

SCOTTISH WATER'S COMPLIANCE STATEMENT 2024/25

THE WATER SERVICES (INTRA-GROUP REGULATION) DIRECTIONS 2006 AS AMENDED

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1 Introduction

This Statement fulfils the requirements of the Water Services (Intra-Group Regulation) Directions 2006 as amended (the "Directions"). It sets out the policies and procedures that have been put in place to ensure that Scottish Water:

- prevents any Licensed Provider accessing Scottish Water's confidential information;
- puts in place management and operational functions separate from any Licensed Provider; and
- makes secure the use of or access to Scottish Water's premises, systems, equipment, facilities, property and the services of Scottish Water's staff

except where allowed under the market arrangements or approved by the Water Industry Commission for Scotland (the "Commission").

This Statement has effect from 1 April 2024 and will be monitored by Scottish Water's Compliance Officer, Emma Campbell.

2 Information provided to Licensed Providers

The following sections set out the way in which confidential information may be accessed by Licensed Providers.

2.1 Market data in relation to premises

Scottish Water's systems ensure that the flows of market information are in accordance with the Market Code. Scottish Water provides market information to the Central Market Agency (the "CMA"), who in turn provide relevant information to Licensed Providers. No information of this kind can be sent directly by these systems from Scottish Water to Licensed Providers or vice versa. The central market systems are designed so that information in relation to premises can only be sent to the Licensed Provider that is registered to that Supply Point Identifier ("SPID") at the time the information is sent. Similarly, Licensed Providers can only provide information to the central systems in relation to a premises regarding a period when they are the registered provider.

Compliance with the Market Code is monitored through an annual audit by the CMA.

2.2 Information shared with Licensed Providers – operational matters

All operational matters are carried out in accordance with the Operational Code. Scottish Water has a submissions portal which allows Licensed Providers to submit applications directly into Scottish Water's systems. Alternatively, Licensed Providers can submit applications by e-mail using standard forms. Scottish Water's systems are designed so that they will only process requests in relation to a premises from the Licensed Provider that is registered to that SPID at the time the request is made. Information relating to service requests is only sent to the Licensed Provider which made the initial request for service.

2.3 Communications directly to Licensed Providers – wholesale charges

Wholesale charges are recovered from each Licensed Provider under the terms of the Wholesale Services Agreement with that Licensed Provider, which in each case has been approved by the Commission. Any information relevant to that agreement is provided to the Licensed Provider by Scottish Water's Contract and Account Management Team, whose processes ensure that Licensed Providers are only provided with confidential information relating to SPIDs to which they are registered.

Wholesale charges for water and sewerage services are calculated for each Licensed Provider by the CMA and then sent automatically through the central market systems to Scottish Water. For any Licensed Provider, information with regard to charges at a particular SPID only relates to the period for which the Licensed Provider is registered to that SPID. Scottish Water's systems are designed so that we are only able to bill Licensed Providers on that basis of the information provided by the CMA, and so Licensed Providers are never sent any confidential information about charges other than that which relates to their own SPIDs.

Scottish Water communicates directly with Licensed Providers by e-mail in relation to:

- transactional charges, such as those for chargeable operational activities; and
- disputes related to wholesale charges.

3 Independent managerial functions

3.1 The Governance Code

Business Stream operates as a separate organisation from Scottish Water. It has its own board, management team, staff and systems. Scottish Water and Business Stream have been directed by the Commission to comply with a Governance Code to ensure that:

- Business Stream has strategic and operational independence;
- Business Stream has a robust financial structure and earns a rate of return equivalent to a stand-alone new entrant;
- Scottish Water can carry out its corporate governance obligations;
- transactions between Scottish Water and Business Stream are carried out at arm's length; and
- information flows between Scottish Water and Business Stream are strictly limited to what is needed to fulfil these obligations.

As required by the Governance Code, Scottish Water has established two holding companies, Scottish Water Horizons Holdings Limited ("SWHH") and Scottish Water Business Stream Holdings Limited ("SWBSH"), to manage its interest in Business Stream. SWBSH takes decisions that would otherwise be taken by the Scottish Water Board.

SWBSH comprises the Chief Executive of Business Stream, the Non-Executive Directors of Scottish Water, including the Chair, and Scottish Water's Director of Finance. As the Chief Executive Officer of Scottish Water is the Accountable Officer for all Scottish Water group companies, excluding Business Stream, he also attends SWBSH Board meetings as an observer.

3.2 Management Information

Any information flows that are required in relation to Business Stream's or Scottish Water's regulatory requirements are strictly limited to what is necessary for the required activity to be carried out, subject to the temporary modifications to the Governance Code noted below.

Within Scottish Water, governance and financial information relating to SWBSH is limited under the Code to: Scottish Water's Non-Executive Directors, Scottish Water's Compliance Officer, Scottish Water's Director of Finance and three other senior Scottish Water Finance Managers for certain defined purposes. The personal assistant of the Director of Finance may access and deal with correspondence in relation to SWBSH or Business Stream on behalf of the Director of Finance. As noted in section 3.1 above, the Chief Executive Officer of Scottish Water also attends SWBSH Board meetings as an observer and receives Board papers for that purpose. Further to temporary modifications to the Governance Code agreed with the Commission in March 2021, the Group Finance Manager, Tax &

Insurance Manager, Director of Finance and Accountable Officer have access to Business Stream financial information for the purpose of monitoring compliance with the terms of the Facilities Agreement between SWBSH and Business Stream. The named individuals may instruct appropriately qualified individuals within the Finance Directorate to provide assistance in monitoring such compliance. The Compliance Officer has provided compliance training to the individuals performing these roles and will provide such training to any other Finance Directorate employees who are required to provide assistance.

