

Engaging for a better business: changing for good

1



Key changes this year

Pro-active approach to connections
Industry-leading procurement framework introduced
Review of our construction programme to give greater certainty
Launch of open4business portal to support local businesses

Scottish Hydro Electric (SHE) Transmission aims to run its business in a way that supports growth in our communities, and, most importantly, makes sure the lights stay on.

Our engagement activity this year has featured a wide variety of engagement aimed at achieving that. Every aspect of our engagement activity is centred on our stakeholders, from identifying their areas of concern to engaging in a way that suits them to delivering programmes of change that make big differences in stakeholders' experience of our business.

I was pleased to find that our stakeholder surveys identified my colleagues' politeness, expertise, professionalism and knowledge as the highest scoring aspect of their experience of SHE Transmission. Our stakeholders value highly the close business relationships many people have with individuals and teams in SHE Transmission and this is a strength to which we continue to play. I believe that enhancing the direct interaction between stakeholders and our team is key to how we incorporate positive, stakeholder-driven change into our business. That's one of the reasons that we have appointed Stakeholder Relationship Managers for each of our key stakeholder

groups and have allocated personal responsibility to those people to improve our engagement with stakeholders and to ensure that we gather their views. This will help my management team and make sure that we improve our business to better meet the needs of our stakeholders.

I was less pleased to see in our surveys that some of the lowest stakeholder scores relate to their opinion of our website, the difficulty they have in accessing members of my team, the length of time we take to respond, and their perception that we lack flexibility as an organisation. These are all areas that we are now tackling: we are almost doubling the size of our connections team to improve the ease with which developers can contact us; we are making significant changes to the way we present information on our website and we are planning a major redevelopment of the site in the coming year.

These are just a few of the changes we have made to our business this year; many more are detailed in this document.

In this our first year of formalising our engagement with stakeholders as part of our new Price Control, I think we have made good progress in consulting our stakeholders, involving them more actively in improving our business and I am happy to report that we have implemented change that will make a big difference for some of our stakeholders. I am conscious however that effective engagement takes many forms and I aim to introduce a range of methods to complement our existing strong direct relationships with our stakeholders. As we progress, I want our business to take an increasingly collaborative approach and to empower our stakeholders in a number of ways so that our business evolves in a way that increasingly focuses on the needs of our stakeholders. I look forward to leading my team through this period of intense change.

David Gardner
Director of Transmission

Key engagement activities in 2012/13

Qualitative stakeholder survey: key findings

Strengths

Good business relationships
Face to face meetings
High quality staff

Weaknesses

Not taking into account views of others
Lack of transparency
Staff hard to contact as they are too busy

Quantitative stakeholder survey: key findings

Highest scoring features: Politeness, technical expertise and commitment to safety

Lowest scoring features: Ease of contact, flexibility, ease of understanding of connections process

Stakeholders' overall satisfaction with their engagement with SHE Transmission: 7.2 / 10

Our first stakeholder surveys

In 2012, we commissioned our first Stakeholder Surveys. The surveys, which were carried out by an accredited independent third party, were undertaken to help our senior management team understand what stakeholders perceive to be the organisation's strengths and weaknesses, and to gain an understanding of stakeholders' overall satisfaction with our business.

Our qualitative survey

In June and July 2012 15 in-depth interviews were carried out with a range of stakeholders to help us understand what issues are important to our stakeholders and so inform future research.

The survey considered stakeholders' relationships and interactions with us; stakeholder's perception of our performance in relation to our core values; and their perception of the value for money we offer.

Appendix 4: Our first qualitative survey of stakeholders

Our quantitative survey

Our quantitative survey built on the findings of the preceding qualitative research, focusing on the areas identified as most important to stakeholders.

40 interviews were achieved by the researchers, representing 18% of the provided stakeholder sample.

The Survey's key result was that stakeholders' overall level of satisfaction with their engagement with us was 7.2 (on a scale of 0-10). The senior management team welcomed this as a starting point for improvement.

Appendix 5: Our first quantitative survey of stakeholders

Summer Consultation

Our September 2012 publication provided an update for interested parties on our work to ensure we are able to deliver on our commitments in our Business Plan.

Topics covered included:

- Keeping the lights on and supporting growth in the low carbon economy
- Our ongoing commitments to our customers and stakeholders
- Minimising our environmental impact
- An update on our innovation activities
- Performance during the last price control review, April 2007 to March 2012

There were some areas where we were particularly keen to hear stakeholder views; to make it easier for stakeholders to consider these questions, we highlighted these as questions within each section and collated them in an Appendix.

