

DSO DNO Governance Framework

2026



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Foreword

In this updated DSO DNO Governance Framework, we set out how SP Electricity North West is strengthening the transparency, accountability and fairness with which our Distribution System Operator (DSO) and Distribution Network Operator (DNO) functions work together to deliver a safe, secure and just transition for our customers across the North West.

Since the start of RIIO-ED2, we have continued to evolve our approach to governance and conflict of interest management to reflect Ofgem’s expectations for a neutral, trusted and evidence-led DSO. We have enhanced the clarity of roles and responsibilities, embedded more structured decision-making, and strengthened executive accountability for DSO activities under a single Director — our Chief Operating Officer — ensuring clear leadership, consistent oversight and single-point accountability across both DSO and DNO functions.

Over the past year we have made significant progress and have updated this DSO Governance Framework Document to reflect the changes we have made. We have deepened the transparency of key processes, including how options are assessed, how planning decisions are taken, and how flexibility is procured and dispatched. Our DSO Compliance Officer has overseen successful operation of our Conflicts of Interest (COI) policy and process, with our pre-emptive risk assessment allowing us to mitigate conflict of interest risks before they occur. Our employees and stakeholders have been able to raise potential conflicts via our conflict of interest process and our robust and detailed governance approach has successfully ensured each item has been logged and processed by the

appropriate governance forum. COI mitigations have further strengthened the transparency and integrity of our DSO operations. Further detail on how we have implemented the DNO DSO Governance Framework can be found in our [Governance and Compliance Annual Report](#).

This document outlines the framework that underpins our approach: our functional separation model, our governance and assurance structures, and the processes that guide how we plan the network, enable connections, and support the growing flexibility market. It reflects our commitment to continuous improvement, building confidence that our decisions are fair, transparent and in the long-term interests of all customers.



Stephanie Trubshaw
COO and Director over DSO,
DNO and Shared-Service functions

As the energy system continues to transform at pace, we remain committed to the development of our network, supporting our communities and utilising our social DSO ethos to ensure that internal conflicts between flexibility and network build are managed to deliver cost-efficient solutions for our customers

Our DSO Governance Framework

This document sets out how we manage perceived conflicts of interest between our Distribution Network Operator (DNO) and Distribution System Operator (DSO) roles, to provide transparency for our stakeholders.

SP Electricity North West is the network focused solely on the North West, and we take pride in delivering power and extra care to 2.4 million properties and over 5 million customers.

Delivering our role requires managing a tension and perceived conflicts of interest between two aspects of our role. As a regulated Distribution Network Operator (DNO) we earn a financial return from building, owning and operating assets. We also deliver Distribution System Operator (DSO) functions which are responsible for forecasting and planning how much network should be built, as well as for developing a thriving market for flexibility services as an alternative to network investment.

It is vitally important therefore that we provide transparency in how we operate as a DSO and DNO to build market confidence that we are doing everything we can to promote participation in flexibility.

This document sets out our latest governance framework, including our internal functional separation model, how we make decisions, our external assurance and oversight approach, as well as insight into how our DSO and DNO work together.

Components of our DSO governance and transparency approach

Governance	Decision governance	Independent oversight		
	A clear structure for decision-making and SP ENW Executive and Board level visibility of decisions	A key challenge and assurance role for our external DSO Stakeholder Panel and wider business Independent Stakeholder Group		
Accountability	Functional separation	Processes and hand-offs	Ownership of outputs	
	We operate in a functional separation model with COO accountability for DSO activities	Clarity on roles and responsibilities for DSO and DNO contributions to key processes	Clear ownership of data and documents, with specified ownership and sign-off authority	
Transparency	Stakeholder engagement	Compliance and assurance	Audit	Data and reporting
	A broad range of wider stakeholder engagement to inform our focus and communicate our progress	A compliance officer reporting to the Head of DSO (with escalation path to Head of Risk & Internal Audit)	Internal and external audits of methodology adherence and decisions	Publication of all key decision outputs, methodologies, and datasets, and annual reporting on progress

Ofgem's expectations

“Demonstrable executive level accountability and board-level visibility of DSO decisions...”

“Transparent, clear and separate decision-making frameworks supported by independent oversight...”

“Formalised DNO-DSO relationship (decision-making framework, DNO-DSO code)...”

Our functional separation model

In SP ENW our DSO is a fully separate function, ensuring all activities involving DNO-DSO tension are conducted separately and interactions are governed by operational procedures. Our Head of DSO reports directly into our COO, ensuring separate responsibility with consistent Director-level oversight.

In our DSO strategy for RII0-ED2 we set out our intended approach to transparency for this period as a ‘functional separation’ model. Activities that could constitute a conflict of interest between DSO and DNO roles have been separated such that they are in different organisational units, with the Head of DSO responsible for all DSO activities, reporting directly into the COO. Placing the DSO at the same functional level as the DNO emphasises its importance to SP ENW, improves operational coordination across planning, capacity release and flexibility and accelerates decision-making.

Functional separation is the common approach amongst DSOs, with one taking a further step through legal separation. We believe functional separation with strong conflict of interest mitigations is the most appropriate model for SP ENW in ED2 as DSO evolves, whilst continuing to monitor and learn from other models being adopted.

We also considered a more minimal separation approach, by focusing on process delineation between DNO and DSO teams, but without functional separation. However, this was considered insufficient in driving senior level focus on tensions, and to lack the clarity of accountability and incentives that we, our stakeholders

