



Scotia Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc

Statement of Compliance

Restriction on use of certain information and independence of the
Transportation Businesses

SGN Statement of Compliance 30 May 2017

Statement of Compliance

Introduction

This statement is required by Standard Special Condition A33 of the gas transportation licences of Southern Gas Networks plc and Scotland Gas Networks plc, and sets-out how the licensees comply with the licence requirements on the restriction on use of certain information and independence of the transportation businesses.

This statement has been approved by the Authority under the terms of the licence condition.

Southern Gas Networks plc and Scotland Gas Networks plc are wholly-owned subsidiaries of Scotia Gas Networks Limited (SGN). SGN is jointly owned by SSE plc (33.3%), Borealis Infrastructure Europe (UK) Ltd (25%), Ontario Teachers' Pension Plan (OTPP) (25%) and Blue Spyder B 2016 Limited (ADIA) (16.7%).

SSE has other interests including electricity generation, electricity transmission and distribution, electricity and gas supply, gas shipping and storage, embedded gas mains and services networks, electrical contracting, retailing and telecommunications. SSE provides a range of corporate, management and other services to SGN.

In accordance with the terms of SGN's gas transportation licence, this statement sets out how SGN maintains the full managerial and operational independence of the regulated transportation business from any trading business, its meter-related service business and its meter reading business.

This statement applies to SGN and each of its licensed gas transportation businesses, and the final approved statement may be revised only with the approval of the Authority (Ofgem). SGN will use its best endeavours to ensure compliance with the terms of this statement.

Standard Special Condition A33 – Restriction on Use of Certain Information and Independence of the Transportation Business

Standard Special Condition A33, in summary, requires that:

1. The licensee shall put in place and at all times maintain managerial and operational systems which prevent any relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services business or its meter reading business from having access to confidential information except and to the extent that such information:
 - (a) is made available on an equal basis to any gas or electricity supplier, gas shipper, electricity generator or any meter asset manager;
 - (b) appertains to a customer who at the time to which the information relates was a customer of the relevant supplier; or
 - (c) unless the Authority otherwise consents in writing.
2. The licensee shall at all times manage and operate the transportation business in a way calculated to ensure that it does not restrict, prevent or distort competition in the supply of electricity or gas, the shipping of gas, the generation of electricity, any trading business, or the supply of meter-related services or meter reading.
3. The licensee shall have in place a statement, approved by the Authority, describing the practices, procedures and systems, which the licensee has adopted to secure compliance with the above paragraphs.

Standard Special Condition A34 – Appointment of Compliance Officer

Standard Special Condition A34 of the transportation licence requires that SGN shall appoint a “compliance officer” for the purpose of facilitating compliance with Standard Special Condition A33. In summary, the duties and tasks of the compliance officer shall include (the full list of duties are set out in the licence condition attached to this Statement):

- (a) providing relevant advice and information to the licensee for the purpose of ensuring its compliance with Standard Special Condition A33;
- (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with this Statement;
- (c) investigating any complaint and advising upon any remedial action; and
- (d) reporting annually to the directors of the licensee, as to his activities during the year.

Our Compliance Officer is required to provide an annual report on our compliance with the relevant licence condition and the effectiveness of controls we have in place. This can be found at <https://www.sgn.co.uk/Publications/Compliance/>

Managerial and Operational Independence of SGN

In order to maintain the requisite managerial and operational independence of its transportation businesses, SGN has been established as a legally separate company with its own Board of Directors. In addition, each licence is held in a legally separate subsidiary of SGN. This means that the legal entities holding the gas transportation licences are separate.

Although SGN is an affiliate, SSE only owns 33.3% of the equity in SGN and, as a consequence, SSE does not have a controlling interest in SGN. Independence from SSE's supply, shipping, generation, metering and gas transportation businesses is further reinforced by the following:

- SSE appoints three Directors to the SGN Board. At least two of these Directors are also SSE Group Directors, which reinforces the decision-making authority of the SGN Board;
- Five SGN Directors are appointed by and represent the other owners, Borealis, OTPP and ADIA, which ensures appropriate corporate governance and independence of SGN;
- ADIA appoints one Director to the SGN Board;
- There are two sufficiently independent directors that are appointed to the SGN Board;
- In addition, the Chief Financial Officer is a joint appointment by SSE, Borealis and OTPP; and
- Members of the SGN Board do not sit on the Boards of SSE's supply, shipping or generation businesses.

The SGN Board is therefore separate from SSE's interests in gas shipping, electricity generation, energy supply, metering and gas transportation. Similar arrangements will apply to the extent that Borealis, OTPP and ADIA acquire interests in the competitive UK energy market.

SGN also has its own management structure and employs its own staff, unless provided by SSE or other external service providers under a Service Level Agreement (SLA). Where provided under a SLA, this requires that the service provider will comply with the same licence conditions and provisions of this compliance statement as would SGN employees.

In addition, each of SGN's licensed transportation businesses is legally separate from its metering business, with SLAs in place for services provided.