We published the consultation on our website and sent copies to over 200 stakeholders inviting them to let us have their views. We received seven responses, which were generally positive.

Depot Visit and 'Meet the Team' events

Stakeholders were invited to visit our local Depots to see behind the scenes, find out more about our business and to meet some of the key members of the SHE Transmission team. Conscious of the importance of minimising stakeholder fatigue by making our events as time-efficient as possible, we made sure that these events, which were hosted by our Scottish Hydro Electric Power Distribution colleagues, provided an opportunity for stakeholders to engage with both Distribution and Transmission colleagues in a single visit.



Engaging with principal stakeholders: elected representatives

3

In the following pages we consider some of our principle stakeholder groups, and report on the engagement activities through which we have involved each group in our activities in 2012/13. We then summarise the outcomes and actions that arose from that engagement and note any changes that have been made to our policies, procedures and plans as a result. In this first year of reporting, where possible we detail the effects these changes have had on our stakeholder groups and how we will in future provide more comprehensive reporting on the impacts of our actions.

How we have engaged this year

Our engagement with elected representatives has taken several forms this year; however we continue to find that face to face meetings are the preferred method of engagement with MPs, MSPs and Councillors. We have over several years developed strong working relationships with many representatives of the communities we serve, and with Ministers who have a particular interest in our activities. Our engagement with Ministers and with government executives is detailed in the 'UK and Scottish Governments' section; here we report on the engagement we have undertaken in relation to representatives' constituency interests.

Key engagements have included:

- Face to face meetings
- Direct written communications
- Parliamentary Events
- Multi stakeholder forums

Identifying areas of focus

In 2012/13 our engagement with elected representatives has centred on the areas we have learned over several years to be of greatest interest to this stakeholder group: the strategic development of our network to accommodate new renewable energy, and the social, economic and environmental effect of the related programme of work on local communities. On a strategic level, we engage with representatives to help them understand the complexities of the regulatory system which plays a big role in where, when and how we extend our network, and to keep them informed about our investment programme.

Changing for good: community issues

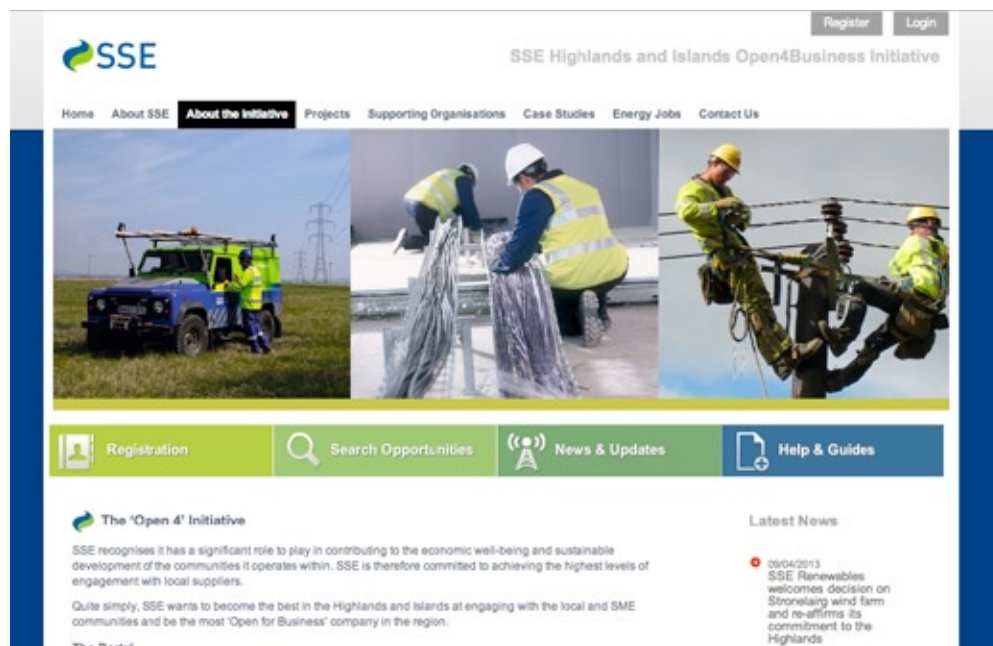
On a practical level, we have made many changes in response to representative's requests for new approaches that help their constituents, particularly in areas where we are undertaking construction projects. We have instigated regional meetings to involve a range of stakeholders with varied interests who are linked by their interest in a particular region; through our dedicated community liaison officers we are in regular contact with community representatives to ensure that our activities are being carried out in a way that is acceptable to them, particularly on issues such as traffic management; and we work to support Councillors, MPs and MSPs in answering questions from their constituents.

