

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

SCOTTISH WATER'S COMPLIANCE STATEMENT

1 Introduction

The Water Services (Intra-Group Regulation) Directions 2006 (the "Directions") require Scottish Water to prepare a Compliance Statement which sets out the arrangements it has made to prevent any licensed provider from accessing any confidential information except where the licensed provider is allowed access under the market arrangements. The Commission has directed that the Statement is reviewed annually and sent to the Commission for approval by 1 March each year. These obligations are set out in full in Annex 1.

This is the Statement required by the Directions that has been approved by the Commission from 1 April 2019.

The arrangements set out in this statement are monitored by Scottish Water's Compliance Officer. This role is normally undertaken by Emma Campbell. However, due to a period of maternity leave, Susan Hill was appointed as Compliance Officer with effect from 20 December 2018. The duties and tasks of the Compliance Officer include those set out in these Directions. The Compliance Officer is also required to produce an annual report, which will be prepared in the first quarter of 2019/20. These obligations are set out in full in Annex 2.

2 Confidential information

As required by the Directions, Scottish Water has established managerial and operational systems to prevent any licensed provider from accessing any confidential information unless:

- that information relates to an eligible customer who was an eligible customer of that licensed provider at the time the information was divulged; or
- the Commission's consent has been granted to a licensed provider to access the information in any particular circumstance; or
- Scottish Water is required to provide the information by the operational code or the wholesale services agreement between it and the relevant licensed provider.

These arrangements:

- implement systems to ensure secure use or access to:
 - premises used by persons involved in the operation of Scottish Water's core functions;
 - any systems for recording, processing or storage of data to which personnel of Scottish Water have access;
 - equipment, facilities or property used in connection with Scottish Water's core functions;
 - services of personnel engaged in Scottish Water's core functions; and
- manage the transfer of any personnel from Scottish Water to any licensed provider.

Subsequent sections set out the arrangements Scottish Water has made to fulfil these obligations. In some cases the situation between Scottish Water and Scottish Water Business Stream ("Business Stream") is described separately as Business Stream is a subsidiary of Scottish Water and the detailed arrangements between the companies may reflect this.

3 Information provided to licensed providers

3.1 Market data in relation to premises

The market codes require Scottish Water to provide information to licensed providers, for example, where a meter is exchanged at a premises. All market data flows between Scottish Water and licensed providers go through the Central Market Agency ("CMA"), and Scottish Water does not

send information of this kind directly to a licensed provider. Where necessary, the CMA generates a further flow of information to the licensed provider who is registered for the relevant premises. In this way new and updated market information can only be provided to the relevant licensed provider.

3.2 Communications directly to licensed providers

Scottish Water also exchanges information with licensed providers in relation to requests for services from Scottish Water. In this regard, all licensed providers are treated in exactly the same manner.

For example, all service requests under the Operational Code and Disconnections Document from licensed providers are received either:

- by e-mail using standard forms; or
- through an electronic submissions portal.

E-mails are sent to a single point of contact, the Wholesale Service Desk, with the exception of:

- applications for new connections; and
- complaints.

In relation to the exceptions, e-mails with associated standard forms will be sent to a dedicated mail box managed by the relevant team in Scottish Water. Information in relation to service requests will generally be passed back to the licensed provider by e-mail in addition to any changes to market data, referenced above. As with other communications, all licensed providers are treated in the same way.

Similarly, any communications with licensed providers in relation to the Wholesale Services Agreement is on the same basis in that there is a template agreement approved by the Commission which is used for all discussions. No significant departure from the template is allowed except with the approval of the Commission. Invoices and notices under the Agreement are in a standard format for all licensed providers, managed through the Wholesale Billing Team and the Wholesale Account Management team.

No staff of any licensed provider appear on generalised mailing lists applying within Scottish Water.

4 Independent managerial functions

4.1 Independence from Business Stream

Business Stream has been operating as a separate organisation from Scottish Water from 1 November 2006. From 11 January 2008, Business Stream has held permanent licences. Since then, it has been responsible for its own activities, with its own senior management team appointed by its Chief Executive and Board.

Scottish Water and Business Stream have been directed by the Commission to comply with a Governance Code (the "Code"), which ensures that:

- Business Stream can take all strategic and operational decisions independently of Scottish Water and its other subsidiaries;
- Scottish Water can protect its statutory and corporate governance obligations without compromising the independence of Business Stream;
- transactions between Scottish Water or any of its other subsidiaries and Business Stream are carried out at arms' length and on a normal commercial basis;
- information flows between Scottish Water or any of its other subsidiaries and Business Stream are restricted to those set out explicitly in the Code; and

- Business Stream has a robust financial structure that is appropriate for the competitive retail market and the financial relationship between Scottish Water and Business Stream is transparent and complies with the Commission's regulatory requirements.

