

SSEN Transmission

Annual report of the Managing Director of Transmission

May 2021



This report and statement have been prepared by the Managing Director of SSEN Transmission for the directors of Scottish Hydro Electric Transmission plc (SHE Transmission), operating as SSEN Transmission, in accordance with the provisions of paragraph 4(b) of Special Condition 21, Independence of and appointment of Managing Director of the Transmission Business, of SSEN Transmission's licence.

SSEN Transmission is a wholly owned subsidiary of SSE plc (SSE). SSEN Transmission is governed as part of Scottish and Southern Electricity Networks (SSEN) in accordance with the direction issued by the Gas and Electricity Markets Authority (the Authority) under paragraph 9 of Special Condition 21 of SSEN Transmission's licence.

This report and statement have been prepared as soon as practicable after the end of the calendar year 2020. The timing of the report follows completion of the 2020-21 financial year, and the subsequent attainment of scheduled assurance and governance.

1. Report for the year ending 31 December 2020

As the Managing Director of Transmission, I am responsible for the conduct of the transmission business and our external transmission activities. In making this report for the year 2020, I consider below those factors that are of material impact to the conduct of the transmission business.

During 2020, the Covid-19 pandemic has presented significant challenges for society and the energy industry. We have implemented a range of measures to keep our staff, supply chain and the wider communities in which we operate safe, while continuing to deliver as normal for our customers and stakeholders, maintaining our strong track record of performance for the 2020 calendar year.

Key Outcomes

Safety Performance: We continued to maintain our focus and efforts on safety performance, achieving 348 safe days out of a possible 365; and our combined employee and contractor Total Recordable Injury Rate (TRIR) remained low at 0.29. We recorded three category 1 road traffic collisions and as such the risk associated with driving will continue to be a key focus area within next year's Safety Health and Environment Improvement Plan, as will contractor safety and the risk associated with operational activities. We have had no high potential incidents, environmental permit breaches or major level environmental

incidents during this period.

RIIO-T2: Our stakeholder-led approach has allowed us to deliver, in December 2019, a strong and robust Business Plan for the RIIO-T2 period: '[A Network for Net Zero](#)'. Significant effort was made engaging with stakeholders and Ofgem on our proposals during 2020, leading up to Ofgem's Final Determination published in December 2020. We were awarded the highest Business Plan Incentive (BPI) in the industry, with a £21.8 million reward including acknowledgement of the additional consumer value in our greenhouse gas emissions and biodiversity targets. Final Determination's approved funding of more than £2 billion to deliver our Certain View outputs for the period 1 April 2021 to 31 March 2026. Taking account of the approved Uncertainty Mechanisms, we anticipate spending at least £3.5 billion during the RIIO-T2 period in line with a pathway to net zero and, ultimately, the 2045 and 2050 national net zero targets.

Sustainability and Environment: In 2020 we became the world's first electricity network company to receive external accreditation for our Science-Based Target (SBT) in line with a 1.5°C global warming pathway demonstrating our sector leading credentials in tackling the climate emergency. Our approach to Biodiversity Net Gain (BNG) was commended at the Institute for Environmental Management and Assessment (IEMA) Sustainability Impact Awards. Both the SBT and BNG contributed to the BPI noted above. For the third year running, we were awarded a 'Leadership' rating in Ofgem's Annual Environmental Discretionary Reward (EDR); achieving our highest scoring to date and making us the first Transmission operator to achieve EDR leadership status for three consecutive years.

Customer and Stakeholders: In 2020 we undertook a Health Check against the AA1000 Stakeholder Engagement Standard and were awarded a scoring of 'Mature', the second highest category. In September, we were awarded 6.55 in Ofgem's Stakeholder Engagement Incentive, making us the highest performing transmission company in this incentive in 2019/20. In their feedback on the incentive, the panel considered our focus on consensus decision-making and co-creation to be unusual in this sector. In the second half of the year we delivered the final phase of engagement on our RIIO-T2 Business Plan, ensuring Ofgem knew the importance of approving our plan in full in order to meet stakeholders' needs and expectations.

During the year we pivoted all of our engagement to distanced methods in response to the Covid-19 restrictions, including new online and digital engagement solutions, avoiding any engagement related delays to project development. In late summer, we re-consulted with stakeholders on our engagement priorities for 2020/21. As a result, we introduced new priorities such as offshore wind connection challenges.

Network Reliability: Availability and reliability of the SSEN Transmission network remains high with a network reliability measurement in excess of 99.99%. Improvements to the network and our operations during the year resulted in a further reduction in the number and duration of interruptions. We achieved a maximum 100% reward and no penalties in Ofgem’s Energy Not Supplied (ENS) incentive. Our HVDC network, commissioned in late 2018, continues to provide 100% availability outside of the routine annual maintenance period (c 7 days per annum).

