

Policy on Business Separation

ScottishPower Compliance Unit

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1. Purpose

There are companies within the ScottishPower Group ('ScottishPower' or 'the Group') which perform regulated network activities, either in established geographical areas or as a competitive market provider across the UK and therefore have access to network information which could give other Companies within the Group an advantage. These companies are subject to certain regulatory controls as a result. This includes:

- The Distribution Network Operator ('DNOs') Companies, ScottishPower Distribution ('SPD'), ScottishPower Manweb ('SPM') and SP Electricity North West ('SP ENW')
- The Transmission Company, ScottishPower Transmission ('SPT') and
- The Independent Distribution Network Operator ('IDNO', a competitor to the established DNOs in their traditional home areas), Sphere Energy Connect ('Sphere')

These Companies have regulatory obligations through their Distribution and Transmission licences to operate within the conditions of Business Separation. This means that our Transmission, Distribution and IDNO businesses (or 'Network businesses') are required to keep their activities ('Network Activities') fully separate from any competitive energy activities ('Liberalised activities') carried out across ScottishPower and existing monopoly DNO businesses must keep their activities fully separate from any IDNOs within the ScottishPower Group, to prevent giving those businesses any undue competitive advantage.

In addition, SPT must be separate from other Distribution and IDNO Companies within the ScottishPower Group that have not been granted a derogation from Ofgem to operate together as one business. Currently SP Energy Networks Holdings Limited ('SPEN') has a derogation allowing it to operate SPT alongside SPD and SPM, within the SPEN business. Within this Policy, references to the Network Businesses consider SPEN as a single business, where applicable.

The purpose of this Policy is to ensure that Network Businesses operate independently, transparently, and without conferring undue advantage on the supply, generation and IDNO businesses within ScottishPower. This Policy sets out the principles for compliance with that approach, explains how they are applied within the Company, and encourages and provides guidance for the reporting of any suspected breaches.

2. Scope

The main Business Separation Requirements are set out within Condition 42 and 42A of the Distribution Licence, Condition 31B of the Distribution Licence for IDNOs and Special Condition 9.14 of the SPTL's Transmission Licence (as well as some Standard Conditions of the Transmission Licence). Network Companies are also required to appoint an independent Business Separation Compliance Officer to support compliance with the Business Separation Requirements.

The *Ethical and Basic Principles of the Iberdrola Group ('the Principles')*, to which ScottishPower is subject as part of the Iberdrola Group, require Iberdrola Group Companies



to keep ‘Regulated’ and ‘Liberalised’ activities¹ fully separate within the boundaries of the Group. The Principles commit all Iberdrola Group companies to follow the industry regulations regarding business separation, including making sure that all relevant employees are aware of the rules, and that any policies developed in this area are published appropriately. The ScottishPower Code of Conduct recognises the importance of this requirement and creates this as an obligation for ScottishPower Group Companies.

Although the Business Separation Requirements are placed on DNO, Transmission and IDNO licensees, all ScottishPower employees are responsible for supporting compliance with the requirements. This Policy applies to all employees, Directors, agency workers and relevant Third Parties of ScottishPower. It extends to all operational, commercial, and strategic activities within the UK and to all information systems and data flows utilised by the Networks businesses. Compliance with the principles and intent of this Policy is therefore mandatory.

Accordingly, all interactions between Network Businesses and Liberalised Businesses within the ScottishPower Group are subject to this Policy, as well as interactions between DNOs and iDNOs within ScottishPower and between the Transmission Company and other Network businesses within the Group (unless in this latter case, a derogation to the Business Separation rules has been granted by Ofgem, which has the effect of permitting such interactions).

3. Business Separation Requirements

Business Separation licence obligations are placed on Transmission and Network licensees, requiring them to operate: i) the Network businesses independently from other parts of ScottishPower which are carrying out competitive activities; ii) Transmission and Distribution companies within the Group separately, unless a derogation has been granted by Ofgem²; and iii) DNO and iDNO businesses within the Group separately, so as to ensure that iDNO businesses are not granted any competitive advantage over non-affiliated iDNOs. **Failure to comply with the obligations can result in Ofgem imposing financial penalties on companies within the ScottishPower Group. There is also a risk of reputational damage to ScottishPower and the wider Iberdrola Group.**

Ofgem has certified that SP Transmission does not currently need to comply with the requirements of the unbundling requirements under the EU Third Energy Package. This means that SPEN can operate a Transmission business as part of a vertically integrated business comprising electricity generation and electricity supply activities. This relaxation of the regulations could be withdrawn if the separation requirements are not met, ultimately resulting in the forced separation of the Transmission business from the SP Group.

