Restriction on use of certain information and independence of the Distribution and Transmission Businesses
Compliance Report 2010/11

Introduction

This report is for the year to March 2011, as required by Condition 43 of the standard distribution licences of:

Southern Electric Power Distribution plc (SEPD), and
Scottish Hydro Electric Power Distribution plc (SHEPD)

and by Special Condition E of the Transmission Licence of:

Scottish Hydro Electric Transmission Ltd (SHETL).

as to compliance with the licence requirements on the restriction on use of certain information and independence of the distribution and transmission businesses ("Compliance").

SSE Power Distribution is a trading name of SEPD, SHEPD and SHETL, part of the Scottish and Southern Energy plc (SSE) group of companies.

Henderson Loggie continued to be appointed as Compliance Officer for 2010/11 and have been re-appointed for 2011/12.

Legal separation and governance

SSE Power Distribution has published a Statement of Compliance, as required by the distribution and transmission licences. This can be found on the SSE Power Distribution website:

www.ssepd.co.uk.

SSE Power Distribution has a separate Board of Directors. Corporate governance procedures, which have been advised on by the Compliance Officer, continue in place between the SSE Power Distribution Board and the SSE Board. Two of the SSE Power Distribution Directors are also SSE Directors, which reinforces the decision-making authority of the SSE Power Distribution Board and maintains appropriate corporate governance.

SSE Power Distribution has its own management structure. SSE energy systems staff are employed by SSE Power Distribution.
Responsibility and monitoring

The SSE Power Distribution Board has overall responsibility for Compliance.

It is the responsibility of managers to ensure Compliance within their own business areas, in accordance with SSE policy. Business processes are designed to ensure Compliance by staff in the normal course of their duties. Monitoring of these processes is carried out internally by the SSE Internal Audit department, in liaison with the Head of Regulation, Networks.

During the year SSE Power Distribution has worked closely with the Compliance Officer, appointed in accordance with the requirements of the licences. The Compliance Officer’s work during the year was to monitor the ongoing effectiveness of procedures and systems with regard to Compliance, and Internal Audit is utilised in carrying out this role.

The Compliance Officer has full and open access to all staff and documentation. There have been regular visits and meetings with the Compliance Officer during the year to monitor ongoing Compliance. The Compliance Officer's report to the Directors of SSE Power Distribution, as required by the Licences, is attached to this report.

New or modified systems

There have been no new, or modifications to, IT systems where there has been any need to take into account Compliance considerations.

Staff training and movements

Staff transfers from SSE Power Distribution to the supply and generation businesses, where there is a Compliance implication, are discussed with the Compliance Officer.

During 2010/11, a senior staff member within the transmission business was offered a role within the SSE renewable generation development business. This transfer proposal was reviewed by the SSE Power Distribution Board and it was subsequently decided that the transfer was not in line with the principles of separation. As a result, the SSE Power Distribution Board opted to block the transfer and the staff member remained in the transmission business.

Transmission

SSE jointly manages and operates its transmission and distribution businesses.

Complaints or representations on compliance

There were no complaints regarding SSE Power Distribution received during the year.
Further information

Queries on this report should be addressed to:

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Attachment I

Duties of Compliance Officer
Introduction

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Whilst absolute separation could 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 and thorough. Where systems enhancement or development allows, separation issues will be considered. Where staff may have access to certain ancillary information not necessary for the performance of their duties, the staff involved are not in a position to realistically use the information/knowledge to effect anti-competitive practices. Where confidential strategic information, which is recognised as a genuine risk to the planned benefits of separation, is involved, we found effective procedures and systems to be in place.

SSE places particular emphasis on confidentiality clauses in staff appointment letters and regularly reinforces the importance of confidentiality and clearly sets out the disciplinary process which would follow any breach.

We have not been required to meet with Ofgem this year.

Our report this year is structured in line with SSE Power Distribution’s Statement of Compliance and sets out the results of our testing and assessment of SSE Power Distribution’s compliance with the terms of the statement and hence the relevant licence conditions.

