



SP ENERGY NETWORKS

**Business Separation
Statement of Compliance**

**SP Transmission plc
SP Distribution plc
SP Manweb plc**

Introduction

This document sets out the practices, procedures and systems that SP Transmission, SP Distribution and SP Manweb have adopted to ensure compliance with business separation requirements in their licences.

These business separation requirements include:

- (1) Ensuring operational and managerial independence of the licensed network businesses;
- (2) Ensuring non-discrimination in provision of use of system and connection works;
- (3) Observing the prohibition of cross subsidy between the licensed networks businesses and any other business of the licensees or affiliates or related undertakings;
- (4) Observing confidentiality of information provided by customers and suppliers;
- (5) Managing staff transfers to any affiliated supply or generation business;
- (6) Establishing and maintaining a separate identity from any supply businesses in the same corporate group;
- (7) Restricting access to premises, systems or facilities used for the management or operation of the distribution or transmission business;
- (8) Managing access by an affiliated or related supplier to the services of persons engaged in, or in respect of, the management or operation of the distribution or transmission business.

The form of this statement has been approved by the Gas and Electricity Markets Authority.

Background

Following the passing of the Utilities Act 2000, ScottishPower set up a number of new subsidiary companies to comply with its legal separation requirements. Two new subsidiary companies were set up to carry on UK generation and energy supply activities respectively. As regards electricity networks, SP Transmission plc and SP Distribution plc hold Transmission and Distribution licences respectively for Central and Southern Scotland. SP Manweb plc holds a Distribution licence for Merseyside and North Wales. Another group subsidiary, SP Power Systems Ltd (“SP PowerSystems”) provides network management and operational services to the three network owners.

Metering is carried on by a separate business within the ScottishPower group – SP Dataserve Ltd .

Measures Taken to Ensure Compliance

(a) Management and operational separation

SP Energy Networks is a separate business unit responsible for the 3 electricity network licensees within the ScottishPower group. Its directors and staff have no involvement with the management or operation of any other business not related to distribution or transmission.

SP PowerSystems manages and operates the networks on behalf of each licensee under a Service Agreement. This sets out the services to be provided and the charging mechanism for these. Regular reviews take place of performance by SP PowerSystems under the Agreement. The terms of each Agreement comply with licence requirements, including the general consents issued by the Authority relating to the Disposal of Assets licence condition.

Metering and Revenue Protection Services provided to SP Energy Networks by SP Dataserve Ltd are subject to a separate Service Level Agreement which sets out in detail service requirements and charging structures. Performance under the agreement is regularly reviewed by the relevant SLA contract managers. The provision of services to the supply business under licence or statutory obligations (use of system, legacy meter equipment provision and data services) is covered by standard industry agreements, and is accordingly on the same terms as for other suppliers. In a few cases, premises carrying out operational activities are shared with other ScottishPower group businesses. Where this is the case physical access restrictions are in place to prevent uncontrolled movement by staff between areas occupied by different businesses.

All visitors to distribution or transmission business premises are subject to the same procedures and are accompanied when on site.

(b) Non-discrimination and non-cross-subsidy

The provision of services to the supply business under licence or statutory obligations (use of system, legacy meter equipment provision and data services) is covered by standard industry agreements, and is accordingly on the same terms as for other suppliers.

Provision of connections services by our distribution businesses is subject to standard procedures and a connection charging methodology that is applicable to all parties seeking a connection.

SP Transmission provides connection and other services to National Grid Electricity Transmission in accordance with its licence requirements and the System Operator Transmission Owner Code.

Our compliance with the non-cross-subsidy obligation is underpinned by means of arms length trading with other parts of the ScottishPower group. As set out above, provision of services including use of system, to other companies in the group takes place under standard terms and charging methodologies that apply equally to third parties

SP Power Systems Limited ('SPPS') on behalf of SP Transmission, SP Distribution and SP Manweb has contracted 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.

(c) Confidentiality of Information

Access to IT systems used by the distribution business is subject to an authorisation process. Procedures are in place to ensure that authorisation is removed as appropriate when a member of staff changes job or leaves the company. Operational IT systems used by the distribution business are separate from those used by the ScottishPower supply or generation businesses. In a few cases, where systems are shared, access controls and other measures have been put in place to enforce business separation requirements.

A number of non-operational systems are standard across the ScottishPower group. These cover

- Payroll
- Electronic mail and associated services
- Financial reporting

For these systems a hierarchy of protection measures has been put in place to restrict access to data, provide confidentiality and ensure that there is no discrimination in dealings with customers or suppliers.

A procedure has been put in place to ensure that when IT systems are scheduled to be enhanced or replaced, the opportunity is taken to extend separation unless there are strong grounds, consistent with licence requirements, for not doing so.

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. Breaches of the Code will be subject to company disciplinary procedures as appropriate.

Information that is of a corporate nature, as agreed with Ofgem, is shared with other businesses within the ScottishPower group as required.

(d) Separate Identity

A separate identity for the UK wires businesses in the ScottishPower group has been agreed with Ofgem and implemented. “SP Energy Networks ” is the public-facing identity used for communications with customers and suppliers, including Distribution Call Centre communications. Appropriate changes to vehicles, stationery and signage have been made.

(e) Staff Transfers

Staff transfer guidelines have been established to ensure that before any member of staff transfers from the distribution or transmission business to a competitive ScottishPower supply or generation business, an assessment is made as to their existing level of access to relevant confidential information. Following consultation with the Compliance Officer, a decision is made about the duration, if any, of a period of quarantine.

(f) Staff Communications

A refresher awareness programme is maintained to ensure that relevant staff in Energy Networks are made aware of business separation requirements. Communications to staff to remind them of these requirements take place at least once a year.

(g) Complaint Handling

Any complaints received regarding compliance with business separation requirements are reported to the Compliance Officer, as required by Condition 43 of the Distribution Licence and Special Condition 2H of the Transmission Licence.

Compliance Monitoring and Audit

As required by the distribution and transmission licences, a Compliance Officer has been appointed to monitor and advise on business separation compliance. This includes a programme to audit compliance; any findings are reported to Energy Networks business management, and issues addressed should they arise.

Contact

Any complaints or communications relating to business separation should be addressed in the first instance to

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