

Southern Electric Power Distribution plc
Scottish Hydro Electric Power Distribution plc

Third Party Assurance of Compliance with
Commitments

May 2017

1. Introduction

This report is prepared in compliance with Commitments offered by SSE plc and accepted by the Gas and Electricity Markets Authority (GEMA) in November 2016 following an investigation into SSE plc's compliance with Chapter II of the Competition Act 1998 and / or Article 102 of the Treaty on the Functioning of the European Union. The Commitments were developed to address potential concerns identified by GEMA during the course of a review of competition in the electricity connections market in 2014. A summary of the Commitments offered and implemented are set out below.

Commitment 1: Broad Equivalence

To the maximum extent possible, SSE will ensure that Quotations provided for equivalent requests for the same development are broadly equivalent in respect of costs for Non-Contestable Connection Services, Point of Connection (POC) Location and / or Connection Voltage.

Commitment 2: Internal Structure and Processes

SSE will implement a new operating model to support functional separation of its connections business and introduce policies and processes to ensure it does not give undue preference to or unduly discriminate against Independent Connection Providers (ICPs) or Independent Distribution Network Operators (IDNOs).

Commitment 3: Systems, Processes and Training

SSE will revise its internal and external policies and procedures to ensure they reflect Commitments.

Commitment 4: Reporting and Provision of Information

SSE will provide GEMA with monitoring reports demonstrating steps taken to comply with the Commitments and to ensure ongoing compliance. SSE's compliance will also be monitored by an independent third party (independent auditor).

This report is prepared in relation to Commitment 4. Commitment 4(c) requires a summary of the independent auditor's conclusions to be published on SSE's website.

Chartered Accountants Henderson Loggie were appointed as the independent auditors in March 2017 following approval by GEMA, and following a review in March and April 2017 of the steps taken by SSEPD to implement and comply with the Commitments they produced a report which was submitted to GEMA on 4 May 2017. A summary of Henderson Loggie's conclusions are set out in Section 2 of this report and published on our website in compliance with Commitment 4(c).

2. External Auditor's Conclusions

The report prepared by Henderson Loggie in May 2017 concluded:

"In our opinion the report by SSEPD to GEMA describes fairly the measures taken by SSE to ensure compliance with the Commitments to improve services needed for competitors to connect customers

to its distribution network accepted by Ofgem on 7 November 2016. We conclude that we have obtained reasonable assurance that SSE has complied with the terms of those Commitments.”

Further detail on the Ofgem investigation can be found on the Ofgem website under their “Notice of decision to accept binding commitments from SSE plc” dated 3 November 2017 and details of the final Commitments can be found in Appendix 1 of this document.

Appendix 1

COMMITMENTS GIVEN BY SSE PLC PURSUANT TO SECTION 31A OF THE COMPETITION ACT 1998

SSE plc gives to the Gas and Electricity Markets Authority (**GEMA**), without in any way acknowledging or accepting that it has infringed applicable competition law, the following commitments (the **Commitments**) under section 31A(2) of the Competition Act 1998 in order to meet GEMA's concerns as set out *inter alia* in GEMA's Statement of Competition Concerns dated 25 April 2016 and in its notice of its intention to accept binding commitments dated 22 June 2016.

INTERPRETATION

The Interpretation Act 1978 shall apply to these Commitments as it does to Acts of Parliament.

In these Commitments the word "***including***" shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word and the word "***include***" and its derivatives shall be construed accordingly.

For the purpose of these Commitments, the following terms shall have the meaning ascribed to them below.

- (a) **All Works Quotation** means a Quotation provided to a Developer which encompasses both Contestable Connection Services and Non-Contestable Connection Services.
- (b) **Broad Equivalence or Broadly Equivalent** means equivalence to the maximum extent possible when taking into account all relevant circumstances including timing, connection type and technical specifications.
- (c) **Charging Methodology** means the Statement of Methodology and Charges for Connection to SEPD's and SHEPD's Distribution Networks (last amended on 26 April 2016).
- (d) **Code of Practice** means the Competition in Connections Code of Practice produced in accordance with condition 52 of the Licence.
- (e) **Connection** means a physical connection to SEPD's or SHEPD's Distribution Network for both Metered and Unmetered supply.
- (f) **Connection Services** means Contestable Connection Services and Non-Contestable Connection Services.
- (g) **Connection Voltage** means level of voltage of the POC required to connect the development, i.e., either low voltage (LV), high voltage (HV) or extra high voltage (EHV).
- (h) **Contestable Connection Services** means those services which are necessary for the provision of a Connection and, in accordance with the Licence, can be provided by the licensee or by an ICP or an IDNO.

