

Southern Electric Power Distribution
plc

Scottish Hydro Electric Power
Distribution plc

Report of the External AIDNO Business Separation
Compliance Officer

For the year ended 31 March 2026



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Introduction

Condition 42 of the electricity distribution licences of Southern Electric Power Distribution plc (“SEPD”) and Scottish Hydro Electric Power Distribution plc (“SHEPD”) requires that Distribution is managed in such a way that it does not restrict, prevent or distort competition elsewhere in the energy industry and that the confidentiality of related, commercially sensitive information is maintained. Other conditions of the licences prohibit cross subsidisation between the separate businesses and the wider SSE group and discrimination between suppliers by the distribution businesses, in addition to financial ring fencing.

SEPD and SHEPD are the legal entities which are themselves the licence holders, and both entities sit under and report to SSEN Distribution Limited (“SSEND”), a Distribution intermediate parent company.

Independent Distribution Network Operators (IDNOs) develop, operate and maintain local electricity distribution networks. IDNO networks are directly connected to the Distribution Network Operator (DNO) networks or indirectly to the DNO via another IDNO.

On 17 October 2019, The Office of Gas and Electricity Markets Authority (“Ofgem”) introduced modifications to existing Electricity Distribution Licences, including the introduction of Standard Licence Condition 42A (“SLC 42A”). SLC 42A addresses the situation where an affiliate of an existing DNO is granted an electricity distribution licence and therefore becomes an Affiliated Independent Distribution Network Operator (“AIDNO”).

On 8 April 2020, Ofgem granted an Electricity Distribution Licence to Optimal Power Networks Limited (“OPNL”), formerly Forbury Assets Limited. OPNL is a wholly owned subsidiary of SSE Enterprise Limited (Distributed Energy division) and under the ultimate control of SSE plc, the same ultimate parent undertaking as SEPD and SHEPD. OPNL is therefore an AIDNO in relation to SEPD and SHEPD.

Under the terms of SLC 42A, the licensees (being SEPD and SHEPD) must put safeguards in place in respect of activities carried out by OPNL in their Distribution Services Area to:

- manage and operate SSE’s distribution business in such a way that does not restrict, prevent or distort competition;
- prohibit the disclosure of confidential information by SEPD/SHEPD to OPNL except where that information is available to other distributors on an equal basis, or it relates to a customer of OPNL; and
- ensure full managerial and operational independence of the Distribution business from the AIDNO.

SEPD and SHEPD must also have in place a Compliance Statement approved by Ofgem setting out how they comply with the SLC 42A licence requirements and manage the transfer of employees from Distribution to OPNL.

SEPD and SHEPD must also appoint a sufficiently independent and competent person to act as the AIDNO Compliance Officer. The AIDNO Compliance Officer must report annually to the board on compliance with SLC 42A, with the board then reporting to Ofgem on how compliance has been ensured.

Henderson Loggie LLP, Chartered Accountants, is the External AIDNO Compliance Officer appointed by SSEND on behalf of SEPD and SHEPD. On behalf of Henderson Loggie LLP, the External AIDNO Compliance Officer role is led by Gavin Black (Partner). We work with the Internal Business Separation Compliance Officer (“Internal BSCO”) to provide the Compliance Officer role overall, and to fulfil the requirements of this specific licence condition.



Overall approach

We have developed a Compliance Review Programme which details the monitoring and testing we consider necessary to ensure systems, procedures and controls are dealing effectively with separation as required by SLC 42A and SEPD and SHEPD's AIDNO Statement of Compliance as agreed by Ofgem and last updated in April 2024.

Our main contacts throughout the year at SSE have been Fiona Hannon (Group Ethics Lead and Internal BSCO) and Jim Gough (Assurance Manager - Distribution). We hold quarterly update and review meetings with Distribution Business Assurance, alongside the Internal BSCO. Regulation is also represented at these meetings to advise on any regulatory aspects or changes in licence requirements and conditions. We have also presented the findings from our annual review to the Board of SSEND.

Distribution Business Assurance sits within the business and is the principal function used by the Distribution business to ensure compliance with the business separation licence obligations. Group Compliance (now part of Group Audit) is a corporate function, which is separate from the Distribution business.

Wherever appropriate we have utilised Distribution and wider SSE central resource, including the Distribution Business Assurance and Group Compliance teams, as part of our review, with our role in such circumstances being to review the scope of the work undertaken, the results and conclusions reached and any remedial action taken.

The Group Compliance team has undertaken its annual review of business separation within Distribution (including SLC 42A), and we have placed reliance on this work. However, rather than a full scope review, this has been carried out as a higher-level pulse check exercise, focussing on reviewing the assurance procedures being performed by Distribution Business Assurance rather than performing detailed testing. This year the work undertaken by Group Compliance gave an overall risk maturity assessment of Strong. There were no findings overall and none of the observations raised related to SLC 42A compliance.