Providing a reliable and predictable electricity network for end users and connected generators remains a key focus for the business. Regardless of the difficulties encountered throughout the last year due to the Covid-19 pandemic, all planned inspection and maintenance activities were completed with additional safety protocols in place to ensure the wellbeing of staff, contractors, customers and the wider community.

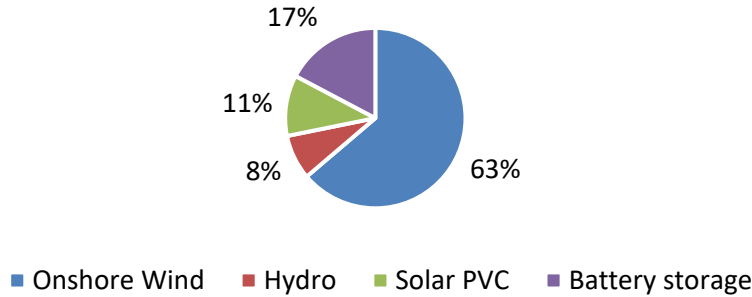
Construction and Capital Delivery: It has been successful year for SSEN Transmission’s Development and Delivery teams with 17 projects fully completed, energised and handed over to Operations. These are critical to maintaining network reliability, security of supply and supporting the transition to net zero.

Key highlights include:

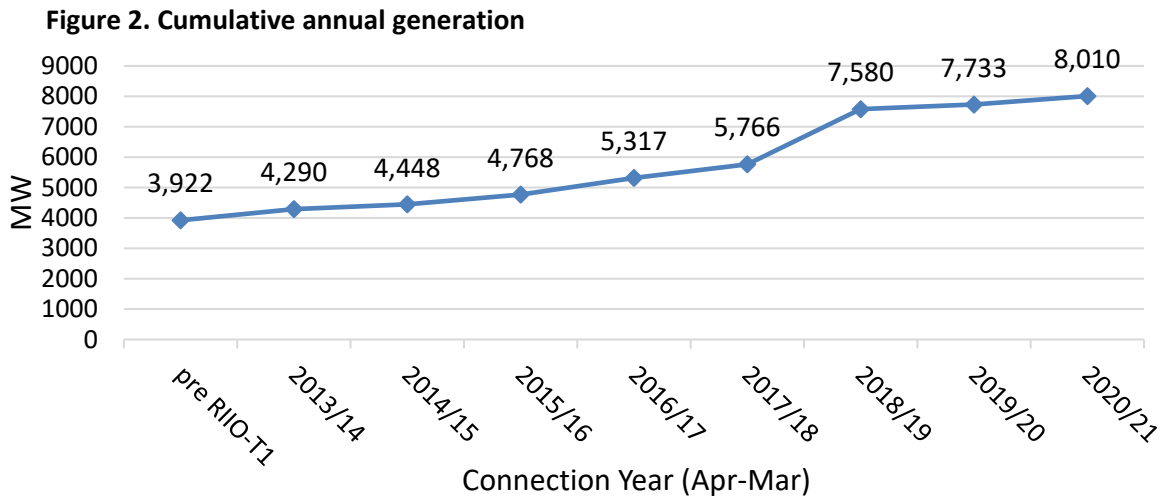
- Commencement of construction on the 600 MW HVDC link that will connect Shetland to the GB transmission network for the first time. The project was approved by Ofgem in July 2020 and is on track for energisation by 2024. This link will go a long way in unlocking Shetland’s renewable potential, as well as supporting the island’s future security of supply requirements;
- Completion of the Loch Buidhe to Dounreay 275kV Reconductoring project seven weeks ahead of programme, which provides an increase of 167 MVA shared use capacity for connection of new renewable generation in the north of Scotland;
- Energisation of Keith-Macduff-Blackhillock 132kV Under Ground Cabling scheme one week ahead of programme, which provides an increase of 87 MVA shared use capacity for connection of new renewable generation in the north of Scotland; and
- Completion of the Cairngorm VISTA projects which saw the removal of 46 towers across the Cairngorm National Park, improving the visual landscape for communities and visitors to the area.

Generation Connected: Over the course of the 2020 calendar year, 232.7 MW of generation was connected to our network. Significantly, all new generation connections came from renewable sources, with just under two thirds provided by onshore wind as shown in Figure 1.

Figure 1. 2020 generation breakdown by energy source



During 2021, we are forecasting to connect 1,271.1 MW generation which is again all renewable and includes the 900 MW Moray East Offshore Windfarm. Figure 2 shows the cumulative generation capacity on provided on the network to the end of the RIIO-T1 price control period.



