

Compliance Annual Report 2022-23

1. Introduction

This report is for the year to 31 March 2023, as required by Special Licence Condition 9.15.10 for the licensee, Scottish Hydro Electric Transmission plc (SSEN Transmission).

The report summarises SSEN Transmission's compliance with the Relevant Duties 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 Scottish Hydro Electric Transmission plc 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 Duties

2.1 Review Work

SSEN Transmission has demonstrated compliance with Special Licence Condition 9.15.6 Relevant Duties, through the business separation review work undertaken by the external Compliance Officer, Group Compliance, and the SSEN Transmission Risk and Assurance Team over the course of 2022/23. The Group Compliance function is independent of the operations of SSEN Transmission reporting directly into the General Counsel directorate (as part of Corporate Services) of the SSE Group.

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 SSEN Transmission information as required. In addition, there have been no reports of cross subsidy breaches between SSEN Transmission and other Affiliates or Related Undertakings, as evidenced through the annual EU Cross Subsidy report prepared by SSEN Transmission, which is reviewed by auditors, Ernst & Young LLP, using agreed upon audit procedures and sent to Ofgem.

The Compliance Officer role, as stipulated in Special Licence Condition 9.15.9 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 all staff and documentation to complete this work. Regular meetings have been held with key stakeholders across SSEN Transmission including the SSEN Transmission Risk and Assurance, SSEN Transmission 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 SSEN Transmission's managerial and operational independence, systems, branding, staff transfers, training arrangements, protection of Confidential Information and complaints. A summary assessment has been captured in the external Compliance Officer's annual report and presented to the SSEN Transmission Board. No material issues were identified within this report, with the external Compliance Officer satisfied that SSEN 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 three findings which will be actioned for 2023/24. These include the implementation of additional controls: i) to protect SSEN Transmission premises against unauthorised access; ii) around the staff transfer process; iii) to ensure the contractual obligations for contingency workers contain a business separation clause. Review work also highlighted observations relating to governance arrangements and record keeping. In addition to the review within SSEN Transmission, 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 SSEN Transmission Board every year, normally during Quarter 1 of the financial year.

2.2 Managerial and Operational Independence of SSEN Transmission plc

SSEN Transmission, is a joint venture majority owned subsidiary of SSE plc (75% owned by Scottish and Southern Energy Power Distribution Limited, which is a 100%-owned subsidiary of SSE plc, and, 25% owned by Highland Transmission Bidco Limited, which is a 100%-owned subsidiary of Ontario Teachers' Pension Plan Board).

Currently, the SSEN Transmission Board comprises seven directors, of which two are executive directors directly employed by SSEN Transmission, and two sufficiently independent non-executive directors (SIDs). Executive directors are wholly engaged in the day-to-day management and operation of SSEN Transmission and not involved in the activities of affiliates or related undertakings. The two SIDs are independent of SSE plc. The Chair is also an executive director of SSE plc.

SSEN Transmission has its own management structure under which its staff are employed. The Managing Director of SSEN Transmission is an executive member of the SSEN Transmission Board and is responsible, along with his senior management team, for the day-to-day operation and management of the business. During 2022/23, the day-to-day management of SSEN Transmission was co-ordinated through the Transmission Executive Committee (TEC) which reported to the SSEPD Board, and since November 2022, the SSEN Transmission Board. The TEC is responsible for ensuring every part of the business operates in a safe, responsible, and efficient manner, including compliance with relevant legislation and regulations. Staff are directly employed by SSEN Transmission, 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 SSEN Transmission Risk & Assurance team 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.

Four IT systems access control reviews were undertaken in SSEN Transmission last year. 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 SSEN 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. During 2022/23 five site access control reviews were completed.

The combination of these measures has ensured continued focus on business separation arrangements throughout the year, especially on access to confidential information across SSEN Transmission .

2.4 Branding

SSEN Transmission currently uses the common brand of "Scottish and Southern Electricity Networks" (SSEN), which also covers Scottish Hydro Electric Power Distribution plc and Southern 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 SSEN 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 (Henderson Loggie LLP) and the SSEN Transmission Board, as necessary. During 2022/23, there was one transfer of concern in relation to SSEN Transmission 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 providing advice to SSEN Transmission on business separation. During 2022/23, one report relating to a breach was received. This was investigated by the Internal BSCO and communicated to the External BSCO and noted in the External Business Separation Compliance Officer Report. No complaints for SSEN 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 SSEN 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 SSEN Transmission Risk & Assurance team monitor and report on the status of staff training on Business Separation to senior management, including the TEC and senior leadership team.

The above training is supported by formal procedural documents which provide detailed guidance to SSEN Transmission staff on the required processes for managing access to IT systems and premises, 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. 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 SSEN Transmission 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:

Fiona Ditchburn
Internal Business Separation Compliance Officer
SSEN Transmission plc
200 Dunkeld Road
Perth
PH1 3AQ
e-mail: bsco@sse.com