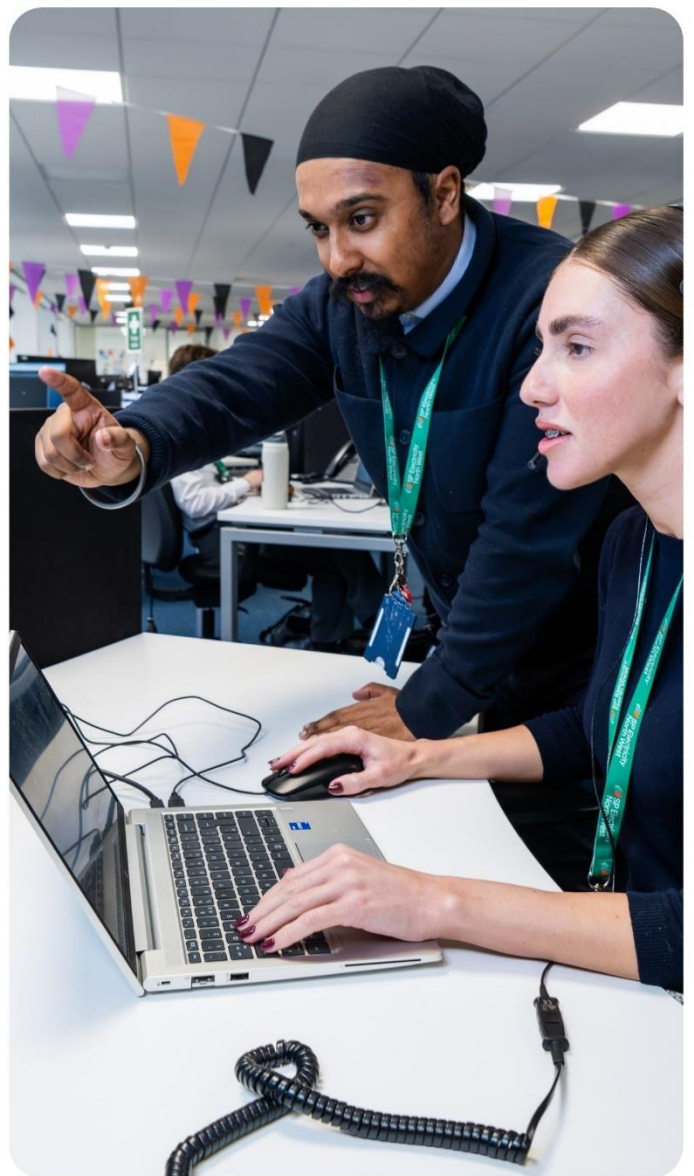
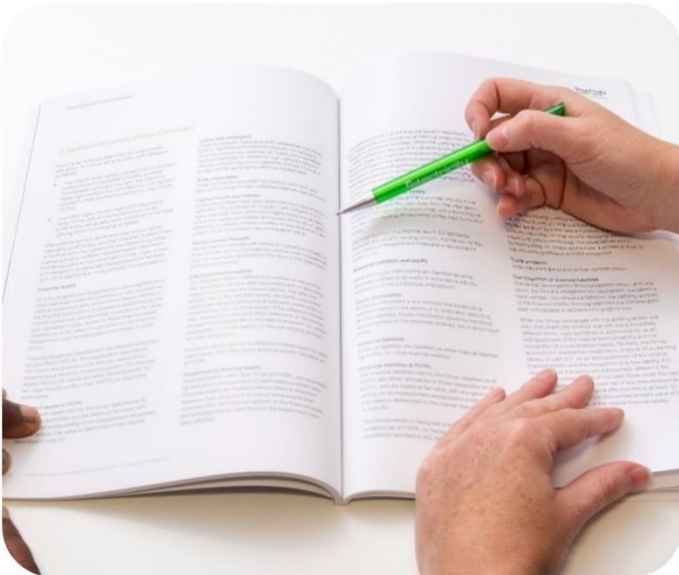


Governance and Compliance Annual Report

March 2026



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1. Introduction and purpose of the document