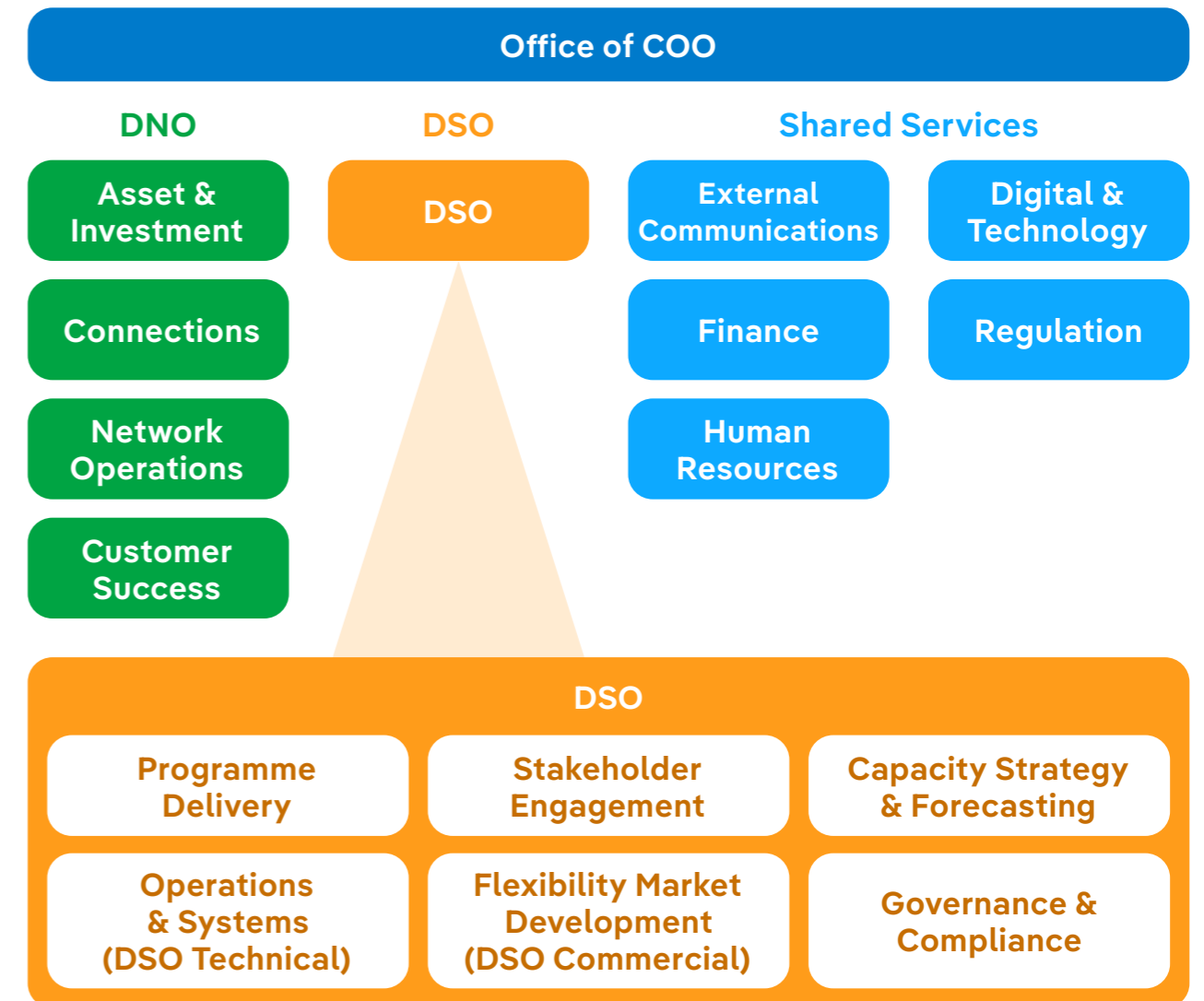
and customers require. Legal separation has the potential to drive additional benefits but also incurs further costs. We are monitoring the progress of other DSOs to assess the cost-benefit relationship and inform future decision making on evolution of our model.

SP ENW has extensive experience in managing functionally separate business units. We have successfully operated a legally separate unregulated services business since the early 2000s, which provides electricity infrastructure services outside of our regulated DNO entity. Through this experience, we understand how to mitigate conflict of interest challenges and to operate separate functions efficiently.

In our experience, clear separation of activities and creating DNO-DSO tension is highly valuable and results in enhanced outcomes. We believe we are following industry best practice and achieving the best possible outcomes in terms of transparency and fairness whilst being responsible and proportionate with investment, and remaining responsive to further changes which could benefit our stakeholders.

Further detail on our evaluation of separation models and rationale for our choice of model can be found in the Appendix.

Our internal business structure



The DSO and DNO roles across our processes

Guiding principles

We see our DSO as accountable for **enabling a timely and cost-efficient transition to net zero, securing system capacity in the most efficient way to deliver against customer needs and standards.**

Our DNO is accountable for **running the network safely and securely, and for delivering network investments efficiently where this is the agreed solution.**

As a result, our accountable **Head of DSO holds the budget for load-related investments**, and our **DNO functions hold the budget for asset health and resilience investments.**

An overview of DSO vs. DNO roles across key process areas

	Planning	Connections	Markets	Network operation
DSO	<ul style="list-style-type: none"> Engages regional stakeholders and forecasts generation and demand Identifies load-related system needs Assesses options and proposes solutions Publishes planning outputs 	<ul style="list-style-type: none"> Develops access products Reviews flexible connections schemes Manages alignment with strategic regional development plans Secures capacity for connections 	<ul style="list-style-type: none"> Develops flexibility products offering Establishes market access services Procures and settles flexibility 	<ul style="list-style-type: none"> Schedules flexibility Dispatches flexibility day-ahead or earlier Provides flexibility options in merit order for emergency real-time actions
DNO	<ul style="list-style-type: none"> Provides asset options and costs for load-related needs and agrees solutions Identifies health and resilience-related needs Creates integrated needs plan, capturing synergies Manages investment plan 	<ul style="list-style-type: none"> Manages quote, offer, accept process Coordinates across the T/D boundary Designs / delivers connections 	<ul style="list-style-type: none"> Provides input regarding network needs 	<ul style="list-style-type: none"> Outage planning Operational planning / running arrangements Manages real-time operations Dispatches real-time flexibility for emergencies

