



# **BUSINESS SEPARATION**

## **COMPLIANCE**

*Annual Report*

**April 2012 – March 2013**

## **1. Introduction**

SP Transmission Ltd, SP Distribution Ltd and SP Manweb plc are the licence holding companies ('the Licence Holders') within the regulated business of the Scottish Power group. Each of these companies has a board of directors consisting of individuals who are separate from the liberalised business of the Scottish Power group.

SP Transmission Ltd's licence and the distribution licences of SP Distribution Ltd and SP Manweb plc contain specific confidentiality and business separation provisions. These include a requirement to submit a Compliance Statement for approval by the Gas and Electricity Markets Authority setting out the procedures whereby the licensee will ensure compliance with the relevant business separation licence requirements. An annual compliance report to the Gas and Electricity Markets Authority (Ofgem) is also required. This report describes the measures put in place by each of the Licence Holders to meet business separation requirements in the period April 2012 to March 2013.

The above licences also state that each Licence Holder must appoint a Compliance Officer to advise it on business separation compliance and to monitor procedures in place to meet these requirements. Jillian Lockie, Head of Scottish Power Internal Audit is our current Compliance Officer.

## **2. Measures adopted in accordance with the SP Energy Networks Business Separation Compliance Statement**

### **2.1 Managerial Separation**

The Supply and Distribution Businesses in the Scottish Power group are managerially and operationally separate, reporting to different Directors.

The Utilities Act 2000 required companies to create separate legal entities for their electricity distribution and supply businesses. SP Distribution Ltd and SP Transmission Ltd respectively hold the distribution and transmission assets and licences for Central and Southern Scotland. SP Manweb plc holds the distribution licence for Merseyside and North Wales.

Scottish Power Energy Networks Holdings Limited is responsible for the Licence Holders and for the effective management and day to day operation of the regulated business within the Scottish Power group. SP PowerSystems Ltd, also a wholly owned subsidiary of Scottish Power Energy Networks, manages and operates the network assets on behalf of the Licence Holders.

The ScottishPower corporate office supports the divisional directors in discharging their responsibilities to shareholders including their legal obligations but has no role in managing the day to day operation of the businesses within the group.

## **2.2 Responsibility and Monitoring**

The Scottish Power Energy Networks Regulation Director has responsibility for compliance requirements within the Distribution and Transmission Licences held by the group. A Compliance Manager within the Regulation Department has responsibility for the day to day management of business separation compliance.

The Compliance Officer has established monitoring processes and her team communicates regularly with the Compliance Manager to discuss any issues arising.

We are confident that the monitoring has been effective and is supported by the regulatory culture that exists within the Scottish Power Energy Networks businesses.

### **2.3 Branding**

SP Distribution Limited and SP Manweb plc are required to maintain a distribution brand that is distinct from the brand used by an affiliated supplier. Our approved brand is currently “SP Energy Networks” which was implemented in 2008.

### **2.4 IT Systems and protection of Confidential Information**

Where there are systems shared with other businesses in the group, access arrangements are in place to ensure that confidential data concerning suppliers outwith the ScottishPower group, or their customers, is not available to any affiliated supply or generation business. During the year 2012/13 work has taken place to provide appropriate separation and access controls for new systems replacing legacy systems that include confidential network data.

All staff are required to respect confidential information. A Compliance Code of Conduct has been established that is communicated to all Energy Networks staff, that sets out the licence restrictions on the transfer of confidential information. Information that is of a corporate nature, as agreed with Ofgem, is shared with other businesses within the Scottish Power group as required.

### **2.5 Staff Movements**

In 2012/13 there were two transfers of staff from the regulated business to the liberalised business in the ScottishPower group. A procedure is in place for an assessment to be carried out prior to a transfer of this kind taking place. This procedure also applies to transfers of Scottish Power Corporate staff dedicated to SP Energy Networks. Quarantine arrangements were applied in one case in accordance with licence requirements.

## **2.6 Shared Sites**

In a few cases sites are shared between SP Energy Networks and Retail or Generation business units within the Scottish Power group. Where this is the case physical access restrictions are in place to prevent uncontrolled movement by staff between areas occupied by different businesses.

## **2.7 Non-discrimination requirements**

The distribution licence requires us to provide certain metering and data services in a non-discriminatory way. It also requires us not to discriminate in carrying out connections, in providing for modifications to or retentions of existing connections. Our business separation licence conditions require us to report on compliance with these obligations in so far as they concern our relations with affiliated suppliers or gas shippers.

Compliance with these provisions is ensured by SP Distribution Limited and SP Manweb plc by the following measures:

- (1) Use of standard agreements and terms

Provision of legacy metering equipment and data services is governed by charges applicable to all suppliers as set out in the charging statement required under Condition 36 of our distribution licence. Dataserve UK provides this service on behalf of Energy Networks under the terms of a Service Level Agreement which is monitored and reviewed by a contract manager within Energy Networks.

