

SSEN DISTRIBUTION RIIO-ED2

BUSINESS PLAN ASSURANCE

RIIO-ED2 Business Plan Annex 35



Scottish & Southern
Electricity Networks

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1. BUSINESS PLAN ASSURANCE

Our Business Plan has been the subject of extensive review by our customers, independent experts, our Customer Engagement Group and our Board throughout the last year. This approach has allowed a robust challenge of our proposals and to ensure our vision is in line with the needs of current and future customers.

We have taken a risk-based approach to our assurance framework based on best practice across other industries, adopting a ‘three-lines of defence model’. This model provides a flexible and iterative view that allows us to adapt as our Business Plan develops. The Assurance Framework used to support a transparent approach has been developed through feedback from our Board, Executive Steering Committee, and with support from our Customer Engagement Group. Their feedback has been mirrored by a detailed internal review process and third-party assurance to ensure accuracy, transparency and completeness.

In this annex we will set out

- Governance of our Plan
- Our Assurance Process
- Our Assurance Principles

2. GOVERNANCE OF OUR PLAN

As part of the SSE PLC Group, we comply with the Corporate Governance Code. This compliance is embodied in a clear policy framework, internal controls through independent audit and compliance functions, and alignment to Group Strategy. The application of these practices contributes to a vision-led ED2 Plan supported by our Executive, and safeguarding value for shareholders and our customers.

Our approach to assurance of the Business Plan has been carried out in line with our Data Assurance Guidance (DAG) licence condition, the RIIO-ED2 Sector Specific Methodology Decision of December 2020, and the RIIO-ED2 Business Plan Guidance published April 2021.

Our Governance groups are represented in Figure 1. and their role is described below.

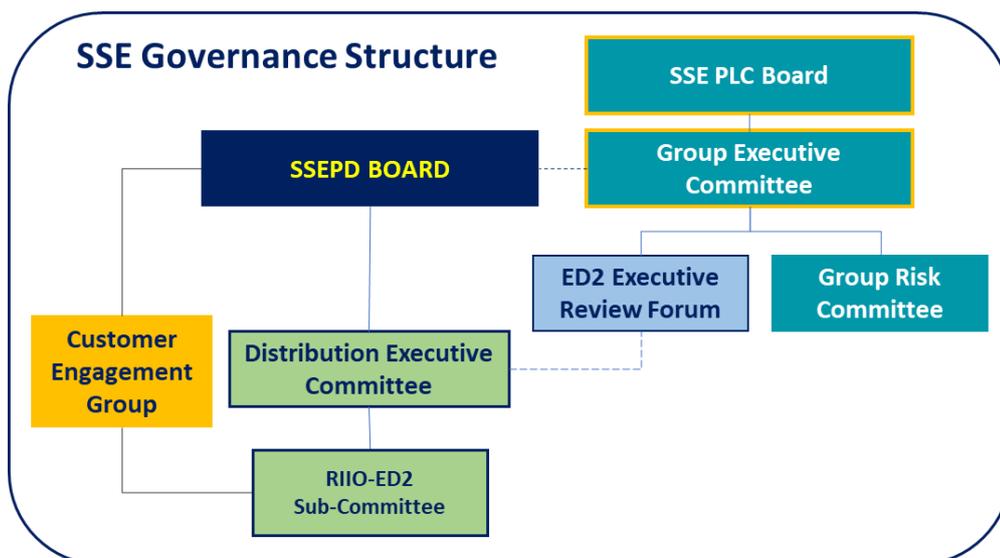


Figure 1 - SSE Governance Structure

2.1 GROUP EXECUTIVE SPONSORSHIP

Group Executive Members have held regular sessions throughout 2020 and 2021 to oversee and assure the ambition and vision of our ED2 Plan. Meeting monthly with focussed reviews on our strategic ambitions, individual Plan elements, delivery of our Plan and deliverability, this frequent engagement and challenge was integral to a robust RIIO-ED2 Business Plan. In addition to our dedicated Group Exec forums, our PLC Board and PLC Group Executive Committee were engaged quarterly throughout the process to provide oversight and challenge against our strategic ambitions and Plan development. These sessions included engagement and attendance from our Customer Engagement Group Chair to share observations and recommendations.