Network planning & development

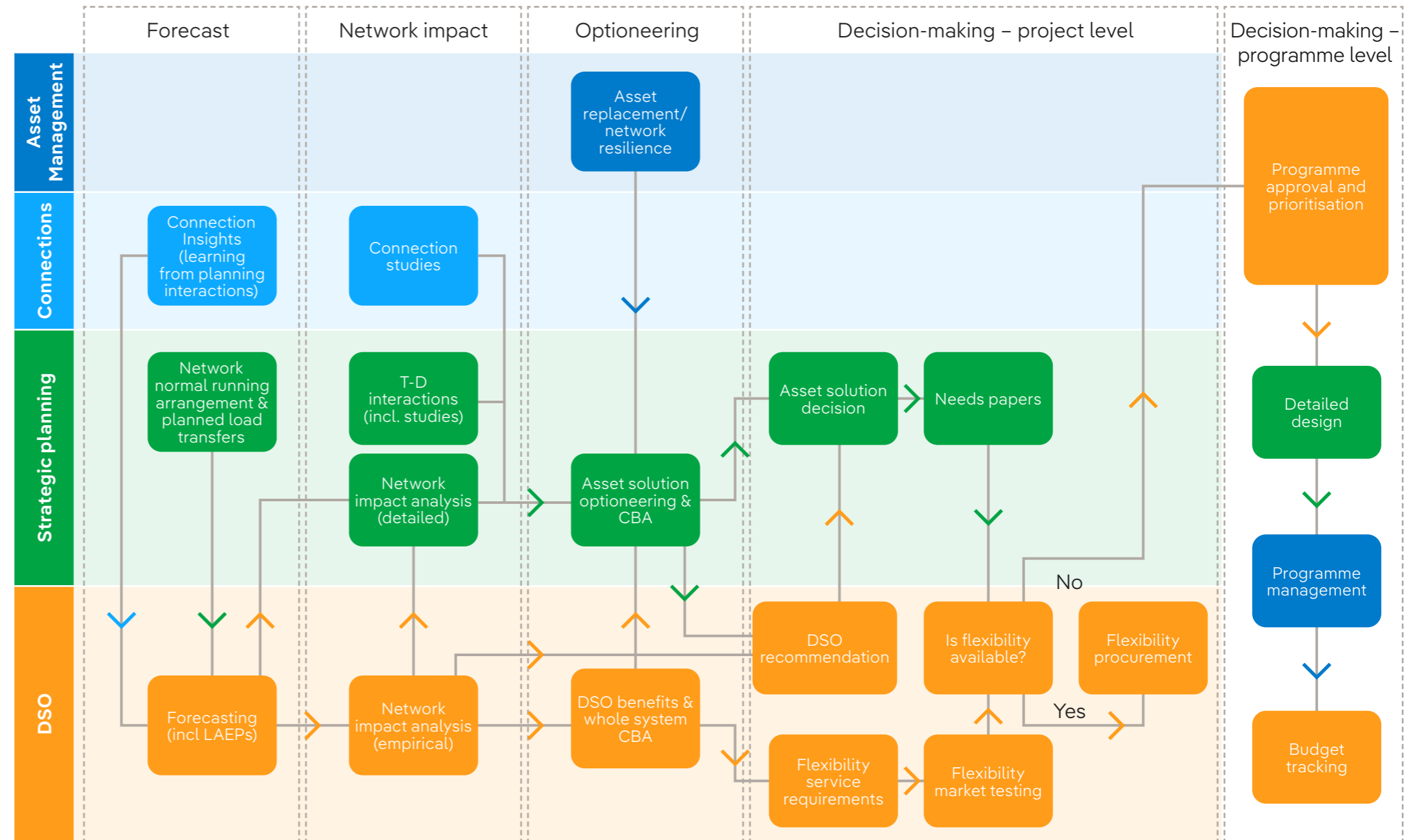
Our network planning and development process brings together DSO and DNO teams to ensure the network evolves efficiently and in line with future needs. Since the publication of our original DSO Governance Framework, we have updated this process flow to provide more detail and clarity. We have expanded the DNO swimlane to split out activities by DNO function, provided greater detail on the activities being conducted and illustrated information flows and hand-offs across the various stages of the process

Forecasting, where the DSO synthesises insights from multiple sources to understand how demand and generation are likely to develop, is the first stage in the network planning process. These forecasts underpin the **network impact assessment**, where the DNO conducts detailed studies while the DSO carries out an empirical assessment to identify potential constraints and flexibility opportunities.

The process then moves into **optioneering**. The DNO evaluates asset-based reinforcement options, while the DSO tests the market for flexibility to see whether services could provide a more cost-effective or timely solution. Together, these assessments inform whether reinforcement, flexibility, or a combination is the best overall approach through our transparent DNOA process. This process is overseen by our governance forums to ensure fairness and transparency of outcomes for stakeholders and customers

The preferred option is documented in a needs paper and progresses to **decision-making**, where project-specific and programme-level specific approvals are made by DNO and DSO leadership. This ensures both the technical case and the funding responsibilities – whether reinforcement or flexibility – are properly aligned.

Once approved, solutions move into **delivery**, led by DNO Capital Delivery. Progress is monitored through programme management and load-related expenditure tracking, and the insights gained feed back into the next planning cycle. This creates a continuous improvement loop that helps balance cost, resilience and whole-system benefit across the network.



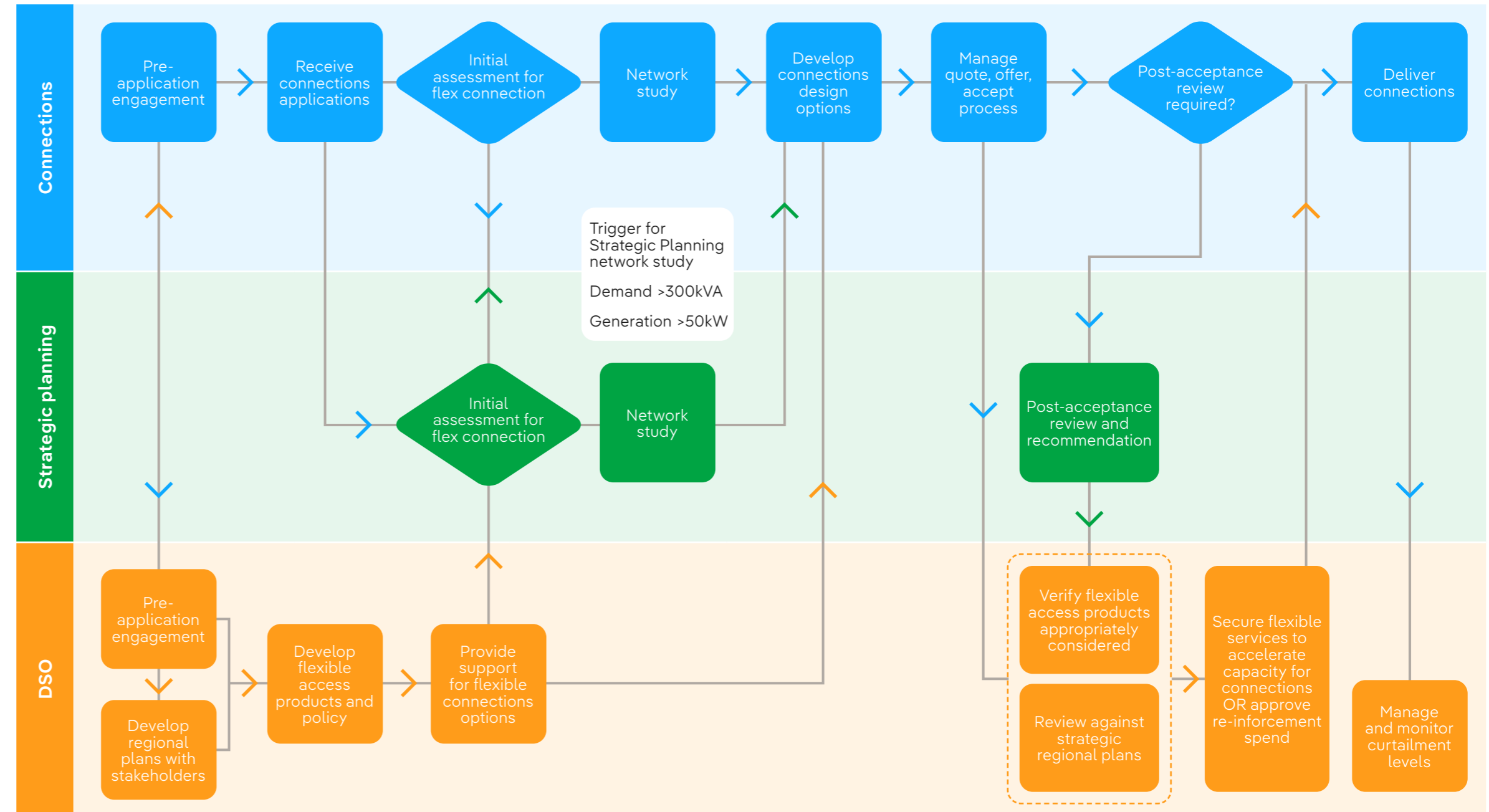
Connections

The connections process ensures that applications are assessed in a way that supports efficient use of the network while offering quicker or more cost-effective connection routes for our customers. Since the publication of our original DSO Governance Framework, we have updated this process flow to provide more detail and clarity. We have expanded the DNO swimlane to split out activities by DNO function, provided greater detail on the activities being conducted and illustrated information flows and hand-offs across the various stages of the process.