¹ Ethical and Basic Principles of Governance and Sustainability of the Iberdrola Group, as approved by the Board of Directors of Scottish Power Ltd on 16 December 2025

² SPT has been granted a derogation under Special Condition 9.16.14 of its Transmission Licence which removes certain of the business separation requirements between SPT and SPD/SPManweb (but not SP ENW).



The Company takes a zero-tolerance approach to non-compliant and unethical behaviour with laws and regulations in which the Company must comply. This includes a commitment to have in place arrangements to guarantee effective separation of activities to meet compliance with the Business Separation Requirements.

ScottishPower is committed to the following principles to support compliance with the Business Separation requirements:

A. Licence Reporting Obligations

Network Businesses will submit the following annual certifications and reports to Ofgem relating to the Business Separation Requirements, as appropriate to their Licence obligations:

- **Ultimate Controller Undertaking:** Confirmation that Iberdrola S.A., as the Ultimate Controller, will not take any action that would cause the licensee to breach the Electricity Act 1989 or its licence requirements. This means Iberdrola S.A. and all subsidiaries must comply with our Business Separation Requirements.
- **Business Separation Reports:** Reports setting out how Business Separation Requirements are being controlled and monitored in relation to that Network Business or Company, including in relation to separation of the DNO businesses from iDNOs within the Group, any issues arising in the previous year and how any risks and control deficiencies have been addressed.
- **Unbundling Certificate:** A declaration that no events or circumstances have arisen which may affect SPT's eligibility for the transmission unbundling derogation from the EU rules (which allows the Transmission business to stay as part of ScottishPower's operations).

B. Operational Licence Requirements

The following arrangements are in place to ensure compliance with the Business Separation Requirements:

- **Managerial and Operational Separation:** The Network Businesses must put in place, and at all times maintain, full managerial and operational independence of their own activities from other market-facing ('Liberalised') ScottishPower businesses or companies. For the DNO businesses this also means separation of their business and activities from iDNO businesses within the Group. The ScottishPower Group structure has been designed to allow full managerial and operational independence of the Network businesses, and the corporate governance model in place supports this, to make sure the requirements are met.

Any organisational and business change (such as staff from one of the Networks Businesses or their embedded functions moving to other business or Corporate areas or the appointment of Directors) must consider the impact on Business Separation Requirements and any mitigations that may be required. Any employees from other business areas who engage with any of the Network Businesses (such as through cross-business steering groups where best practice is shared) must ensure that the Business Separation Requirements are not breached.

- **Non-disclosure of confidential information:** Arrangements must be in place to ensure that:



- confidential information relevant to any of the Network Businesses is not disclosed to ScottishPower's Liberalised businesses or companies;
- confidential information relating to the Transmission business is not shared with other Networks businesses, unless an appropriate derogation is in place (such as in the case of SPEN companies); and
- confidential information relating to any of the DNO businesses is not shared with iDNOs within the Group.

Confidential information means any information that is not in the public domain or able to be shared as such. Information which could be considered confidential information will cover a wide range of subjects, including but not limited to, generation connection dates, other supplier data, cost data from Network Business procurement processes, or financial data related to the Network Businesses.

- **Segregating of systems for recording, processing, or storing data:** Arrangements must be in place to prevent employees from other ScottishPower businesses or companies having unauthorised access to Networks Business' systems and confidential data in order to support the principles above (including between Transmission and Distribution businesses that are not part of the same business group and to ensure that iDNO employees do not have access to DNO systems). This includes data held within billing and customer management systems, or any IT system where commercially confidential Networks Business information resides.
- **Restricted access to Networks Business premises:** Arrangements must be in place to prevent employees from ScottishPower's Liberalised businesses or iDNO companies having access to ScottishPower sites (or areas of ScottishPower sites) occupied by one of the Network businesses. Employees of other ScottishPower businesses cannot access any Network Business floors or buildings without prior authorisation from that Network Business (and the appropriate escort within the area).
- **Prohibition of cross subsidies:** Arrangements must be in place to ensure there is no cross subsidisation between: i) one of the Network Businesses and ScottishPower's Liberalised businesses; and ii) between the DNO businesses and iDNO businesses within the Group, to avoid the distortion of competition and protect customers. This extends to internal corporate recharges, any transfer of goods or services, or business activity between the Network Business in question and other ScottishPower companies.
- **Non-discrimination of metering and connection services:** Any of the Network Businesses must not give preferential treatment to any other ScottishPower Group company when setting charges and carrying out activity in relation to Use of System, customer connections and metering/distribution.
- **Branding:** Network Businesses must have, and maintain, a brand that is fully distinct from ScottishPower' Liberalised or competitive businesses. This means separate and distinct branding of assets, communications, and material logos.

