

Policy on Business Separation

ScottishPower Compliance Unit

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Index

1. Purpose	3
2. Scope	3
3. Business Separation Requirements	3
A. Licence Reporting Obligations	4
B. Operational Licence Requirements	4
C. Corporate Functions	5
4. Control, Evaluation and Review	5
5. Further Information and Guidance	6
6. Reporting a Concern	6

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1. Purpose

This Policy outlines the business separation obligations that are placed on SP Energy Networks (“SPEN”) and sets out the key steps that the ScottishPower Group (“ScottishPower”) will take to meet these obligations.

2. Scope

As SPEN operates as a natural monopoly in its core business areas, it has regulatory obligations through its Distribution and Transmission licences to operate within the conditions of Business Separation. This means that our Transmission and Distribution businesses (or “Regulated activities”) are required to keep their activities fully separate from any competitive energy activities (or “Liberalised activities”) carried out across ScottishPower (“Business Separation Requirements”).

The main Business Separation Requirements are set out within Condition 42 of the Distribution Licence and Special Condition 9.15 of the Transmission Licence. SPEN are also required to appoint a Business Separation Compliance Officer to support compliance with the Business Separation Requirements.

Article D.18 of the Iberdrola Code of Ethics recognises the importance of the separation of Regulated and Liberalised activities. It commits all Iberdrola Group companies to follow the industry regulations regarding business separation, including making sure that all relevant employees are aware of the rules, and that any policies developed in this area are published appropriately.

Although the Business Separation Requirements are placed on SPEN, all ScottishPower employees are responsible for supporting compliance with the requirements. 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. Business Separation Requirements

Business Separation licence obligations are placed on SPEN to operate the Transmission and Distribution businesses independently from other parts of ScottishPower. **Failure to comply with the obligations can result in Ofgem imposing financial penalties on SPEN, and there is also a risk of reputational damage to ScottishPower and the wider Iberdrola Group.**

In addition, Ofgem has certified that SP Transmission does not currently need to comply with the requirements of the unbundling requirements under the EU Third Energy Package. This means that SPEN can continue to operate a Transmission business alongside its other operations. This relaxation of the regulations could be withdrawn if the separation



requirements are not met, ultimately resulting in the forced separation of the Transmission business from SPEN's operations.

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

ScottishPower is committed to the following principles to support compliance with SPEN's Licence Obligations:

A. Licence Reporting Obligations

SPEN will submit the following 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 not take any action that would cause SPEN (as the licensee) to breach the Electricity Act 1989 or its licence requirements. This means Iberdrola S.A. and all subsidiaries must comply with our Business Separation Requirements.
- **Business Separation Report:** – A report setting out 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.
- **Unbundling Certificate:** – A declaration that no events or circumstances have arisen which may affect SPEN's eligibility for Transmission unbundling derogation from the EU rules (which allows the Transmission business to stay as part of SPEN's operations).

B. Operational Licence Requirements

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

- **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. The ScottishPower Group structure has been designed to allow full managerial and operational independence of SPEN, and the corporate governance model in place supports this, to make sure the requirements are met.

Any organisational and business change, such as SPEN staff moving to other business areas, appointments to other business positions including embedded functions, or appointment of Directors, must consider the impact on Business Separation Requirements. Any employees from other business areas who engage with SPEN (such as through cross-business steering groups where best practice is shared) must ensure that the Business Separation Requirements are not breached.



- **Non-disclosure of confidential information:** Arrangements must be in place to ensure that confidential SPEN information is not disclosed to other ScottishPower businesses or companies. Confidential information means any 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 ScottishPower sites, or areas of ScottishPower sites, occupied by the SPEN business. Employees of other ScottishPower businesses cannot access any SPEN floors or buildings without prior authorisation from SPEN (and the appropriate escort within the area).
 - **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:** SPEN must not give preferential treatment to any other ScottishPower Group company when setting charges and carrying out activity in relation to Use of System, customer connections and metering/distribution.
- Branding:** 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.

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. The BSCO 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.

ScottishPower's Chief Compliance Officer will report to the Board and the Audit and Compliance Committee on compliance against this policy as appropriate, primarily through publication of the annual BSCO Report. The Business Compliance Officer for SPEN also provides additional support and advice which complements the overall Business Separation compliance framework.

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

The Network Planning & Regulation Director of SPEN has overall business responsibility for compliance with Business Separation Requirements, supported by the Head of Regulation and Government Policy who 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 10 December 2024.

5. Further Information and Guidance

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

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

Further guidance can also be obtained via the following mailbox:

- businessseparation@spenergynetworks.co.uk

The following supplementary policies are available for ScottishPower employees on the SP Compliance Unit area of the Employee Portal ([Iberdrola Group > Our areas and businesses > SP Compliance 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. If you feel comfortable to do



so, you can discuss your concern with your line manager in the first instance. You or your line manager should report any concerns relating to a breach of this policy in one of the following ways:

By email to the Business Separation Mailbox	businessseparation@spenergynetworks.co.uk
In person or by email to your Business Compliance Officer (BCO)	The ScottishPower Compliance Unit structure and contact details are available to employees on the ScottishPower Employee Portal (here)
Through the Ethics Helpline reporting tab	Available on the ScottishPower Employee Portal (<i>a guide for ScottishPower employees on How To Report can be found here</i>)
By email to the Compliance Unit mailbox	compliance@scottishpower.com
Through SpeakUp, our external third party Speaking Out service provider	Online at: http://www.speakupfeedback.eu/web/scottishpower/gb By calling: 0800-169-3502 ScottishPower Access Code (for both services): 45042

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