- In March 2025, we published our DSO DNO Governance Framework setting out our approach to delivering transparency around how our Distribution Network Operator (DNO) and Distribution System Operator (DSO) functions work together to enable the delivery of a just energy transition for our customers in the North-West.
- Where our DSO DNO Governance Framework sets out our baseline structure and approach to governance, this report provides more detail and context to the practical operation of the framework to our stakeholders and customers. Regular and open information-sharing is core to our commitment to transparency and proper functioning of our DSO and DNO functions.
- We are sharing this report annually, covering updates, successes and challenges as we deliver our DSO strategy and business plan commitments. This is part of our broader transparent communications approach of regular updates to stakeholders via reporting, data provision, conferences, newsletters, webinars and our independent DSO Stakeholder Panel.
- In this document we highlight our updated approach to functional separation, describe how our DSO governance approach has functioned and evolved over the year, the role of our independent DSO stakeholder panel, and our enhanced approach to conflicts of interest management. We also outline a number of case-study examples of our DSO in action and provide an outlook on relevant plans for the coming year.

2. Executive summary

We are pleased to set out the various updates, successes and challenges we have experienced since we published our DSO Governance Framework last year. Covered in further detail in this report, these are:

- **Functional separation:** We have shared further rationale for our choice of transparency model, along with additional descriptive detail of the model structure and how it works in practice in our organisation.
- **DSO Processes:** We have further developed the processes and procedures that govern our DSO activities and the interactions with the DNO in the areas of planning and network development, connections activities, and flexibility market development, and have published further detail in our updated DSO DNO Governance Framework.
- **Compliance, assurance and independent oversight:** This crucial area of our DSO focus has many facets, and we have made strong progress in mobilisation and operation of various governance initiatives, forums and responsibilities.
 - **DSO Stakeholder Panel:** With a commitment to continuous improvement, we have acted on outcomes of the recent annual review of the Panel's Terms of Reference and made several impactful changes. The Panel has played an active role in a number of DSO governance items, which are outlined along with the updates to the Terms of Reference, in the corresponding section of this document.
 - **Independent Stakeholder Group (ISG):** This group provides independent challenge and scrutiny to SP Electricity North West (SP ENW) on behalf of current and future customers and stakeholders. The DSO Stakeholder Panel has provided regular updates to the ISG throughout the year on its activities.
 - **DSO Compliance Officer:** We provide an update on the work our DSO Compliance Officer has conducted in the design, upkeep and day-to-day application of our governance framework.
 - **External review:** This year we have commissioned an independent review of our governance framework, looking at policies, process and decision-making structures. The focus of the review is to identify areas for clarification or improvement, provide insight into emerging trends and wider governance models and support further enhancement of our governance and decision-making processes.
- **Conflicts of interest (COI) management:** We provide an update on the successful functioning of our COI policy and management process, along with practical examples of the process in action.
- **Data and reporting:** In support of our central objectives of transparency and fairness, we have continued to publish a wide range of datasets. Detailed and wide-ranging, our intention is for this data to support the activities of our stakeholders and customers and underpin efficient network planning, operation and flexibility market development.

3. Functional separation structure and rationale

Overview and context

Transparency of decision-making is essential to building the trust, engagement and confidence of our customers and stakeholders to make DSO a success and encourage maximum participation. We believe DNO/DSO functional separation is crucial in managing actual or perceived conflicts

