

ScottishPower Consolidated Segmental Statement

for the year ended 31 December 2022

Required under Standard Condition 16B of Electricity
Generation Licences and Standard Condition 19A of
Electricity and Gas Supply Licences



SCOTTISHPOWER

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Opinion

We have audited the accompanying statement (the "Consolidated Segmental Statement" or "CSS") of Scottish Power UK plc and its Licensees (as listed in footnote (i)) for the year ended 31 December 2022. The CSS has been prepared by the directors of Scottish Power UK plc based on the requirements of The Office of Gas and Electricity Markets' ("Ofgem") Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together the "Licences") and the basis of preparation on pages 7 to 10.

In our opinion, the attached CSS of Scottish Power UK plc for the year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with:

- i. the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by Ofgem; and
- ii. the basis of preparation on pages 7 to 10.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800, and the terms of our engagement letter dated 23 April 2018. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of Scottish Power UK plc and its Licensees in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter: Basis of accounting

We draw attention to pages 7 to 10 of the CSS, which describes the basis of preparation. As explained on those pages, the CSS is prepared in order for Scottish Power UK plc and its Licensees to meet the Licence requirements of Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 7 to 10. This basis of preparation is not the same as segmental reporting under IAS and/or statutory reporting under UK GAAP or IAS as relevant. As a result, the CSS may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The directors have prepared the CSS on the going concern basis as they do not intend to liquidate Scottish Power UK plc and its Licensees or to cease its operations, and as they have concluded that Scottish Power UK plc and its Licensees' financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the CSS.

In our evaluation of the directors' conclusions, we considered the inherent risks to Scottish Power UK plc and its Licensees' business model and analysed how those risks might affect Scottish Power UK plc and its Licensees financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the CSS is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on Scottish Power UK plc and its Licensees' ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that Scottish Power UK plc and its Licensees will continue in operation.

Fraud and breaches of laws and regulations – ability to detect*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to Scottish Power UK plc and its Licensees' high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Compliance Committee and Group Disclosure Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Our forensic specialists assisted us in identifying potential fraud risks by holding a discussion with senior members of the engagement team.

Fraud and breaches of laws and regulations – ability to detect *continued*

Identifying and responding to risks of material misstatement due to fraud *continued*

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgments such as the recognition of revenue and defined benefit assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Company's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgments.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts. We also assessed significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the CSS from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As Scottish Power UK plc and its Licensees are regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the CSS varies considerably. Firstly, Scottish Power UK plc and its Licensees are subject to laws and regulations that directly affect the CSS including Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by Ofgem and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, Scottish Power UK plc and its Licensees are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the CSS, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, antibribery, employment law, Ofgem regulations, recognising the regulated nature of Scottish Power UK plc and its Licensees' activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the CSS, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the CSS, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' responsibility

The directors are responsible for: the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 7 to 10; such internal control as they determine is necessary to enable the preparation of a CSS that is free from material misstatement, whether due to fraud or error; assessing Scottish Power UK plc and its Licensees' ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate Scottish Power UK plc and its Licensees or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the CSS as a whole is free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the CSS.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

Our report has been prepared solely for the directors of Scottish Power UK plc and its Licensees, in accordance with the terms of our agreement dated 23 April 2018, to assist the directors in reporting on the CSS to Ofgem. It has been released to Scottish Power UK plc and its Licensees on the basis that our report shall not be copied, referred to or disclosed, in whole (save for Scottish Power UK plc and its Licensees' own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of Scottish Power UK plc and its Licensees determined by Scottish Power UK plc and its Licensees needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than Scottish Power UK plc and its Licensees for any purpose or in any context. Any party other than Scottish Power UK plc and its Licensees' who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

We permit this report to be disclosed on the Company's website to enable the directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. The maintenance and integrity of the Scottish Power UK plc website is the responsibility of Scottish Power UK plc; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.



Andrew Williamson
For and on behalf of KPMG LLP
319 St. Vincent Street
Glasgow
G2 5AS
18 April 2023

