part of the SSE plc group of companies. As a result of a derogation given by the Gas & Electricity Markets Authority, SSEPD has in place a common board structure also covering Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc and separate to the main SSE plc parent company.

At the beginning of April 2021, the SSEPD board comprised six executive directors, three non-executive directors (including the chairman) and two sufficiently independent non-executive directors. Corporate governance procedures, which have been advised on by the external Compliance Officer, continue to operate between the SSEPD and SSE boards. One of the SSEPD directors (the chairman) is also a director of SSE plc, which reinforces the decision-making authority of the SSEPD board and maintains appropriate corporate governance.

SSEPD has its own management structure under which SHE Transmission staff are employed. The Managing Director of Transmission is an executive member of the SSEPD board and is responsible, along with his senior management team, for the day-to-day operation and management of the transmission business. During 2020/21, the day-to-day management of the transmission business was co-ordinated through the Transmission Executive Committee (TEC) which reported to the SSEPD Board. The TEC was responsible for ensuring every part of the transmission business operates in a safe, responsible and efficient manner, including compliance with relevant legislation and regulations. Staff are directly employed by SHE Transmission, or under contractual agreements that include confidentiality provisions.

2.3 Systems and Confidential Information

No significant system changes were implemented during the financial year. The Networks (now known as Distribution) Business Assurance team has continued to conduct business separation routine checks to ensure access controls to confidential information are being adequately applied in existing and new systems and not adversely impacted by system changes. Four IT systems access control reviews were undertaken in Transmission last year. No material issues were identified during these reviews, and this programme of regular assurance checks provides confidence in the business's ability to identify any potential access control weaknesses.

Procedures for managing access controls to Transmission premises and office areas have been maintained to ensure clarity of processes and consistency in approach, and regular assurance checking of controls applied across the business have been performed. During Covid 19 access to sites was limited to essential workers only. Site access control reviews were not undertaken as focus has been on maintaining essential services and limiting

interaction of personnel to reduce the risk of Covid being introduced to sites. Site access control reviews will recommence in 2021/22, Covid19 restrictions permitting.

The combination of these measures has ensured continued focus on business separation arrangements throughout the year, especially on access to confidential information across Networks.

2.4 Branding

Transmission currently uses the “Scottish and Southern Electricity Networks” (SSEN) branding, which also covers Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc, in its day to day operations to maintain a separate identity from other parts of SSE plc. Equipment, facilities/property, fleet, staff uniform, identity cards and stationery are clearly marked with this branding. Over the last 12 months no significant issues have been reported with branding.

2.5 Staff Transfers

A formal process for identifying and reporting key staff transfers from SHE Transmission to the Supply, Generation and other SSE businesses exists. Any transfers “of concern” (i.e. those that may impact business separation) are notified to the SSE Business Separation Compliance Officer (BSCO – see below) who may then discuss with the external Compliance Officer (MHA Henderson Loggie) and the SSEPD Board as necessary. During 2020/21, there were no transfers of concern in relation to SHE Transmission reported to the BSCO.

3. Breach Reporting and Complaints

In accordance with internal practices and procedures, any business separation breaches and complaints of this nature are required to be directed to the internal BSCO, who works in conjunction with the external Compliance Officer in providing advice to networks operations on business separation. During 2020/21, no material reports relating to breaches or complaints for SHE Transmission were received by the BSCO.

4. Staff Training

Networks Business Separation training continues to be provided via an e-learning module which sits on the SSE Group training platform and is rolled out to all SHE Transmission staff, including new starts and any relevant contractors. In addition, due to the importance of business separation across the SSE Group, most Corporate staff and senior management from other SSE businesses are required to undertake the training. This approach ensures a high level of staff awareness and understanding of business separation requirements. During the year the e-learning module was reviewed and revised to make the information more accessible to those completing it. The completion of this training is mandatory for key personnel and its uptake is monitored and reported to management. To ensure ongoing compliance, relevant staff are required to undertake regular training, normally each financial year. The Transmission Business Controls team monitor and report on the status of staff training on Business Separation to Networks senior management, including the Transmission Executive Committee.

The above training is supported by formal procedural documents which provide detailed guidance to Transmission staff on the required processes for managing access to IT systems and premises related to Networks, handling staff transfers, raising business separation queries and reporting potential breaches to the BSCO. These procedures have been reviewed, updated and extended in places to facilitate staff understanding and ensure appropriate action is taken in the event of any business separation issue. A dedicated, internal Transmission mailbox is in operation to facilitate the management of queries and reporting of potential issues

by staff. Overall, the above measures ensure there is a continued focus on maintaining business separation awareness and required arrangements throughout the year.

The business continues to utilise an internal application (known as i-Comply) which captures key regulatory and legislative obligations applicable to SSEPD business operations in a single system. This system is designed to assist managers and staff in their understanding of key rules, including business separation requirements, via rule content summaries, the identification of affected business areas and allocation of business owners to each rule. Further development of the i-Comply application was carried out during 2020/21 to enhance its usability and functionality for business users and to ensure change is tracked to completion.

5. Contact

Queries relating to this report should be addressed to:

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