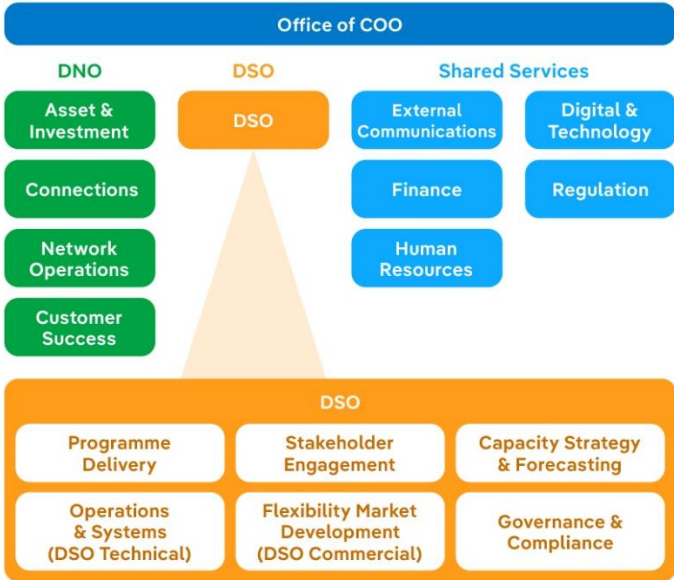
of interest, which is essential to proper functioning of the DSO and in ensuring the best possible stakeholder outcomes

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.

Our functional separation approach is set out in our DSO DNO Governance Framework, with detail of how our DNO and DSO functions are formally separated, how they interact via clear processes and how they are governed by our governance forums and mechanisms.

We have worked in collaboration with our stakeholders, and colleagues across the business and wider industry to develop and improve our approach to functional separation and transparency with the aim of maximising stakeholder confidence in our DSO.

Figure 1: SP ENW functional separation diagram



Progress and outcomes

This year, we have provided additional detail on the rationale behind our choice of separation model in our updated DSO DNO Governance Framework. The aim is to provide greater context and detail for stakeholders on the key decision-making factors and data which steered us. We believe that transparency in decision-making behind key governance structures is crucial, so have also provided additional detail to our stakeholders on this topic.

4. Processes

Overview and context

As set out in our governance framework, our DSO is 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.

Progress and outcomes

This year we have further developed the processes and procedures that govern our DSO activities and the interactions with the DNO in the areas of planning and network development, connections activities, and flexibility market development. Updates to our processes have led to improved cross-business collaboration and knowledge-sharing, resulting in improved outcomes for customers and stakeholders. Updated process-flows can be found in the DSO DNO Governance Framework, along with detailed descriptions of the objective and operation of the processes. Below is a preview of these updated process flows and descriptions.