Introduction

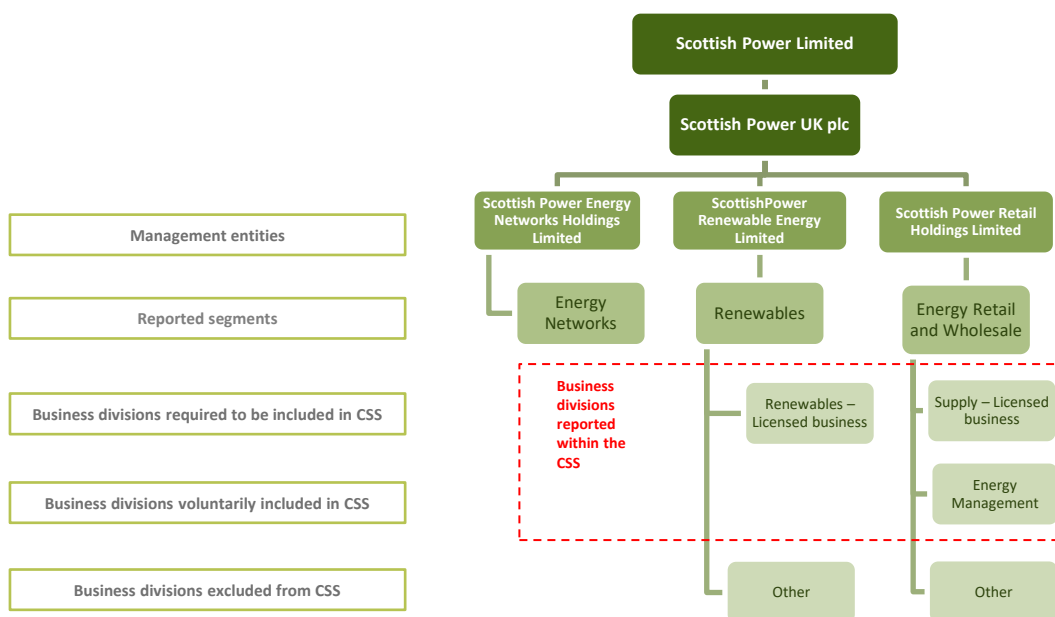
This CSS and associated regulatory information is presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences (“the Conditions”).

The CSS and supporting information has been prepared by the directors of Scottish Power UK plc (“SPUK”) in accordance with the Conditions stated above and the associated guidelines issued by Ofgem. The CSS has been derived from, and reconciled to, the Annual Report and Accounts of SPUK for the year ended 31 December 2022, which have been prepared in accordance with UK-adopted International Accounting Standards (“IAS”).

ScottishPower Operational and Management Reporting Structure

The diagram below outlines the operational and management reporting structure of ScottishPower during the year ended 31 December 2022. ScottishPower is defined as Scottish Power Limited (“SPL”) and its subsidiaries. SPL is the United Kingdom (“UK”) parent company of the Great Britain (“GB”) and certain Ireland operations of Iberdrola, S.A. (“Iberdrola”). The intermediate UK parent company, SPUK, acts principally as the immediate holding company for the ScottishPower operations. For the purpose of the CSS, “the Group” is defined as SPUK and its subsidiaries.

In accordance with the disclosure requirements of IAS, the SPUK Accounts report the financial results of the reported segments outlined below. The SPUK Accounts also disclose the financial results of the business divisions on a voluntary basis in order to increase transparency and demonstrate the alignment of the reported segments and business divisions in the SPUK Accounts with those reported in the CSS for the year ended 31 December 2022.



At 31 December 2022 the Group’s reported segments and business divisions were as follows:

Reported Segment	Business Division	Business Division Description
Energy Networks	Energy Networks	The transmission and distribution business within the Group.
Renewables	Renewables – Licensed business	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant.
	Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain and the results of Coldham Windfarm Limited which is exempt from holding a generation licence as it is classed as a small generator.
Energy Retail and Wholesale	Supply – Licensed business	The licensed activity of the Energy Retail and Wholesale reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
	Energy Management	The non-licensed activity of the Energy Retail and Wholesale reported segment which is responsible for wholesale market purchases for the Supply licensed business division. In addition, Energy Management manages limited proprietary trading and gas storage activities.
	Other	The other non-licensed activity of the Energy Retail and Wholesale reported segment, which includes the Group’s Smart Solutions activities, hydrogen activities and non-licensed metering activities, including smart meter asset provision.

Introduction *continued*

ScottishPower Operational and Management Reporting Structure *continued*

SPUK is the intermediate holding company of all Licensees within ScottishPower. The individual supply and generation licences are held in legal entities reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2022. The individual supply and generation licences held within SPUK at 31 December 2022 were as follows:

Licensee	Licence	Business Division	Ownership
ScottishPower Energy Retail Limited	Supply	Supply – Licensed business	100%
ScottishPower Renewables (UK) Limited	Generation	Renewables – Licensed business	100%
Morecambe Wind Limited	Generation	Renewables – Licensed business	50%
Celtpower Limited	Generation	Renewables – Licensed business	50%
East Anglia One Limited	Generation	Renewables – Licensed business	60%
East Anglia Three Limited ¹	Generation	Renewables – Licensed business	100%
East Anglia One North Limited ¹	Generation	Renewables – Licensed business	100%
East Anglia Two Limited ¹	Generation	Renewables – Licensed business	100%
Douglas West Extension Limited ¹	Generation	Renewables – Licensed business	72%
Hagshaw Hill Repowering Limited ¹	Generation	Renewables – Licensed business	100%
Cumberhead West Wind Farm Limited ¹	Generation	Renewables – Licensed business	72% ²