Network Planning: Planning for future large investments to ensure we are able to achieve a pathway to net zero remains a key focus. We work closely with stakeholders in our network planning activities including the Electricity System Operator (ESO) and other network licensees. The past year has seen good progress in the development of three large Strategic Schemes that are vital to support the connection of

new renewable generation in future years:

- The Initial Needs Case (INC) for the first Eastern HVDC link was submitted for consideration to Ofgem in October 2020; and
- Optioneering and development were progressed on both the Skye Reinforcement and Argyll 275kV Strategy during 2020, with plans in place to submit the INC for both schemes during 2021.

Staff and Resources

SSEN Transmission has responded well to the significant challenges we are currently facing with Covid-19 and the required new ways of working whether on site or remotely. Despite these changes, our recruitment plans have continued largely to plan to support essential operations, maintenance and growth in line with the future system development and targets set out in our RIIO-T2 Business Plan. During the last calendar year, 70 Corporate employees have been transferred into SSEN Transmission with a further increase of 108.3 full time equivalent (“FTE”) following successful recruitment activities. By 31st December 2020 the overall headcount for SSEN Transmission was 668.3 FTE.

The resources available to the transmission business continue to include the use of shared premises and shared service staff and these are subject to the conditions under paragraph 9 of Special Condition 2I of SSEN Transmission’s licence. Use of premises and staff is subject to service level agreements and annual audit procedures on cross subsidy are undertaken and submitted to Ofgem. All staff employed by SSE are notified of SSEN Transmission’s obligations under Special Condition 2B of SSEN Transmission’s licence.

Finance

SSEN 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 2019-20 and a part of financial year 2020-21. In respect of financial year 2019-20, the accounts were approved by the Directors on 25 August 2020. Accounts for the financial year 2020-21 are currently under preparation and planned to be available for approval in July 2021. In relation to our obligations under our licence, we are required to comply with several conditions relating to Availability of Resources and Indebtedness, which covers both Credit Rating requirements and

Cross Default Obligations. As part of our ongoing financial management of SSEN Transmission, these commitments are monitored throughout the year. This underpins our regulatory and statutory requirements as specified under the Companies Act 2006.

In our Statutory Financial Statements, we provide a Statement of Viability which is a requirement under the Corporate Governance Code for Listed Companies (which SSE is, as the ultimate controller of SSEN Transmission). As part of that statement we consider our obligations under our licence, our investment priorities and our financing ability alongside key risks to the business. This statement forms part of our audited Statutory Financial Statements and is for a period greater than one year (i.e. three years).

2. Arrangements for the year ending 31 December 2021

It is my opinion that adequate arrangements have been made for the calendar year ending 2021 for the efficient and effective management and operation of the transmission business, in accordance with SSEN Transmission's duty under section 9(2)(a) of the Electricity Act 1989 and the transmission licence. These arrangements allow SSEN Transmission to maintain full managerial and operational independence of the transmission business from SSEN Transmission's affiliates and related undertakings (subject to the direction issued by the Authority under paragraph 9 of Special Condition 21 of SSEN Transmission's licence).

In respect of financial year 2020-21, on 25 August 2020 the directors approved a Certificate of Available Resources which confirmed their reasonable expectation that SSEN Transmission would have sufficient financial resources and facilities for the following 12 months. This covers the period to 31 March 2021. The Certificate of Available Resources for 2021-22, covering the period to 31 March 2022, will be submitted to Ofgem in July 2021 in accordance with our licence obligation.

Adequate staff and resources will be available to the transmission business for the planned programme of works. Towards the end of the 2020 calendar year, a full bottom up review of resources was undertaken, and this identified that an overall budgeted headcount of around 950 FTE is required by the end of 2021. This headcount will allow us to continue with our capital programme, including our Shetland LOTI Project and the outputs set out in our RIIO-T2 Business Plan.

SSEN Transmission is adequately funded at 31 December 2020, the main sources of funding comprising External Loans with the European Investment Bank (EIB) at £746.7 million and a public Green Bond of £350.0 million along with £963.1 million Internal Loan Stock with SSE.

These facilities are all repayable from 2021 onwards. SSEN Transmission also has £243.2 million of net inter-company balances payable/repayable on demand. Cash and Bank balances (restricted) amounted to £3.6 million. In March 2021, SSEN Transmission issued a further £500 million Green Bond (split into 2 tranches of £250m).

At 31 December 2020, SSEN Transmission had access to SSE's £1.3 billion committed Revolving Credit Facility maturing on 29 March 2026 and a £200 million Bilateral Committed Facility maturing 3 October 2025. The borrower of these facilities is SSE plc. The SSE Group funds itself on a consolidated basis, with subsidiary companies borrowing from (or lending to) SSE plc (holding company) as required. The directors of SSE will continue to make these facilities available to the licensee in accordance with the legally binding undertaking made under Standard Condition B8. This is in line with our Statement of Viability as audited for the year ended 31 March 2020.

Therefore, in my opinion the available staff, resources and finance are adequate for the year ahead based on the information above.

Rob McDonald

Managing Director of Transmission

May 2021