- (i) **Contestable Connections Team** means those staff responsible for undertaking the Contestable Connection Services component of Quotations, as further described in Commitment 2.
- (j) **Developer** means the person or company responsible for the construction development which requires connection to the relevant Distribution Network, including its agents.
- (k) **Distribution Network** means an electricity distribution system (within the meaning of section 4(4) of the Electricity Act 1989).
- (l) **DNO** means Distribution Network Operator (within the meaning of sections 6(1)(c) and (9) of the Electricity Act 1989).
- (m) **Holding Company** shall be understood as defined in section 1159 of the Companies Act 2006.
- (n) **ICP** means an accredited independent connections provider registered with the Lloyd's Register, including its agents.
- (o) **IDNO** means an Independent Distribution Network Operator licensed by GEMA, including its agents.
- (p) **Implementation Date** means 6 months after acceptance of the Commitments by GEMA.
- (q) **Licence** means the electricity distribution licences issued by GEMA to SEPD and/or SHEPD under section 6(1) (c) of the Electricity Act 1989, in particular the standard conditions of the electricity distribution licence last amended on 30 October 2015.
- (r) **Metered supply** means a supply of electricity to premises measured by an electricity meter for the purposes of calculating the charges for that supply.
- (s) **Minor Connections** means single LV service demand connections and small project demand connections as defined in Regulation 2 of the Electricity (Connection Standards of Performance) Regulations 2015.
- (t) **Non-Contestable Connection Services** means those services which are necessary for the provision of a Connection and, in accordance with the Licence, cannot be provided by a person other than the licensee, as listed in paragraph 15.2 of Condition 15 of the standard conditions of the Licence.
- (u) **Non-Contestable Connections Team** means those staff responsible for undertaking the Non-Contestable Connection Services component of Quotations, as further described in Commitment 2.
- (v) **Non-Contestable Costs** means charges for Non-Contestable Connection Services in All Works Quotations or POC Quotations as identified in Appendix 1.
- (w) **POC** means a point of connection to SEPD's or SHEPD's Distribution Network.
- (x) **POC Location** means the physical location of the POC to SEPD's or SHEPD's Distribution Network.

- (y) **POC Quotation** means a Quotation provided to a Developer, an ICP or an IDNO which only encompasses Non-Contestable Connection Services.
- (z) **Provisional Request** means a request for Connection Services which does not meet the requirements of section 16A of the Electricity Act 1989 (as detailed by standard conditions 15 and 15A of the Licence), or a request for a budget estimate or a feasibility study.
- (aa) **Quotation** means information provided by SEPD and/or SHEPD in writing, following a Request for Quotation, and includes information relating to the POC, a statement of the charges that will apply in accordance with the Licence and the Charging Methodology, and any other information reasonably requested by the applicant. For the avoidance of doubt, the term Quotation includes All Works Quotations and POC Quotations.
- (bb) **Relevant Legislation** includes the Competition Act 1998 and the Electricity Act 1989.
- (cc) **Relevant Subsidiary** means any Subsidiary of SSE that is active in the provision of Quotations.
- (dd) **Request for Quotation** means an enquiry from a Developer, an ICP or an IDNO addressed to SEPD and/or SHEPD which meets the requirements of section 16A of the Electricity Act 1989 (as detailed by Conditions 15 and 15A of the standard conditions of the Licence). For the avoidance of doubt, this does not include Provisional Requests.
- (ee) **Review** means GEMA considering whether there are changes of circumstances relevant to these Commitments such that they should be released or varied to remove aspects of the Commitments that GEMA no longer considers necessary or appropriate.
- (ff) **SEPD** means Southern Electric Power Distribution plc and any Subsidiary of SSE which succeeds Southern Electric Power Distribution Plc as the Licence holder.
- (gg) **SHEPD** means Scottish Hydro Electric Power Distribution plc and any Subsidiary of SSE which succeeds Scottish Hydro Electric Power Distribution Plc as the Licence holder.
- (hh) **Spot Check** means a visit by the external independent auditor provided for in these Commitments to an SEPD or SHEPD site where Connection Services are provided for the purpose specified in Commitment 4, paragraph (d) of these Commitments. To conduct the Spot Check, the auditor will:
- with the exception of Minor Connections, request and review a report prepared by SSEPD which lists Quotations which have been given where differences in Non-Contestable Costs, POC Location and/or Connection Voltage have been identified between the Non-Contestable Connection Services element of any All Works Quotations and any POC Quotations for the same development. The report should include all such Quotations issued since the date of the last Spot Check or annual report of the auditor (whichever is more recent);