Figure 2: Network planning and development process

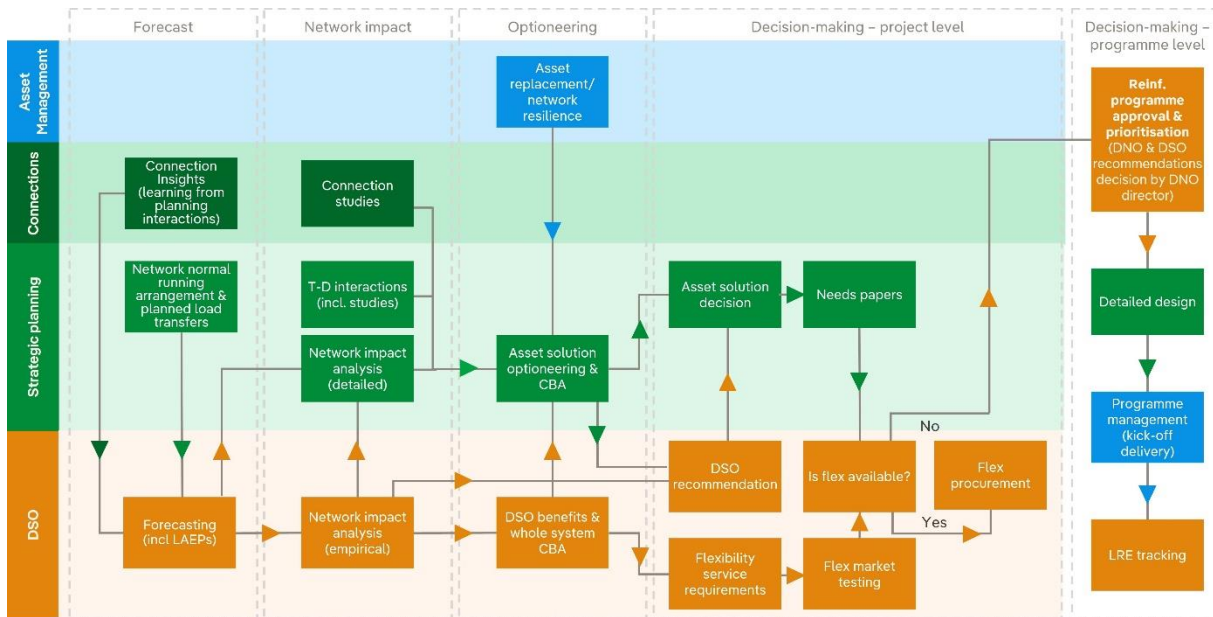


Figure 3: Flexible connections process

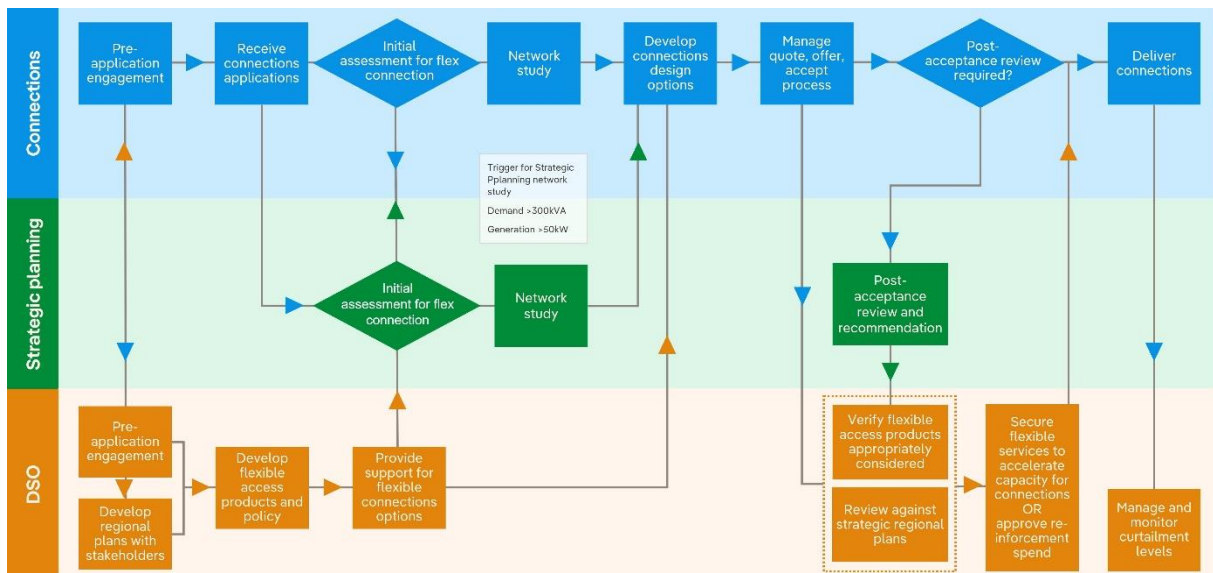


Figure 4: Flexibility dispatch

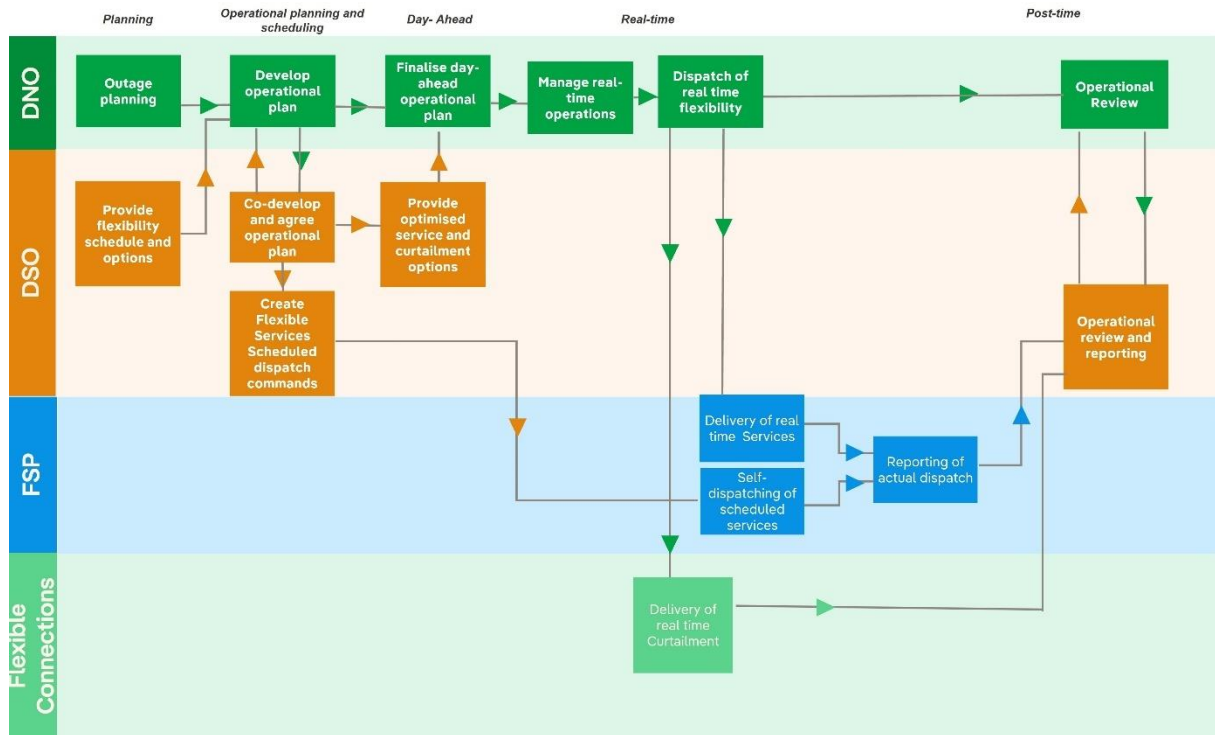