The DNO Connections team receives connection applications and is responsible for managing the quotation, offer and acceptance processes.

All applications are assessed for flexible connection suitability and subject to a network study, to ensure the potential impact on the wider system is fully understood. The application is reviewed against regional development plans and the study identifies whether flexibility could be used to facilitate the connection. Pre-application engagement and regional planning insights help shape this assessment, and the outcomes are used to develop the connections design options and customer quotation.

Following acceptance of a connection offer, a post-acceptance review is carried out when required. This ensures the chosen solution is still valid and confirms whether reinforcement is necessary or whether flexible services can be procured to accelerate capacity. Where flexibility is viable, the DSO may secure services to release network headroom; where not, reinforcement spend is approved. Once agreed, the Connections team manages the full quote-offer-accept process, delivers the connection, and the DSO monitors ongoing curtailment levels for flexible customers.



Flexibility market development

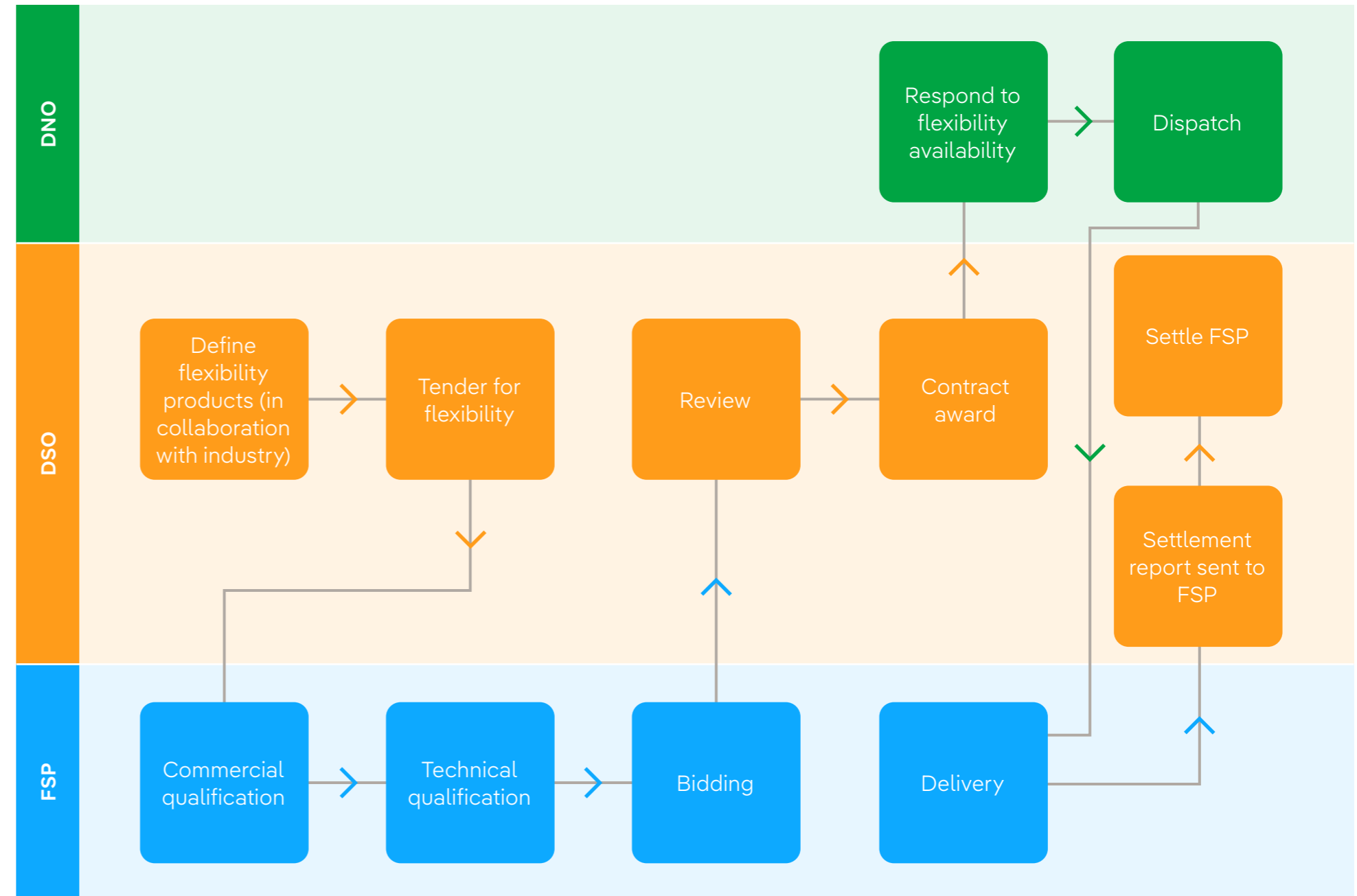
The flexibility market development and dispatch process ensures transparency and fairness in how flexibility dispatch decisions are made and drives the development of a liquid flexibility marketplace. Market liquidity is key to procurement of flexibility services most suited to network needs at lowest cost, whilst offering a thriving marketplace which attracts flexibility providers to participate.

Market development activity is driven by the DSO, informed by system and network needs identified through the network planning process and operational insight from the DNO, including requirements arising from planned and unplanned outages.

The DSO Commercial team engages with flexibility service providers, customers, and wider stakeholders to support participation and inform the development of the flexibility products used across the network. Product development is undertaken in collaboration with Elexon (the Market Facilitator) to ensure appropriate standardisation and alignment with NESO commercial arrangements, with any resulting system capability requirements fed into IT delivery programmes. The DSO Commercial team runs monthly and bi-annual tenders to secure new participants and contracts, with outcomes and availability shared with the DNO and fed back into network planning.

Flexibility Service Providers (FSPs) qualify by submitting commercial and technical details through the ElectronConnect platform, enabling the DSO Commercial team to assess eligibility and evaluate bids using the CEM tool. Once contracts are awarded, dispatch processes differ by product type. Peak Reduction and Scheduled Utilisation follow pre-agreed plans, with FSPs self-dispatching. Operational Utilisation (OU) and Operational Utilisation – Variable Availability (OUVA) require short-notice dispatch by the DNO via API, supported by real-time monitoring, the NMS/ANM systems, and merit-order rules set out in our ODMF.

