

Southern Electric Power Distribution plc
Scottish Hydro Electric Power Distribution plc

Compliance Annual Report 2017/18

1. Introduction

This report is for the year to 31 March 2018, as required by Standard Licence Condition 43.6 of the electricity 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 current SSEPD Statement of Compliance (Ref: v8.3) and the external Compliance Officer's Report 2017/18 (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, Group Compliance and Networks Business Assurance during the course of 2017/18. The Group Compliance function is independent of the operations of SEPD, SHEPD and their parent, SSEPD, reporting directly into the Corporate 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 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 2017/18 by the external audit firm Henderson Loggie. This appointment has been ratified by the SSEPD Board to continue in 2018/19. The external Compliance Officer has had full and open access to Networks staff and documentation during the review year of 2017/18. 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 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 within this report. Section 2 of the Henderson Loggie report refers to a number of observations and one recommendation. The recommendation relates to process improvements raised by Group Compliance to

continue to ensure timely and accurate reporting of complaints to the internal Business Separation Compliance Officer and external Compliance Officer. Action is underway to enhance this process.

2.2 Managerial and Operational Independence of SSEPD

SEPD and SHEPD are wholly owned subsidiaries 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 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, 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 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. 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 distribution businesses operate in a safe, responsible and efficient manner, including compliance with relevant legislation and regulations. Staff are directly employed by either SEPD or SHEPD, or under contractual agreements that include confidentiality provisions.

2.3 Systems and Confidential Information

During 2017/18, there have been a number of new IT systems and system modifications introduced into SEPD and SHEPD. These have been managed through formal project management and standard change control mechanisms. The Networks Business Assurance team have extended their business separation routine checks to ensure access controls to confidential information are being adequately applied in new systems and system changes.

Procedures for managing access controls to distribution premises and office areas have been updated to clarify requirements and regular assurance checking of controls applied across the businesses is performed by the Networks Business Assurance team.

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

In September 2016, the new brand of “Scottish and Southern Electricity Networks” was introduced for SEPD and SHEPD (also including Scottish Hydro Electric Transmission 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. Distribution currently uses this common brand in their 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 have been mostly 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 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 the external Compliance Officer (Henderson Loggie) and the SSEPD Board as necessary. During 2017/18, there were a small number of such transfers 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 2017/18, no material reports relating to breaches or complaints for SEPD and SHEPD were received by the BSCO.

4. Staff Training

Business Separation training having been refreshed the year before was updated again in 2017/18. The training, accessed via an e-learning module, was re-designed to simplify the key training messages, improve the flow of information and make it more user friendly. This new training has been rolled out to all SEPD and SHEPD 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 approach continues to ensure a high level of 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. To ensure ongoing compliance, staff are required to undertake the training each financial year.

The above training is supported by formal procedural documents which provide detailed guidance to Networks 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 Business Separation mailbox continues to operate to facilitate the management of queries and reporting of potential issues by staff.

The businesses continue 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 assigning business owners to each rule.

5. Contact

Queries relating to this report should be addressed to:

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