2.2 SSEPD BOARD

Our Board have retained oversight of our Business Plan and the assurance activities in place through regular engagements, including ongoing oversight in the following areas:

- Challenged and led the development of our vision for SSEN Distribution in ED2 based on feedback from our customers and stakeholders
- Reviewed our Strategic Outcomes and ambitions across different parts of our Plan, alongside our Outputs and Customer Value Propositions
- Assessed, challenged and approved the costs and investment profile set out in our Plan
- Reviewed and challenged the proposed impact on consumer bills in ED2
- Reviewed and approved our approach to assurance of the Business Plan

- Invited attendance from members of the Customer Engagement Group to share opinions and feedback on Plan progress.

2.3 ED2 EXECUTIVE STEERING COMMITTEE

At an executive level in Distribution, our Distribution Executive Committee established a sub-Committee dedicated to the development of SSEN Distribution's ED2 Business Plan, with Director-level membership across our business. Meeting regularly, the ED2 Steering Committee was established to:

- Manage the development of our stakeholder-led strategic ambitions across all areas of the Plan, ensuring key areas such as innovation, efficiency and deliverability are incorporated
- Provide leadership to ensure that the Business Plan programme and activities were delivered on time, within budget and to the appropriate standard.
- Monitor and review opportunities, risks, and dependencies as the business plan develops with appropriate escalations as required to Executive Committee and Board.
- Ensure that appropriate levels of resource are in place to deliver the programme.
- Support engagement activities with our Customer Engagement Group

2.4 DIRECTOR ACCOUNTABILITY & SPONSORSHIP

In addition to our Executive Steering Committee each area of the Plan has executive oversight through a sponsoring Director. This direct accountability into the business provides for clear decision-making, alignment with the ED1>ED2 transition, governance pathways, and the provision of resource support to deliver an accurate ED2 Plan.

2.5 INTERNAL COMPLIANCE AND ASSURANCE

Our Plan was supported by a number of independent internal assurance teams that report directly to the Group Executive and Audit and Risk Management Committees. This independent challenge and assurance over our Plan development was provided by our Group Audit Team, our Networks Business Assurance Team, and our Group Compliance Team. The assurance reviews and subsequent recommendations provided by these functions ensured our robust compliance with the Data Assurance Guidelines, appropriate governance and application of our assurance processes, and adherence to Group risk reporting and management activities.

3. OUR ASSURANCE PROCESS

Arrangements for assuring the ED2 Business Plan have been developed with extensive consultation with our SSEN Distribution Business Assurance Team.

The ED2 Programme has implemented quality assurance plans that incorporate three levels of assurance:

- **Level 1: Assurance built into our Plan development** – measures in place to assure that the subject matter experts delivering our existing data assurance and governance processes have been subject to review and approval by senior managers and executive sponsors in line with the DAG.
- **Level 2: Independent assurance of the Business Plan** – a number of independent assurance and compliance teams engaged to validate the methodology by which the ED2 Business Plan has been developed, reviewed and approved, and to verify that the methodology has been followed in production of the plan.
 - This includes our Networks Business Assurance Team, our Group Audit function, and the Group Compliance Team. The independent assurance team have also performed risk-based ‘spot checking’ of specific parts of the plan to confirm that internal review and approval processes have been effective in eliminating errors.
 - The Level 2 assurance teams have direct reporting links into our wider governance framework, including the PLC and PD Board, as well as the SSE Risk Committee.
- **Level 3: SME assurance of specific content** – independent expert assurance has been engaged to review and comment upon specific parts of the ED2 Business Plan that are deemed to be of high criticality to the overall accuracy of the plan. This includes external SME assurance of our Engineering Justification Papers across all investment drivers; assurance of proposals contained within our digitalisation plan including an assessment of cost against industry standards; the robustness, coverage, and evidencing of stakeholder engagement in our Plan; and assurance of our subsea cable risk and investment methodology.
- Further challenge was provided by our Customer Engagement Group (CEG), who provided assurance that our ambitions were derived from insights generated during our enhanced engagement process.

The Level 2 assurance teams have direct reporting pathways into the PLC and PD Board, as well as the Group and Audit and Risk Management Committees.

4. OUR ASSURANCE PRINCIPLES

We have developed a set of Assurance Principles in the development of an ambitious ED2 Plan that meets the needs of consumers for a Net Zero future, delivers clear and efficient investment proposals, and provides a fair return to Investors. Our approach ensures that our Board and senior management team are behind every element of our Plan. Our assurance Principles are as follows:

Principle 1: A high-quality, accurate Plan

Our Plan has been developed to a high degree of accuracy, with appropriate levels of governance and data assurance.

