



Southern Electric Power Distribution plc Scottish Hydro Electric Power Distribution plc

Compliance Annual Report 2022/23

1. Introduction

This report is for the year to 31 March 2023, 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 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 undertaken.

As such this report should be read in conjunction with the current SEPD and SHEPD Statement of Compliance and the external Compliance Officer's Report 2022/23 (provided by Henderson Loggie LLP), both of which are published on the SSEN website.

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 Distribution Business Assurance during 2022/23. The Group Compliance function is independent of the operations of SEPD and SHEPD and of the Board of each of SEPD and SHEPD and it reports directly into the General Counsel directorate (as part of Corporate Services) of SSE plc. Distribution Business Assurance is a specialist team carrying out regular assurance checks on behalf of the Distribution business management.

From the review work undertaken, no significant issues were identified, and overall indications are that staff are aware of the need to maintain the confidentiality of SEPD and SHEPD information as required. 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 external auditors, Ernst & Young LLP, using agreed audit procedures and sent to Ofgem.



The Compliance Officer role, as stipulated in Standard Licence Condition 43.1, was performed during reporting year 2022/23 by the external audit firm Henderson Loggie LLP. Between April 2022 and March 2023, the external Compliance Officer has had full and open access to SEPD and SHEPD staff and documentation to complete this work.

Throughout the financial year, regular meetings have been held with key stakeholders from the business, Distribution Business Assurance, Distribution 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 the robustness of SEPD and SHEPD'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 assessment has been captured in the external Compliance Officer's annual report and presented to the Board of each of SEPD and SHEPD. No material issues were identified within this report, with the external Compliance Officer satisfied that SEPD and SHEPD continue to comply with their 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 four findings which will be actioned for 2023/24. These include the implementation of additional controls: i) to protect Distribution premises against unauthorised access; ii) around the staff transfer process; iii) to ensure the contractual obligations for contingency workers contain a business separation clause and iv) around service level agreements. Review work also highlighted an observation relating to governance documentation. In addition to the review within Distribution, Group Compliance carried out a Review of Networks Business Separation within two Corporate Functions. This review resulted in two actions to strengthen business separation controls.

It should be noted that the re-appointment of the External Compliance Officer is considered by the Board of each of SEPD and SHEPD every year normally during Quarter One of the financial year.

2.2 Managerial and Operational Independence of SEPD and SHEPD

To maintain the full managerial and operational independence of the Licensees, the two businesses are managerially and operationally run under the governance of the Boards of SEPD and SHEPD and independently from other SSE plc interests.

The Boards of SEPD and SHEPD have a common set of directors for both companies. The purpose of the Boards is to set the strategic aims, supervise the management and monitor performance of the Licensees.

Currently, both Boards comprise three executive directors and five non-executive directors. Executive directors are wholly engaged in the day-to-day management and operation of the Licensees and not involved in the activities of any other affiliates or related undertakings. Two of the non-executive directors are Sufficiently Independent Directors as required by the terms of the Distribution Licence. The non-executive Chair is also an executive director of SSE plc Board.



Corporate governance procedures, which have been advised on by the External Compliance Officer for the purpose of maintaining managerial and operational independence, are in place between the Boards of the Licensees and the SSE plc Board. The terms of reference for the Boards of SEPD and SHEPD and capital authorisation corporate policy are regularly reviewed to maintain the independence of the Boards and reinforce the corporate governance procedures. The performance of the Licensees is reported to the SSE plc Board. During 2022/23, the day-to-day management of the distribution businesses was co-ordinated through the Distribution Executive Committee (DEC) which reported to the SSEPD Board until October 2022, and since November 2022, the Boards of SEPD and SHEPD. The DEC is 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.

2.3 Systems and Confidential Information

No significant system changes were implemented during the financial year. The Distribution 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. Ten IT systems access control reviews were undertaken in Distribution last year by the Distribution Business Assurance team. 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 Distribution premises and office areas have also been reviewed in 2022/23. Procedures continue to be maintained to ensure clarity of processes and consistency in approach.

Regular assurance checking of controls applied across the businesses have been performed by the Distribution Business Assurance team. Twenty five site access control reviews were completed during 2022/23.

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

SEPD and SHEPD currently use the common brand of "Scottish and Southern Electricity Networks" (SSEN), which is also used by Scottish Hydro Electric Transmission plc, in its 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 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 other SSE plc group businesses exists. Any transfers of concern (i.e. 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 LLP) and the Board of each of SEPD and SHEPD as necessary. During 2022/23, there was one transfer of concern in relation to Distribution reported to the BSCO. This was risk assessed and processes were followed to ensure no issues arose with the transfer.

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 businesses on business separation. There were no items considered to be reported breaches or complaints during 2022/23.

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 SEPD and SHEPD 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 Distribution Business Assurance team monitor and report on the status of staff training on Business Separation to Networks senior management, including the DEC and senior leadership team. 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 SEPD and/or SHEPD, handling staff transfers, raising business separation queries and reporting potential breaches to the internal 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 Distribution business operations in a single system and ensures that legislative and regulatory change is managed. 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.



5. Contact

Queries relating to this report should be addressed to:

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Scottish and Southern Electricity Networks is a trading name of: Scottish and Southern Energy Power Distribution Limited Registered in Scotland No. SC213459; Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461; Scottish Hydro Electric Power Distribution plc Registered in Scotland No. SC213460; (all having their Registered Offices at Inveralmond House 200 Dunkeld Road Perth PH1 3AQ); and Southern Electric Power Distribution plc Registered in England & Wales No. 04094290 having their Registered Office at No.1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH, which are members of the SSE Group.
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