Prompted by the many requests made by representatives for us to ensure that communities benefit from the work we are undertaking in their area, we have, in partnership with other members of the SSE plc group and some of our first tier contractors, introduced an industry-leading business portal which helps local business access contract opportunities. 'Open4Business' is described on page 4.



Changing for good: Open4Business

4



As part of our commitment to supporting growth in the north of Scotland, we are committed to achieving the highest levels of engagement with local suppliers.

We believe that developing a healthy and competitive supply chain can in part be achieved by allowing smaller local suppliers easy and simple access to business opportunities. We also believe there is great value in the unique feature that local contractors bring to the job – that of working with and living in the communities hosting our developments.

To allow local contractors good access to procurement opportunities, we, along with other companies in the SSE plc group, have launched 'Open4Business' a procurement portal inspired by the CompeteFor scheme used in the London Olympics which helped contribute to their legacy by matching local businesses to related opportunities.

We recognise that in line with EU Procurement regulations, and in order to keep costs as low as possible for customers, many of its highest value tenders will be awarded to businesses based outside of the North of Scotland. In order that the benefits of local procurement are allowed to play a part in our major transmission projects, we are introducing requirements for our first tier contractors to use the Open4Business to promote subcontracting opportunities to local suppliers.

"Quite simply, SSE wants to become the best in the Highlands and Islands at engaging with the local and SME communities and be the most 'Open for Business' company in the region."

Open4Business

"The most significant aspect of the whole of this Open4Business project for me is SSE's specific intent to increase the amount of business delivered by local Highland and Island based businesses. Given SSE's planned expenditure across the region over the next 10-15 years this will realise significant opportunities for these businesses. I am very impressed by the commitment SSE has put into the development of the portal."

Stewart Nicol, Chief Executive of Inverness Chamber of Commerce

A key aim for Open4Business in 2013/14 is to maximise the number of SHE Transmission contract opportunities made available via the portal.

Engaging with principal stakeholders: supply chain participants

5

We have identified supply chain issues as being key to the timely and cost efficient delivery of our investment programme. We therefore have a shared interest in developing and maintaining a healthy, competitive supply chain. We will engage with participants to help us work effectively together to achieve this.

How we have engaged this year

We have engaged with our supply chain stakeholders in a variety of ways this year. Key activities have included:

- Meetings with Procurement teams
- Depot Visit and 'Meet the Team' events
- 'Meet the Buyer' events at three locations
- Regional Open4Business events
- Presence at Scottish Renewables Annual Conference
- Summer Consultation on RIIO-T1 business Plan
- Transmission section of SSE plc Annual Report
- Detailed Stakeholder Survey



Identifying areas of focus

Our Stakeholder Surveys gained the views of supply chain participants in 10 quantitative and three in-depth qualitative interviews in 2012/13. Interviews from this group rated our engagement with them as being particularly low, with a score of 4.7. Elements of particular concern reported in both surveys were lack of certainty about projects proceeding and slow progress from tender to award.

"Over the last six years [SHE Transmission] have engaged in a number of tender processes, with a cost to suppliers from £100,000 to £1m, only for them to be withdrawn"

Supply chain stakeholder

Access to business opportunities

Through our engagement relating to our major projects, particularly with elected representatives and local authority officers, it is clear that there is a strong desire for local businesses to benefit as much as possible from the work we are doing in their communities. This issue has been raised in relation to all of our major projects, primarily through community liaison meeting and in meetings with MSPs and Councillors. In response to this we have introduced the Open4Business portal which is described on page four.

Addressing uncertainty

We have had clear feedback from our stakeholders that the uncertainties associated with our major projects was a source of real concern. We share our stakeholders' wishes to develop projects more quickly, and with more certainty and have since October 2012 undertaken a major reorganisation of our business to better focus on delivery of our major projects. In December 2012 we published an open letter which set out revised dates for completion of our key projects. We will continue to keep our stakeholders informed of progress and any key changes that may occur to our major projects programme.

"SHE Transmission has restructured its business to help manage this uncertainty and to focus on the delivery of these large complex projects, and is working hard in conjunction with key stakeholders ... including the supply chain to resolve any issues, many of which are outside its direct control, that could impact on this delivery programme."