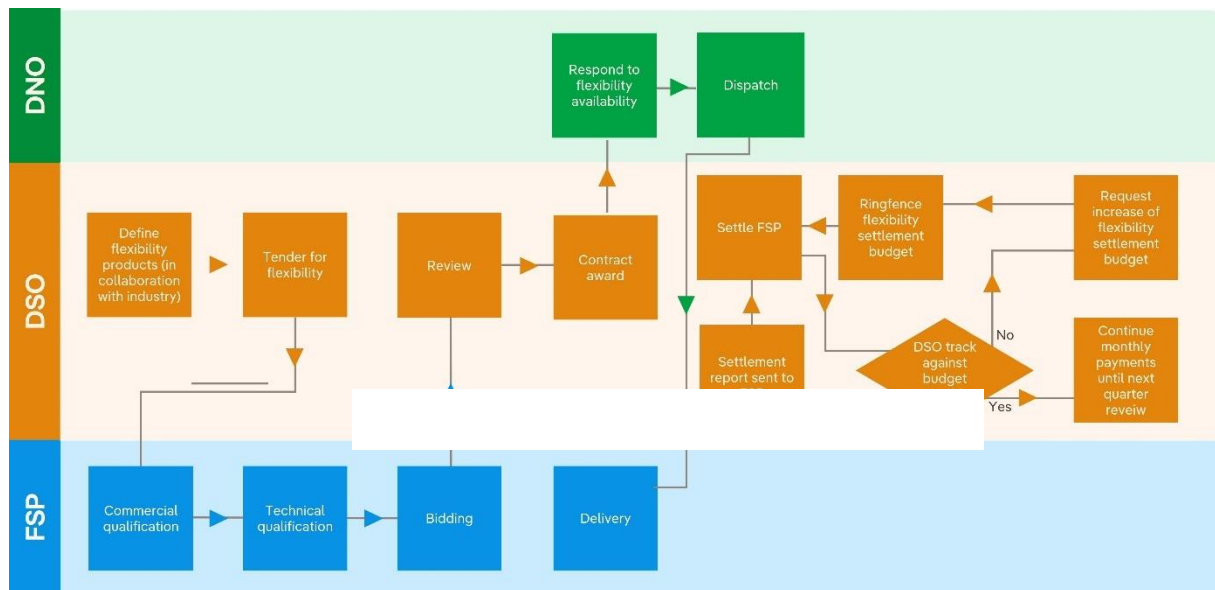


Figure 5: Flexibility market development



Over the next year, we anticipate further enhancements to our processes and outputs, particularly as we further roll out our ANM systems and increase dispatch volumes of flexibility services.