Other monitoring and review work was undertaken directly by us including areas such as operational and managerial separation, staff training, data confidentiality and branding.

Our approach focuses on the AIDNO Statement of Compliance prepared by SEPD and SHEPD and the requirements of SLC 42A.

Our report is structured in line with the AIDNO Statement of Compliance. It sets out the results of our review and our assessment of compliance with the terms of that Statement and accordingly with SLC 42A.

We have not been required to meet with Ofgem this year and have not been contacted by them.

Managerial and operational independence

We consider there to be several factors important in achieving managerial and operational separation as required by the licences and Ofgem. These include legal and physical separation, autonomous boards with autonomous decision-making processes, appropriate contractual and service level agreements, data confidentiality and branding of the separated businesses.

OPNL is a separate legal entity operating within the Distributed Energy division. SSE's Distribution business has always been and continues to be run entirely separate from Distributed Energy and any other SSE plc business areas or interests. This includes physical and systems access restrictions.

The boards of SSEND, SEPD and SHEPD are completely independent of the governance forum of Distributed Energy and OPNL with no common directors.



The SSEND board is responsible for ensuring the managerial and operational independence of SEPD and SHEPD and is comprised of a strong mix of executive and non-executive members, including 5 non-executive directors (2 of whom are sufficiently independent as defined in the licences). Regular board meetings are held to help ensure appropriate governance is maintained and reinforce SSE's recognition of separation.

The SSEND board is supported by the Distribution Executive Committee, which includes SEPD/SHEPD directors and senior management from across the Distribution business. They are supported further by experienced senior Distribution, Legal and Regulation personnel. Where OPNL obtains support from corporate functions such as Legal and Regulation, this is provided by different individuals from those working with the Distribution business.

The SSEND board has clearly defined terms of reference and a remit which allows the SSE Group to continue to meet its corporate objectives whilst satisfying the licence requirements. In addition, the corporate governance policy has been approved by the PLC board which recognises the role of the SSEND board and empowers that board with prime responsibility for protecting the independence and confidentiality of commercially sensitive information. In this regard, the Capital Authorisation Corporate Policy continues to partially exempt Distribution from the group's Capital Expenditure Approval Procedure to ensure confidential information is not made available to executives or staff who should not have access to it.

We have relied on the detailed work undertaken by Distribution Business Assurance to confirm business separation processes and procedures are being followed. This has included detailed site security checks in the current and previous years. These have focussed on the FM managed sites where there are multiple SSE businesses on-site, including Forbury where the OPNL team is predominantly based. For other sites, high level assurance work is carried out on the quarterly self-assessment submissions by the site authorised person, which cover a range of compliance areas. Should this work identify any issues regarding particular sites, these will be followed up by Distribution Business Assurance. Any repeated or recurring issues with particular sites are escalated and would have an impact on the site risk assessment

We monitor the effectiveness of strategic data confidentiality, autonomy of decision making of the Distribution business and corporate governance issues. This involves reviewing relevant board and committee minutes and considering the operation of the decision-making process with directors and officers.

Whilst absolute separation would not be consistent with SSE's shareholder and stewardship responsibilities, systems, procedures and structures have been implemented and continue to operate to ensure the key objectives of separation have been met. In particular, the group structure has allowed effective managerial and operational independence within the group's strategic plan. Underpinning this is a philosophy whereby access to information and data is prevented where separation requires it, and we consider its implementation has been robust. Where systems enhancement or development is undertaken, separation issues are considered.

SEPD and SHEPD's stated policy is to maintain a separate identity from other parts of SSE plc, including Distributed Energy. They continue to operate under the brand Scottish & Southern Electricity Networks ("SSEN") and that branding continues to be effective in confirming the separation of Networks from other SSE business areas. This is reinforced in the marketplace through the branding of vehicles, sites, PPE and publications. SEPD and SHEPD are now specifically operating under the brand SSEN Distribution. Distributed Energy (through being part of SSE Energy Solutions) also maintains its own brand identity which is separate from that of the Distribution business. Furthermore, OPNL has developed its own distinct branding separate to that of SSE.

The ongoing training of staff on confidentiality and the seriousness with which SSE would regard any breaches continues to ensure the underlying philosophy and approach adopted by SSE in this area is maintained. Completion of the business separation e-learning training package continues to be mandatory for those who have been specifically identified and this covers the separation requirements in respect of the AIDNO. This e-learning module also forms part of the induction and training programme for new starters and is updated regularly to ensure it remains fit for purpose and continues to facilitate effective training. Business separation training must be completed by all Distribution and



Corporate personnel annually and completion statistics are monitored regularly by the Distribution Business Assurance team. This ensures that training is completed, and action is taken, such as IT and physical access restrictions, where training has not been undertaken within the required timescales. As of 31 March 2026, 3% (2025: 4%) of relevant employees had not completed the training in the required timescales.

SSE places particular emphasis on confidentiality clauses in contracts of employment and regularly reinforces the importance of confidentiality, clearly setting out the disciplinary process which would follow any breach. There have been no disciplinary proceedings during the year under separation, confidentiality or competition law conditions of employment.

