



Scottish and Southern
Energy

Power Distribution

Southern Electric Power Distribution plc

Scottish Hydro Electric Power Distribution plc

Compliance Annual Report 2015/16

SEPD & SHEPD Compliance Annual Report 2015/16

1. Introduction

This report is for the year to 31 March 2016, as required by Condition 43.6 of the standard distribution licences of:

Southern Electric Power Distribution plc (SEPD), and

Scottish Hydro Electric Power Distribution plc (SHEPD)

The report summarises the licensees' compliance with the Relevant Requirements, and 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 Energy Power Distribution (SSEPD) website. In addition, the report details the activities of the Compliance Officer throughout the year including reference to any investigative work he has undertaken.

As such this report should be read in conjunction with the SSEPD Statement of Compliance v8.1 and the external Compliance Officer's Report 2015/16 (provided by Henderson Loggie).

2. Compliance with the Relevant Requirements

2.1 Review Work

SEPD and SHEPD have demonstrated compliance with licence condition 43.12, Relevant Requirements, through the business separation review work undertaken by the external Compliance Officer and Networks Compliance during the course of 2015/16. The Networks Compliance function is independent of the operations of SEPD, SHEPD and their parent, SSEPD, reporting directly into the SSE Corporate and Business Services directorate of the SSE Group.

From this review work, it is apparent that staff are aware of the need to maintain the confidentiality of SEPD and SHEPD Distribution information where necessary, and no significant issues were identified to give concern to this requirement. In addition, there have been no reports of material instances of cross subsidy breaches between SEPD or SHEPD and other Affiliates or Related Undertakings, as evidenced through the annual EU Cross Subsidy report prepared by SEPD and SHEPD which is reviewed by KPMG using agreed upon audit procedures and sent to Ofgem. Furthermore, the requirement to ensure that a non discriminatory approach has been taken during the provision of Use of System, work in relation to connections, Legacy Metering Equipment, and Data Services continues to be managed through the application of service level agreements and charging statements, connections staff training, and accession to the Distribution Connection and Use of System Agreement (DCUSA).

The Compliance Officer role, as stipulated in Condition 43.3, was performed during reporting year 2015/16 by the external audit firm Henderson Loggie. This appointment has been ratified by the SSEPD Board to continue in 2016/17. The external Compliance Officer has had full and open access to Networks staff and documentation during the review year of 2015/16. Regular meetings have been held with key stakeholders from the business, Networks Regulation, Group Audit and Networks Compliance to assist the external Compliance Officer in monitoring ongoing business separation compliance. As part of the role, the external Compliance Officer has assessed, either directly or indirectly, the robustness of SSEPD's managerial and operational independence, systems, branding, staff transfers, training arrangements, protection of confidential information and complaints in relation to the Relevant Requirements. 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 or recorded within this report.

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2.2 Managerial and Operational Independence of SSEPD

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

The SSEPD board comprises five executive directors, two 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 is also a director of SSE plc, which reinforces the decision-making authority of the SSEPD board and maintains appropriate corporate governance.

SSEPD continues to have its own management structure under which SEPD and SHEPD staff are employed. The Managing Director of Networks (ie. SSEPD businesses) is an executive member of the SSEPD board and responsible, along with his senior management team, for the day-to-day operation and management of the distribution businesses. Staff are directly employed by either SEPD or SHEPD, or under contractual agreements that include confidentiality provisions.

2.3 Systems and Confidential Information

A new billing system has been recently developed and partially implemented across Networks. On completion of this work (later this year), SSEPD's billing system and processes will become fully independent of the SSE Group. This will significantly reduce the need to utilise SSE's integrated Customer Services system. In addition, modifications to a number of IT systems used by SEPD and SHEPD have been or are being progressed to enhance access controls and further protect the confidentiality of distribution information.

During 2015/16, work has been undertaken at various Distribution premises and office areas to extend controls and ensure restricted access to authorised personnel only. As referenced above, there has been continued audit focus on business separation arrangements throughout the year, especially on access to confidential information across Networks.

2.4 Branding

Distribution currently uses the common brand, "Scottish and Southern Energy Power Distribution", in their day-to-day operations in order to maintain a separate identity from other parts of SSE plc. Over the last 12 months, no issues have been reported with branding on equipment, facilities and property, staff workwear, identity cards or stationery.

The current branding has been reviewed by management and significant changes are planned for 2016/17 to strengthen the distinction between SSEPD's businesses and the rest of the SSE Group.

2.5 Staff Transfers

A formal process for identifying and reporting key staff transfers from SEPD or SHEPD to the Supply, Generation and other SSE businesses exists. Any transfers "of concern" (ie. those that may impact business separation) are notified to the SSE Business Separation Compliance Officer (BSCO) who may then discuss with Henderson Loggie and the SSEPD Board as necessary. During 2015/16, there were a small number of such transfers considered and appropriate mitigating measures were implemented to minimise any business separation risk.

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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 BSCO. During 2015/16, no such reports relating to SEPD and SHEPD were received by the BSCO.

4. Staff Training

The Business Separation e-learning module, newly created in early 2015, has been rolled out to relevant SEPD and SHEPD staff during 2015/16. This has significantly helped to improve staff awareness and understanding of business separation requirements. The completion of this training is mandatory for key personnel and its uptake is monitored and reported to senior management. Staff are required to undertake the training each financial year.

In addition, a new procedure was developed and issued across Networks to supplement the existing policy document. This provides detailed guidance to staff on the required processes for handling staff transfers, raising business separation queries and reporting potential breaches to the BSCO.

5. Contact

Queries relating to this report should be addressed to:

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