

SSEN Transmission

Annual report of the Managing Director of Transmission

Covering the period from 1st April 2022 to 31st March 2023



This report and statement have been prepared by the Managing Director for the directors of Scottish Hydro Electric Transmission plc (SHE Transmission), operating as SSEN Transmission, in accordance with the provisions of Special Licence Condition 9.16.9, Independence of and appointment of Managing Director of the Transmission Business, of SSEN Transmission's licence.

Following a minority stake sale completed in November 2022, SSEN Transmission is now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board. SSEN Transmission is now governed by the recently appointed SSEN Transmission Board in accordance with the direction issued by the Gas and Electricity Markets Authority (the Authority) under Special Licence Condition 9.15 of SSEN Transmission's licence. This outlines requirements on the licensee to appoint an independent compliance officer and report on compliance against the licensee's duties on an annual basis.

The previous Managing Director's Report covered the 15-month period to 31 March 2022, comprising the first regulatory year of RIIO T2, plus the additional three-month period from 1 January 2021 to 31 March 2021, following the introduction of the new RIIO-T2 licence change in reporting period which took effect from 1 April 2021. This was with Ofgem's agreement and was only applicable for that year, with reports produced in future years relating to the preceding 12-month regulatory period.

This report and statement have been prepared as soon as practicable after the end of the financial year 2022/23 and the subsequent attainment of scheduled assurance and governance.

Report for the period to 31 March 2023 (actual) and to 31 March 2024 (forecast)

As the Managing Director of Transmission, I am responsible for the conduct of the SSEN Transmission business and our external transmission activities. In making this report for the period 1 April 2022 to 31 March 2023, and looking forward to 31 March 2024, I consider below those factors that are of material impact to the conduct of the transmission business.

People

The headcount across SSEN Transmission increased from 910 Whole Time Equivalent (WTE) at 31 March 2022 to 1,292 (WTE) at 31 March 2023, an increase of 382 WTE. This growth is predominantly due to the ongoing increase in the workload associated with delivering our 'Network for Net Zero' RIIO-T2 Business Plan and the continued forecast growth in renewable generation in the North of Scotland as the GB economy decarbonises. During the course of this year, the Accelerated Strategic Transmission Investment (ASTI) framework has made a material impact on our headcount and capabilities requirements.

Looking ahead to 31 March 2024, our internally approved budget increases this headcount further to 1,898 WTE. To ensure our workforce meets the capability and skills requirements of our business, and in line with our People Strategy, we have a dedicated Workforce Planning Manager. All staff employed by SSE are notified of SSEN Transmission's obligations under Special Licence Condition 9.14 of SSEN Transmission's licence, Restriction on the use of certain information.

Expenditure

Our capital investment (excluding capitalised overheads and interest) for the year ending 31 March 2023 was £479m¹ with the approved budget for the following year to 31 March 2024 set at £674m. This year-on-year increase is due to the mix and phasing of capital projects at different stages and allows for full and timely delivery of the outputs set out in our RIIO-T2 Certain View and uncertainty mechanisms including the ASTI framework.

This includes some notable project expenditures relating to RIIO-T2 Certain View outputs such as East Coast 400kV, Kintore 275kV, Beaully 132kV, Warehousing, Protection and Control, and Resilience projects as well as commencement of spend under uncertainty mechanisms including ASTI schemes, the Gremista Demand scheme on Shetland (MSIP), Skye Reinforcement works (LOTI), and various customer connections projects. Offsetting these expenditures, are notable efficiency gains on Alyth substation, Port Ann to Crossaig overhead line and Shetland HVDC link.

Our overheads (Gross Indirect overheads) for the year ending 31 March 2023 were £132m, with the following year to 31 March 2024 set at £188m. The bulk of this year-on-year expenditure increase relates to the aforementioned additional headcount being required to ensure safe and secure operation and ongoing investment in the growing North of Scotland transmission system. As well as helping with the continuation of our Business-as-Usual activities, this growing expenditure also supports the emergence of technological developments to greatly assist our endeavours to align with national decarbonisation ambitions set out by the UK Government for a zero carbon power system by 2035.

Our direct operating costs for the year ending 31 March 2023 were £13m, with the approved budget for the following year to 31 March 2024 set at £23m. This year-on-year increase of £10m is attributable to network growth, with the most notable expenditures relating to direct costs associated with our Shetland project for the new Long Term Service Agreement (LTSA), Remotely Operated Vehicle (ROV) inspections which have taken place on the Caithness to Moray scheme, as well as increased tree cutting and tree planting activities as we strengthen resilience.

Funding

SSEN Transmission is funded by revenue through the price control and where costs exceed our revenue position this difference is funded via debt.

SSEN Transmission had adequate funding arrangements in place for the regulatory year ending 31 March 2023 with a mixture of cash and bank balances, external loans, internal loans, stock, bonds and bilateral facilities, as well as day to day and inter-company balances. This has moved £0.1bn with our net position at 31 March 2023 sat at £2.5bn.

Looking ahead to future years, we have sufficient funding in place and more details can be obtained from our "Availability of Resources" report.

¹ All costs are nominal

Stakeholders

As a stakeholder-led business we continue to focus on meeting the needs of our customers and stakeholders through effective and meaningful engagement, and this will remain a priority over the coming year. We remain mindful of the current economic conditions, not least in terms of the cost-of-living crisis currently being experienced by customers across the UK, and significant increases in cost and issues with availability of certain commodities. Ambitious UK and Scottish Government energy targets underline the importance of the Transmission network, particularly in the North of Scotland, in cost effectively transitioning the GB energy system to net zero and increased energy security. Further details will be included within the SSEN Transmission Annual Performance Report which will be published at the end of September 2023.

In conclusion, I can confirm that, in my opinion, adequate staff and resources were available during the 12-month period to 31 March 2023, and have been made available for the regulatory year commencing 1 April 2023, to ensure the efficient and effective management and operation of the Transmission Business in accordance with the licensee's duty under section 9(2)(a) of the Electricity Act and its licence.

Rob McDonald
Managing Director of SSEN Transmission
July 2023