

ScottishPower Compliance Division

SUSTAINABLE, ETHICAL WORKING

Business Separation Policy

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Prepared:

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VERSION CONTROL

Version Number	Author	Purpose / Amendments	Date
1.0	Amanda Henderson (Ethics & Compliance Manager)	Final version following annual review and update of document content.	July 2019
1.1	June Dickson (Business Compliance Officer, SP Energy Networks)	Implementation of document management principles and annual review and update of document content.	September 2020



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1. PURPOSE

This Policy outlines the business separation obligations that are placed on SP Energy Networks (“SPEN”), and details how the ScottishPower Group (“ScottishPower”) will ensure effective separation of activities to meet these obligations.

2. SCOPE

The regulatory licence conditions imposed on our Transmission and Distribution businesses by Ofgem require those businesses to keep their activities fully separate from any competitive energy activities carried out across ScottishPower (“Business Separation Requirements”).

The principal Business Separation Requirements are set out within Condition 42 of the Distribution Licence and Special Condition 2I of the Transmission Licence. Condition 43 of the Distribution Licence and Special Condition 2H of the Transmission Licence also provide for the appointment of a Compliance Officer to facilitate compliance with the Business Separation Requirements.

In addition, Article D.18 of the Iberdrola Code of Ethics undertakes that all Iberdrola Group companies will observe the industry regulations regarding the separation of Regulated and Liberalised activities, including communication of the rules to all relevant employees, and that any policies developed in this area will be communicated externally as appropriate.

Although the Business Separation Requirements are placed on SPEN, compliance with the Business Separation Requirements are the responsibility of everyone across ScottishPower. The Scottish Power Limited (the “Company”) Board of Directors (the “Board”) and Senior Management Team expects all employees to fully comply with this Policy, which extends to all business dealings and transactions in the UK.

3. OUR BUSINESS SEPARATION REQUIREMENTS

a. Licence Obligations

SPEN is required to submit annual certifications and reports to Ofgem, relating to the Business Separation Requirements:

- **Ultimate Controller Undertaking** – confirmation that Iberdrola S.A., as the Ultimate Controller, will refrain from any action that would cause the licensee to breach the Electricity Act 1989 or its licence. This means Iberdrola S.A. and all subsidiaries must comply with our Business Separation Requirements;
- **Business Separation Report** – reporting how Business Separation Requirements are being controlled and monitored, any issues arising in the previous year and how any risks and control deficiencies have been addressed;



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- **Unbundling Certificate** – declaration that no events or circumstances have arisen which may affect SPEN’s eligibility for Transmission unbundling derogation from the EU rules.

Business Separation licence obligations are placed on SPEN to operate the Transmission and Distribution businesses independently from other parts of ScottishPower. This includes strict requirements to ensure:

- **Full managerial and operational separation and independence** of SPEN from any other ScottishPower business or ScottishPower company;
- **Non-disclosure of confidential or commercially sensitive** SPEN information that could offer a competitive advantage to any other ScottishPower business or ScottishPower company or distort competition in any way;
- **Segregation of IT systems** that contain SPEN data from any other ScottishPower business or ScottishPower company;
- **Restricted access to premises** occupied by SPEN or shared between SPEN and any other ScottishPower business or ScottishPower company;
- **Prohibition of cross subsidies** between SPEN and any other ScottishPower business or ScottishPower company, with the application of objective and non-discriminatory standards to avoid any preferential treatment of Liberalised companies or their customers;
- **Non-discrimination of metering and connection services and charges** across all suppliers and competitors; and
- **Separate branding** from any other ScottishPower business or company.

Failure to comply with obligations can result in Ofgem imposing financial penalties on SPEN. There is also a risk of reputational damage to ScottishPower and the wider Iberdrola Group.

In addition, Ofgem has certified SP Transmission as benefiting from not having to meet the requirements of the unbundling requirements under the EU Third Energy Package. This relaxation of the regulations could be withdrawn if the separation requirements are not met, ultimately resulting in the forced divestment of the Transmission business.

b. Key Business Separation Requirements

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:



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- **Managerial and Operational Separation:** SPEN must put in place, and at all times maintain, full managerial and operational independence of the Distribution and Transmission business from other ScottishPower businesses or companies. This means the Group structure must allow full managerial and operational independence of SPEN, and the corporate governance model in place within the Company effectively ensures the requirements are met.