3 Managerial and operational independence of SSE Power Distribution

We identified several distinct facets all of which are essential to achieving managerial and operational separation as required by the Licence and Ofgem. These include legal and physical separation, establishment of autonomous boards and decision making processes, establishment of contractual and service level agreements, data confidentiality (including new connections) and branding of the separated businesses.

The more obvious, practical aspects such as the creation of separate legal entities, statutory transfer schemes, physical access restrictions and branding have been specifically verified. We also spoke with staff and managers across the group to confirm processes and procedures were being followed and reinforced.

We monitor the effectiveness of strategic data confidentiality, autonomy of decision making of the distribution business and corporate governance issues. This involved reviewing relevant board minutes and discussing the actual operation of the decision making process with directors and officers. The make up of the board of SSE Power Distribution and the regular board meetings help ensure appropriate governance is maintained and reinforce SSE’s recognition of separation. The board composition has been reviewed and strengthened over recent years with the appointment of senior distribution and regulation personnel as directors.

In addition, this year the board’s terms of reference and the capital authorisation corporate policy have been refreshed to further strengthen the independence of SSEPD and reinforce the corporate governance procedures.

The ongoing training of staff on confidentiality and the seriousness with which SSE would regard any breaches continues to ensure the underlying philosophy and approach adopted by SSE in this area is maintained. There have been no disciplinary proceedings under separation, confidentiality or competition conditions of employment.

During the year a senior staff member within the Transmission Business was offered a role within the SSE onshore renewable generation development business. This proposed staff transfer was identified and reviewed by the SSEPD Board who decided it was not in line with the principles of separation. As a result the staff transfer was blocked and the manager was retained within the Transmission Business.

4 Common services

We have considered the service level agreements ("SLAs") in place and discussed their operation in practice with no issues being identified. There have been no external complaints in this regard which implies the practices are not anti-competitive.

In addition, the report on cross subsidies presented by SSE and audited by KPMG LLP did not raise any material concerns from Ofgem.

The position with regard to Scotia Gas Networks plc is discussed at section 10.

5 Customer system and confidential information

In each year of our appointment, we have given particular focus to the integrated Customer Servicom ("CS") system and the related staff induction and training programmes and concluded that SSE’s approach was in line with their stated and accepted philosophy. This year we again focused on:

- confirming systems, processes and procedures are still appropriate;
- review of internal audit work on the IT security profiles and access controls and resultant follow up action plans.

Each year, the internal audit function allocates significant resource to this area. Their work identified minor administrative matters relating to access for staff following transfers and the storage of files but none which gave rise to any separation risk. All the points raised have been acted upon and resolved swiftly. From our work we are satisfied that SSE continues to comply with its stated policy and to implement and enforce rigorously procedures and controls commensurate with that policy.

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

6 Branding

Following SSE Power Distribution’s stated policy, branding continues to be effective and is reinforced in the market place through vehicle, site, advertising and stationery brands.

We are satisfied that branding is in keeping with the group policy and consistent with the need to separately brand the power distribution business within the market place.
We have not been provided of any communications prior to expression during the year.

11. The Year Ahead

We expect to continue to remain committed to defensive strategy and to pursue our continued focus on improving the operating and financial performance of our business. We also expect to continue to invest in our infrastructure and to implement new technologies to improve our operating efficiency and cost structure.

12. Commissions

Commissions represent a significant portion of our revenue and are critical to our business model. We are committed to maintaining and expanding our commission base and to developing new commission opportunities.

13. Responsibility

It is our responsibility to ensure that our business operations are conducted in compliance with all applicable laws and regulations. We are committed to maintaining a high standard of ethics and integrity in our business practices.

14. Appendix A

Appendix A contains additional information and details that are not included in the main body of the report. This information is provided for reference and completeness.

Henderson Lodge
with the information received above.

2. The information received from the provider of the records shall be in accordance with the regulations set forth in the

Duties of Compliance Officer

1. The Director shall ensure that the Compliance Officer follows the procedures set forth in this document.

Henderson Local

Page of Compliance Officer