The DSO Commercial team manages settlement, issuing reports for FSP approval before processing payments in line with internal governance controls. Flexibility procurement results and reporting are published on the Flexibility Services pages of the SP ENW website to provide transparency.



Scheduling and dispatch of flexibility

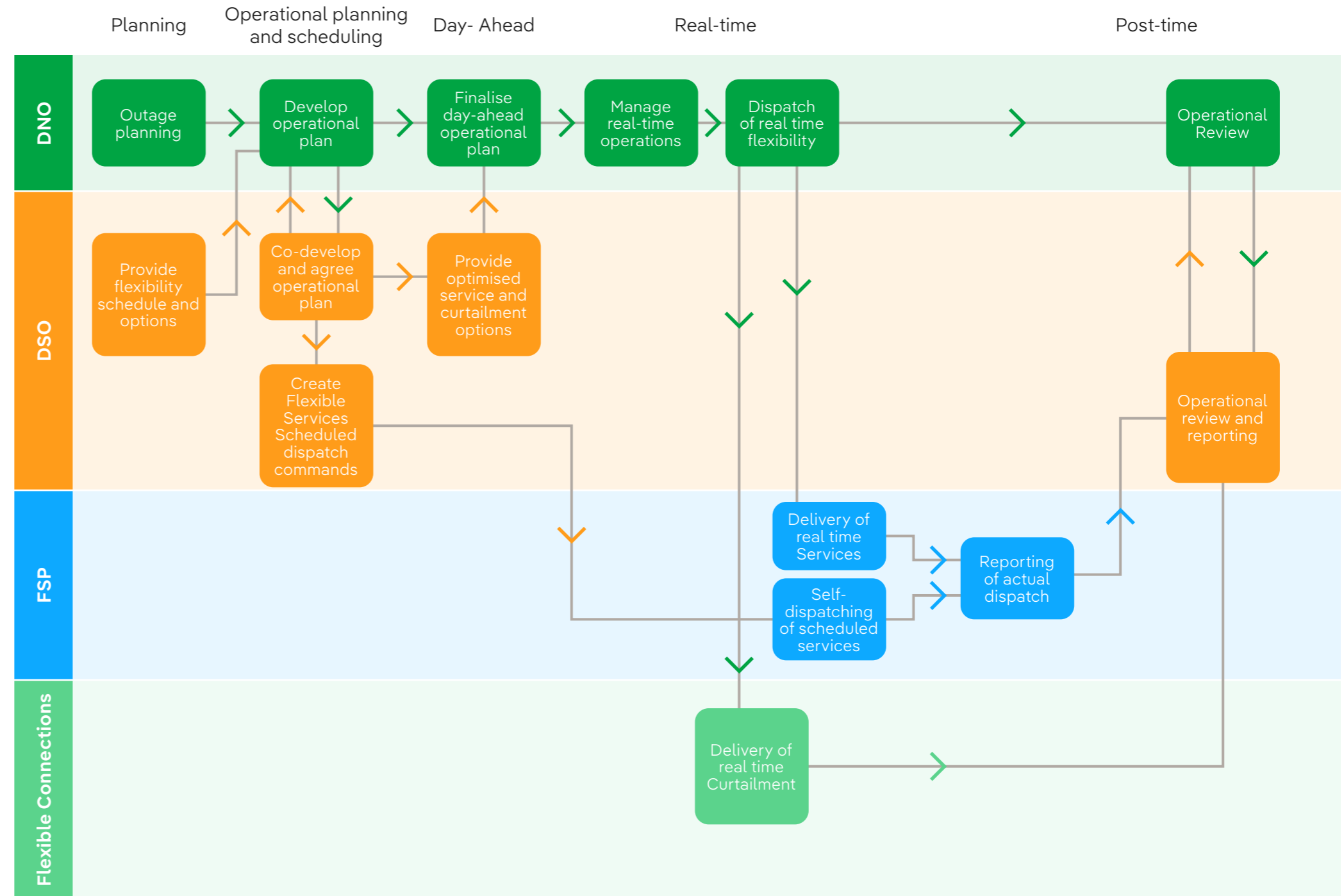
Scheduling and dispatch of flexibility managed by the DSO Technical team and the Network Operations function in the DNO.

In operational timeframes the DNO retains accountability for reliability and safety, and as a result has responsibility to develop the operational plan and network running arrangements. The DSO and DNO coordinate on operational planning to ensure that both scheduled and real time dispatchable flexibility is in place to manage constraints. For outages planned in the medium to longer term the DSO and DNO teams co-ordinate to optimise the most efficient solutions, including flexibility options, to facilitate the outage.

For outages planned within operational timescales DNO control engineers review the required work and input switching schedules in the Network Management System. The system forecasts network conditions, identifies any resulting constraints, and identifies curtailment and flexibility service options to manage these constraints.

Options are presented in “merit order” according to our [Operational Decision-Making Framework](#). DNO control engineers build up operational plans and review and jointly agree these with the DSO Operations & Systems team up to and including at day-ahead stage. The DSO then provides notifications of required availability to flexibility service providers via the market platform.

Our approach to real-time operations is that the DSO pre-configures the “merit order” for curtailment and flexibility services, and this order is provided to control engineers for use in scenarios that develop in operational timescales. If unexpected constraints or unplanned events happen, the ANM system will automatically execute curtailment and dispatch flexible services where needed. Post-time, the DSO and DNO teams conduct operational reviews to identify opportunities for learning, and operational data is published via our Open Data Portal.



Key outputs across the process

We have identified clear outputs and accountabilities across the process. Outputs which require joint sign-off highlight areas where the tension between DSO and DNO roles can emerge for resolution through decision governance.