In the case of connections, our charging statements issued under Condition 14 of the distribution licence, set out the bases for charging for “licensed” (S16) connections, and for non-contestable work in the case of connections to be adopted from a third party. In both cases, we employ connection agreements that apply equally to all parties (for larger sites, site-specific connection agreements are used). These are subject to the provisions of the Distribution Connection and Use of System Agreement.

## (2) Training and audit

Managers and staff dealing with third parties seeking use of system, connection or metering services or changes to these are subject to the training and awareness regime described earlier in order to ensure that they behave in a non-discriminatory manner and that they are aware of the importance of observing business separation compliance.

## **2.8 Non-cross-subsidy**

We are also required to report on our compliance with the licence obligation not to cross-subsidise or receive a cross-subsidy from any other business of the licensee or an affiliate or related undertaking.

Our compliance with this obligation is underpinned by means of arms length trading with other parts of the ScottishPower group. Provision of services by SP Distribution Limited and SP Manweb plc, including use of system, to other companies in the group takes place under standard terms and charging methodology that apply equally to third parties.

SP PowerSystems Limited ('SPPS') contracts with an affiliate, Iberdrola Engineering and Construction Limited ('IEC') to provide engineering and technical management of grid related projects at 132 kV and above. Charging and other arrangements have been designed to ensure compliance with non-cross subsidy, non-discrimination and other relevant requirements, including an undertaking by IEC to SPPS to (i) ensure that IEC's dealing with a third party do not involve a cross-subsidy being given to or received by SPPS in relation to an affiliate or related undertaking to SPPS, and (ii) prevent the restriction, distortion of competition in the generation or supply of electricity or in any services related or ancillary to such activities

## **2.9 Transmission**

The business separation requirements in SP Transmission Limited's licence are broadly similar to those applicable to distribution licensees. There is a prohibition on the licence holder from disclosing or authorising access to information relating to or deriving from the management or operation of the transmission business to any person engaged in any other electricity business. There is also a requirement for the full managerial and operational independence of the transmission business from other businesses and the appointment of a Managing Director of Transmission. Additionally, there is provision for the appointment of a Compliance Officer and reporting requirements relating to business separation.

Ofgem has granted a derogation which permits the joint management and operation of ScottishPower's distribution and transmission businesses. The compliance measures described above in relation to distribution, such as awareness training for staff, and compliance procedures for staff transfers were applied to the transmission business also.

In accordance with the requirements of Special Licence Condition D of SP Transmission's licence, during 2012 a report relating to the resources for operating the transmission business was issued by the Managing Director of Transmission and is available on the ScottishPower website (ScottishPower.com).

During 2012 SP Transmission was granted a derogation against the full unbundling requirements of the Electricity Directive 2009/72 under the provisions of section 9(9) of the Directive. Directors are required to certify annually to Ofgem that SP Transmission that no changes that breach the eligibility requirements for this derogation have taken place. A certificate to this effect was submitted to Ofgem in July 2012.

### **2.9A Staff Training and Awareness**

A number of actions have been put in place to reinforce awareness of the importance of maintaining confidentiality of information and non-discrimination between suppliers and generators. A Compliance Code of Conduct applies to all Scottish Power Energy Networks staff and is published on the divisional intranet. During 2012/13 all Scottish Power Energy Networks staff have been reminded each quarter of the key requirements of business separation compliance.

### **3. Complaints or Representations**

No formal complaints regarding potential breaches of our business separation requirements have been received during the year and this reflects positively on the effectiveness of our monitoring procedures and staff awareness programmes.

### **4. Further Information (Compliance Officer Activities)**

The Compliance Officer has adopted a risk-based approach, concentrating on the areas with the greatest potential impact on business separation compliance. A summary of activities carried out by the Compliance Officer's team during the period covered by this report is set out in the attached appendix.

Compliance Activity Programme - Summary 2012/13 – to be updated

<b>Key Activities</b>	<b>Work carried out</b>
<b>Physical Separation</b>	During the period of this report, the main shared premises were visited. Reviews were carried out to confirm ongoing compliance with licence requirements which included testing the operation of the electronic security access systems and reviewing the access controls database in each location.
<b>Staff Transfers</b>	Staff Transfer guidelines are embedded into the Human Resources process within Scottish Power Energy Networks. A review of the process for staff transfers was carried out during the period of this report to assess the effectiveness of the staff transfer policy.
<b>IT Systems, Processes &amp; Procedures</b>	IT specialists in our Internal Audit Department have reviewed the controls in place for our remaining shared IT systems. No specific breaches of business separation requirements were found, but action was requested to address a finding that in some cases user management controls had not operated fully throughout the year.
<b>Staff Training and Awareness</b>	Further work was undertaken this year to ensure that regular staff training & awareness was undertaken.
<b>Managerial Separation</b>	Work was carried out to ensure consistency of managerial separation with the published business separation compliance statement.

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