



Scottish & Southern
Electricity Networks

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, Independence of and appointment of Managing Director of the Transmission Business, 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 Electricity Networks (SSEN) 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 2019. The timing of the report is subject to close of the 2019-20 financial year, and the subsequent completion of scheduled assurance and governance.

Report for the year ending 31 December 2019

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

The 2019 calendar year was a successful year for SHE Transmission with the following key outcomes of note:

- **Safety Performance:** Transmission employees maintained a 0.00 Total Recordable Injury Rate (TRIR) throughout the year and our Contract Partners had fewer incidents. We had no high potential incidents or major level environmental incidents; however we did see an increase in the number of road traffic collisions compared to the previous year, this is a key focus within this year's SHE Improvement Plan. Our combined employee and contractor TRIR closed with a 13% decrease. Overall a positive safety performance.
 - Overall network reliability was measured at 99.9996%
 - **Operating Model:** Implementation of a revised business structure with clear lines of accountability and decision-making that will support our contribution to achieving national targets for net zero greenhouse gas emissions
 - **Project Delivery and Generation Connected:** 182.2 MW of renewable generation was energised
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- RIIO-T2 Business Plan: A Network for Net Zero: Following our largest ever programme of engagement and co-creation with stakeholders, in December we published our final Business Plan for the period 1 April 2021 to 31 March 2026

In making this report for the year 2019, I consider below these and other factors that are of material impact to the conduct of the transmission business.

1. Operations¹

SHE Transmission's operational teams have continued to ensure the impressive reliability of our electricity network. This can be measured through performance in the Energy Not Supplied incentive, where we achieved over 99% of the available incentive. It can also be found in the 100% availability of our recently commissioned HVDC network, outwith its routine maintenance period (99% availability overall). Ensuring that we keep the lights on for end users and ensure availability of our network to connected generators is of the utmost importance.

The SHE Transmission capital investment programme remains of critical importance to the success of the transmission business. SHE Transmission's strategic objective is to facilitate the transition to the low carbon economy and our principle means of achieving this is through the connection of renewable generation.

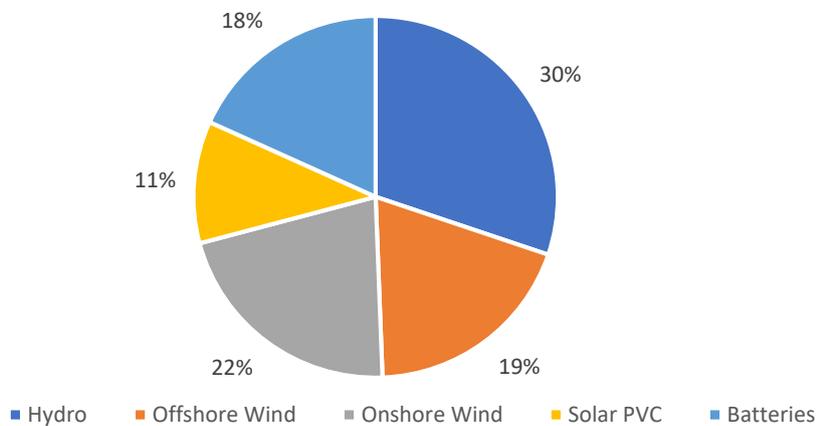
During 2019 we have continued our exceptional record for capital delivery on time and within regulatory allowances. This has been achieved through innovation, commitment and a close working relationship with stakeholders and customers.

¹ This section was updated in September 2020 to correct an error in connected generation that was originally reported as 192.2 MW to 182.2MW.

Over the course of the year, necessary infrastructure to enable 182.2 MW of generation connection was completed. Significantly, all new generation connections were from renewable sources as outlined in Figure 1.