Our work has confirmed that the culture throughout the organisation relating to separation remains robust and has increased as a result of the continuing emphasis on all compliance issues throughout the Distribution business and the group generally.

Access to confidential information

SEPD and SHEPD have procedures in place to ensure access to information specifically designated as confidential is restricted at all times.

As well as the site security checks undertaken, IT systems audits remain a core part of the Distribution Business Assurance programme and a further sample of key systems have been reviewed during the year. Where follow up actions are identified from IT system audits, these are agreed with the business and are followed up regularly to ensure they are addressed appropriately and timeously.

In addition, Group Compliance has continued to focus on systems access and controls as part of their annual audit scope which provides a further layer of control to the regular work undertaken by Distribution Business Assurance.

We plan to continue to meet quarterly with Distribution Business Assurance and the Internal BSCO to ensure the improvements in monitoring controls that have been applied in recent years continue in 2026/27.

Hybrid and flexible working continue to be commonplace for many employers including SSE, and it is important to ensure the physical access controls continue to be appropriate to reduce the risks around confidential information. However, the risks around physical separation have somewhat reduced, and more sites are now occupied solely by Distribution staff.

There are a number of service level agreements (“SLAs”) involving the Distribution business that are in place, all of which have appropriate clauses on data confidentiality. Distribution Business Assurance maintain a detailed list of all SLAs and have instigated an annual programme to ensure that these are regularly reviewed, remain fit for purpose and have ownership clearly assigned to them. We did not identify any SLAs between SEPD/SHEPD and OPNL or Distributed Energy in relation to electricity distribution.

The cross-subsidy reports prepared by EY and audited regulatory submissions have not raised any material concerns from Ofgem.



Staff transfers

Detailed procedures are in place around staff transfers from the Distribution business to OPNL, and to any other SSE business areas. This includes detailed consideration of potential business separation implications and ensuring any risks are mitigated with individuals being briefed and signing specifically drafted documentation to confirm their awareness of their obligations under the licence. There were no such transfers between Distribution and Distributed Energy (including OPNL) during the year under review.

Responsibility for ensuring compliance

SSE maintains an i-Comply portal, which houses key regulatory and legislative obligations for all of its businesses, with detailed rules being assigned to business owners. This provides a holistic view of the regulatory regime and ensures that it is centrally maintained, regularly updated and that ownership for compliance is clearly assigned.

In addition, the dedicated Business Separation SharePoint site provides access to a vast array of business separation policies, procedures and guidance material as well as information regarding assurance and monitoring activities undertaken. There is also a separate business separation email address for raising, capturing and responding to any potential business separation related matters that may arise from time to time. This is recorded in the Distribution business separation enquiries log, and we are satisfied that none of the issues identified have resulted in any specific business separation problems.

In addition to the work carried out by Distribution Business Assurance, there are further lines of defence in the form of Group Compliance and Group Audit. Business separation, including AIDNO compliance, has been reviewed annually by Group Compliance.

The Internal BSCO provides further advice to Distribution Business Assurance, and to the SSEND board who are ultimately responsible for compliance with the licence conditions, including SLC 42A.

As External AIDNO Compliance Officer, our approach brings an objective review of the practices, procedures and systems in place or planned to help ensure the conditions of SLC 42A and the AIDNO Statement of Compliance are being achieved.

Complaints

We have established a procedure with the Internal BSCO whereby any complaints received relating to separation will be advised to us setting out the investigation work to be undertaken by the business. We will review details of SSE's response to the complainant and any remedial action taken or proposed and we will consider if we should undertake our own investigation. Whilst there can be no guarantee that every relevant complaint would be dealt with by the Internal BSCO, we are satisfied all material complaints would be notified to them.

We have received confirmation that there have not been any complaints of a business separation nature notified to the Internal BSCO this year.



Looking ahead

Our remit as External AIDNO Compliance Officer includes providing input on separation issues to help ensure policies and procedures are consistent with the AIDNO Statement of Compliance and meet the expectations of Ofgem where practicable.

Meetings with Assurance and Regulation staff, the Internal BSCO and SSEND directors allow relevant issues to be aired and addressed on a timely basis.

As noted earlier in this report, we have always placed reliance on the work undertaken by the Group Compliance team, which has up until this year included a full scope review of Business Separation (including SLC 42A) on an annual basis. Discussions are planned with the Internal BSCO, Head of Ethics & Financial Crime and Distribution Business Assurance to determine what level and scope of additional review is required in 2026/27 and beyond to provide the board of SSEND with sufficient assurance over compliance with this licence condition.

Our role will continue to be a monitoring function, in conjunction with Distribution Business Assurance and the Internal BSCO, to independently assess continued compliance with the AIDNO Statement of Compliance and in turn the relevant licence condition, taking account of any developments in the business and to advise on any relevant issues which arise.



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