Scottish Hydro Electric Transmission plc

Compliance Annual Report 2019/20
1. Introduction

This report is for the year to 31 March 2020, 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 Electricity Networks (SSEN) 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 Scottish and Southern Energy Power Distribution Limited (SSEPD) Statement of Compliance and the external Compliance Officer’s Report 2019/20 (provided by MHA Henderson Loggie), both of which are published on the SSEN website.

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 2019/20. 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. During the reporting year, a new Business Controls team has been established within SHE Transmission to specifically manage Transmission assurance activities. These activities are being transitioned across from the Networks Business Assurance team, which will become solely Distribution focused in 2020/21.

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 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 2019/20 by the external audit firm MHA Henderson Loggie. Between April 2019 and March 2020, 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 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 within this report, with the external Compliance Officer satisfied that SHE Transmission continues to comply with its stated business separation policy by implementing and enforcing procedures and controls commensurate with that policy. The external report also acknowledges the independent review work of Group Compliance which highlighted some recommended areas of improvement on: i) streamlining controls for managing inter-company transactions to improve the transparency of Service Level Arrangements and facilitate...
their regular review and assessment; and ii) enhancing IT system controls to ensure earlier consideration of business separation risks during the IT development cycle. These processes are being reviewed and enhanced.

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.

At the beginning of April 2020, the SSEPD board comprised three 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 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 2019/20, the day-to-day management of the transmission business was co-ordinated through the Transmission Executive Committee (TEC) which reported to the SSEPD Board. The TEC 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.

2.3 Systems and Confidential Information
Two new systems were fully implemented in SHE Transmission during 2019/20 to facilitate the management of new Connections and improve the storage of Project documentation. These systems are owned and operated by the transmission business with access only granted to SHE Transmission staff. No other significant system changes were implemented during the financial year. 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 existing and new systems and not adversely impacted by system changes. Three IT systems access control reviews were undertaken in Transmission last year by Networks Business Assurance. No material issues were identified during these reviews, and this programme of regular assurance checks provides confidence in the business’s ability to identify any potential access control weaknesses.

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 business have been performed by the Networks Business Assurance team. Three site access control reviews were undertaken at Transmission sites by the team. During these reviews (which included areas occupied by the Distribution business) some improvements were identified in relation to change management processes to ensure responsibilities for site access controls are properly re-assigned in the event of staff changes. Subsequent coaching has been delivered to minimise any risk and ongoing assurance monitoring will ensure that required processes are being followed.
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 the external Compliance Officer (MHA Henderson Loggie) and the SSEPD Board as necessary. During 2019/20, there were no transfers of concern in relation to SHE Transmission reported to the BSCO.

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 2019/20, no material reports relating to breaches or complaints for SHE Transmission were received by the BSCO.

4. Staff Training
Networks Business Separation training continues to be provided via an e-learning module which sits on the SSE Group training platform and is rolled out to all SHE Transmission staff, including new starts and any relevant contractors. 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 regular training, normally 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. Due to the COVID-19 outbreak impacting operational resource priorities and the significant level of home working which has given rise to system access limitations, the uptake of training across the SSE Group has been slower during the final quarter of this reporting year. However, this is being closely monitored to ensure staff do undertake refresher training where required.

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 allocation of business owners to each rule. Further development of the i-Comply application was carried out during 2019/20 to enhance its usability and functionality for business users.

5. Contact

Queries relating to this report should be addressed to:

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