

Scottish Hydro Electric Power  
Distribution plc

Southern Electric Power Distribution  
plc

Report of the External AIDNO Business Separation  
Compliance Officer

For the year ended 31 March 2023



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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.

Historically, SEPD and SHEPD have been managerially and operationally run under the governance of their parent company, Scottish and Southern Energy Power Distribution Limited (“SSEPD”), along with SSE’s Transmission business. During the year, there has been a governance restructure to formally separate the Distribution and Transmission businesses following a partial divestment of the Transmission business by SSE in November 2022. From the end of October 2022, SEPD and SHEPD have been operating under their own governance structure, being the legal entities which are themselves the licence holders.

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 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 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 AIDNO Compliance Officer appointed by SSEPD on behalf of SEPD and SHEPD. On behalf of Henderson Loggie LLP, the Compliance Officer role is led by Gavin Black (Partner).



## 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 SSEPD's (encompassing SEPD and SHEPD) Statement of Compliance as agreed by Ofgem and last updated in April 2022.

Our main contacts throughout the year at SSE have been Fiona Ditchburn (Interim Head of Group Compliance and Internal Business Separation Compliance Officer (BSCO)) and John Balfour (Head of Assurance - Distribution). We hold quarterly update and review meetings with the Distribution Business Assurance and Group Compliance teams. Regulation is also represented at these meetings to advise on any regulatory aspects or changes in licence requirements and conditions. We also present our findings annually to the Board of the licensees.

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 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 also undertaken its annual review of Distribution business separation, including the AIDNO requirements, and we have placed reliance on this. There were no recommendations or observations specific 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 SSEPD on behalf of 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 are several distinct facets which are 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 operated under the SSE Enterprise division. SSE's Distribution business has always been and continues to be run entirely separate from Enterprise and any other SSE plc business areas or interests. This includes physical and systems access restrictions.

The boards of SSEPD, SEPD and SHEPD are completely independent of the governance forum of SSE Enterprise and OPNL with no common directors. Historically, and up until October 2022, the SSEPD board has been responsible for ensuring the managerial and operational independence of SEPD and SHEPD. The SSEPD board has been 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). This mix is also reflected in the composition of the boards of SEPD and SHEPD. The SEPD/SHEPD (and previously SSEPD) boards are 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 SSEPD (and now SEPD and SHEPD) 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 SSEPD board, and now the boards of SEPD and SHEPD, 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. Whilst further improvements are needed to ensure consistency of physical separation controls and practices across all sites 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.

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 SSE Enterprise. 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. More recently, SEPD and SHEPD have begun specifically operating under the brand SSEN Distribution. SSE Enterprise also maintains its own brand identity which is separate from that of the Distribution business. Furthermore, OPNL has now developed its own distinct branding separate to that of SSE Enterprise.

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 relevant Networks 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 2023, 6% (2022: 12%) of relevant employees had not completed



the training in the required timescales. Whilst this is an improved year on year position, further measures should be taken to bring this fully up to date.

Whilst Corporate personnel working for the Distribution business are registered for business separation training, it has been identified some of the Corporate team not allocated to the Distribution business specifically may not be fully captured as requiring business separation training. This is currently under review by the business having been identified by Group Compliance.

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.

## 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 are 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 continue 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 continue to meet quarterly with the Distribution Business Assurance and Group Compliance teams to ensure the improvements in monitoring controls that have been applied thus far continue in 2023/24.

As hybrid and flexible working continues to develop in the post-COVID working environment, it is important to ensure the physical access controls continue to be appropriate to reduce the risks around confidential information.

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 a 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 SSE Enterprise in relation to electricity distribution.

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

## Staff transfers

Detailed procedures are in place around staff transfers from the Distribution business to the AIDNO, 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 during the year under review.



## Responsibility for ensuring compliance

SSE Group Compliance 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 within the SSE intranet 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 issues 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, is reviewed annually by Group Compliance.

The internal Business Separation Compliance Officer provides further advice to Distribution Business Assurance, and to the SEPD/SHEPD boards who are ultimately responsible for compliance with the licence conditions, including SLC 42A.

As an independent external 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 SSE's Regulation and Group Compliance Teams 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 Regulation or Group Compliance teams, 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 Regulation or Group Compliance teams this year.



Partner  
For and on behalf of Henderson Loggie LLP  
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18 May 2023



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