

Scottish Hydro Electric Transmission plc

Annual report of the Managing Director of Transmission

This report and statement have been prepared by the Managing Director of Transmission for the directors of Scottish Hydro Electric Transmission plc (“SHE Transmission”) in accordance with the provisions of paragraph 4(b) of Special Condition 2I of SHE Transmission’s licence.

SHE Transmission is a wholly-owned subsidiary of SSE plc (“SSE”). SHE Transmission is managed and operated as part of Scottish and Southern Energy Power Distribution Limited (“SSEPD”) in accordance with the direction issued by the Gas and Electricity Markets Authority (“the Authority”) under paragraph 9 of Special Condition 2I of SHE Transmission’s licence.

This report and statement have been made as soon as practicable after the end of the calendar year 2014.

Report for the year ending 31 December 2014

As the Managing Director of Transmission, I am responsible for the conduct of the transmission business and any external transmission activities.

Our key projects in construction this year were:

- Beaully Denny
- Beaully Blackhillock Kintore
- Beaully Mossford
- Kintyre Hunterston

In making this report for the year 2014, I take into account three factors that are of material impact to the conduct of the transmission business:

- The Scottish Government’s decision, announced on 6 January 2010, in respect of SHE Transmission’s application for consent, under section 37 of the Electricity Act 1989, to install a new overhead transmission line between Beaully and Wharry Burn, near Dunblane (“the Beaully Denny project”). The Beaully Denny project is now entering the final stages of construction and commissioning. The project has been constructed in three sections
- North section (Beaully Substation to Fort Augustus Substation)
- Centre section (Fort Augustus to Tummel Substation)
- South section (Tummel Substation to Braco Substation and the Wharry Burn – the interface with Scottish Power Transmission (SPT))

The northern and centre sections of the 200km 400kV line were completed and energised during 2013 and 2014.

The south section has been completed this year except for two towers, 16km of wiring and commissioning of the new Braco substation. We have formed a joint commissioning panel with SPT and are working towards completing the commissioning and energisation of the 400kV and 275kV circuits which is scheduled for November 2015.



Beauly Denny – Tummel substation under construction and new conductors being installed

- Further developments to the SHE Transmission network to facilitate the growth of renewable generation in the north of Scotland, via specifically the Transmission Investment Incentive Projects of which Beauly Blackhillock Kintore (“BBK”) is now the only project still in construction.
- Within RIIO-T1 and the SWW framework, we carried out construction work on the Kintyre Hunterston and Beauly Mossford overhead line projects during 2014. In December 2014 we received approval from Ofgem to proceed with the Caithness Moray project which is a significant project that represents an investment of circa £1,118m and will enable the connection of 1.2GW of new renewable electricity generation following completion in 2018. We continue to work with Ofgem and the relevant stakeholders on reinforcement options for the East Coast phase 1 and Islands projects.



BBK – erecting a new tower on the 275kV line



Beaully Mossford – new towers erected

There are two other points of particular interest for 2014:

- During the course of 2014, SHE Transmission has continued to work closely with Ofgem and the two other Transmission Owners (TOs) to establish new Regulatory Instructions and Guidance (RIGs) and Data Assurance Guidance (DAG) documentation to enhance the regulatory reporting standards for the transmission companies. The Business Planning central support function has a comprehensive plan for meeting SHE Transmission's obligations in respect of these requirements.

- SHE Transmission also worked with Ofgem, the two other TOs and the System Operator (SO) on Ofgem's proposals for changes to the transmission planning regime being introduced through the Integrated Transmission Planning and Regulation (ITPR) project. SHE Transmission will continue to work with these parties through out 2015 on this project.

While these factors have impacted the operation of the transmission business during the year, it is my opinion that adequate staff, resources and finances were available to the business.

During the year ending 31 December 2014, it is my opinion that the transmission business was efficiently and effectively managed and operated in accordance with SHE Transmission's duty under section 9(2)(a) of the Electricity Act 1989 and the transmission licence.

I report on the matters pertinent to the discharge of my responsibilities below.

Staff and Resources

Adequate staff and resources were available to the transmission business during the year ending 31 December 2014.

