



**BUSINESS SEPARATION
COMPLIANCE**

Annual Report

April 2019 – March 2020

SP Transmission Plc.

SP Distribution Plc.

SP Manweb Plc.

1. Introduction

SP Transmission plc, SP Distribution plc 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 and independent from the liberalised business of the Scottish Power group.

SP Transmission plc's licence and the distribution licences of SP Distribution plc and SP Manweb plc (the Licence Holders) 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 2019 to March 2020.

Scottish Power group has very clear business separation of the regulated businesses, from liberalised activities. There are three holding companies:

- ScottishPower Renewable Energy Limited ("SPERL");
- Scottish Power Retail Holdings Limited ("SPRHL"); and
- Scottish Power Energy Networks Holdings Limited ("SPENHL").

The non-independent members of the Board of Directors of SPENHL are responsible for the effective day to day operation of the regulated networks businesses within the Scottish Power group and consist of directors who have no relationship within the liberalised business. In addition, two non-executive independent directors sit on the board of SPENHL and the boards of the Licence Holders. They provide independent scrutiny of the financial ring fencing obligations for each Licence Holder, governance, performance and strategic direction of the regulated business. This reinforces the very clear business separation of the networks business from liberalised activities.

The above licences also state that each Licence Holder must appoint a Business Separation Compliance Officer to advise it on business separation compliance and to monitor procedures in place to meet these requirements. PwC is the appointed Business Separation Compliance Officer and any improvements they note are reported to the SPENHL Audit & Compliance Committee for action.

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

2.1 Managerial Separation

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

SPENHL is responsible for the Licence Holders and for the effective management and day to day operation of the regulated network business within the Scottish Power group. SP Power Systems is a subsidiary providing asset management support.

The Scottish Power 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.

The Compliance Officer has highlighted that during 2019/20, additional safeguards/controls have been implemented together with improved documentation enabling SPENHL to better demonstrate compliance with business separation requirements. They do note that such improvements should be adopted for other activity, e.g. COP26 preparations where SPENHL may engage with the wider SP group. They also suggest reference to separation obligations within directors' annual objectives as a means of formally capturing their role in ensuring compliance.

2.2 Responsibility and Monitoring

The Network Planning & Regulation Director of SPENHL has overall responsibility for compliance requirements within the relevant licences. A Compliance Manager within the Network Planning and Regulation Department ("the Compliance Manager") has responsibility for the day to day management of business separation compliance. Susan Bradshaw, Licence & Assurance Manager is our current Compliance Manager. The Compliance Manager has well established monitoring processes and communicates regularly with the Business Separation Compliance Officer to discuss any issues arising. We are confident that the monitoring has been effective and is supported by the strong regulatory culture that exists within the SPENHL businesses. This is reflected in the Compliance Officer report.

2.3 Branding

SP Distribution plc 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

All staff are required to respect confidential information. A Compliance Code of Conduct is established that is communicated to all SPENHL staff, which 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.

Where there are systems shared with other businesses in the group, access arrangements are in place to ensure that confidential data is not available to any other group company outside of SPENHL. There continues to be a small number of Retail business users with access to SPENHL metering data through SAP ISU2 and MARs systems. During 2019/20 additional access controls were introduced to evidence that there is no risk of this access being inappropriately used by the Retail business. Access controls over these systems were tested by our Compliance Officer and found to be effective.

This year it was identified that the recent roll out of Office 365 created the potential for SPENHL data to be available to non SPENHL staff, due to the application of confidentiality settings, mostly in TEAMS (a collaboration tool within Office 365). A specialist company will be engaged to perform an independent review of the Office 365 services in use. This review will assess the procedural and technical controls in place to ensure effective Business Separation and recommend any additional controls where required.

2.5 Staff Movements

Staff transfer guidelines are embedded in the Human Resource process within SPENHL. In the event of a member of staff transferring from the SPENHL group, their Line Manger is required to inform the Compliance Manager for an assessment to be completed of their current duties and information access. Monthly updates on staff movements from Human Resources are also monitored. Upon identification of any relevant staff transfers the assessment also considers whether a period of quarantine is required and its necessary duration. A documented procedure is in place for these assessments which are carried out prior to any transfer taking place.

Within SPENHL, quarantine arrangements were applied in eleven cases in accordance with licence requirements during 2019/20.