Any organisational and business change, such as internal staff transfers from SPEN, appointments to other business positions including embedded functions, or appointment of Directors, must fully consider Business Separation Requirements. Similarly, any employees who engage in activity with SPEN, such as 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 SPEN information is not disclosed to other ScottishPower businesses or companies – this means information that is not in the public domain. 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 SPEN procurement processes, or financial data related to SPEN;
- **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 SPEN systems and confidential SPEN data. This includes data held within billing and customer management systems, or any IT system where commercially confidential SPEN information resides;
- **Restricted access to SPEN premises:** Arrangements must be in place to prevent employees from other ScottishPower businesses or companies having access to premises, or parts of premises, occupied by persons engaged in, or in respect of, the management or operation of the SPEN business. Non-SPEN staff must seek prior authorisation from SPEN before accessing any of their locations;
- **Prohibition of cross subsidies:** Arrangements must be in place to ensure there is no cross subsidisation between SPEN and any other ScottishPower company. This extends to internal corporate recharges, any transfer of goods or services, or business activity between the SPEN business and other ScottishPower companies;
- **Non-discrimination of metering and connection services:** Preferential treatment must not be given by SPEN to any other ScottishPower company when setting charges and carrying out activity in relation to Use of System, customer connections and metering/distribution; and



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- **Branding;** SPEN must have, and maintain, a brand that is fully distinct from other ScottishPower businesses or companies. This means separate and distinct branding of assets, communications and material logos etc.

c. Corporate Functions

There will be occasions where corporate functions are required to engage with SPEN in relation to the management and operation of the Distribution and Transmission businesses. For example, the consolidation of Group accounts, input to policy or regulatory developments, and audit and compliance oversight. 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

SPEN is obligated under the 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. This duty is currently undertaken by PricewaterhouseCoopers, who is required to produce an annual report to the Directors of SPEN and the SP Energy Networks Holding Ltd Audit & Compliance Committee on the effectiveness of these controls.

The ScottishPower Compliance Division is responsible for the implementation of the Business Separation Policy. Scottish Power's Chief Compliance Officer is responsible for this Policy and will report to the Board and the Audit and Compliance Committee on compliance against this policy as appropriate, primarily through publication of the annual Business Separation Compliance Officer Report. The Business Compliance Officer for Networks also provides an independent oversight of the Business Separation compliance framework.

The Network Planning & Regulation Director of SPEN has overall business responsibility for compliance with Business Separation Requirements. The Licence and Assurance Manager within the Network Planning & Regulation Department has responsibility for the day to day management and monitoring of business separation compliance within the SPEN business.

[This Policy was last approved by the Scottish Power Limited Board on [7th] October 2020.]

5. FURTHER INFORMATION AND GUIDANCE

Business Separation licence conditions for the Distribution and Transmission can be found on the Ofgem website.

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



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Further guidance can also be obtained the Licence and Assurance Manager within the Network Planning and Regulation Department.

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The following supplementary policies are available on the ScottishPower Compliance Division intranet site ([Corporation > Compliance > Compliance Division](#)):

- Code of Ethics (Article D.18 covers business separation requirements); and
- 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. Any concerns relating to a breach of the Policy should be reported in one of the following ways:

- ScottishPower Chief Compliance Officer:
 - Pamela Mowat (pamela.mowat@scottishpower.com or 07738 062627)
- SPEN Licence and Assurance Manager:
 - Susan Bradshaw (susan.bradshaw@spenergynetworks.co.uk)
- Business Compliance Officers:
 - **SP Energy Networks** - June Dickson (June.dickson@spenergynetworks.co.uk or 07753 624854)
 - **SP Renewables** - Amanda Henderson (amanda.henderson@scottishpower.com or 07753 622595)
 - **Liberalised** - Sean Tierney (Sean.tierney@scottishpower.com or 07753 623416)
- Compliance division mailbox (compliancedivision@scottishpower.com);
- External helpline and web reporting service provided by Expolink:
 - (0800 374 199 or <https://wrs.expolink.co.uk/scottishpower>); or
- Your line manager.

Please refer to the ScottishPower Speaking Out Guidelines for detailed information on the resources available and the protections for anyone making such reports. These guidelines are available on the Compliance Division Intranet site ([Corporation > Compliance > Compliance Division](#)).