

Scottish Hydro Electric Transmission plc

Compliance Annual Report 2018/19

1. Introduction

This report is for the year to 31 March 2019, 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: v8.4) and the external Compliance Officer's Report 2018/19 (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 2018/19. The Group Compliance function is independent of the operations of SHE Transmission and its parent, SSEPD, reporting directly into the General Counsel directorate (as part of Corporate Services) 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 2018/19 by the external audit firm Henderson Loggie. Between April 2018 and March 2019, the external Compliance Officer has had full and open access to all staff and documentation to complete this work. 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 specific to SHE Transmission were identified or recorded within this report, although some recommendations were referred to in this report which are common across the Networks businesses. These recommendations relate to process improvements raised by Group Compliance around the management of Service Level Agreements, access controls to a small number of premises and new Office 365 technologies, and the monitoring of business separation training for non-Networks staff putting at risk the timely completion of training. Many of these improvements revolve around change management processes. Action is underway to enhance these processes.

It should be noted that the re-appointment of the Compliance Officer is considered by the SSEPD Board every year, normally during Quarter 1 of the financial year.

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 four executive directors, four 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 Transmission 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. During 2018/19, the day-to-day management of SSEPD was co-ordinated through the Networks Management Committee (NMC) which reported to the SSEPD Board. The NMC was 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. It should be noted that the NMC has been replaced by the Transmission Executive Committee as from 1 April 2019 as part of a business re-structure programme.

2.3 Systems and Confidential Information

A new Connections system was introduced in SHE Transmission in 2018/19. This system is owned and operated by the transmission business with access only granted to SHE Transmission staff. No other significant system changes were implemented with the exception of new Office 365 technologies, which required additional training and briefing of staff to ensure the orderly control of information when using these applications. The Networks Business Assurance team have continued to conduct business separation routine checks to ensure access controls to confidential information are being adequately applied in new systems and system changes. Three IT systems access control reviews were undertaken in Transmission last year by Networks Business Assurance. No material issues were identified during reviews, but further improvements (common to all of SSE Networks businesses) have been identified and are in the process of being implemented, including greater consideration of business separation controls during IT project development, further procedural documentation and ongoing business user adherence with processes.

Procedures for managing access controls to transmission premises and office areas have been maintained to ensure clarity of processes and consistency in approach, and regular assurance checking of controls applied across the businesses continue to be performed by the Networks Business Assurance team. Four site access control reviews were undertaken at Transmission sites by the team. During these reviews (which included areas occupied by the Distribution business) some weaknesses were identified, and improvements are being progressed in relation to improved staff understanding of required processes for granting and validating access rights at some sites. Networks Business Assurance will continue to monitor this to ensure ongoing compliance and improvement.

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

Transmission currently uses the “Scottish and Southern Electricity Networks” (SSEN) branding, which also covers Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc, in its 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 are clearly marked with this 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” (i.e. those that may impact business separation) are notified to the SSE Business Separation Compliance Officer (BSCO – see below) who may then discuss with Henderson Loggie and the SSEPD Board as necessary. During 2018/19, only one potential transfer of concern related to the change of MD in Transmission was highlighted to the BSCO. The risks around this change were considered and appropriate mitigations taken by the business where necessary.

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, who works in conjunction with the external Compliance Officer in providing advice to networks operations on business separation. During 2018/19, no material reports relating to breaches or complaints for SHE Transmission were received by the BSCO.

4. Staff Training

Based on feedback from staff, training materials were updated in the latter part of the year to simplify and reinforce the key requirements of Business Separation and the processes to be followed. This training is accessed via an e-learning module which sits on the new SSE Group training platform and is rolled out to all SHE Transmission staff, including new starts. In addition, due to the importance of business separation across the SSE Group, most Corporate staff and senior management from other SSE businesses are required to undertake the training. This approach ensures 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, relevant staff are required to undertake the training each financial year. The Networks Business Assurance team monitor and report on the status of staff training on Business Separation to Networks senior management, including the Transmission leadership team. As referenced in Section 2.1 above, some enhancements to the monitoring process in relation to the training of non-Networks staff has been recently identified and actions agreed with appropriate business teams.

The above training is supported by formal procedural documents which provide detailed guidance to Transmission 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. Overall, the above measures ensure there is a continued focus on maintaining business separation awareness and required arrangements throughout the year.

The business continues 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:

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