The majority of operational staff are employees of SGN or third party contractors.

Each employee's appointment letter includes clauses on observing the confidentiality requirements of our licence. In addition, staff receive induction material and regular refresher training on the restrictions on using confidential information, and this is backed up by regular and random monitoring and feedback. Deliberate breach of the confidentiality requirements would lead to disciplinary action.

Wherever possible, SGN staff are located in premises separate from any relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services business or its meter reading business. In those instances, where premises are shared, SGN staff are located in separate areas. In either case access is controlled by a PAC key system restricting access to authorised persons only.

SGN employs its own staff, therefore staff transfers from SGN to any relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services businesses or its meter reading business, are rare. However, if there were a compliance implication, this will be discussed between the Executive team/Director of Legal and Compliance and the Compliance Officer, who will advise on the appropriate action necessary to protect the confidentiality of transportation information and the independence of the transportation businesses.

SGN jointly manages and operates its transportation businesses in Southern England and Scotland. The measures to protect the confidentiality of information apply equally to each.

Common Services

Where SGN uses services from, or provides services to, other parts of the SSE Group, SLAs are in place. The aim of these agreements is to ensure and demonstrate that:

- services are obtained in the most efficient and economical way possible;
- they do not involve a cross subsidy; given or received by SGN;
- they do not restrict, distort or prevent competition in the supply of electricity or gas, the shipping of gas, the generation of electricity, any trading businesses, or the supply of meter-related services or meter reading; and
- they conform with the confidentiality requirements of the licence and this compliance statement.

Joint Office and Agency

A Joint Office, to oversee governance of the Uniform Network Code, and an Agency (“Xoserve”) has been established by the holders of gas transportation licences.

The Agency manages, on behalf of all of the gas distribution companies who operate under licence, the systems that underpin the competitive retail market. This avoids additional costs arising from suppliers potentially having to interface with several gas transporters, by preserving a single uniform interface between network operators and shippers. It also reinforces the independence of those systems from other SSE businesses.

As of 1st April 2017, Xoserve took on the role of Central Data Services Provider (CDSP), with Board representation and operational control being shared amongst the Gas Transporters and the Shippers.

Systems

SSE provides operational, finance, payroll, procurement, billing and other corporate services systems to SGN. In each case, the SLA requires that the service provider is subject to the same obligations in relation to confidential information as SGN and as described by the requirements of SGN’s licence. Access to systems by staff is restricted to their authorised area through physical access password and session controls. This prevents any relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services business or its meter reading business from having access to confidential information except in the specific circumstances provided for in Standard Special Condition A33.

Branding

Under the terms of its Licence, SGN is required to maintain the branding of the transportation businesses so that it is fully independent from the branding used by any relevant supplier, relevant shipper, any trading business, its meter-related services business and its meter reading business.

Historically, a SGN brand, distinct from any SSE brand, has therefore been introduced for the gas transportation businesses. All SGN Company vehicles use this brand.

SGN also has its own-branded stationery and staff identity cards are also branded SGN. SGN's commercial services and meter-related services businesses are also branded distinctly differently from the regulated gas transportation businesses.

Commencing in July 2014, SGN has developed a new brand identity that more accurately reflects the needs of our customers. This new brand identity has been rolled-out across the SGN Group of companies. SGN's new brand architecture can be seen below:



Access to Confidential Information

Confidential information relates to, or is derived from, the transportation business, which is not published or otherwise legitimately in the public domain.

SGN maintains managerial and operational systems which prevent any relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services business or its meter reading business from having access to confidential information, except and to the extent that such information is made available on an equal basis to any interested party.

Where SGN believes that confidential information held in relation to a relevant supplier, relevant shipper, electricity generation business, any trading business, its meter-related services business or its meter reading business should not be regarded as confidential, it will make a formal written request to that business to treat the information as non-confidential. Until such consent is granted the information concerned will remain confidential.

Responsibility and Monitoring

The SGN Board has overall responsibility for compliance.

It is the responsibility of directors and managers to ensure compliance within their own business areas and in accordance with SGN policy. Monitoring of compliance is carried out internally, under a SLA, by the SGN Internal Audit department, in liaison with the SSE Managing Director of Corporate and Business Services and SGN's Director of Legal and Compliance.

The SSE Managing Director of Corporate and Business Services and SGN's Director of Legal and Compliance are responsible for investigating any alleged breach of confidentiality policy and procedures.

SGN has appointed a Compliance Officer, as required by the gas transportation licences, and works closely with the Compliance Officer in his carrying out of the duties set out in the licence, with regard to compliance. The Compliance Officer utilises SGN Internal Audit in carrying out his role and has full and open access to all staff, systems and documentation.

Investigation of Complaints

A procedure has been agreed with the Compliance Officer for notifying and investigating, any complaints.

Further Information

Requests for hard copies of this statement or enquiries in relation to this statement should be addressed to:

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