Output	Description	Owner	Sign-off
Distribution Future Energy Scenarios (DFES)	Forecast of generation and demand assets expected to connect to the network	DSO	DSO
Demand, generation, and flexibility forecast	Translation of the DFES into expected peak demand, load flows, and network exceedance	DSO	Joint
Asset health and resilience needs	Data relating to asset health and operability, and the resulting investment needs	DNO	DNO
Integrated needs plan	Consolidated needs plan which integrates load growth needs alongside health and resilience needs	DNO	Joint
CEM tool assessments	Cost/benefit assessments of options to resolve network needs utilising the industry Common Evaluation Methodology	DSO	DSO
Distribution Network Options Assessment (DNOA)	Annual planning output summarising the forecast needs, options, and DNOA outcomes	DSO	Joint
Planning outputs (NDP, LTDS)	Annual regulated planning output publications	DSO	Joint
Week 24 notifications	Network data, operational data and forecasts provided to the NESO	DNO	Joint
Asset investment plan	Internal asset investment plan which guides the activity of DNO delivery teams	DNO	DNO
Access products and policy	Design of access products as a basis for flexible connection designs and agreements	DSO	Joint
Connection offers	Customer offers containing connection design options and costs, including flexible options	DNO	DNO
Flexibility product offering	Set of flexibility products, aligned with ENA standards, for use contracting flexibility	DSO	DSO
Outage plans	Plans for planned outages to facilitate work on the network, including switching schedules	DNO	DNO
Operational plans	Over-arching operational plan including network configuration, outage schedules, and flexibility service and curtailment expectations	DNO	Joint
Flexibility schedule	Schedule of flexibility services for subsequent day/week/month including scheduled for utilisation as well as scheduled for availability	DSO	DSO
Dispatch instructions (ahead)	Instructions to flexibility providers to deliver the scheduled flexibility services (ahead)	DSO	DSO
Merit order	Merit order of flexibility options for use in real-time flexibility management	DSO	DSO
Dispatch instructions (real-time)	Instructions to flexibility providers to deliver the flexibility services (real-time)	DNO	DNO
Operational transparency reporting	Publication of dispatch outcomes	DSO	DSO

How we make decisions

Decision-making is managed via a clear hierarchy, with external challenge from the DSO Stakeholder Panel and a clear escalation path to resolve tensions and disagreements

How outputs and decisions are approved

Our DSO and DNO teams work together to develop proposals and outputs according to the processes outlined in this document. Managers will first seek agreement between DSO and DNO teams on any outputs that require joint sign-off.

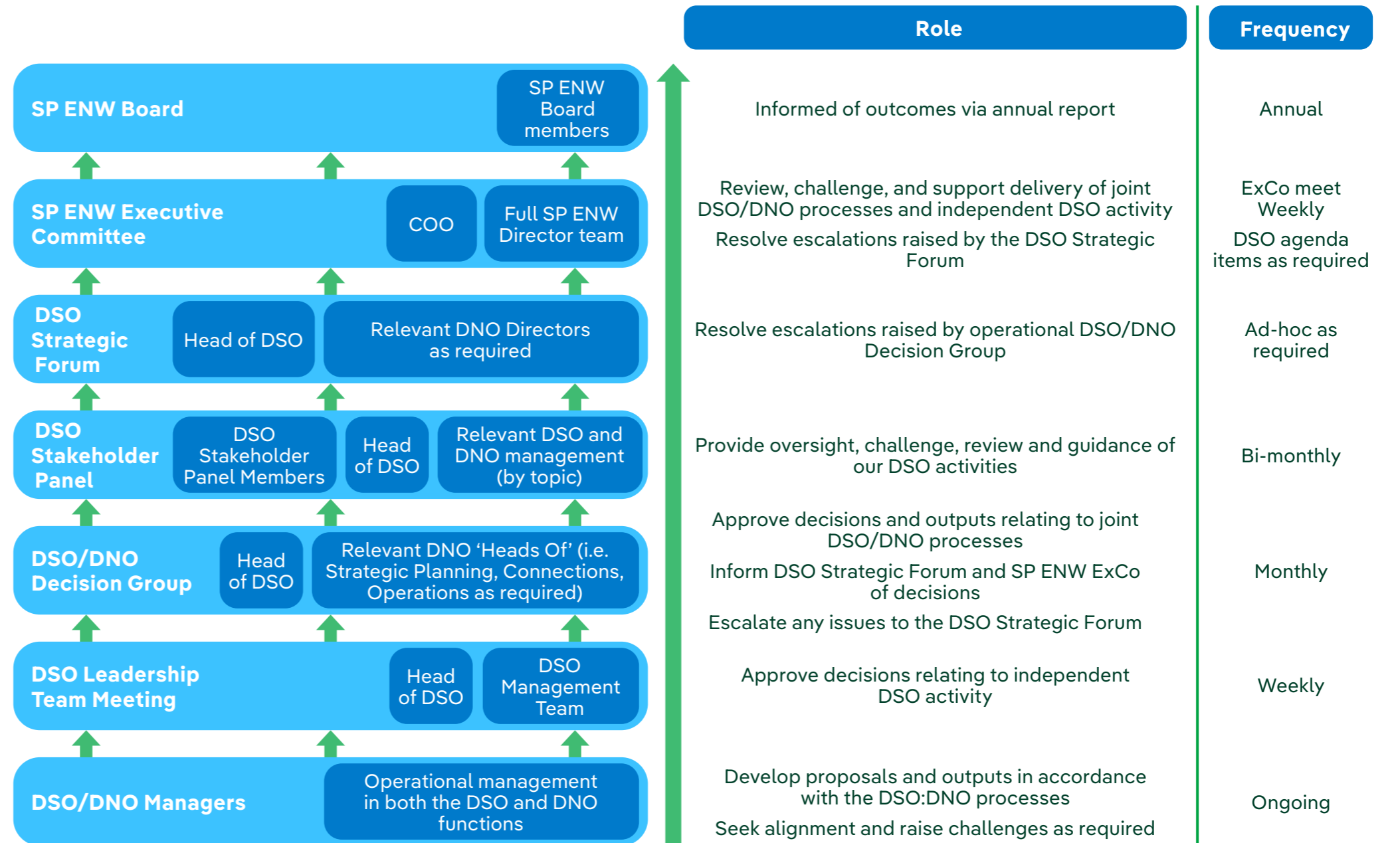
Our Head of DSO has authority to approve outputs which require DSO-only sign-off. Outputs which require joint DSO and DNO sign-off are managed via the DSO/DNO Decision Group, our DAG sign-off requirements or via SharePoint workflows as appropriate. The SP ENW Executive Committee is notified of key decisions on a regular basis, with the Board notified in the annual report.

The Head of DSO is responsible for testing key outputs with the DSO Stakeholder Panel and building in their feedback prior to raising items for approval (see following page for further detail on the DSO Stakeholder Panel role).

Typically, our operational management reach agreement on proposals prior to submitting them to the DSO/DNO Decision Group. However, if disagreements do arise the DSO/DNO Decision Group is the first line of consultation and escalation to resolve challenges.

If the DSO/DNO Decision Group cannot resolve a given issue between DSO and DNO managers, the issue will be raised at an ad-hoc DSO Strategic Forum for accountable Directors to resolve.

Should the DSO Strategic Forum be unable to resolve a given challenge, the ultimate escalation is to the SP ENW Executive Committee and COO to resolve.



Compliance, assurance and oversight

Alongside internal clarity on roles and responsibilities, we conduct a multi-layered approach to compliance, assurance and external oversight to guide our thinking and decisions

How we ensure oversight and scrutiny of our DSO:

1. Stakeholder engagement runs through everything we do – our Capacity Strategy team engages a wide range of stakeholders to develop regional strategic plans and our DFES projections; our Commercial team is organised around proactive outreach to key stakeholder segments; and we run regular DSO Forums for general engagement on a range of topics, supported by our dedicated DSO Stakeholder Engagement team

2. DSO Stakeholder Panel – our external DSO Stakeholder Panel is comprised of a broad spectrum of SP ENW stakeholders to provide insight, independent oversight, challenge, review and guidance on our DSO activities. The DSO Stakeholder Panel is engaged bi-monthly by the DSO leadership team, and the minutes of meetings can be found on our [website](#).