The segmental results of the reported segments of SPUK for the year ended 31 December 2022 and those of the business divisions defined above are disclosed in the Annual Report and Accounts for SPUK for the year ended 31 December 2022 and can be found at https://www.scottishpower.com/pages/company_reporting.aspx.

For information purposes the segmental results for 2022 reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2022 have been included within Appendix B of this document.

1. East Anglia Three Limited, East Anglia One North Limited, East Anglia Two Limited, Douglas West Extension Limited, Hagshaw Hill Repowering Limited and Cumberhead West Wind Farm Limited are licensees. However none of these companies generated electricity in the year to 31 December 2022.

2. On 7 March 2023, the Group acquired the remaining 28% of share capital in Cumberhead West Wind Farm Limited.

Consolidated Segmental Statement for the year ended 31 December 2022

		GENERATION	SUPPLY					ENERGY MANAGEMENT
		Electricity ScottishPower Renewables	Electricity		Gas		Aggregate Supply	ScottishPower Energy Management
			Domestic	Non- domestic	Domestic	Non- domestic		
Total revenue	£m	1,023.4	2,735.6	1,851.6	1,690.9	36.8	6,314.9	7,918.4
Revenue from sales of electricity and gas	£m	1,023.4	2,735.6	1,851.6	1,690.9	36.8	6,314.9	7,918.4
Other revenue	£m	-	-	-	-	-	-	-
Total operating costs	£m	(322.0)	(2,853.1)	(1,856.8)	(1,792.0)	(25.2)	(6,527.1)	(7,861.9)
Direct fuel costs	£m	-	(1,740.2)	(1,187.6)	(1,228.4)	(16.2)	(4,172.4)	(7,859.5)
Transportation costs	£m	(119.0)	(530.0)	(352.3)	(334.4)	(5.1)	(1,221.8)	-
Environmental and social obligation costs	£m	-	(327.2)	(276.4)	(20.7)	-	(624.3)	-
Other direct costs	£m	(120.2)	(0.4)	(4.2)	(0.3)	-	(4.9)	-
Indirect costs	£m	(82.8)	(255.3)	(36.3)	(208.2)	(3.9)	(503.7)	(2.4)
EBITDA	£m	701.4	(117.5)	(5.2)	(101.1)	11.6	(212.2)	56.5
DA	£m	(215.6)	(52.9)	(15.4)	(40.4)	(2.4)	(111.1)	(3.0)
EBIT	£m	485.8	(170.4)	(20.6)	(141.5)	9.2	(323.3)	53.5
Volume	TWh	7.7	8.6	8.5	N/A	N/A	N/A	N/A
	Mtherms	N/A	N/A	N/A	706.5	14.0	N/A	N/A
WACO F/E/G (calculated)	£/MWh	N/A	202.3	139.7	N/A	N/A	N/A	N/A
	p/th	N/A	N/A	N/A	173.9	115.7	N/A	N/A
Customer Numbers	000s	N/A	2,685	177	1,915	19	4,796	N/A
		Supply EBIT margin	-6.2%	-1.1%	-8.4%	25.0%	-5.1%	

Glossary of Terms

EBITDA	EBITDA represents earnings before interest, tax, depreciation and amortisation. It is calculated by subtracting total operating costs from total revenue. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
DA	Depreciation and amortisation.
EBIT	EBIT represents earnings before interest and tax and is calculated by subtracting depreciation and amortisation from EBITDA. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
Volume	Volume for Renewable Generation is the volume of electricity produced, that can actually be sold on the wholesale market, i.e. after losses up to the point where electricity is received under the Balancing and Settlement Code, but before subsequent losses. Volume for Aggregate Supply is supplier volumes at the meter point, i.e. net of losses.
WACOF/E/G	For Aggregate Supply, the WACOE/G represents the weighted average cost of procuring electricity and gas, shown as £/MWh (electricity) and p/therm (gas), and comprises the costs of wholesale gas and electricity, the cost of renewable electricity purchased under Renewable Power Purchase Agreements (PPAs), transmission and distribution losses, Unidentified Gas ("UIG") costs and the costs associated with balancing and shaping. This is calculated by dividing direct fuel costs by volume.
Customer numbers	Customer numbers are based on the average monthly number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December 2022.
Supply EBIT margin	EBIT profit margin for Aggregate Supply expressed as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.
Exceptional items	As per Ofgem's guidelines, exceptional items are defined as revenues, costs and profits that do not reflect a company's normal year of operations (e.g. profit or loss on disposal, restructuring costs and impairment charges). Certain remeasurements (e.g. mark to market) are also classed as exceptional items per Ofgem's guidelines. Exceptional items have been excluded from the CSS. Further details on exceptional items can be found on page 10.