The Code distinguishes between Business Stream's regulated business, which relates to the supply of water and sewerage services in Scotland, and its non-regulated business, which covers all its other activities, for example, the supply of water or sewerage services in England. While Business Stream's non-regulated business relates to activities which are not subject to Business Stream water and sewerage supply licences, the relationship between Scottish Water and Business Stream in regards to the non-regulated business is controlled by these Directions on Scottish Water and Business Stream. As required by the Code, Scottish Water has established two holding companies, Scottish Water Horizons Holdings Limited ("SWHHL") and Scottish Water Business Stream Holdings Limited ("SWBSH") to manage its interest in Business Stream. In relation to both the regulated and non-regulated businesses, SWBSH takes decisions that would otherwise be taken by the Scottish Water board. In relation to the non-regulated business only, SWBSH approves and monitors the business plan of that part of Business Stream.

As further required by the Code, SWBSH comprises the Chief Executive of Business Stream, the non-executive Directors of Scottish Water, including the Chair, and the Finance Director of Scottish Water. As the Chief Executive of Scottish Water is the Accountable Officer for all Scottish Water group companies, excluding Business Stream, he also attends these Board meetings as an observer, but does not participate in the proceedings.

Scottish Water will continue to comply with the Code, and any revisions thereto, in 2019/20.

4.2 Information in relation to Business Stream

Where Business Stream is required to provide information to Scottish Water, as part of Business Stream's or Scottish Water's regulatory requirements, Scottish Water will ensure this is conducted in such a way that the information that flows between Scottish Water and Business Stream is limited to the information that is absolutely necessary for the required activity to be carried out.

Within Scottish Water, governance and financial information relating to SWBSH is limited to: Scottish Water's non-executive board members, Scottish Water's Compliance Officer, Scottish Water's Finance Director and three other senior Scottish Water finance managers. The personal assistant of the Finance Director may access and deal with correspondence in relation to SWBSH or Business Stream on behalf of the Finance Director. As noted in section 4.1 above, the Chief Executive of Scottish Water also attends these meetings as an observer, and receives board papers for that purpose.

Communications relating to the operation of SWBSH are managed in accordance with the Code, and are held securely in a password protected data area. Communications related to the Code obligations on meetings between Scottish Water and Business Stream only take place between Scottish Water's Compliance Officer or wholesale compliance manager and Business Stream's compliance manager.

4.3 Independence from other licensed providers

Scottish Water has no management relationship with any other licensed provider.

As at 1 April 2019, the following licensed providers have affiliates which have, or have recently had, other contractual arrangements with the wider Scottish Water group:

- 4.3.1 Kelda Water Services (Retail) Limited: this licensed provider previously had affiliates which were involved with Scottish Water in the Grampian Waste Water PFI scheme, which consists of 4 Waste Water Treatment Works ("WWTW") in north-east Scotland. However,

these works have now been taken into Scottish Water ownership, and so Scottish Water no longer has any contracts with Kelda's affiliates.

4.3.2 NWG Business Limited: this company has affiliates which are involved with Scottish Water in three areas:

- one affiliate owns and another operates the Ayrshire waste water PFI scheme as part of a joint venture;
- one affiliate owns and another operates the Levenmouth PFI WWTW as part of a joint venture; and
- one affiliate is a member of the Selectusonline purchasing consortium.

4.3.3 United Utilities Water Sales Limited has an affiliate that is a member of the Selectusonline purchasing consortium. In addition, it has an affiliate that was a member of a previous Scottish Water investment vehicle, Scottish Water Solutions Limited, which is now dissolved.

4.3.4 Veolia Water Projects Limited has affiliates that are involved with Scottish Water in the following areas:

- one affiliate is involved in a third party management contract, in which Scottish Water is a sub-contractor;
- one affiliate is involved in the ownership and operation of the Seafield PFI WWTW plant, Highland PFI, Tay PFI and Moray PFI;
- one affiliate which is in a tendering process to become a framework contractor for waste management services for Scottish Water; and
- one affiliate that is a framework contractor for Scottish Water Horizons in relation to CHP Design and Build.

With effect from 1 January 2018, all PFI companies operating waste water treatment works for Scottish Water have, or are in the process of concluding, contracts with Scottish Water in relation to statutory sampling for SEPA under the self-monitoring regime. These contracts are managed by the Scottish Water Scientific Services team. Some of these companies also have contracts with Scottish Water in relation to the sampling required by the PFI contracts.