5. Compliance, assurance and independent oversight

5.1 DSO Stakeholder Panel

Overview and context

Our DSO Stakeholder Panel was established in 2023 with the objective of providing essential oversight of key decisions and methodologies, and guidance on the scope and delivery of our

DSO activities. It is governed by a specific Terms of Reference which is reviewed and published annually.

The panel consists of an independent Chair and up to 12 representatives from a range of DSO stakeholder groups, with the following objectives:

- Provide appropriate oversight, challenge, review and guidance on SP ENW DSO activities.
- Act as the review body for DSO forecasting, modelling and decision-making methodologies and, where requested, make observations to change relevant methodologies.
- Support the ongoing performance of DSO transition using the measures of the DSO incentive mechanism, supported by evidence gathered from the DSO community, in accordance with Ofgem's performance framework and guidance.
- Act as the review body of proposed decisions that have been challenged by an affected third party, make observations on the challenge and where appropriate make observations on a process or methodology.

Progress and outcomes

This year's annual review of the DSO Stakeholder Panel Terms of Reference resulted in a change to the Panel's way of working. This included:

- Increasing the frequency of panel meetings (from quarterly to every two months) to enable better ongoing dialogue and agile engagement. We have also introduced a regulation and policy sub-group to facilitate more detailed discussions and knowledge sharing in this area.
- Broadening of the membership to include two new members to broaden geographic representation and support the ongoing development and delivery of our Social DSO fund.
- Increased focus on governance, with DSO governance and our Conflicts of Interest process having been regular agenda items throughout the year to support the development and assurance of our approach.
- Production of an annual report on the panel's activities, to provide greater transparency.

The Panel has also played an active role in a number of DSO governance items, including:

- Oversight of the delivery of our Social DSO strategy.
- Oversight and steer on the development of our Social DSO fund, providing input and oversight as the fund governance was developed, and as a standing agenda item for review and feedback as decisions are made.
- Oversight of the ongoing enhancement and delivery of our Flexibility Strategy.
- Reviewing our methodologies and processes, including our DFES, DNOA and ODMF.
- Monitoring of performance against our KPIs.

The panel's input has been instrumental in the continued development and delivery of DSO governance providing valuable oversight, challenge and feedback. Changes to the panel ways of working have allowed for improved ongoing dialogue and more agile engagement, and broadening the membership has allowed us to gain input from previously underrepresented stakeholder groups enabling richer and more diverse feedback.

5.2 Independent Stakeholder Group (ISG)

The Independent Stakeholder Group (ISG) provides independent challenge and scrutiny to SP Electricity North West (SP ENW) on behalf of current and future customers and stakeholders. The ISG has a role in overseeing SP ENW's delivery of its RII0-ED2 business plan commitments and the DSO panel has provided regular updates to the ISG throughout the year on performance against the DSO business plan commitments. Towards the end of this year the SP ENW ISG has been integrated with the SPEN Independent Net Zero Advisory Group to form a combined ISG effective from March 2026.

5.3 Compliance Officer

Our DSO Compliance Officer is the core responsible person for the design, upkeep and day-to-day application of the DSO DNO Governance Framework, working to evolve the framework for the benefit of stakeholders and customers. This is a crucial role in the proper functioning of our DSO and in achieving our core DSO objectives around transparency, fairness and maximising stakeholder and customer outcomes. Having a dedicated, full-time role to ensure compliance with our Governance Framework highlights our commitment to the success of our DSO and the importance the DSO plays in our overall organisation.