3. Independent Stakeholder Group – Our DSO Stakeholder Panel is part of a broader set of Advisory Panels centred around key stakeholder audiences and topics across the DNO and DSO business. All panels report into our Independent Stakeholder Group which provides independent advice to the COO.

4. Compliance officer – we have a DSO Compliance Officer who reports into our Head of DSO (with escalation path to Head of Risk & Internal Assurance), whose role is to ensure that we are managing conflicts of interest and acting as a neutral market facilitator. The Compliance Officer is tasked with ensuring that we are operating according to our processes, and that we are identifying and effectively managing risks and tensions that emerge from DSO and DNO roles.

5. Internal and External Audit – the Compliance Officer also commissions assurance and audit of key decisions to ensure methodologies and decision governance has been followed and documented.

DSO Panel responsibilities



Conflicts of Interest management

Since conducting our Conflicts of Interest (COI) risk assessment at the start of RIIO-ED2, we have further clarified and strengthened our policy and process. All COIs are logged in the COI Register and governed appropriately to ensure the best outcomes for our stakeholders and customers. COI management is a core part of the fairness and transparency with which we operate and it is a clear demonstration of the effectiveness of the DSO governance framework we have put in place.

DSO COI Process

- **Our Conflicts of Interest (COI) process** is designed to ensure that situations with the potential to undermine the impartiality of SP ENW’s DSO activities, outputs or decisions are identified, disclosed, assessed, controlled and managed in a timely, consistent, and auditable manner, protecting our integrity, compliance obligations, and stakeholder trust.
- SP ENW defines a conflict as any situation that has the potential to undermine the impartiality of DSO activities, outputs or decision making. This is not limited to structural conflicts eg DSO DNO interactions, but also considers wider risks including behavioural, market neutrality and operational neutrality risks as well as wider strategic tensions.
- Our DSO Compliance Officer owns the process and manages the COI Register. Any employee, stakeholder or customer is able to raise a COI via the [COI Reporting Form](#), which is received and logged by the DSO Compliance Officer. The COI is then managed by the relevant forums and mitigated, where required.

Case Study – Social DSO Fund

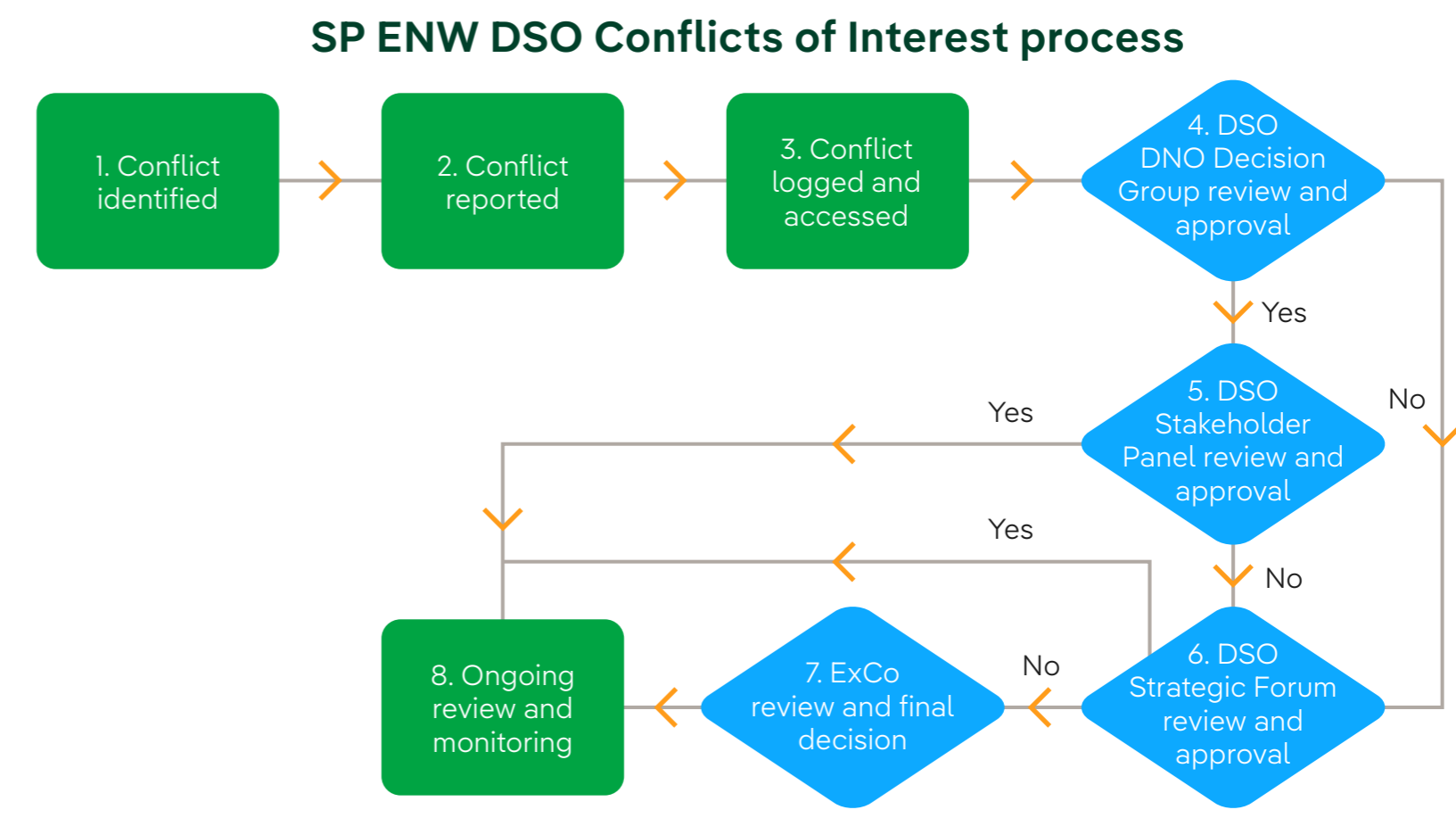
Our Social DSO model incorporates wider societal value into network decision-making. This creates an inherent tension between:

- Supporting customers at risk of being left behind in the energy transition; and
- Maintaining fairness and proportionality for all customers who fund network investment

SP ENW defines the funding criteria and allocates grants from our Social DSO Fund. As part of this process, we identified potential and perceived conflicts relating to strategic bias, distributional fairness and project selection balance.

This COI was raised, logged and processed according to our COI process.