In each case listed above, the management relationship with the licensed provider is separate from the relationship with the affiliate. Scottish Water has written to these licensed providers to ask them to confirm the arrangements that they have in place to prevent them accessing confidential market data through these affiliate relationships.

5 Independent operational functions

5.1 Independence from Business Stream

All Business Stream staff report to Business Stream management. All operational functions of the retail undertaking are carried out by Business Stream or their agents, including: management of business contacts; key customer relationship management; billing, cash management and credit management; and virtually all key support functions including finance, regulation and compliance. The support functions still provided by Scottish Water are covered by the service agreements listed at 6.3.1 and principally consist of internal audit, insurance and some tax advisory services. While many Business Stream staff were originally transferred from Scottish Water, the majority of staff employed by Business Stream now have no prior connection with Scottish Water.

The initial transfer of staff to Business Stream took place on 1 April 2007 and two further transfers of small numbers of staff took place in 2007/08.

Two members of Scottish Water staff have, with Commission approval, been working for Scottish Water International on contract to Business Stream from June 2018, providing support to Business Stream in their HR activities. In each case, compliance briefings were provided to ensure that the individuals respected the market rules and the confidentiality of each business during and will be refreshed following their contractual terms. These arrangements are due to come to an end on 30 June 2019.

No further transfers are envisaged.

A small number of services are provided by Scottish Water to Business Stream or vice versa. These have been approved by the Commission and fuller details are set out in section 6.3.1 below.

5.2 Independence from other licensed providers

All operational functions of Scottish Water are wholly independent of other licensed providers and vice versa. As set out in Section 4.3 above, where licensed providers have affiliated companies which have contractual relationships with Scottish Water or its subsidiaries, the operational relationship with the licensed provider is wholly separate from the relationship with the affiliate.

6 Ensure secure use or access to Scottish Water resources

6.1 Use or access to premises

No Scottish Water premises are used by any licensed provider.

6.2 Use or access to systems

6.2.1 Ring-fencing between Scottish Water and Business Stream systems

Scottish Water's data systems are separate from Business Stream. All Business Stream systems are hosted on IT infrastructure which is separate from Scottish Water and so are physically separate from Scottish Water's systems. Scottish Water staff therefore have no access to Business Stream systems, or vice versa, except in the limited situations set out below.

The only access that Scottish Water staff may have to Business Stream's systems is in the following situation. The Business Stream internal audit plan is approved by the Business Stream board each year, and, as set out in section 6.3.1, the internal audit activity is carried out by the Scottish Water Internal Audit function. Where an audit activity relates to the Business Stream systems, two Scottish Water internal audit staff members are allowed time-limited password-controlled access to those systems. For example, the audit may relate to the billing system, Hi-Affinity, or their customer management system, Sales Force. This access is only allowed for the purposes of the audit and cannot be used for any other purpose.

6.2.2 Ring-fencing between Scottish Water's systems and other licensed providers

Scottish Water does not have access to the systems of any other licensed provider, and nor does any other licensed provider have access to any Scottish Water system.

As noted in section 4.3 above, three licensed providers have affiliates involved in contractual relationships with Scottish Water or its affiliates. For the purposes of those contracts, those affiliates may have access to Scottish Water information. This information is limited to the following: the three companies involved in the management of PFI waste water works have access to consent and sampling information about trade effluent dischargers in their catchment for operational reasons. As these operators are separate from their affiliated licensed provider no access is available to those licensed providers; and one company involved in the management of a third party contract has access to a corporate satellite system to log calls for their third party, which are responded to by Scottish Water as a sub-contractor. Again, as the company is separate from the affiliated licensed provider, no access is available to the licensed provider.

The framework procurement contracts mentioned in section 4.3 do not allow any access to Scottish Water systems or confidential information in relation to the market.

6.2.3 Access to external portals

All other provision of information through Scottish Water systems is the same for all licensed providers. For example, information on activities on Scottish Water's networks which may affect licensed providers' customers is provided on a licensed provider notification system ("LPNS"). All licensed providers have access to this portal through a secure external website and access is controlled by personal passwords. There is also an external portal for trade effluent information and for customer connections. These are password-controlled and licensed providers are only able to access information relating to their customers and their applications.

6.3 Use or access to equipment, facilities or property

The following sections set out the small number of service agreements in which Scottish Water equipment, facilities or property are used to the benefit of any licensed provider or vice versa. If any other service is proposed, it would be assessed on a case by case basis and agreed subject to the approval of the Commission.