Open Letter, December 2013

The full text of this letter is presented in **Appendix 6: Open Letter**



Changing for good: An innovative approach to procurement

6

The views of supply chain stakeholders have been central to our development of a new approach to procurement for work required to extend our transmission networks to allow generators to connect to the system.

The new approach, which we believe to be the first of its kind in the electricity networks industry is intended to:

- Provide more certainty for suppliers
- Allow local businesses access to subcontracting opportunities
- Control costs for customers
- Build more sustainable relationships with suppliers
- Deliver cumulative efficiency benefits
- Support competition

In summary, we are developing a new Framework approach for the delivery of the substations which form part of our investment programme. We have agreed three framework contracts with three joint venture suppliers, each joint venture comprising an equipment manufacturer and a construction company. Each Framework sets out the contractual terms under which a number of substations within a defined geographic area (if consented by the relevant bodies) will be built and, subject to acceptable performance, guarantees that work will be awarded to each joint venture group. Each of the joint ventures comprises industry-leading organisations with whom we have worked before and in whom we have confidence in their ability to deliver.

We have agreed another Framework with a joint venture of new entrants to the UK transmission construction market. This Framework will award any additional work to this joint venture, and any projects that the other joint ventures are unable to deliver. Combining established providers with new market participants in this way supports the development of a healthy, competitive supply chain.

The framework agreements require the joint ventures to demonstrate that their programmes of work are sustainable. In addition to familiar requirements to demonstrate attributes such as safety and environmental responsibility, under the Frameworks, we require the joint ventures to commit to a number of corporate social responsibility undertakings including:

- ensuring the necessary material and human resources are available
- providing a training and development plan that shows that local communities will have a legacy of skills as a result of the projects
- supporting community initiatives by donating time, skills or other resources
- promoting all subcontracting opportunities through our Open4Business portal

Empowering through Governance

Each Framework agreement is governed by a board on which both we and the joint venture partners are equally represented. This collaborative approach is intended to ensure that the relationship is constructive and to facilitate simple dispute resolution.

Engaging with principal stakeholders: Landowners

7

We aim to maintain and evolve our relationship with landowners in order that we can deliver our investment programme in a timely and cost effective way and maintain our assets; we want to understand how we can ensure we undertake our operations responsibly, in a way that suits landowners.

How we have engaged this year

We recognise that it would be impossible to operate a reliable electricity network without the cooperation of the thousands of landowners, small and large, who allow us to place equipment on, or under, their ground. We also understand that it can be inconvenient, if we need access to that equipment, for routine or emergency maintenance.

To ensure that our relationships with landowners is positive and constructive, one of our very experienced Wayleaves team works with landowners on a one-to-one basis to make sure that our activities on their property are carried out in a way that minimises the impact to them. This is the core of our engagement with landowners.

Complementing our strong business relationships with Landowners is a programme of interaction with their representative bodies aimed at improving policies and procedures which have a widespread effect on this important stakeholder group. We meet regularly with the National Farmers' Union Scotland (NFUS) and Scottish Land and Estates

(SLE) to discuss relevant issues and gain an understanding of how we are viewed by landowners.

Identifying areas of focus

In conjunction with NFUS and SLE we identified the need to make public commitments to the way in which we interact with landowners who grant us access to their property.

Changing for good: developing a Grantors' Charter

This year we have worked with NFUS and SLE to develop a draft Grantors' Charter on which we sought feedback by issuing it to our wider stakeholder group, and publishing it on our website in autumn 2012.

We received comments back through this process and we are currently redrafting the Charter in line with the consensus view of those comments and will issue it as a formal document this year. We will work with landowners and other stakeholders to promote the Charter and will train our staff to make sure that they are familiar with the principles it sets out and confident that they can operate in line with the Charter.

In 2012/13 we also worked closely with the Scottish Government's Consents Unit and other stakeholders including land agents and Scottish Power Transmission to consider how we improve landowners' understanding of the necessary wayleaves process. (Necessary wayleaves are one way for network operators to secure the right to

run electric lines across land in cases where it is considered to be in the public interest for them to do so but they are unable to reach agreement with the owners or occupiers of the land in question).

We agreed a collaborative project with the Consents Unit to develop a simple explanation of the necessary wayleaves process for publication on the Consent Unit's website.

