

**Southern Electric Power Distribution plc**  
**Scottish Hydro Electric Power Distribution plc**

**Compliance Annual Report 2018/19**

## 1. Introduction

This report is for the year to 31 March 2019, 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 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 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: v8.4) and the external Compliance Officer's Report 2018/19 (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 2018/19. The Group Compliance function is independent of the operations of SEPD, SHEPD and their 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 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 internal arrangements and processes, charging statements, connections staff training, and accession to the Distribution Connection and Use of System Agreement (DCUSA). No significant issues or concerns have been raised or reported in these specific areas.

The Compliance Officer role, as stipulated in Condition 43.3, 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 Networks 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 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 (as defined in licence condition 43.12). 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, although some recommendations were referred to in their report. 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**

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 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 (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 (i.e. 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. 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 distribution businesses operated 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. It should be noted the NMC has been replaced by the Distribution Executive Committee as from 1 April 2019 as part of a business re-structure programme.

During the second half of 2018/19, the distribution businesses have undergone some organisational re-structuring to ensure their operations are more effectively focused on the future demands of their customers and the new technologies and advancements in the energy industry. This has resulted in personnel changes and some changes to internal reporting structures within the distribution businesses which, where necessary, have been considered and assessed from a Business Separation perspective.

## **2.3 Systems and Confidential Information**

New IT systems and systems modifications have continued to be progressed across SEPD and SHEPD throughout 2018/19. In particular, this included new Office 365 technologies which has required additional staff training and briefings to Networks staff to ensure the orderly control of information. New systems are managed through formal project management and standard change control mechanisms. 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. A total of 12 IT systems access control reviews were undertaken last year by the Networks Business Assurance team. No material issues were identified during reviews, but further improvements 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 distribution premises and office areas have also been reviewed in 2018/19. Procedures continue to be maintained to ensure clarity of processes and consistency in approach. Regular assurance checking of controls applied across the businesses continue to be performed by the Networks Business Assurance team. Over 20 site access control reviews were undertaken by this team in 2018/19. During these reviews 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**

Distribution currently uses the common brand of “Scottish and Southern Electricity Networks” in their day-to-day operations to maintain a separate identity from other parts of SSE plc. Equipment, facilities/property, fleet, staff uniforms, 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 SEPD or SHEPD to the Supply, Generation and other SSE businesses exists. Any transfers “of concern” (ie. those that may impact business separation) are risk assessed and where appropriate notified to the SSE Business Separation Compliance Officer (BSCO - see below) who may then discuss with the external Compliance Officer (Henderson Loggie) and the SSEPD Board as necessary. During 2018/19, 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 internal BSCO, who works in conjunction with the external Compliance Officer in the provision of advice to Networks operations on business separation. Following last year’s review of Business Separation by Group Compliance, processes in this area were strengthened and further training provided in key areas. No material reports relating to breaches or complaints for SEPD and SHEPD were received by the BSCO during 2018/19.

### **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 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 SEPD and SHEPD 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 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 Distribution 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 Distribution 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 businesses continue to utilise an internal application (known as i-Comply) which captures key regulatory and legislative obligations applicable to SSEPD business operations, and any changes, 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 assigns business owners to each rule.

## 5. Contact

Queries relating to this report should be addressed to:

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