6.3.1 Service agreements between Scottish Water and Business Stream

Business Stream has full responsibility for carrying out the activities required by its licences. Where Scottish Water or Business Stream acts as a contractor to the other, this relationship is governed by a service agreement, agreed by the Commission. Depending on the nature of the agreement, there may be discussions between the parties relating to the day-to-day operation of agreements, related to the review of the service provided or related to the termination or extension of the agreement.

Scottish Water has renewed the agreement for the provision of meter reading services by Business Stream to Scottish Water Horizons Limited in relation to premises covered by a contract with a third party. Following Commission approval, this agreement will run until 31 March 2021.

In 2019/20 Scottish Water will continue to carry out a number of support activities for Business Stream. These relate to: Internal Audit; Insurance and taxation advice; and a licensing agreement covering the use by Business Stream of Scottish Water's trademarks. These agreements have been approved by the Commission. The agreement for audit and other professional services agreement will be reviewed for 2019/20 to ensure that the charges continue to be appropriate.

This information is summarised below.

Table 1: Services continuing through 2019/20

Activity	Comment	Date of termination
Licensing agreement	Covers use by Business Stream of Scottish Water marque	No date currently agreed
Meter reading services for third party contract	The agreement for this service ran until 31 March 2019 with the option for an extension for a further two years, This option has now been taken up.	31 March 2021
Internal Audit	Reviewed for 2019/20	No date currently agreed
Insurance services/Tax Advisory services	Reviewed for 2019/20	No date currently agreed

Table 2: Services which ended in 2018/19

Activity	Comment	Date of termination
None		

Water and sewerage services are sold by Scottish Water to Business Stream under the terms of the Wholesale Services Agreement, as for any other licensed provider, and are not covered by this Statement.

6.3.2 Service agreements between Scottish Water and other licensed providers

There are no service agreements between Scottish Water and any other licensed provider.

6.4 Staff transfers

6.4.1 Business Stream staff taking up posts in Scottish Water

If staff were to move from Business Stream to Scottish Water, Scottish Water would apply a quarantine period in the case of sensitive areas before such individuals take up their new roles. Sensitive areas are areas where there is the potential for staff to affect the level playing field in the market, for example within the Wholesale Service Team or the Wholesale Service Desk. A quarantine period would depend on the specific role and seniority of the individual, but may be up to three months. During this quarantine period, Scottish Water may need to deploy individuals in non-sensitive parts of the business or may consider external secondments where appropriate. All moves would be discussed with the Compliance Officer who would advise on the appropriate action necessary, on a case by case basis, to address issues such as confidentiality of information or business separation. Scottish Water would inform the Commission of moves from Business Stream to Scottish Water.

No Business Stream staff took up posts in Scottish Water in 2018/19.

6.4.2 Scottish Water staff taking up posts in Business Stream

If staff were to move to Business Stream from Scottish Water, Scottish Water would consider requesting that Business Stream applied a quarantine period before such individuals take up their new roles. A quarantine period would depend on the specific role and seniority of the individual, but may be up to three months. During this quarantine period, Scottish Water may seek to ensure that individuals are deployed in non-sensitive parts of the business. All moves would be discussed with the Compliance Officer of each business, who would advise on the appropriate action necessary, on a case by case basis, to address issues such as confidentiality of information or business separation. Scottish Water would inform the Commission of moves from Scottish Water to Business Stream.

In addition, as noted above, during 2018/19, two Scottish Water members of staff worked on a contract between Scottish Water International and Business Stream to give further support to Business Stream's HR activity. Those arrangements are due to come to an end on 30 June 2019.

6.5 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. Currently, there are 29 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 function where it appears that issues relevant to the level playing field may arise, and on a sample basis.

7 Publication and review

This Statement shall be published on Scottish Water's website within 7 days of 1 April 2019, 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 2020.

Scottish Water

1 April 2019

Annex 1: Requirements under Section 3 of the Water Services (Intra-Group Regulation) Directions 2006: Compliance Statement

The Water Services (Intra-Group Regulation) Directions 2006, were amended by the Water Services (Intra-Group Regulation) (Amendment) Directions 2008 (together, the “Directions”). Sub-paragraph 3B of the Directions require Scottish Water to send to the Water Industry Commission for Scotland (the Commission) for its approval, a statement setting out the practices and procedures which Scottish Water has and will implement to ensure compliance with sub-paragraph 3A of the Directions.