Basis of Preparation

The CSS presents a segmental analysis of ScottishPower's Renewable Generation and Aggregate Supply licensed activities within GB. It provides information relating to the revenues, costs and profits of these activities in order to enhance the transparency within the energy market for both consumers and other stakeholders.

These statements have been prepared, by the directors of SPUK and its Licensees, in accordance with Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences ("the Conditions") and the associated guidelines issued by Ofgem and the basis of preparation contained herein.

The financial data provided has been taken from the Relevant Licensees' and Affiliates' (as defined in the Conditions) financial information for the year ended 31 December 2022, included within the Annual Report and Accounts of SPUK for the year ended 31 December 2022, which has been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006.

For clarity, the following should be noted:

Renewable Generation

- The financial results have been included for all GB activities which require a generation licence.
- ScottishPower Renewables holds an equity investment in an 80% subsidiary, Coldham Windfarm Limited. This Company generates electricity, however, it is exempt from holding a generation licence as it is classed as a 'Small Generator'. Therefore the financial results of this Company have been excluded from the CSS. ScottishPower's share of EBIT for this Company for 2022 is £2.3 million.
- ScottishPower Renewables owns operational wind farms located in Northern Ireland and the Republic of Ireland. However, the financial results of these wind farms have been excluded from the CSS because they do not constitute licensed activities within GB. The EBIT of these wind farms for 2022 is £14.8 million.

Aggregate Supply

- The financial results have been included for all GB activities which require a supply licence.
- The domestic supply segments represent the revenues and associated costs in supplying gas and electricity to premises in GB which are supplied on a domestic tariff and whose meter is not registered as non-domestic in central industry systems. The non-domestic supply segments represent the revenue and associated costs in supplying gas and electricity to premises in GB which are not in the domestic supply segments.
- Revenue from sales of electricity and gas for the Supply segment include revenues ultimately due from the government support schemes (Energy Price Guarantee and Energy Bill Relief Scheme). In 2022, these amount to: Domestic Electricity Supply £291.2 million and Domestic Gas Supply £222.4 million; Non-Domestic Electricity Supply £74.7 million and Non-Domestic Gas Supply £3.2 million. Revenue received in relation to the Energy Bill Support scheme was £498.5 million offset by an equal amount being the consideration paid to customers, resulting in a net nil impact on revenue.
- The financial results relating to Smart Solutions and non-licensed metering activities, including smart meter asset provision, have been excluded from Aggregate Supply as this does not constitute a licensed activity.

Energy Management

- Energy Management is a non-licensed business division. However, information has been provided on a voluntary basis in order to enhance transparency within the CSS.
- Energy Management performs all trading with external markets for electricity and gas on behalf of Aggregate Supply. All trading for Aggregate Supply was undertaken to hedge or meet their physical requirements. In addition, Energy Management manages limited proprietary trading and gas storage activities. These activities are ring-fenced in separate trading books and are held separately from Aggregate Supply.

Pricing for electricity and gas

The pricing relationship between Energy Management and Aggregate Supply is that of market prices. No transfer pricing is therefore required between Energy Management and Aggregate Supply as all prices are reflective of actual prices transacted. All internal transactions are priced at the prevailing market price for the relevant period at the point the transaction is made. All external transactions with the market are at the price transacted with the market. The market prices at the time of procurement may differ from the price prevailing at the time of supply.

The pricing relationship between Aggregate Supply and Renewable Generation is that of contract specific prices set by Renewable Power Purchase Agreements. These are indexed to prevailing wholesale market prices with an appropriate market-benchmarked discount applied to account for the costs associated with managing half-hourly delivery of variable wind volumes.

Within the Group, internal agreements are in place for all transfers between group companies and are subject to bi-annual review to ensure that they are appropriate and up to date. In addition there are measures in place to notify Ofgem should there be any material changes to the transfer pricing methodology.