The DSO Compliance Officer is the initial point of contact for conflict-of-interest reporting, supporting individuals raising conflicts and ensuring conflicts are assessed and processed appropriately. They are also responsible for:

- Managing the conflicts of interest log and process, from reporting to conclusion and ongoing monitoring
- Managing the DSO DNO Decision Group - gathering inputs, setting the agenda, running the sessions and tracking agreed actions
- Secretariat for the DSO Stakeholder Panel - setting agendas, preparing meeting materials, producing minutes and tracking actions

This year, the Compliance Officer has driven forward the application of our DNO DSO Governance Framework in all areas. In line with our commitment to continuous improvement, they have continued to develop the framework according to evolving stakeholder and customer needs. This has included:

- Updates to further strengthen and optimise our processes and procedures
- Commissioned an independent review of our DSO governance framework to gain valuable external challenge to assure a best-practice approach
- Updated policies and decision-making controls
- Refreshed our approach to conflicts of interest identification and management, and handled more conflicts of interest submissions than ever before

5.4 External review

A crucial part of assuring impartiality, transparency and fair operation of the DSO in the best interests of our customers and stakeholders, is impartial external review. This year we have commissioned an independent review of our governance framework, looking at policies, process and decision-making structures. The focus of the review is to identify areas for clarification or improvement, provide insight into emerging trends and wider governance models and support further enhancement of our governance and decision-making processes.

The external review has focussed on the following:

- Review of governance-related policies, processes and structures
- Assessment of operating effectiveness
- Identification of gaps, ambiguities and areas for clarification
- Practical recommendations

The review found that the framework is well-designed, with clear conflict management, strong cross-functional and independent oversight, and a transparent culture supported by publicly available data and reporting.

The recommendations reflect an opportunity for us to build on an already strong and maturing governance framework. By further aligning roles and procedures, we can enhance consistency and streamline decision-making across teams. Introducing a more formal approach to managing sensitive information will strengthen transparency. Developing more function-specific conflict-of-interest guidance and structured training will support continued cultural maturity.

6. Conflicts of interest (COI) management

Overview and context

This year we have established a more explicit and robust [process](#) to manage conflicts of interest between the DNO and DSO. The process is designed to ensure that situations with the potential to undermine the impartiality of SP ENW's DSO activities, outputs or decision are identified, disclosed, assessed, controlled and managed in a timely, consistent, and auditable manner, protecting our integrity, compliance obligations, and stakeholder trust. Given the critical nature of this process to our DSO's transparency and impartiality, we have designated direct process ownership to our DSO Compliance Officer, who manages day-to-day operation of the process and reporting to senior leadership.

The key principles for this process are:

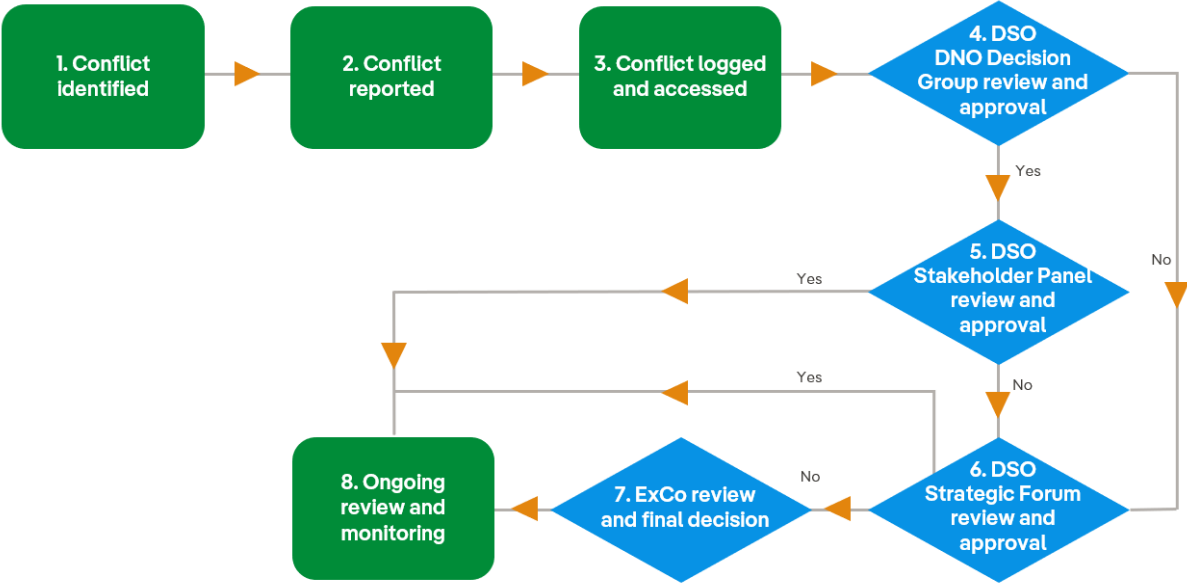
- **Early disclosure:** All staff and relevant parties are required to report actual, potential, or perceived conflicts promptly
- **Proportionality and objectivity:** Controls scaled to risk
- **Accountability:** Clear roles, responsibilities and escalations
- **Data Protection:** Personal data handled in line with data protection requirements
- **Transparency:** Complete, accurate records retained and independently reviewable

