

SSEN Transmission

Annual report of the Managing Director of Transmission

Covering the period from 1st January 2021 to 31st March 2022



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 Special Licence Condition 9.16.9, 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 Special Licence Condition 9.16.14 of SSEN Transmission's licence.

The previous Managing Director's Report covered the 12-month calendar period to 31 December 2020 (in accordance with the prevailing licence). The new RIIO-T2 licence changes took effect from 1 April 2021. Thus, this report covers the three months from 1 January 2021 to 31 March 2021 plus the first regulatory year of RIIO-T2 to 31 March 2022. This is in agreement with Ofgem and is only applicable this 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 calendar year 2021 and financial year 2021/22. The timing of the report follows completion of the 2021/22 financial year, and the subsequent attainment of scheduled assurance and governance.

1. Report for the period to 31 March 2022

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 period 1 January 2021 to 31 March 2022, 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 668 Whole Time Equivalent (WTE) at 31 December 2020 to 709 (+41 WTE) at 31 March 2021 and then to 910 WTE at 31 March 2022, a further increase of 201 WTE. This growth is predominantly due to the increased workload associated with delivering our 'Network for Net Zero' RIIO-T2 Business Plan and the continued growth in renewable generation as the GB economy decarbonises.

Looking ahead to 31 March 2023, our internally approved budget forecasts increases further to 1,294 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.

Expenditure – 1 January 2021 to 31 March 2021 (RIIO-T1)

Our expenditure for the three-month period from 1 January 2021 to 31 March 2021 was £117m on a RIIO-T1 Totex basis. The full 2020/21 financial year Totex was £470m. The expenditure comprised £104m capital investment (including capitalised overheads in line with RIIO-T1 reporting rules), £10m overheads (after capitalisation) and £3m direct operating costs.

Expenditure – Financial Years 2021/22 and 2022/23 (RIIO-T2)

Our capital investment (excluding capitalised overheads) for the year ending 31 March 2022 was £566m with the approved budget for the following year to 31 March 2023 set at £531m. This slight reduction is due to the mix and phasing of capital projects at different stages year on year and allows for full and timely delivery of the outputs set out in our RIIO-T2 Certain View and uncertainty mechanisms.

Our overheads (Gross CAI/BSC) for the year ending 31 March 2022 were £84m, with the approved budget for the following year to 31 March 2023 set at £112m. The bulk of this cost 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 additional budget also supports the emergence of technological developments and will contribute significantly to the development of our framework for offshore wind and market subsidies. This will greatly assist our endeavors to align with National decarbonisation ambitions set out by the Department for Business, Energy & Industrial Strategy (BEIS) to decarbonise the UK power system by 2035. Our direct operating costs for the year ending 31 March 2022 were £13m, with the approved budget for the following year to 31 March 2023 set at £16m. This year-on-year increase of £3m relates to an increase in maintenance, civil and tree cutting activities as our network grows and 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 has had adequate funding arrangement in place for 15-month period ending 31 March 2022 with a mixture of cash and bank, external and internal loans, green bonds and inter-company balances. This has moved from £2.287bn at 31 December 2020 to £2.306bn (-£19m) at 31 March 2021 and £118m at 31 March 2022. The balance at 31 March 2022 stood at a net £2.4bn debt position. Our projected net debt to 31 March 2023 is estimated at £2.6bn, with a mixture of existing loans being repaid, offset by new debt being issued. SSEN Transmission also has access to SSE plc's Revolving Credit and Bilateral facilities.

Stakeholders

As a stakeholder-led business we are focussed 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 and stakeholders across the UK, resulting in significant increases in cost and availability of certain commodities. Further details will be included within the Transmission Annual Performance Report which will be published at the end of September 2022.

In conclusion, I can confirm that, in my opinion, adequate staff, resources and budget were available during the 15-month period to 31 March 2022 and have been made available for the regulatory year commencing 1 April 2022, 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 Transmission

July 2022