Further to sub-paragraph 3D, the Commission has directed that Scottish Water shall, going forward, review the statement on an annual basis and provide to the Commission a revised draft by no later than 30 days prior to 1 April of each year. This is without prejudice to any other review carried out by Scottish Water on its own initiative, or as may be directed by the Commission from time to time, as provided for in sub-paragraph 3D of the Directions. The requirements of the Direction are set out below.

Paragraph 3: Directions on ring-fencing

A. Scottish Water shall establish and maintain managerial and operational systems which prevent any licensed provider from accessing any confidential information unless:

- (a) Such confidential information relates to an eligible customer who was an eligible customer of that licensed provider at the time such information was divulged; or
- (b) The Commission’s consent has been granted to a licensed provider to access such confidential information in any particular circumstance;
- (c) Scottish Water is expressly required to provide such access by the operational code or the wholesale services agreement between it and the relevant licensed provider.

For the purposes of this sub-paragraph, confidential information means information relating to or derived from Scottish Water’s business which is not published or otherwise legitimately in the public domain.

B. Scottish Water must send to the Commission for its approval by such date as the Commission may direct a statement setting out the practices and procedures which Scottish Water will implement to ensure compliance with sub-paragraph 3A above. The Commission may approve such a statement with or without modifications. Following approval of the statement by the Commission, the statement comes into effect on such date as is specified in the statement.

C. The statement referred to in sub-paragraph 3B above shall set out how Scottish Water shall, for the purposes of complying with sub-paragraph 3A above:

- (a) Maintain independent managerial and operational functions which are separate from those of any licensed provider;
- (b) Implement systems to ensure secure use or access to:
 - (i) premises used by persons involved in the operation of Scottish Water’s core functions;
 - (ii) any systems for recording, processing or storage of data to which personnel of Scottish Water have access;
 - (iii) equipment, facilities or property used in connection with Scottish Water’s core functions; and
 - (iv) services of personnel engaged in Scottish Water’s core functions; and
- (c) Manage the transfer of any personnel from Scottish Water to any licensed provider.

Annex 2: Requirements under Section 5 of the Water Services (Intra-Group Regulation) Directions 2006: Duties of the Compliance Officer

A. Scottish Water shall ensure, following consultation with the Commission, that a competent person (who shall be known as the “Compliance Officer”) shall be appointed for the purpose of facilitating compliance by Scottish Water with the provisions of these directions.

B. Scottish Water shall at all times ensure that the Compliance Officer is engaged for the performance of such duties and tasks as Scottish Water considers it appropriate to assign to him or her for the purposes specified in sub-paragraph 5A above, which duties shall include those set out at sub-paragraph 5E below.

C. Scottish Water shall provide that the Compliance Officer:

- (a) Is provided with such staff, premises, equipment, facilities and other resources; and
- (b) Has such access to Scottish Water’s premises, systems, information and documentation as, in each case, he or she might reasonably expect to require for the fulfilment of the duties and tasks assigned to him or her.

D. Scottish Water shall make available to the Compliance Officer a copy of any complaint or representation received by it in respect of any matter arising by virtue of the provisions of these Directions.

E. The duties and tasks assigned to the Compliance Officer shall include:

- (a) Providing relevant advice and information to Scottish Water for the purpose of facilitating its compliance with these directions;
- (b) Monitoring (in consultation with the Commission) the effectiveness of the practices, procedures and systems adopted by Scottish Water to comply with these directions;
- (c) Investigating any complaint or representation made available to him or her by the Commission or otherwise in accordance with practices, procedures and systems adopted by Scottish Water;
- (d) Recommending and advising upon remedial action which any such investigation has demonstrated to be necessary or desirable; and
- (e) Reporting to the Commission (or such other persons nominated by it), at such times and in such manner as it may direct, as to his or her activities.

F. Scottish Water shall produce an annual report:

- (a) As to its compliance during the relevant year with the relevant duties; and
- (b) As to its implementation of the practices, procedures and systems adopted by Scottish Water in accordance with these directions.

G. The report produced in accordance with sub-paragraph 5F above shall in particular:

- (a) Detail all activities of the Compliance Officer during the relevant year;
- (b) Refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the provisions of these directions; and
- (c) Set out the details of any investigations conducted by the Compliance Officer, including;
 - (i) The number, type and source of the complaints or representations on which such investigations were made;
 - (ii) The outcome of such investigations; and
 - (iii) Any remedial action taken by Scottish Water following such investigations.
- (d) Scottish Water shall submit to the Commission a copy of the report produced in accordance with sub-paragraph 5F and publish the report on its website.