- with the exception of Minor Connections, review a sample, but no less than 1% of such Quotations in order to (i) determine whether the reasons for those differences have been recorded properly and in such a way that the auditor understands the basis for them; and (ii) assess whether the differences are justified; and
 - in respect of Minor Connections, request and review a report prepared by SSEPD, in order to determine SSE's compliance with the Commitments as detailed in Commitment 2, paragraph (c).
- (ii) **SSE** means SSE plc. For the avoidance of doubt, all obligations incumbent upon SSE in these Commitments are deemed to also bind SSEPD, SEPD and SHEPD. SSE shall procure that each Relevant Subsidiary shall comply, at all times, with the Commitments.
- (jj) **SSEPD** means Scottish and Southern Energy Power Distribution Limited, the Holding Company of SEPD and SHEPD and any Subsidiary of SSE as successor Holding Company of SEPD and/or SHEPD.
- (kk) **Subsidiary** shall be understood as defined in section 1159 of the Companies Act 2006.
- (ll) **Unmetered supply** means a supply of electricity to premises that is not being measured by an electricity meter for the purposes of calculating the charges for that supply.

COMMENCEMENT AND DURATION

Having been signed by SSE, these Commitments shall take effect from the Implementation Date and will be subject to Review following a period of 5 years after the Implementation Date.

Nothing in this provision will prevent SSE from requesting an amendment to, or early termination of, the Commitments (or requesting new commitments to substitute for the Commitments) at any point in time in light of, for example, changed market circumstances or legislative requirements.

Both GEMA and SSE recognise that changes planned or under way within the electricity connections sector may have relevance to the Commitments, in particular with regards to the implementation of the Code of Practice for DNOs. As and when appropriate, SSE and GEMA will meet to discuss whether the Commitments should be amended, terminated or replaced by new commitments in light of such sector changes.

RELATIONSHIP BETWEEN THE LICENCE AND THE COMMITMENTS

The specific actions contained within the Commitments supplement and are in addition to the obligations contained within the Licence and the Electricity Act 1989 and are intended to address the competition concerns raised.

COMMITMENT 1: BROAD EQUIVALENCE OF QUOTATIONS WITH RESPECT TO NON-CONTESTABLE COSTS, POC LOCATION AND/OR CONNECTION VOLTAGE

Principle

Without prejudice to its obligations under the Licence and Electricity Act 1989, SSE will take the following actions to ensure a broad equivalence of Quotations with respect to Non-Contestable Costs, POC Location and Connection Voltage.

Specific actions

In particular, and in order to facilitate that broad equivalence of Quotations, SSE will:

- (a) ensure that All Works Quotations and POC Quotations provided in response to equivalent Requests for Quotation for the same development are broadly equivalent in respect of each of:
 - i. Non-Contestable Costs;
 - ii. POC Location; and
 - iii. Connection Voltage,to the maximum extent possible taking into account all relevant circumstances including timing, connection type and technical specifications concerned; and
- (b) fully implement the provisions of Commitments 2, 3 and 4.

COMMITMENT 2: SSE'S INTERNAL STRUCTURE AND PROCESSES TO FACILITATE FUNCTIONAL SEPARATION

Principle

Without prejudice to its obligations under the Licence and Electricity Act 1989, SSE will implement a new operating model based on functional separation and the introduction of policies and processes to support this. These are designed to further ensure that the provision of Non-Contestable Connection Services is not structured in such a way that causes undue preference to, or unduly discriminates against, ICPs or IDNOs, with respect to Non-Contestable Costs, POC Location and Connection Voltage.

Specific actions

In particular and in order to facilitate the implementation of a new operating model based on functional separation, SSE will:

- (a) adopt a new internal operational structure (diagram included in Appendix 2 for illustrative purposes only), which provides for two distinct and separately staffed functions, namely the Non-Contestable Connections Team and the Contestable

Connections Team. These functions will have the following roles and responsibilities:

- i. the Contestable Connections Team will operate as the main interface with Developers and/or their agents in relation to All Works Quotations;
 - ii. the Contestable Connections Team will respond to Requests for Quotation from Developers in accordance with the timescales and standards set out in the Licence, SSE's public policies and procedures and in these Commitments;
 - iii. in order to respond to Requests for Quotation, the Contestable Connections Team will engage with the Non-Contestable Connections Team in relation to Non-Contestable Connection Services;
 - iv. the Non-Contestable Connections Team will operate as the main interface with the Contestable Connections Team and with ICPs or IDNOs in relation to Non-Contestable Connection Services;
 - v. the Non-Contestable Connections Team will be responsible for assessing the capacity of the network, identifying the infrastructure requirements for the proposed development, calculating the Non-Contestable Costs to be charged, selecting the POC Location to be proposed and deciding on the appropriate Connection Voltage to be offered in circumstances where these services are being delivered by SEPD or SHEPD;
 - vi. where necessary, the Non-Contestable Connections Team will interact with, and request services and obtain information from, other departments within SSE;
 - vii. the Non-Contestable Connections Team will respond to Requests for Quotation in respect of Non-Contestable Connection Services, regardless of whether those requests come from the Contestable Connections Team or from ICPs or IDNOs, in accordance with the timescales and standards set out in the Licence, SSE's public policies and procedures and in these Commitments; and
 - viii. the internal procedures relating to the activities of the Non-Contestable Connections Team and the Contestable Connections Team will reflect the timescales and standards set out in the Licence, SSE's public policies and procedures and in these Commitments.
- (b) amend and update its external and internal policies, procedures and associated documents and forms to reflect the revised structure and in a way which is consistent with the principles set out in (a) above.

This new operating model based on functional separation (together with the processes outlined in Commitment 3 below) will not apply to Minor Connections. However, for the avoidance of doubt, SSE will:-

- (c) adopt specific policies and procedures for Minor Connections to ensure that the Contestable Connections Team providing any Minor Connection Quotation will have no more relevant information regarding SEPD's or SHEPD's Distribution Network than the information made available to any ICP or IDNO. These policies

and procedures will provide for the following process (diagram included in Appendix 3 for illustrative purposes only):

- (i) the Contestable Connections Team will not have access to any relevant network information in addition to that which is publicly available to all ICPs and IDNOs to determine the POC and Non-Contestable Connection Services;
- (ii) any network information required that is not in the public domain, will be provided by the Non-Contestable Connections Team to the Contestable Connections Teams, ICPs and IDNOs on a broadly equivalent basis;
- (iii) the Contestable Connections Team will undertake Non-Contestable Connection Services and Contestable Connection Services and issue the Quotation to the customer; and
- (iv) for the avoidance of doubt, in relation to Minor Connections, the obligations set out in Commitment 4 shall apply to the process as detailed in sub-paragraphs (i), (ii) and (iii) of this paragraph (c).

COMMITMENT 3: SYSTEMS, PROCESSES AND TRAINING TO FACILITATE THE DELIVERY OF A TRANSPARENT COST MODEL, AUTOMATED QUOTATION SYSTEM AND COMPLIANCE WITH COMPETITION LAW

Principle

SSE will revise its external and internal policies and procedures in the context of Connection Services to ensure that they reflect the Commitments, in particular the obligation not to cause undue preference to or undue discrimination against ICPs or IDNOs in respect of Non-Contestable Costs, POC Location and/or Connection Voltage, and are compliant with the obligations contained in Relevant Legislation and the Licence.

Specific actions

In particular, SSE will:

- (a) amend and update its external and internal policy documents and relevant forms to reflect the Commitments;
- (b) review the existing external and internal policy documents relating to the provision of Non-Contestable Connection Services in order to produce materials and procedures which are designed to:
 - i. ensure equivalent treatment of broadly equivalent Requests for Quotation with respect to Non-Contestable Costs, POC Location and/or Connection Voltage;
 - ii. ensure that there is no undue preference to or undue discrimination against ICPs or IDNOs with respect to Non-Contestable Costs, POC Location and/or Connection Voltage; and

- iii. remain compliant with Relevant Legislation and the Licence.
- (c) record any differences between the Non-Contestable Connection Services element of All Works Quotations and POC Quotations for the same development, in relation to Non-Contestable Costs, POC Location and/or Connection Voltage, and the reasons for such differences in such a way that the external audit firm provided for in Commitment 4 is satisfied that it is able to understand those reasons;
- (d) ensure that the cost information provided by SSE allows Developers to compare the Non-Contestable Connection Services element of any All Works Quotations and the POC Quotations for the same development. To achieve this, SSE will:
- i. ensure that Quotation documents are clear and easily understood and allow the Non-Contestable Connection Services element of the All Works Quotations and POC Quotations for the same development to be compared through the provision of equivalent information in each one; and
 - ii. within 10 working days of any request, provide sufficient information to Developers, ICPs or IDNOs to explain any differences between the cost of the Non-Contestable Connection Services element of any Quotations for the same development, to the extent this does not include information confidential to SSE or third parties.
- (e) create a quotation system for Connection Services with enhanced automation, to ensure each Quotation is designed with the following features:
- i. Improved IT system which will identify any differences and will prevent the issuing of a Quotation until such time as the designer in the Non-Contestable Connections Team records the reasons for the differences between Quotations for the same development;
 - ii. Improved auditability and clear processes for the capture and retention of information;
 - iii. Increased accuracy and automation of site matching within a geographical area;
 - iv. Ensuring separation of design and cost elements between designs for Contestable Connection Services and Non-Contestable Connection Services to drive consistency; and
 - v. Automated quote archiving, access/reporting and document templates.
- (f) create and deliver competition law training of an appropriate quality and standard. That training will be specifically targeted at compliance with competition rules applicable to Connection Services and will specifically outline and explain Ofgem's competition concerns and the content of these Commitments. The training will be mandatory for all staff (including senior managers) directly involved in the provision of Connection Services. In particular, SSE will deliver:
- i. mandatory training through the SSE group e-learning platform on competition law, the content of these Commitments, and compliance with them, for new joiners to teams involved in the provision of Connection Services within 4 weeks from the start of employment and mandatory