To ensure we meet the standards for a high-quality, accurate Business Plan, an Assurance Framework has been developed to risk-assess each section of the Business Plan. This Assurance Framework takes into account the impact on customers, the environmental and societal impact of our proposals, the financial materiality, and Regulatory requirements. In addition, we have also risk-assessed each part of the Plan in view of our current performance; whether it is an existing or a new service, and the supporting data in place to ensure timely and accurate decisions. The result of this risk assessment has allowed us to consider appropriate internal and external governance and assurance across all part of the Plan, with emphasis on those areas that score high against our Assurance Framework.

Assurance Approach: Level 1 Assurance in line with our internal review process, and Level 2 Assurance with four separate reviews by our Audit, Assurance, and Compliance teams

SSEN Distribution Networks Business Assurance	Oct 2020 & June 2021	Quality controls within the collation process & management oversight of the collation process, with adherence to DAG.
SSE Group Audit	Oct 2020	Effectiveness of the management of key risks and controls in accordance with Group Policy
SSE Group Compliance Team	May 2021	Assess controls supporting compliance with collation in data tables

Principle 2: Clear, robust and efficient investment proposals

Our Investment proposals are efficient, clear, and well justified, and have been developed using a clear and transparent methodology

The SSEPD Board has reviewed the development and refinement of expenditure forecasts and efficiency proposals developed throughout our Business Plan preparation, with a view to ensuring our cost profile is efficient.

The methodology we have applied to develop our investments has been reviewed by our Customer Engagement Group, with ongoing review from our external assurance partner, Stantec.

The feedback and assurance on our approach to investment proposals delivers confidence in a consistent, transparent approach to our investments. All individual investments with a value of more than £2m have been the subject of scrutiny within our business, accompanied by cost-benefit analysis, and have been the subject of external review to ensure robustness, clarity and alignment to stakeholder needs.

Assurance Approach: Level 2 Assurance from an external engineering firm, Stantec, to test our investment case development against Ofgem guidance and best practice and in readiness for final submission.

GHD Consulting	Mar/Apr 2021	Assurance of subsea cable risk / impact methodology and strategic options
Stantec	Jan-May 2021	Investment Decision Pack assurance and critical-friend support to draft submission for Load, Non-Load & Sustainability
Gartner	Mar 2021	Strategic option and investment cost assurance in our Digitalisation Plan
ADAS	Feb-Apr 2021	An evidence-based case for tree clearing approach

Principle 3: Ambitious proposals that will meet the needs of consumers

Our Business Plan meets the needs of consumers, evidenced through their feedback during our enhanced engagement process, and including feedback from our Customer Engagement Group.

In a challenging and changing environment, it is more important now than ever to ensure our Business Plan strikes the balance between a reliable and consistent supply, with the ambition to deliver improved customer service, enhanced digital channels, network flexibility, and our continued drive to reduce emissions by 2050.

The voice of the customer has been at the heart of our Business Plan development, as can be seen from our Stakeholder summary and synthesis reports. Their feedback has been used to shape our proposals across all four corners of our Plan. Throughout the development of the Business Plan we have taken account of stakeholder feedback and are satisfied that our ambitions match the needs of our customers.

Assurance Approach: Level 2 Assurance from Sia Partners to challenge the robustness and coverage of our stakeholder engagement across the Plan, and a test of the stakeholder evidence vs the proposals submitted in the business plan. Level 2 Assurance from our Customer Engagement Group on our ambitions and the engagement against these to support our ED2 Business Plan.

SIA Partners	Mar/Jun 2021	Assessment of relative and absolute engagement coverage, assessing how well engagement feedback has been used to inform decisions for draft submission
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Principle 4: Our Business Plan Is financeable

Our Board must be satisfied that the licensee is financeable on both a notional and actual capital structure and that all applicable measures to aid financeability have been considered, including supporting evidence and justification, in support of this submission of the draft Business Plan.

Assurance Approach: The RIIO-ED2 team tabled provided a detailed overview of the content of the draft RIIO-ED2 Business Plan Submission at a meeting 11 June 2021. Members of the Board acknowledged and confirmed that the Directors are satisfied that the licensee is financeable on both a notional and actual capital structure and that all applicable measures to aid financeability have been considered, including supporting evidence and justification, in support of this submission of the draft Business Plan. The Board acknowledged and confirmed that they were satisfied that the Directors had provided the level of assurance required by and in compliance with the terms of the Ofgem Business Plan Guidance and were satisfied that the accuracy and quality assurance processes in place ensures that the Board has had the opportunity for oversight and input throughout the development of the draft Plan and that it is in the best interests of existing and future consumers.

The Board note further that the Business Plan will continue to be refined throughout the remainder of 2021 and that full and final approval of the Business Plan will be submitted in advance of our Final Plan submission in late 2021.