Basis of Preparation *continued*

Revenues

Renewable Generation

'Revenue from sales of electricity and gas' comprises the sales value of electricity, Renewables Obligation Certificates ("ROCs") and other related services supplied to Aggregate Supply and external customers during the year. It also includes Contract for Difference ("CfD") income. Revenue from the sale of electricity is recognised based on the number of units supplied at the unit rate specified in the contract. Units are based on energy volumes that can be sold in the wholesale market and are recorded on wind farm meters and industry-wide trading and settlements systems. Revenue from the supply of ROCs is recognised at the point the customer obtains control of the ROC, which is when the associated electricity is generated, at the unit rate specified in the contract. CfDs are accounted for as revenue grants and are recognised as income on a systematic basis over the period in which they become receivable, which is at the point of generation.

The majority of Renewable Generation revenues arise from internal transactions with Aggregate Supply. These transactions are priced as described on page 7. Revenues, including those in respect of constraint management, balancing activities and ancillary services are recognised based on the consideration specified in the contract.

Aggregate Supply

'Revenue from sales of electricity and gas' comprises the amount to which Aggregate Supply has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer. Aggregate Supply operates in the GB energy market, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems.

Revenue for domestic supply is stated after deducting dual fuel discounts where applicable. The discount is allocated equally between electricity and gas. All revenue is earned wholly within GB and revenue for domestic supply is stated after deducting the impact of the Government mandated discount given to customers under the Warm Home Discount programme. This deduction is charged specifically to each fuel.

Energy Management

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to Aggregate Supply and the external market during the year. It also includes revenues relating to Energy Management's limited proprietary trading and gas storage activities.

Direct fuel costs

Aggregate Supply

'Direct fuel costs' comprise the cost of wholesale electricity and gas procured for Aggregate Supply by Energy Management (including volume losses), the cost of wholesale electricity purchased directly from Renewable Generation and external parties via PPAs, the energy component of Unidentified Gas ("UIG") costs and imbalance costs. Direct fuel costs secured on any given day, for any delivery period, are allocated to the domestic and non-domestic supply segments based on their requirements for that delivery period.

The pricing for wholesale electricity and gas is outlined on page 7.

Aggregate Supply purchases electricity, together with the associated ROCs under internal and external Renewable Power Purchase Agreements.

Balancing costs and the energy element of UIG costs are incurred by Energy Management and recharged to Aggregate Supply at the actual cost incurred. All other costs are directly allocated to Aggregate Supply as incurred by ScottishPower. This includes the impact of actions to hedge CfD levy costs.

Energy Management

'Direct fuel costs' comprise the value of energy purchased from the external market for Aggregate Supply. It also includes trading in respect of gas storage activities.

Transportation costs

Renewable Generation

'Transportation costs' comprise Balancing Services Use of System charges ("BSUoS") from National Grid, and electricity transmission and distribution network charges.

Aggregate Supply

'Transportation costs' comprise BSUoS costs, gas transportation charges, electricity transmission and distribution network charges and the transport element of UIG costs. These costs are allocated to the segment to which they relate based on volume consumption band or settlement profile class as appropriate.

Basis of Preparation *continued*

Environmental and social obligation costs

Aggregate Supply

'Environmental and social obligation costs' comprise the costs associated with the following and are allocated across the supply segments as described in the table below.

Environmental and Social Obligation Costs	Allocation Methodology
Renewable Obligations	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Feed-in Tariffs	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Contracts for Difference under Electricity Market Reform (EMR)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Capacity Market under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Energy Company Obligation (ECO)	Allocated to the domestic electricity and gas supply segments based on their GB market share of (non-exempt) domestic volumes (TWh) for electricity and gas; this obligation only applies to domestic customers.
Administering the Warm Home Discount (WHD)*	Allocated to the domestic electricity and gas supply segments based on customer numbers; this obligation only applies to domestic customers.
Assistance for Areas with High Electricity Distribution Costs (AAHEDC)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes.
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	Allocated to the domestic and non-domestic electricity and gas segments based on customer numbers.

* The WHD provides some households who are living in, or at risk of, fuel poverty a rebate on their fuel bill. It is a Government mandated scheme administered by Aggregate Supply.

Other direct costs

Renewable Generation

'Other direct costs' comprise operational and maintenance costs, land rentals and insurance costs.

Aggregate Supply

'Other direct costs' include brokers' costs and the non-capital elements of intermediaries' sales commissions when the costs have given rise directly to revenue i.e. producing a sale.

Indirect costs

Renewable Generation

'Indirect costs' are head office costs, staff costs, rates and the costs of centralised services² provided by Iberdrola group companies.