2.6 Shared Sites

Some ScottishPower group sites are shared between supply and distribution. In all cases SPENHL staff are physically segregated from other Scottish Power group business staff with appropriate access controls and restrictions in place. An electronic security tag system is in place and access privileges are controlled and monitored via a secure database. Dedicated Security staff are responsible for the management and update of the database and the processing of access requests. Access requests are only processed following appropriate authorisation from the Compliance Manager.

During the period of this report, the focus was the new Scottish Power head office premises which are shared by regulated and non-regulated businesses. SPENHL staff took residence of a third floor in the head office during 2019/20. Those staff which moved in to the head office received a reminder on the principles of business separation. The established controls continued to ensure there is strict separation between floors. Only SPENHL staff can access the three floors dedicated to SPENHL and there is an approval processes in place to consider every access request, by the Compliance Manager.

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.

Compliance with these provisions is ensured by SP Distribution plc 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 SPENHL under the terms of a Service Level Agreement which is monitored and reviewed by a contract manager within SPENHL.

In the case of connections, our charging statements issued under Condition 14 of the distribution licence, set out the bases for charging for “licensed” 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

Managers and staff dealing with third parties seeking use of system, connection or metering services or changes to these are subject to training 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 Licence Holders or an affiliate or related undertaking.

Our compliance with this obligation is underpinned by means of arm’s length trading with other parts of the Scottish Power group. Provision of services by SP Distribution plc 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.

2.9 Transmission

The business separation requirements in SP Transmission plc’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. There is provision for the appointment of a Business Separation Compliance Officer as noted above and reporting requirements relating to business separation.

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

In accordance with the requirements of Special Licence Condition I of the SP Transmission licence, during 2019 a report relating to the resources for operating the transmission business was issued by the Managing Director of Transmission and is available on the website SPEnergyNetworks.co.uk.

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. SP Transmission Directors are required to certify annually to Ofgem that no changes have taken place that breaches the eligibility requirements for this derogation. A certificate to this effect was submitted to Ofgem in July 2019.

3. 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 SPENHL staff and is published on the divisional intranet. During 2019/20 there have been communications on the key requirements of business separation compliance to all SPENHL staff and wider Scottish Power staff. All new SPENHL employees are given an induction to separation obligations via their Line Manager. The on-line Code of Ethics training course, which includes business separation obligations, launched in April 2017 for all employees. The best means of maintaining records of employee completion is currently being considered.

4. 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. A query was raised by SPENHL's CEO regarding his annual objectives, seeking confirmation that these relate to the performance of SPENHL and not that of other parts of the Scottish Power group. Investigation found whilst these objectives do relate appropriately to SPENHL, the associated bonus payment had been calculated based on broader Scottish Power performance. This was quickly rectified, and controls identified to prevent recurrence.

5. Further Information (Compliance Manager Activities)

The Compliance Manager adopts 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 Manager's team during the period covered by this report are set out below.

Key Activities	Key Controls	Work carried out during 2019/20
Physical Separation	<ul style="list-style-type: none"> Regular communication to staff regarding Business Separation requirements Physical separation through security access controls 	Access controls over key sites continue to operate. Communications have increased the number of general inquiries regarding site access rules.
Staff Transfers	<ul style="list-style-type: none"> Regular communication to staff regarding Business Separation requirements Proactive notification to Compliance Manager of Staff transfers Monthly Human Resource report on Staff movement/ transfers 	Staff Transfer guidelines are fully embedded into the Human Resources process within SP Energy Networks. All movers, transfers and leavers within 2019/20 were reviewed and all necessary risk assessments were completed and actioned as appropriate. There were a few instances where these were not received in advance but were identified through monthly HR reports. No high risk transfers were in this category.

	<ul style="list-style-type: none"> • Staff transfer risk assessment • Quarantine Controls, as appropriate 	
IT Systems, Processes & Procedures	<ul style="list-style-type: none"> • Regular communication to staff regarding Business Separation requirements • IT access controls • Ongoing review of user access 	The Compliance Officer has reviewed the controls in place for our shared IT systems and supports improvements that are planned
Staff Training and Awareness	<ul style="list-style-type: none"> • Regular communication to staff regarding Business Separation requirements 	Communications to staff have been issued, to all SPENHL and ScottishPower staff. Communications have increased the number of general separation inquiries.
Managerial Separation	<ul style="list-style-type: none"> • Regular communication to staff regarding Business Separation requirements • Service Level Agreements with service providers within the Scottish Power group • Formal arrangements for any cross-business forums 	Managerial Separation is embedded into our structures and the way we do business with service providers within the Scottish Power group. Contract Management meetings continue. Cross business forums reviewed by the Compliance Officer and arrangements found to be satisfactory.

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