



Scottish & Southern
Electricity Networks

Southern Electric Power Distribution plc
Scottish Hydro Electric Power Distribution plc

Compliance Annual Report 2020/21

1. Introduction

This report is for the year to 31 March 2021, 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 Electricity Networks (SSEN) 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 SSE Networks Statement of Compliance and the external Compliance Officer's Report 2020/21 (provided by MHA Henderson Loggie), 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 2020/21. 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 SSE plc. Distribution Business Assurance is a specialist team carrying out regular assurance checks on behalf of the 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 EY 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 membership of the Distribution Connection and Use of System Agreement (DCUSA). The recent changes to the Relevant Requirements as a result of the Clean Energy Package are understood and in terms of the requirements relating to Electric Vehicle Recharging Points, a new procedure has been drafted. 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 2020/21 by the external audit firm MHA Henderson Loggie. Between April 2020 and March 2021, the external Compliance Officer has had full and open access to Networks 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, 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 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 SSEPD Board. 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 some observations that will be considered for 2021/22. These include: i) reviewing procedures to ensure clear distinction between the Internal and External Compliance Officer and work instructions with respect to preparing the Annual Compliance Report; ii) ensuring up to date managers and suppliers are identified in SLA documentation; iii) ensuring Information System owners are reminded of the requirement to undertake regular audits in line with the documented procedures for their systems; iv) considering how to embed Business Separation training at corporate level and v) increasing awareness of the staff transfer process.

It should be noted that the re-appointment of the external 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.

At the beginning of April 2021, the SSEPD board comprised six 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 continues to have its own management structure under which SEPD and SHEPD staff are employed. The Managing Director of Distribution 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 2020/21, the day-to-day management of the distribution businesses was co-ordinated through the Distribution Executive Committee (DEC) which reported to the SSEPD Board. This Committee 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.

2.3 Systems and Confidential Information

New IT systems and system modifications have continued to be progressed across SEPD and SHEPD throughout 2020/21. Any new systems or system changes are managed through formal project management and standard change control mechanisms. 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. A total of 8 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 2020/21. 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. During Covid 19 access to sites was limited to essential workers only. Site access control reviews were not undertaken as focus has been on maintaining essential services and limiting interaction of personnel to reduce the risk of Covid being introduced to sites. Site access control reviews will recommence in 2021/22, Covid19 restrictions permitting.

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”, which also covers 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 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 (MHA Henderson Loggie) and the SSEPD Board as necessary. During 2020/21, there were no notified transfers “of concern”.

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. No material reports relating to breaches or complaints for SEPD and SHEPD were received by the internal BSCO during 2020/21.

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. During the year the e-learning module was reviewed and revised to make the information more accessible to those completing it. 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 Distribution 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 Networks, 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 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 allocation of business owners to each rule. Further development of the i-Comply application was carried out during 2020/21 to enhance its usability and functionality for business users and to ensure change is tracked to completion.

5. Contact

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