C. Corporate Functions



There will be occasions where corporate functions are required to engage with Networks Businesses functions, in relation to the management and operation of the Distribution, Transmission and IDNO businesses. For example, the consolidation of Group accounts, input to policy or regulatory developments, and audit and compliance oversight. Corporate Functions exist to support ScottishPower Group activities, rather than participating in competitive activities on behalf of the Group and so are not considered to be Liberalised businesses for the purposes of this Policy. However, they could create risk for Business Separation if not subject to appropriate controls to protect their neutrality and the sharing of data or information.

Shared services can be used provided they: i) do not compromise independence; ii) confidentiality is protected; and iii) costs are allocated transparently and objectively. Where this is the case, effective arrangements must be in place to ensure information is only used for that purpose, and not disclosed further. Access to any relevant systems or premises must also be appropriately controlled, as detailed above.

4. Control, Evaluation and Review

Networks Businesses are obligated under their own Business Separation Requirements to appoint an independent Business Separation Compliance Officer (BSCO) to monitor the effectiveness of practice and controls in place across the Company to meet licence obligations. For SPEN, a single BSCO can act on behalf of both the Distribution and Network Companies within the SPEN group of Companies.

The BSCO is required to produce an annual report to the Board of Directors of the relevant Company, and, in the case of SPEN, the SP Energy Networks Holding Ltd Audit & Compliance Committee, on the effectiveness of these controls.

ScottishPower's Chief Compliance Officer will report to the Scottish Power Limited Audit and Compliance Committee and the Scottish Power Limited Board on compliance against this Policy as appropriate, primarily through publication of the annual BSCO Report.

Each Network Business will establish which function which has responsibility for the day-to-day management and monitoring of business separation compliance within their business activities. The SPL or SPEN Compliance Officers may also provide additional support and advice which complements the overall Business Separation compliance framework.

The Scottish Power Limited Compliance Unit is responsible for this Policy and shall review the contents in accordance with the frequency set out in Compliance Unit Policy Management Framework.

This Policy was last approved by the Scottish Power Limited Board on 17 February 2026.



5. Further Information and Guidance

The Distribution and Transmission Business Separation licence conditions can be found on the Ofgem website:

<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

Guidance in relation to SPEN interactions and operations can also be obtained via the businessseparation@spenergynetworks.co.uk mailbox.

The following supplementary policies are available for ScottishPower employees on the SP Compliance Unit area of the Employee Portal ([Iberdrola Group > Our areas and businesses > SP Compliance Unit](#)): ScottishPower Code of Conduct and Disciplinary Rules.

6. Reporting a Concern

The Company takes a zero-tolerance approach to non-compliant and non-ethical behaviour with laws and regulations in which the Company must comply. If you feel comfortable, you can discuss your concern with your line manager in the first instance. You or your line manager should report any concerns relating to a breach of this policy in one of the following ways:

Queries related to SPEN Business Separation can be raised by email to the Business Separation Mailbox	businessseparation@spenergynetworks.co.uk
In person or by email to your Business Compliance Officer (BCO)	The ScottishPower Compliance Unit structure and contact details are available to employees on the ScottishPower Employee Portal (here)
Through the Ethics Helpline reporting tab	Available on the ScottishPower Employee Portal (<i>a guide for ScottishPower employees on How To Report can be found here</i>)
By email to the Compliance Unit mailbox	compliance@scottishpower.com
Access our Speaking Out Channel on the ScottishPower website	Speaking Out Channel - ScottishPower https://www.scottishpower.com/pages/speaking_out_channel.aspx

Please refer to the ScottishPower Speaking Out Toolkit for further information on the Speaking Out process and the protections for anyone making such reports. The Speaking Out Toolkit is available for ScottishPower employees on the SP Compliance Unit area of the ScottishPower Employee Portal ([Iberdrola Group > Our areas and businesses > SP Compliance Unit](#)).