Aggregate Supply

'Indirect costs' are the costs of billing, metering (including smart meter roll out costs), customer service, bad debt and debt collection, support services, sales and marketing, staff costs, the costs of centralised services² provided by Iberdrola group companies and operating costs recharged from Energy Management. Where it is not possible to allocate these costs directly to a particular customer segment (domestic/non-domestic) or fuel category (gas/electricity), they are allocated using a costing model based on customer numbers, transactional volumes and employee activity.

Energy Management

'Indirect costs' are head office costs, staff costs and the costs of centralised services² provided by Iberdrola group companies. A proportion of these costs are recharged to Aggregate Supply and Renewable Generation.

Depreciation and amortisation

Renewable Generation

'Depreciation and amortisation costs' are calculated on a straight-line basis over the estimated operational lives of the capitalised assets.

Aggregate Supply

'Depreciation and amortisation costs' are allocated to the segments based on customer numbers. Items that have been capitalised include smart meter development costs including Data Communications Company (DCC) development costs and the incremental costs of obtaining certain customer contracts.

2. Centralised services are HR, IT, finance and legal costs and other head office costs. Where these costs can be identified as being directly attributable to Renewable Generation, Aggregate Supply or Energy Management, those costs are recharged directly to that business division. Non-directly attributable costs are allocated across ScottishPower's business divisions using costing models based on employee numbers, personnel costs, gross margin and fixed assets.

Basis of Preparation *continued*

Exceptional items

In line with Ofgem's guidelines, mark to market adjustments, restructuring costs (and related reversals), impairment charges and non-current asset write-offs that have been disclosed in the Annual Report and Accounts of SPUK have been excluded from the CSS. Additional exceptional items such as costs and income from the settlement of contractual disputes have also been excluded in line with Ofgem's guidelines, as the directors believe that these items do not reflect the Company's activities relating to its operations in 2022.

Refer to Appendix B on pages 14 to 17 for further information.

Reconciliation to audited Group Accounts

A reconciliation of the Revenue and EBIT in the CSS to the Annual Report and Accounts of SPUK has been provided on page 11.

Reconciliation of CSS Revenue and EBIT
to the Annual Report and Accounts of Scottish Power UK plc
for the year ended 31 December 2022

		GENERATION	SUPPLY	ENERGY MANAGEMENT
		ScottishPower Renewables	Aggregate Supply	ScottishPower Energy Management
Revenue per CSS	£m	1,023.4	6,314.9	7,918.4
Revenue per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	1,023.4	6,314.9	7,918.4
EBIT per CSS	£m	485.8	(323.3)	53.5
EBIT per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	485.8	(323.3)	53.5

See Appendix B and Note 5 of the Annual Report and Accounts of SPUK for further details.

Questionnaire on business functions

The table below outlines where the responsibility for each business function resided as at 31 December 2022:

Business function	Renewable Generation	Aggregate Supply	Energy Management
Operates and maintains generation assets	✓		
Responsible for scheduling decisions	✓		
Responsible for interactions with the Balancing Market	✓		F
Responsible for determining hedging policy		P/L	F
Responsible for implementing hedging policy / makes decisions to buy/sell energy		P/L	F
Interacts with wider market participants to buy/sell energy	✓ ³	P/L ³	F ³
Holds unhedged positions (either short or long)		P/L	F
Procures fuel for generation	n/a	n/a	n/a
Procures allowances for generation	n/a	n/a	n/a
Holds volume risk on positions sold (either internal or external)		P/L	F
Matches own generation with own supply	P/L ³	P/L	F
Forecasts total system demand			F
Forecasts wholesale price			F
Forecasts customer demand		F	
Determines retail pricing and marketing strategies		✓	
Bears shape risk after initial hedge until market allows full hedge		P/L	F
Bears short term risk for variance between demand and forecast		P/L	F

Key: ✓ Function resided and profits/losses recorded
 F Function resided
 P/L Profits/losses recorded

3. The majority of Renewable Generation revenues arise from internal transactions with Aggregate Supply. These transactions are charged under Renewable Power Purchase Agreements, which are indexed to prevailing wholesale market prices with an appropriate market-benchmarked discount applied to reflect the costs associated with managing half-hourly delivery of variable wind volumes.

Appendix A - Analysis of Environmental and Social Obligation Costs for the year ended 31 December 2022

The table below provides an analysis of the environmental and social obligations for both Renewable Generation and Aggregate Supply for the year ended 31 December 2022.