"In this short booklet we'll explain what standards of care you can expect us, or anyone else working on our behalf, to take when we need access to your land. We promise to work closely with you to minimise the impact of having our equipment on your land, and to quickly resolve any concerns you might have."

Extract from our draft Grantors' Charter

Appendix 7: Our draft Grantors' Charter

Engaging for change: 'Meet the Team' events

'Meet the Team' events

Working in conjunction with our Distribution business colleagues, we hosted a series of five 'Meet the Team' events in our north of Scotland area to which invitations were accepted by landowners, community representatives, supply chain participants, Local Authority executives, developers and NGOs.

The events held at each of our main networks Depots included our stakeholders meeting a senior manager from the Transmission business and enjoying a presentation introducing them to our business and summarising the investment programme that is being undertaken. Stakeholders also learned about the connections process and the work we do to keep the lights on in extreme weather conditions. Our guests were shown around the Depot to see how the different teams work together and where possible, were given 'hands on' experience of network components. During the event, there were also opportunities to speak privately with our representatives to discuss issues confidentially.

Feedback from attendees shows the events were very well received and the information provided relevant and interesting.

Engaging with principal stakeholders: ENSG and Trade Bodies

8

Electricity Networks Strategy Group

The Electricity Networks Strategy Group (ENSG) is jointly chaired by the Department of Energy and Climate Change (DECC) and Office of Gas and Electricity Markets (Ofgem). Its broad aim is to identify and co-ordinate work to help address key strategic issues that affect the electricity networks in the transition to a low-carbon future. SHE Transmission is a member of this high level forum and use this forum to update the group on issues relevant to our network.

As part of its remit, the ENSG takes the role of a 'critical friend', offering a valuable review and challenge function to help inform and support policy, regulation and project.

Minutes of the ENSG are published on the Group's website: www.gov.uk/government/policy-advisory-groups/electricity-networks-strategy-group

The ENSG produces Status Updates which, in its own words, aim 'to keep stakeholders informed of progress on transmission delivery and to help ENSG members identify any common issues that might affect (or are affecting) delivery and inform views on what common action on mitigation, if any, could usefully be taken.'

How we have engaged this year

The ENSG meets at least twice each year and we have been represented at senior management level at all meetings, presenting reports on the progress of our investment programme and contributing to discussion and debate on a range of issues. We also played a central role in the extraordinary meeting of January 2013, when we discussed the outcome of our project review, as made public in our open letter issued in December 2012.

ENSG Extraordinary Meeting

At the ENSG extraordinary meeting of 31 January 2013 we gave a presentation covering:

- The potential development of our network over the next 10 years to accommodate the potential growth of Scottish renewables
- Drivers for and scope of our review
- Controllable and uncontrollable risks
- Key projects affected and delays
- Feedback and impacts

Identifying areas of focus

The ENSG's current focus is on Ofgem's Integrated Transmission Planning and Regulation project, EU Networks Codes, Smart Grid Forum and offshore policy developments.

Trade Bodies

We engage with trade bodies in order to efficiently engage with their membership and to ensure that the consensus view of their membership is considered when we make decisions.

How we have engaged this year

Trade Bodies, in particular those representing companies with an interest in connecting generation to the electricity network, have been of particular importance this year. We identified that the uncertainties inherent in the work we are undertaking to extend our network, which is primarily driven by demand for connection for renewable energy developments, were a cause of great concern to a number of trade bodies.

Transmission Programme Review

Prompted by a number of factors including uncertainty in future generation developments, learning gained from previous projects and supply chain challenges, we undertook a review of all of our major transmission projects under construction, and 16 major schemes in development.

Central to that review was the intensive engagement of almost twenty key stakeholders representing UK and Scottish Governments, Suppliers, Developers, Local Authorities, Statutory Consultees, Trade Bodies, Ofgem and our own employees. The engagement was undertaken predominantly via individual face to face meetings.

This period of intensive engagement allowed us to identify the issues of greatest concern to these key stakeholders. This stakeholder input shaped our review.

Identifying areas of focus

Areas of greatest concern identified in our engagement with stakeholders were:

- Impact of programme delays on renewable energy connections and carbon reduction targets
- Concerns about delivery dates slipping again
- Economic impact on affected areas
- Ensuring investment is in the interests of the UK consumer
- Availability of resources

Changing for good: Transmission Programme Review

9

As described on page 5, in December 2012, we issued an open letter to Scottish Renewables, one of our key Trade body stakeholders, setting out realistic revised timetables for the delivery of our major transmission projects. In the letter we explain how working with stakeholders is key to the successful achievement of these new delivery dates.