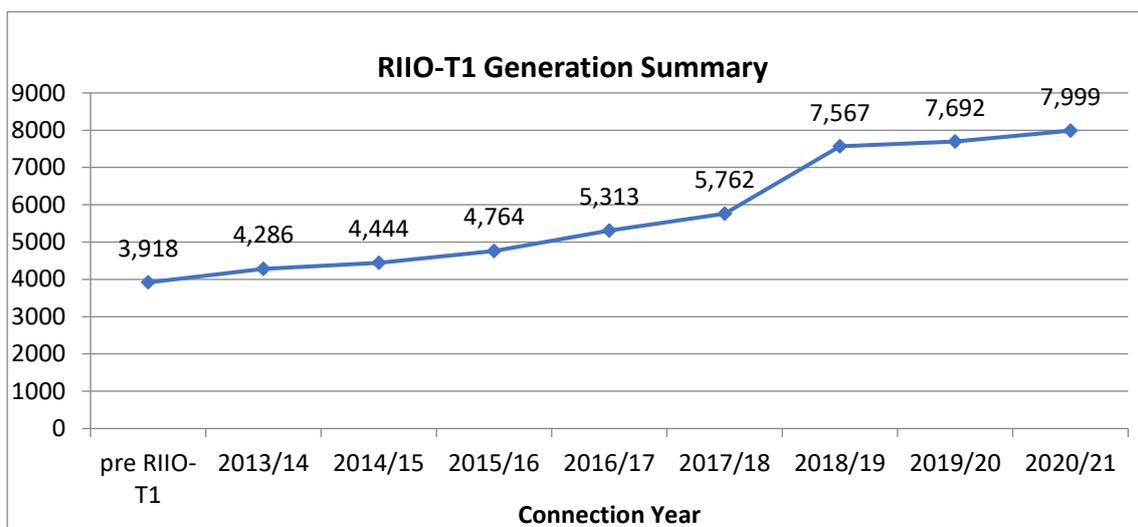
Notable generation schemes that connected during 2019 include the completion of phase 3 of the Beatrice Offshore Windfarm where an additional 35MW connected, on top of the 553MW that connected in 2018.

Figure 1: 2019 generation breakdown by type



During 2020, we are forecasting to connect 271.8MW, generation which is all renewable.

Figure 2 shows the cumulative generation connections for the RIIO-T1 price control period.



2. Staff and Resources

Adequate staff and resources were available to the transmission business during the year ending 31 December 2019. During the last calendar year, staff numbers increased by 37.9 full time equivalent (“FTE”), taking the headcount to 490.8 FTE staff directly employed by SHE Transmission at 31 December 2019.

In addition to transmission staff, services are provided by 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 audit procedures on cross subsidy are undertaken and submitted to Ofgem. All staff employed by SSE are notified of SHE Transmission’s obligations under Special Condition 2B of SHE Transmission’s licence.

3. Finance

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 2018-19 and a part of financial year 2019-20. In respect of financial year 2018-19, the accounts were approved by the directors on 22 July 2019. Accounts for the financial year 2019-20 are currently under preparation and planned to be available for approval in July 2020. In relation to our obligations under 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 SHE 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 plc, the ultimate controller of SHE Transmission is). As part of that statement we consider our obligations under 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).

4. Arrangements for the year ending 31 December 2020

It is my opinion that adequate arrangements have been made for the calendar year ending 2020 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).

In respect of financial year 2019-20, on 22 July 2019 the directors approved a Certificate of Available of Resources which confirmed their reasonable expectation that SHE Transmission would have sufficient financial resources and facilities for the following 12 months. This covers the period to 31 March 2020. The Certificate of Available Resources for 2020-21, covering the period to 31 March 2021, will be submitted to Ofgem in July 2020 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 2019 calendar year, a full bottom up review of resources was undertaken, and this identified that an overall budgeted headcount of 646.6 FTE is required by the end of 2020. This headcount will allow us to continue with our capital programme, including our unapproved Shetland SWW Project and preparation to deliver the outputs justified in our RIIO-T2 Business Plan.

SHE Transmission is adequately funded at 31 December 2019, the main sources of funding comprising External Loans with the European Investment Bank (EIB) at £746.5 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. SHE Transmission also has £68.7 million of net inter-company balances payable/repayable on demand. Cash and Bank balances (restricted) amounted to £7.7 million.

At 31 December 2019, SHE Transmission had access to the Group's £1.3 billion committed Revolving Credit Facility maturing on 29th March 2025 and a £200 million Bilateral committed facility maturing 3rd October 2024. 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 plc 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 review Statement of Viability as audited for the year ended 31 March 2019.

The outbreak of the Covid-19 pandemic in 2020 has created a level of uncertainty and with that the need to manage the associated direct and indirect impacts to SHE Transmission's staff and resource availability to meet our planned programme of works. A particular issue with the uncertainty surrounding Covid-19 is how long this may go on for which heightens the difficulty in preparing and planning for the future. In accordance with current Government guidance, SHE Transmission will continue to safely progress with work as planned, prioritising critical work as appropriate. Through our stringent internal monitoring of the situation and continuous engagement with our contracting partners, stakeholders, Government and Ofgem we will continue to respond to updated Covid-19 guidance, resourcing challenges or other issues (e.g. land access constraints) to mitigate the impacts.

Therefore, in my opinion, and in the context of the current impacts of Covid-19, the available staff, resources and finance are adequate for the year ahead based on the information above.

Rob McDonald

Managing Director of Transmission

April 2020