	GENERATION	SUPPLY				Aggregate Supply Business	
		Electricity ScottishPower Renewables	Electricity Domestic	Electricity Non-domestic	Gas Domestic		Gas Non-domestic
Renewable Obligations	£m	-	(221.3)	(205.5)	-	-	(426.8)
Feed-in Tariffs	£m	-	(62.3)	(60.2)	-	-	(122.5)
Contracts for Difference under EMR	£m	-	11.0	11.1	-	-	22.1
Capacity Market under EMR	£m	-	(26.3)	(18.3)	-	-	(44.6)
Energy Company Obligation (ECO)	£m	-	(22.3)	-	(18.9)	-	(41.2)
Administering the Warm Home Discount (WHD)	£m	-	(2.5)	-	(1.8)	-	(4.3)
Assistance for Areas with High Electricity Distribution Costs	£m	-	(3.5)	(3.5)	-	-	(7.0)
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	£m	-	-	-	-	-	-
Environmental and social obligation costs per CSS	£m	-	(327.2)	(276.4)	(20.7)	-	(624.3)
Warm Home Discount* (included as a deduction from Revenue in the CSS)	£m	-	(13.4)	-	(9.8)	-	(23.2)
Total environmental and social obligations	£m	-	(340.6)	(276.4)	(30.5)	-	(647.5)

* The WHD provides some households who are living in, or at risk of, fuel poverty a rebate on their fuel bill. It is a Government mandated scheme administered by Aggregate Supply.

5 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The Group defines its operating segments based on a combination of factors, principally differences in products and services, and the regulatory environment in which each business operates. The Group is organised into three reportable segments: Energy Networks, Renewables, and Energy Retail and Wholesale. The Group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8, the Group reports its segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker (“CODM”) is operating profit as per the Consolidated income statement. The CODM for the Group are the CEO and chair of the Head of Business Sub-holding companies, being the SPENH, SPREL and SPRH boards. All revenue for the reported segments arise from operations within the UK and Republic of Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

In accordance with the disclosure requirements of IFRS 8, the Annual Report and Accounts of the Group reports the relevant financial results of the reported segments (as described above). In the interest of improved transparency, the Group has voluntarily disclosed revenue and operating profit for the year ended 31 December 2022 for the separate business divisions within the Renewables and Energy Retail and Wholesale reported segments, whilst also providing detail in relation to non-recurring items and certain remeasurements arising from IFRS 9, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

During the year ended 31 December 2022, the Group’s reported segments and business divisions were as follows:

Reported segment	Business division	Business division description
Energy Networks	Energy Networks	The transmission and distribution business within the Group.
Renewables	Renewables – Licensed business ¹	The GB licensed activity of the Renewables reported segment, which develops and operates renewable generation plant.
	Other	The non-licensed activity of the Renewables reported segment, (which includes generation activity outside GB), the results of Coldham Windfarm Limited (which is exempt from holding a generation licence as it is classified as a small generator), and the impact of the amortisation of fair value attributed to the Renewables reported segment when purchased by Iberdrola during 2007.
Energy Retail and Wholesale	Supply – Licensed business ¹	The licensed activity of the Energy Retail and Wholesale reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
	Energy Management ¹	The non-licensed activities of the Energy Retail and Wholesale reported segment, responsible for wholesale market purchases for the Supply – Licensed business division. In addition, Energy Management manages limited proprietary trading and gas storage activities.
	Other	The non-licensed activity of the Energy Retail and Wholesale reported segment which includes the Group’s smart solutions activities, hydrogen activities and non-licensed metering activities, including smart meter asset provision.

¹ Renewables – Licensed, Supply – Licensed and Energy Management businesses are consistent with those disclosed in the Consolidated Segmental Statements for the Supply and Generation licensed businesses presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences. These statements can be found at www.scottishpower.com/pages/company_reporting.aspx.

5 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment and business division

(i) Revenue by reported segment

The revenue by reported segment for the year ended 31 December 2022 is detailed below. Refer to Note 22(a) for a disaggregation of external revenue.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,220.7	159.7	1,380.4
Renewables	645.2	1,068.8	1,714.0
Energy Retail and Wholesale	6,569.0	17.2	6,586.2
Elimination of inter-segment revenue			(1,245.7)
			8,434.9

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

The revenue by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,139.6	136.7	1,276.3
Renewables	113.4	750.0	863.4
Energy Retail and Wholesale	4,096.7	10.6	4,107.3
Elimination of inter-segment revenue			(897.3)
			5,349.7

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

(ii) Additional information – Revenue by reported segment and business division

The revenue by reported segment and business division for the year ended 31 December 2022 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 85.

