

# Scottish Hydro Electric Transmission plc

Report of the External Business Separation  
Compliance Officer

For the year ended 31 March 2023



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# Introduction

Special Conditions 9.14 and 9.16 of the electricity transmission licence of Scottish Hydro Electric Transmission plc (“SHET”) require that Transmission 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 licence prohibit cross subsidisation between SHET and the wider SSE group, and discrimination between suppliers by the Transmission licence holder, in addition to financial ring fencing.

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

Previously SSEPD had agreed with The Office of Gas and Electricity Markets Authority (“Ofgem”) and published its Statement of Compliance setting out how SSEPD complied with the licence requirements specifically on the restriction on use of certain information and independence of the Transmission and Distribution businesses. This Statement of Compliance is in the process of being updated to separate the Transmission and Distribution businesses and reflect the new governance structure. Despite this update not yet being complete, the underlying licence requirements and principles are unchanged.

Special Licence Condition 9.15 of the Transmission licence requires SHET to appoint a Compliance Officer to facilitate compliance with the licence restrictions on use of certain information and the independence of the Transmission business within SSE plc.

Henderson Loggie LLP, Chartered Accountants, is the Compliance Officer appointed by SSEPD on behalf of SHET. On behalf of Henderson Loggie LLP, the Compliance Officer role is led by Gavin Black (Partner). The licence requires us to report annually to the directors on our activities over each year to 31 March, and that the licensee reports thereafter to Ofgem on the Compliance Officer’s activities and other relevant issues.

The specific duties of the Compliance Officer are included in the appendix to this report but principally we are responsible for supporting SHET in complying with the business separation licence conditions. This includes providing advice on complying with the confidentiality and separation obligations placed on the Transmission business, monitoring the effectiveness of the practices, procedures and systems adopted, investigating complaints and reporting annually to the Board. We are also required to liaise with Ofgem on all of these matters as appropriate.



## Overall approach

During our period of appointment as Compliance Officer, 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 Special Licence Conditions 9.14, 9.15 & 9.16, together with SSEPD's (encompassing SHET) Statement of Compliance as agreed by Ofgem and last updated in March 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 Farquhar (Senior Manager, Risk & Assurance). We hold quarterly update and review meetings with the Transmission Risk & 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 have also presented the findings from our annual review to the Board of SHET.

Transmission Risk & Assurance sits within the business and is the principal function used by the Transmission business to ensure compliance with the business separation licence obligations. Group Compliance is a corporate function, which is separate from the Transmission business.

Wherever appropriate we have utilised Transmission and wider SSE central resource, including the Transmission Risk & 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.

A significant amount of work has been undertaken by the Transmission Risk & Assurance team to provide assurance that existing processes are working effectively in practice. Group Compliance continues to act in an objective monitoring and advisory role in respect of business separation matters.

Transmission Risk & Assurance have undertaken site visits as part of their assurance work. Rather than carry out our own dedicated site visits we have instead focussed on the work undertaken by Transmission Risk & Assurance and reviewed the findings from a sample of their visits. These visits have been carried out throughout the year following a period of reduced activity due to physical access and travel restrictions during the COVID pandemic, with 5 site security reviews finalised in the period under review, compared with 2 such visits in 2021/22. As a business, SSE had a large proportion of people working from home during the pandemic, which to some extent reduced the risks around physical separation during that time. However, increasing numbers of people have been returning to offices and depots on a hybrid working basis and new ways of working will present different physical separation considerations for the business.

The Group Compliance team has also undertaken its annual review of business separation within Transmission, along with a separate review targeted at Corporate functions that work across Transmission and other business areas, and we have placed reliance on this work. This year the work undertaken by Group Compliance raised three amber findings and two observations for Transmission, and two amber findings for Corporate Services. One of these findings relates to the staff transfer process and an isolated breach that was identified by the business prior to the Group Compliance audit due to a failure to follow procedures in this area. Whilst the issues identified increase the risk of non-compliance, we do not consider they gave rise to any further breaches of the licence requirements. The points raised have been accepted by the business, with actions agreed to ensure they are addressed timeously and appropriately.

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 Statement of Compliance issued by SSEPD, encompassing SHET, and the objectives set out in the relevant licence conditions.

Our report is structured in line with the Statement of Compliance. It sets out the results of our review and our assessment of compliance with the terms of that Statement and accordingly the relevant licence conditions.



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 licence 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.

The practical aspects such as the creation of separate legal entities, physical access restrictions and branding have been specifically verified. We also relied on the detailed work undertaken by Transmission Risk & Assurance to confirm processes and procedures are being followed. Whilst further improvements are needed to ensure consistency of physical separation controls and practices across all sites our work has again 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 Transmission business and the group generally. Like all regulatory obligations, business separation requirements are housed within the group wide i-Comply system.

We monitor the effectiveness of strategic data confidentiality, autonomy of decision making of the Transmission 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. Historically, and up until October 2022, the SSEPD board has been responsible for ensuring the managerial and operational independence of SHET. 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 of executive and non-executive members is also reflected in the composition of the board of SHET. The directors are supported further by experienced senior Networks, Legal and Regulation personnel. Regular board meetings are held to help ensure appropriate governance is maintained and reinforce SSE's recognition of separation.

The SHET (and previously SSEPD) board is supported by the Transmission Executive Committee, which includes SHET directors and senior management from across the Transmission business.

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. There are occasions where small numbers of non-Transmission staff will have access to certain parts of Transmission systems as necessary for the performance of their duties, mainly in relation to the provision of services for the Transmission business. In such circumstances, which are reducing over time through systems developments, we found effective procedures and systems to be in place to consider the business separation risks and ensure these are mitigated.