training specifically targeted at competition rules applicable to Connection Services within six months of start of employment;

- ii. notwithstanding the Implementation Date, mandatory training of staff currently involved in the provision of Connection Services within two months of acceptance of Commitments by GEMA; and
- iii. mandatory annual refresher training for staff involved in the provision of Connection Services.

SSE will ensure that such training is kept up-to-date.

COMMITMENT 4: REPORTING AND PROVISION OF INFORMATION

On SSE's behalf, SSEPD shall:

- (a) provide written monitoring reports to GEMA:
 - i. demonstrating the steps it has taken in complying with the Commitments; and
 - ii. providing assurance of its ongoing compliance with the Commitments;

The first of these monitoring reports will be provided on the day after the Implementation Date (confirming that all measures necessary to comply with the Commitments are fully in place). The second report will be provided 6 months after the Implementation Date with a subsequent report provided one year following the Implementation Date and then on an annual basis until such a time as GEMA agrees this reporting frequency can be reduced or the reporting requirements contained in these Commitments removed;

- (b) provide GEMA with any supporting information and documents which GEMA reasonably requests in relation to, or in connection with, the Commitments (including, for example, the implementation of and/or compliance with these Commitments). Such requests for information and documents will include a reasonable time limit for production and SSE will take all reasonable steps to meet those deadlines;
- (c) ensure independent, third party assurance and audit of SSE's compliance with the Commitments by an external audit firm approved by GEMA and appointed by SSE prior to the Implementation Date. That assurance will be reported to the Board of SSEPD and those reports will also be annexed to the reports provided to GEMA. A summary of the auditor's conclusions will be included in SSE's compliance reports which are publicly available on SSE's website;
- (d) the external audit firm will, subject to providing SSE with at least two weeks' notice in writing, undertake Spot Check procedures to satisfy itself that SSE is complying with the Commitments and, if required, make recommendations to SSE. These Spot Checks will be undertaken on two occasions annually following the first anniversary of the Implementation Date until such time as GEMA agrees the reporting frequency under (a) above can be reduced or the reporting requirements contained in these Commitments removed; and
- (e) designate a member of its Senior Management Team, who is an employee of SSE

and is a member of the Board of Directors of SSEPD, as the commitments compliance officer, who will have general responsibility for: ensuring compliance with the Commitments; preparing the monitoring reports; and reporting the monitoring reports to the Board of SSE such that the reports have the Board's assurance before their submission to GEMA.

Signed for and on behalf of SSE plc by Robert McDonald, Managing Director of Corporate and Business Services at Perth on 3 November 2016.

Signature

In the presence of:

Witness

Name

APPENDIX 1

NON-CONTESTABLE COSTS

The Non-Contestable Costs are those identified in the table below:

Name of charge	Brief explanation
Assessment and design	Charges associated with the identification of the most appropriate point on the existing distribution system for connection and the design of any extension assets and/or reinforcement.
Final connection to the network	Charges associated with carrying out the final connection on to the existing distribution system.
Design approval	Charges associated with the approval of an extension asset design produced by an ICP or IDNO.
Inspection/monitoring	Charges associated with inspecting and monitoring the construction of the extension asset by an ICP or IDNO.
Wayleaves/easement	Charges associated with the administration of wayleave documentation.
Reinforcement costs	Costs associated with assets installed that add capacity to the existing shared use distribution system
Costs under Electricity Connection Charges Regulations	Costs due as required under the Electricity (Connection Charges) Regulations 2002 (SI 2002/93) as amended from time to time.
Operation and maintenance charges	Charges associated with the operation, repair, maintenance and replacement of assets.

The names used herein are accurate at the time that these Commitments were entered into. The names of the Non-Contestable Costs, and the explanatory comments, may change from time to time.