Reported segment	Business division	Revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Revenue as per regulatory licence requirements £m
Energy Networks		1,380.4	–	–	1,380.4
	Renewables – Licensed business	1,010.4	13.0	–	1,023.4
	Other**	703.6	0.2	–	703.8
Renewables		1,714.0	13.2	–	1,727.2
	Supply – Licensed business	6,338.1	–	(23.2)	6,314.9
	Energy Management	7,918.4	–	–	7,918.4
	Other	96.3	–	–	96.3
	Elimination of intra-segment revenue	(3,959.1)	–	–	(3,959.1)
	Netting adjustment*	(3,807.5)	–	–	(3,807.5)
Energy Retail and Wholesale		6,586.2	–	(23.2)	6,563.0
Elimination of inter-segment revenue		(1,245.7)	–	–	(1,245.7)
Total		8,434.9	13.2	(23.2)	8,424.9

* At an entity level, non-speculative wholesale market trades are shown gross in Revenue and Procurements. At a Group level, these are accounted for net, such that all Energy Retail and Wholesale non-speculative wholesale market trades are included within Procurements.

** Other Renewables revenue includes £682.4 million from the sale of the EA1 transmission asset which was classified as inventory.

(iii) Joint venture share of revenue

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Revenue.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so present income and costs in the appropriate lines of the Consolidated income statement.

(iv) Revenue re-allocations as per regulatory licence requirements

As disclosed in Note 24, in line with Group accounting policy, Taxes other than income tax includes the costs of the WHD scheme. As per the licence conditions, these costs are required to be deducted from Revenue.

5 BUSINESS SEGMENT REPORTING *continued*

(c) Operating profit/(loss) by reported segment and business division

(i) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment for the year ended 31 December 2022 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	599.3
Renewables	469.6
Energy Retail and Wholesale	(234.5)
Unallocated	0.1
Total	834.5

The operating profit/(loss) by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	572.2
Renewables	343.2
Energy Retail and Wholesale	(278.8)
Unallocated	83.8
Total	720.4

(ii) Additional information – Operating profit/(loss) by reported segment and business division

The operating profit by reported segment and business division for the year ended 31 December 2022 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 85.

Reported segment	Business division	Operating profit/(loss) £m	Joint venture share of operating profit (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (vi)) £m	Adjusted operating profit as per regulatory licence requirements £m
Energy Networks		599.3	–	(0.8)	–	598.5
	Renewables – Licensed business	476.8	1.6	1.3	6.1	485.8
	Other	(7.2)	–	–	–	(7.2)
Renewables		469.6	1.6	1.3	6.1	478.6
	Supply – Licensed business	(322.3)	–	(1.0)	–	(323.3)
	Energy Management	52.3	–	–	1.2	53.5
	Other	35.5	–	9.3	–	44.8
Energy Retail and Wholesale		(234.5)	–	8.3	1.2	(225.0)
Unallocated		0.1	–	(0.7)	–	(0.6)
Total		834.5	1.6	8.1	7.3	851.5

(iii) Joint venture share of operating profit

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Operating profit.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so presents revenues and costs in the appropriate lines of the Consolidated income statement.

5 BUSINESS SEGMENT REPORTING *continued*

(iv) Non-recurring items

In the year ended 31 December 2022, £(8.1) million of net non-recurring items were recorded.

Provisions for restructuring and other liabilities of £1.4 million: On review of the Group's provisions as at 31 December 2022, there was a net decrease to restructuring provisions and associated pension costs of £1.4 million. This was a net release to prior year provisions of £6.7 million offset by £5.3 million of new provisions in relation to expected restructuring costs in 2023.

Impairment and non-current asset write-offs of £(12.0) million: During the year ended 31 December 2022, the Group recognised a charge of £12.0 million which principally comprised the write-off of smart meter assets of £9.7 million.

Non-recurring income of £2.5 million: During the year ended 31 December 2022, the Group recognised £2.5 million of non-recurring income which principally comprised favourable settlement of insurance claims within the Energy Networks and Renewables segments.

(v) Certain remeasurements

Certain remeasurements are the fair value movements on and ineffectiveness on energy contracts arising from the application of IFRS 9. These have been disclosed separately to aid the understanding of the underlying performance of the Group.

(d) Other financial data by reported segment

Other items by reported segment for the year ended 31 December 2022	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	623.7	8.1	345.8	1.5
Renewables	163.8	5.7	258.4	0.3
Energy Retail and Wholesale	123.1	–	149.6	85.0
Unallocated	19.5	–	26.7	(0.3)
Total	930.1	13.8	780.5	86.5

Other items by reported segment for the year ended 31 December 2021	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	607.6	9.9	336.3	7.6
Renewables	201.8	5.2	243.7	(0.3)
Energy Retail and Wholesale	170.7	–	150.1	100.4
Unallocated	18.9	4.8	28.4	0.3
Total	999.0	19.9	758.5	108.0