During the last year, we have recruited an additional 80 staff, taking our headcount to 435 full time equivalent ("FTE") staff directly employed by SHE Transmission at 31 December 2014. In addition to our own staff, we receive services from Scottish Hydro Electric Power Distribution plc ("SHEPD") along with corporate services from SSE Services plc.

As part of the SSEPD management structure and SSE Services plc corporate structure, the resources available to the transmission business include the use of premises and staff and these are subject to the conditions under paragraph 9 of Special Condition 2I of SHE Transmission's licence. Use of premises and staff is subject to service level agreements and annual audits on cross subsidy are undertaken and submitted to Ofgem.

All assets comprising SHE Transmission's transmission system (for example, overhead tower lines, underground cables, switchgear, meters and control equipment for voltages at or above 132kV, supergrid substations, grid substations and the land on which these assets are situated) are owned by SHE Transmission.

All staff employed by SSE are notified of SHE Transmission's obligations under Special Condition 2B of SHE Transmission's licence.

Finance

Adequate finance was available to the transmission business during the year ending 31 December 2014.

SHE Transmission's financial year for both statutory and regulatory reporting is 1 April to 31 March. Hence, this report covers a part of financial year 2013-14 and a part of financial year 2014-15. In respect of financial year 2013-14, the regulatory accounts were approved by the directors on 16 July 2014. Regulatory accounts for the financial year 2014-15 are due to be approved in July 2015. In respect of financial year 2013-14, on 16 July 2014 the directors

approved a Certificate of Availability of Resources that confirmed their reasonable expectation that SHE Transmission would have sufficient financial resources and financial facilities for the subsequent 12 months.

During October 2014, SHE Transmission obtained an additional loan from EIB for £150m. During the last 12 months SHE Transmission has received additional funding of £47m from SSE plc.

Looking ahead; Arrangements for the year ending 31 December 2015

It is my opinion that adequate arrangements have been made for the year ending 2015 for the efficient and effective management and operation of the transmission business in accordance with SHE Transmission's duty under section 9(2)(a) of the Electricity Act 1989 and the transmission licence.

These arrangements allow SHE Transmission to maintain full managerial and operational independence of the transmission business from SHE Transmission's affiliates and related undertakings (subject to the direction issued by the Authority under paragraph 9 of Special Condition 21 of SHE Transmission's licence).

Resources and finance

For the year ending 31 December 2015, taking into account the planned capital programme, it is anticipated that there will be a significant growth in the activities of the transmission business, and hence the staff and resources available to the transmission business.

SHE Transmission remains committed to progressing its Large Transmission Projects during the year ending 31 December 2015. Key projects under construction in 2015 are Beaulieu Denny, Kintyre Hunterston, BBK, Beaulieu Mossford and Caithness Moray.

The Caithness Moray project has a fully resourced programme (for all components) and this takes cognisance of the demand the project will have on key staff and supporting personnel, both internal and external, throughout the project lifecycle. Assessment of both the retained and required resources, forms part of the monthly programme review. Additionally, a procurement schedule is developed from the programme, which identifies key contractors and suppliers and when these are required to be procured to align with the programme constraints and demands.

SHE Transmission is also preparing for submissions for the East Coast phase 1, Shetland and Western Isles SWW projects in order to commence construction. In addition, detailed plans have been made to undertake necessary "core expenditure" including preconstruction, O & M and a large number of new connections.

Adequate staff and resources will be available to the transmission business for the planned programme of works.

SHE Transmission is adequately funded having diverse sources of funding comprising £300m of external loans with EIB and £313.1m Loan Stock with SSE plc. These are all repayable on 2021 or beyond. SHE Transmission also has £457m of internal loans, all repayable on demand.

SHE Transmission has access to the groups revolving credit facility and bilateral bank facilities (currently £1.5bn, maturing in July 2018 and April 2018 respectively). In addition, SHE Transmission has access to a further £50m Credit Facility with EIB which matures in August 2015.

Therefore, in my opinion, the available staff, resources and finance are adequate for the year ending 31 December 2015.

David Gardner
Managing Director of Transmission