Following the publication of the letter, we re-engaged with our stakeholders to gather concerns that our letter may have prompted and to understand to what extent our proposals addressed the concerns they had expressed previously. We will continue to engage with our stakeholders as we progress with our major transmission projects. Our open letter is attached in **Appendix 6**.

Transmission programme review

Our engagement with stakeholders, particularly regulatory and consenting bodies, and the involvement of expert industry colleagues has given us a better appreciation of the numerous interactions and interdependencies involved in delivering value for money, timely upgrades to our network.

This learning is reflected in a number of changes to our procedures, including:

- 1) Design freeze – a better rationale for deciding when to ‘freeze’ the design of a project, which allows us to balance the need for reacting to new energy development proposals with the need to provide certainty for stakeholders that we will deliver upgrades in a timely manner.
- 2) Consolidation of our business structures – we have altered reporting lines; changed individual responsibilities; aligned our business activities and synchronised our project plans so that we can deliver on our commitments.
- 3) Defined internal governance process – we have introduced a comprehensive and effective governance process to support our projects
- 4) Improved asset management – we now consider asset management (particularly the interaction of new infrastructure with our existing system) at a much earlier stage in the development of projects, reducing the likelihood of integration issues causing delays to projects and helping to cost-effectively future proof new assets.

Outcomes

The effect of our business reorganisation and project delivery, which took place three months before the end of this reporting period, will be reflected in the responses from supply chain participants to our stakeholder survey which will be carried out in summer 2014.

Engaging for change: Employees

As we undertake our most intense period of development since the 1950s, it is vital that we take our colleagues on the journey with us. To our external stakeholders, our employees are the face of the company and we want to make sure that our colleagues understand what we are doing and how we are doing it. We also want to learn from our people how we can deliver our investment programme efficiently and effectively and will introduce ways in which their ideas can be elicited and implemented.

Identifying areas of focus

Our engagement with colleagues is aligned with the interests of our external stakeholders; it is important for our employees to be knowledgeable about the intense programme work we are undertaking in order that they can engage effectively with the communities in which we operate. Reflecting the increased diversity in our work place arising from the recruitment of many staff from non-engineering backgrounds, we have placed a particular emphasis on improving understanding of transmission engineering matters. In 2012/13 we involved colleagues in a series of ‘Lunch and Learn’ workshops tailored such that issues relevant to all our key stakeholder were covered.

Engaging with principal stakeholders: Developers

10

We are committed to working with developers and their representatives to ensure that we take their views into account. We will also make sure that developers receive early notification, either directly or via the trade body to which they are affiliated, when we have news that is of significance to them.

How we have engaged this year

In addition to our business as usual interaction with developers, we have engaged with developers in many ways this year, including:

- Pre-application meetings
- Meetings with a major developer and National Grid in response to developer's request to improve coordination of outages
- Network Access Policy events
- Involvement in Community Energy Scotland Annual Conference

- Depot Visit and 'Meet the Team' events
- Scottish Renewables Work Group
- National Grid Customer Seminars
- Scottish Renewables Annual Conference participation – as speakers and providing a developers' 'clinic'

Furthermore, developers were particularly active in responding to our second stakeholder survey.

Identifying areas of focus

Through our discussions with developers, it is clear that their key areas of concern are the availability and affordability of connections to the network. Our surveys also show that stakeholders are concerned that our teams appear to be very busy and they often find it difficult to contact the appropriate person.

Changing for good: improving the connections experience

Improving the connections process has been a focus of intense activity for us in 2012/13. We have reviewed all aspects of developers' connections experience and we have introduced a suite of changes to improve the service we offer. We have:

- Implemented a recruitment process to almost double the size of our connections team
- Introduced portfolio meetings, in which we work with developers of multiple generation projects to consider their project portfolio as a whole; previously communication had been on a single project basis only
- Actively encouraged pre-application meetings with developers, which involve key members of our senior management team; in these special meetings we have provided guidance as to the connection

options available to developers and indications of approaches most likely to deliver the result they seek

- Published on our website maps of our network and the capacity available at grid supply points to allow developers to be better informed when making siting decisions.

In 2013/14 we will engage with developers to seek their opinions on the changes we have made to our connections process and will feed their views into our programme of continuous improvement. We will also learn from our stakeholder survey in summer 2013/14 which will canvas developers' views on connections.

