

Scottish Hydro Electric Transmission plc

Compliance Annual Report 2016/17

1. Introduction

This report is for the year to 31 March 2017, as required by special licence condition 2H.9 for Scottish Hydro Electric Transmission plc (SHE 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 Power Distribution (SSEPD) 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 SSEPD Statement of Compliance (Ref: v8.2) and the external Compliance Officer's Report 2016/17 (provided by Henderson Loggie).

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 and Networks Business Assurance over the course of 2016/17. The Group Compliance function is independent of the operations of SHE Transmission and its parent, SSEPD, reporting directly into the SSE Corporate and Business Services directorate of the SSE Group. Networks Business Assurance is a specialist team within SSEPD carrying out regular assurance checks on behalf of the business management.

From this review work, it is apparent that staff are aware of the need to maintain the confidentiality of SHE Transmission information as 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 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 KPMG 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 2016/17 by the external audit firm Henderson Loggie. This appointment has been ratified by the SSEPD Board to continue in 2017/18. The external Compliance Officer has had full and open access to all staff and documentation during the review year of 2016/17. Regular meetings have been held with key stakeholders from the business, Networks 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, 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. 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.

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.

The SSEPD board comprises five 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 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 Networks (ie. SSEPD businesses) 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. The day-to-day management of SSEPD is co-ordinated through the Networks Management Committee (NMC) which reports to the SSEPD Board. The NMC is 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

There have been no newly introduced or major modifications to existing IT systems used by SHE Transmission where there has been any need to take into account business separation considerations.

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

In September 2016, the new brand of “Scottish and Southern Electricity Networks” was introduced for SHE Transmission (also covering Sothern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc) to replace the old brand of “Scottish and Southern Energy Distribution” (SSEPD) and strengthen the distinction between SSEPD’s businesses and the rest of the SSE Group. SHE Transmission currently uses this common brand in their day-to-day operations in order to maintain a separate identity from other parts of SSE plc. Existing equipment, facilities/property, fleet, staff uniform, identity cards and stationery are being replaced with the new 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” (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 2016/17, there was one such transfer considered and appropriate mitigating measures were implemented to minimise any business separation risk.

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 2016/17, no material reports relating to breaches or complaints for SHE Transmission were received by the BSCO.

4. Staff Training

Business Separation training has been refreshed and updated during the year. This training, accessed via an e-learning module, is more focused and targeted according to job role and has been rolled out to all SHE Transmission staff. In addition, due to the importance of business separation across the SSE Group, most Corporate staff and senior management from other SSE businesses have been given the training. 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.

The training is supported by formal procedural documentation which provides detailed guidance to staff on the required processes for handling staff transfers, raising business separation queries and reporting potential breaches to the BSCO. A dedicated, internal BSCO mailbox has been set up to facilitate the management of queries and reporting of potential issues by staff.

During the year, a new internal application (known as i-Comply) was introduced 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 assigning business owners to each rule.

5. Contact

Queries relating to this report should be addressed to:

Scott Johnston
Business Separation Compliance Officer
SSE plc
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ
e-mail: scott.johnston@sse.com