We implemented a transparent, balanced scoring framework for funding applications, with equal weighting (20% each) across five categories. No single criteria dominates assessment. Following scoring, we conduct a portfolio-level fairness review assessing geographic spread, beneficiary diversity and balance between short- and long-term impact. Where we identify unintended bias, we adjust future funding rounds accordingly.



Case Study – Social DSO COI – practical example

- During Round 1, an EV project within a CMZ could not technically deliver flexibility. The assessment panel determined that eligibility should depend on scoring criteria rather than location.
- Where flexibility was not feasible, wider societal benefit could still justify support. This reinforced neutrality and consistency.

Data and reporting


To support transparency we publish as many outputs as we can. We are guided by stakeholders regarding what data is useful to them through publication of our Data Roadmap and related engagement events.


We have published detailed methodologies for a range of activities, including our Distribution Network Options Assessment (DNOA) process, our Operational Decision-Making Framework (ODMF) and methodologies to support a range of data publications.

We publish key outputs from our process as set out on page 11, many of which are available on our website. This includes publishing detailed data in support of investment decisions including the Common Evaluation Methodology (CEM) tool outputs that underpin options assessments, as well as post-flexibility tender reporting of decisions.

Our Open Data Portal contains a wide range of planning, market, and operational data, and going forward we intend to improve our transparency reporting by providing greater visibility of dispatch decisions made in operational timeframes.


Distribution Future Electricity Scenarios 


CEM tool assessments 

DNOA methodology and outputs 

Flexibility hub 

Operational decision-making framework 

Open Data Portal 

Distribution System Operation 

Data education hub 

Network information 

Appendix – Transparency model

Transparency options

Costs and benefits assessment

Evaluation and rationale

Our transparency model – options

This appendix sets out our rationale for why a functional separation model has been selected as the most appropriate approach to transparency and conflicts management for SP ENW at this time.

Why transparency is required

Transparency of a DNO's approach to network development is fundamentally about managing actual and perceived conflicts of interest. The DNO earns returns from building and operating assets, while at the same time is responsible for identifying system needs and promoting non network solutions such as flexibility.

Without transparency, there is a risk that:

- Network solutions are favoured over flexibility, even where flexibility is more efficient.
- Market participants lack confidence that opportunities are being brought to market fairly.
- Investment signals are distorted, reducing liquidity and innovation in flexibility markets.

Any approach to transparency is therefore about creating clear accountability, visible challenge, and transparent decision-making that stakeholders can trust.

Potential transparency models

Four broad models were considered based on Ofgem's definitions of separation models, spanning increasing degrees of structural separation.

- 1. Process clarity and reporting only** – reliance on documented processes, reporting lines, and transparency measures within largely integrated teams.
- 2. Functional separation** – ring fenced DSO roles and teams, clear accountability, and formalised DNO–DSO interfaces, while retaining a single legal entity and shared services.
- 3. Legal separation with shared services and systems** – establishment of a separate licensed entity, with its own board and governance, but continued reliance on shared corporate functions and IT.
- 4. Full business and systems separation** – complete organisational, systems, and support function separation between DNO and DSO.

We consider the incremental costs, incremental benefits, and the degree to which benefits are evidenced and realisable at this stage of DSO market maturity.

Transparency
optionsCosts and
benefits
assessmentEvaluation
and rationale

Our transparency model – costs and benefits assessment

The conclusions of our costs vs benefits and transparency appraisals are set out below

Incremental costs of models considered

- **Process clarity only** – This model represents the baseline cost position but relies heavily on behavioural controls and informal challenge. It risks insufficient senior focus on conflicts and weak incentives to surface tension.
- **Functional separation** – Introduces additional costs through intentional duplication of capability at the DNO–DSO boundary (e.g. forecasting, options assessment, governance and compliance roles) and the overhead of managing formal hand offs. These costs are explicit and manageable.
- **Legal separation** – Adds one-off and ongoing costs, including legal entity creation, board and corporate governance, and transition risk, while still requiring complex interfaces through SLAs.
- **Full separation** – Incurs the highest costs through duplication of systems, data, operational support functions, and loss of synergies, alongside heightened delivery and operational risk.

Benefits considered

Across all separation models, incremental benefits relate primarily to:

- **Transparency and trust** – confidence that DSO decisions are neutral and evidence based.
- **Market confidence and participation** – encouraging investment in flexibility by reducing perceived bias.
- **Value for consumers** – ensuring flexibility competes fairly with network investment, delivering least cost outcomes.
- **Quality of decision making** – constructive challenge between DSO and DNO perspectives, improving robustness of plans and outcomes.

Evidence from both internal experience and wider sector experience indicates that the majority of these benefits are unlocked once functional separation is in place, with diminishing and less certain incremental benefits from legal or full separation at the current stage of market development.



Our transparency model – evaluation and rationale

Functional separation represents a robust and proportionate response to the need for transparency. It captures the material benefits required to build trust, stimulate flexibility markets, and protect consumers, while avoiding premature costs and risks associated with more extreme models.

Principle / Factor	Process clarity only	Functional separation	Legal separation	Full separation
Overall cost–benefit balance	Weak	Strong	Moderate	Weak
Conflict of interest mitigation	Low/ Medium	High	High	Very high
Transparency and accountability	Medium	High	High	Very high
Market confidence and liquidity	Low/ Medium	High	High	Potentially high
Additional cost to customers	Low	Medium	High	Very high
Operational and transition risk	Low	Low/ Medium	Moderate	High
Flexibility to evolve over time	Medium	High	Low/ Medium	Low

We believe functional separation is the right approach for SP ENW and our customers because:

- **It delivers the material benefits that matter** – Functional separation creates clear accountability and productive tension between DSO and DNO teams. Separate leadership, ring-fenced budgets, formal decision governance, and independent compliance and stakeholder oversight provide strong assurance that conflicts are identified and managed in practice.
- **Costs are proportionate and transparent** – The additional costs of functional separation are deliberate: accepting duplication where it strengthens challenge and independence. These costs are in line with the benefits delivered and lower than the structural and transitional costs of legal or full separation.
- **No clear evidence yet of incremental benefits from going further** – While legal or full separation may deliver additional independence, there is no clear evidence at present that these models deliver proportionately greater benefits for customers or markets, compared to the additional costs, particularly once functional separation and strong governance are in place.
- **Preserves operational accountability and safety** – Retaining DSO and DNO within a single corporate entity ensures clear accountability for real-time network operation, safety, and reliability, with direct executive oversight. More extreme separation models rely heavily on contractual interfaces, which can dilute accountability and introduce operational risk without clear compensating benefits.
- **Enables a staged, evidence-led evolution** – Functional separation is a platform for learning. It allows benefits to be tested, measured, and evidenced as markets mature, while keeping future options open should evidence emerge that further separation would deliver net additional value.

We are committed to ongoing review as evidence develops and retaining the flexibility to evolve the model in the future if justified by demonstrable benefits.

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