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. 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 Transmission and Corporate personnel annually and completion statistics are monitored regularly by the Transmission Risk & 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, 9% (2022: 13%) of relevant



employees had not completed the training in the required timescales and further measures should be taken to bring this up to date.

Whilst Corporate personnel working for the Transmission business are registered for business separation training, it has been identified some of the Corporate team not allocated to the Transmission 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.

Where staff transfers between Transmission and other SSE business areas take place, detailed consideration is given to any potential business separation implications to ensure that risks are mitigated, with individuals being briefed and signing specifically drafted documentation to confirm their awareness of their obligations under the licence. There are procedures in place to ensure that any significant transfers are discussed with us and there was one further transfer during the year under review which did follow the agreed process.

## Common services

We have considered the service level agreements (“SLAs”) in place and discussed their operation in practice.

In recent years, Distribution Business Assurance have undertaken a detailed review of the SLAs in place to ensure these are all still required and that they reflect the nature of the services being provided to or received from other areas of the business as well as confirming that they are fully compliant with current procurement regulations. This review continued into 2022/23 and the detailed list of SLAs continues to be reviewed to ensure they remain fit for purpose and have ownership clearly assigned to them. Our review and that undertaken by Group Compliance highlighted some SLAs that are either requiring update, under review or in progress where no substantive action appears to have been taken during the year under review. This regular ongoing review process needs to be fully undertaken to ensure that this aspect of separation is well managed and with sufficient regularity.

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

## Systems and confidential information

SHET has 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 Transmission Risk & 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 Transmission Risk & Assurance.



During the year, the Group Compliance team have followed up on the previous year's report and regular meetings have been held with the Transmission Risk & Assurance team to review progress against the previous year's action points.

We plan to continue to meet quarterly with the Transmission Risk & Assurance and Group Compliance teams to ensure the improvements in monitoring controls that have been applied in recent years continue in 2023/24 and that recommendations made by Group Compliance are fully embedded in the business.

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.

From our work we are satisfied that the licensees continue to comply with their stated business separation policy and implement and enforce procedures and controls commensurate with that policy.

## Branding

SHET's stated policy is to maintain a separate identity from other parts of SSE plc. 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.

As part of the further separation of the Transmission and Distribution businesses, SHET is now specifically operating under the brand SSEN Transmission.

We are satisfied that branding is in keeping with the group policy and consistent with the need to separately identify the Networks business within the marketplace.

## Responsibility

Separate legal entities for the operating subsidiaries create an appropriate structure for separation to be effective. The formal procedure of regular board meetings underpins this and we consider these to be fundamental to achieving effective separation. The board of SSEPD comprised 6 executive directors and 5 non-executive directors, 2 of whom were sufficiently independent as defined in the licence. The board of SHET now comprises 2 executive directors and 7 non-executive directors, 2 of whom are sufficiently independent as defined in the licence. The non-executive Chair is also a member of the SSE plc Board, which recognises the importance of SHET board responsibilities in the context of the Group. The operation of the Transmission Executive Committee supports the role of the board and has continued to allow the board to focus on the most important areas of its responsibility.

The 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 board of SHET, 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 Transmission 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.

SSE Group Compliance maintains an i-Comply portal, which houses key regulatory and legislative obligations for all of the SSE 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 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 Transmission Risk & Assurance 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 Transmission business separation issues log, and we are satisfied that none of the issues raised during the year have resulted in any significant business separation problems.

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 the licences and the 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.

## Advisory role

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

Meetings with Assurance, Compliance and Regulation staff and SHET directors allow relevant issues to be aired and addressed on a timely basis.

The practices, procedures and systems in SSEPD's Statement of Compliance, encompassing SHET, have been fully implemented for many years. Accordingly, our role continues to be a monitoring function, in conjunction with Transmission Risk & Assurance, Group Compliance and the Regulation team, to independently assess continued compliance with the licence conditions, taking account of any developments in the business and to advise on any relevant issues which arise.



Partner  
For and on behalf of Henderson Loggie LLP  
Chartered Accountants  
Dundee Office

26 May 2023





## Appendix – Duties of the Compliance Officer

- 1.1 The duties and tasks assigned to the Compliance Officer shall include:
- a) providing relevant advice and information to the Licensee for the purpose of ensuring its compliance with the Relevant Duties/Requirements;
  - b) monitoring the effectiveness of the practices, procedures and systems adopted by the Licensee in accordance with the statement referred to Special Condition 9.16 of the Transmission Licence;
  - c) advising whether, to the extent that the implementation of such practices, procedures and systems requires the co-operation of any other person, they are designed so as reasonably to admit the required co-operation;
  - d) investigating any complaint or representation made available to him;
  - e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
  - f) providing relevant advice and information to the Licensee for the purpose of ensuring its effective implementation of:
    - i) the practices, procedures and systems adopted in accordance with the statement referred to above; and
    - ii) any remedial action recommended in accordance with sub-paragraph (d); and
  - g) reporting annually to the directors of the Licensee – in respect of the year ending 31 March 2003 and of each subsequent year – as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the Licensee.
- 1.2 As soon as is reasonably practicable following each annual report of the Compliance Officer, the Licensee shall produce a report:
- a) as to its compliance during the relevant year with the Relevant Duties/Requirements; and
  - b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to above.
- 1.3 The report produced in accordance with paragraph 1.2 shall in particular:
- a) detail the activities of the Compliance Officer during the relevant year;
  - b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement referred to above; and
  - c) set out the details of any investigations conducted by the Compliance Officer, including:
    - i) the number, type and source of the complaints or representations on which such investigations were based;
    - ii) the outcome of such investigations; and
    - iii) any remedial action taken by the Licensee following such investigations.



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