Communications relating to the administration of SWBSH are held securely in a password-protected data area.

3.3 Independence from other Licensed Providers

Scottish Water has no management relationship with any other Licensed Provider except in relation to certain PFI contracts. Two Licensed Providers have affiliates that own or operate Wastewater Treatment Works under PFI contracts with Scottish Water. Those affiliates are managed independently of the relevant Licensed Provider. To allow them to fulfil their operational responsibilities, such companies may have access to information about trade effluent dischargers in their catchment. In addition, all such companies have, or are in the process of concluding, contracts with Scottish Water in relation to statutory sampling for the Scottish Environment Protection Agency (SEPA) under the self-monitoring regime.

Scottish Water has written to each relevant Licensed Provider asking them to ensure the confidentiality of the market information held by the affiliated PFI contractor.

4 Independent operational functions

4.1 Independence from Business Stream

All Business Stream staff report to Business Stream management. All of Business Stream's retail activities are carried out by Business Stream or their agents. A small number of support functions are still provided by Scottish Water and are listed in section 4.3.4 below.

4.2 Independence from other Licensed Providers

All operational functions of Scottish Water are wholly independent of any other Licensed Provider and vice versa.

4.3 Use of and access to Scottish Water resources

4.3.1 Premises

No Scottish Water premises are used by any Licensed Provider.

4.3.2 Systems

Scottish Water's data systems are completely separate from those of any Licensed Provider. Scottish Water allows each Licensed Provider access to ring-fenced customer portals with the following functionality:

- a submissions portal which allows Licensed Providers to make requests for services;
- three information portals which provide information about (i) the wholesale service in general; (ii) operational incidents; and (iii) the trade effluent service (though only in relation to a Licensed Provider's own customers).

Access to each portal is password controlled and members of staff from each Licensed Provider have profiles set up to limit the information that is visible to them.

4.3.3 Equipment, facilities and property

No Scottish Water equipment, facilities or property are used by any Licensed Provider.

4.3.4 Services of personnel

As of 1 April 2024, there are three Service Agreements under which Scottish Water provides services to Business Stream and one where Business Stream provides services to Scottish Water. All other Scottish Water and Business Stream operational and management activities are carried out independently of each other. Scottish Water personnel do not provide services to any other Licensed Provider.

Service Agreements between Scottish Water and Business Stream

The following services are provided by Scottish Water to Business Stream:

- Business Stream's use of the Scottish Water marque is covered by a licensing agreement;
- Business Stream provides a meter reading service to Scottish Water in relation to non-market domestic properties managed by a third party to whom Scottish Water is a sub-contractor; and
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- Scottish Water carries out certain corporate support activities for Business Stream, relating to Internal Audit, Insurance and Taxation advice.

In all cases the relevant agreements have been approved by the Commission in advance.

This information is summarised below.

Activity	Comment	Date of Termination
Licensing agreement	Covers use by Business Stream of the Scottish Water marque	No date currently agreed
Meter reading services for third party contract	This contract has been extended until March 2025, with the option for two further one-year extensions.	31 March 2025
Internal Audit	Charges reviewed for 2023/24	No date currently agreed
Insurance services/Tax Advisory services	Charges reviewed for 2023/24	No date currently agreed
Escrow Agreement	This contract relates to the conditions for participation in the Wholesale Charges Deferral Scheme.	The contract was terminated in early 2023/24

Service Agreements between Scottish Water and other Licensed Providers

There are no Service Agreements between Scottish Water and any other Licensed Provider.

4.4 Employees

Business Stream employees would be considered for employment by Scottish Water in the same way as any external candidate. Should such a candidate be successful, the Compliance Officer would consider whether a quarantine period is necessary, taking into account the specific role and the seniority of the person involved. Similarly, if any Scottish Water employee was successful in applying for a post in Business Stream, Scottish Water would consider asking Business Stream to apply a quarantine period.

4.5 Meetings between Scottish Water and Business Stream

The Governance Code requires the Compliance Officer to maintain a register of agendas and minutes from all meetings between Scottish Water and Business Stream. It should be noted that the Governance Code also sets out controls on information relating to Business Stream's internal audits, which are carried out by Scottish Water's Internal Audit function, and it would not therefore be appropriate for these meetings to be listed in the register. Currently, there are 20 groups of meetings registered, with most relating to Scottish Water's performance of services under the market documents. Meetings will be attended by the Compliance Officer or Compliance Manager where it appears that issues relevant to the level playing field may arise, or on a sample basis.

5 Publication and review

This Statement shall be published on Scottish Water's website within 7 days of 1 April 2024, or within 7 days of its approval by the Commission, if that is later. Scottish Water shall review this statement and provide to the Commission a revised draft by 1 March 2025.

Scottish Water
1 April 2024