All staff and relevant third parties must:

- Proactively avoid conflicts where possible
- Disclose actual, potential, or perceived conflicts promptly via the approved process
- Cooperate with assessments, controls, and monitoring
- Refrain from decision-making where impartiality could reasonably be questioned

Conflicts can be raised by SP ENW personnel, the DSO stakeholder panel, wider stakeholders, customers or commercial partners. Conflicts of Interest review is a rolling agenda item on weekly DSO management meeting.

Figure 6: Conflicts of Interest process



Our conflict risk analysis highlights conflicts which either exist or could occur across key business areas. Anticipating and planning mitigating actions is crucial to effective conflict of interest management and allows us to include the necessary pre-emptive measures in our functional model and processes. This is summarised in the following table.

Figure 7: Conflicts of interest and mitigating actions

	Where might a conflict occur?	How do we mitigate the conflict?
Network planning and development	There is a risk that undue influence is exerted in the network development process from other interests in the business that could alter the outcomes of the process in favour of asset intervention.	<ul style="list-style-type: none"> • DSO holds the budget for and sanctions all load related expenditure. • DSO owns and manages forecasting process and vets all input data. • DSO oversees optioneering process and outcomes. • DSO performs evaluation of options. • DSO owns and publishes DNOA methodology. • DSO publishes CEM Tool evaluations. • DSO publishes all details of network reinforcement activities. • DSO Stakeholder Panel reviews challenged decisions.
Network operation	There is a risk that undue influence is exerted in the operation of the distribution network from other interests in the business that could alter the outcomes of the process in	<ul style="list-style-type: none"> • DSO holds the budget for and sanctions all load related expenditure for flexibility services provision.

	Where might a conflict occur?	How do we mitigate the conflict?
	favour of asset intervention and/or the use of DNO services, like CLASS	<ul style="list-style-type: none"> • DSO manages the ANM decision-making logic. • DSO manages the MOM system and processes. • DSO owns and publishes Operational Decision Making Framework methodology. • DSO owns and publishes all details of flexibility services dispatch in the Distribution Flexibility Services Procurement Report. • DSO owns and publishes all planned procurement of flexibility services in its the Distribution Flexibility Services Procurement Statement.
Flexibility market development	There is a risk that undue influence is exerted in the development of the flexibility services market from other interests in the business that could alter the outcomes of the process in favour of asset intervention and/or the use of DNO services, like CLASS	<ul style="list-style-type: none"> • DSO holds the budget for and sanctions all load related expenditure for flexibility services provision. • DSO manages the Table of Accountabilities for DSO activities which define the roles and responsibilities. • DSO manages the governance and oversight processes. • DSO publishes all details of network reinforcement activities. • DSO Stakeholder Panel reviews challenged decisions. • DSO publishes a compliance report annually.

Progress and outcomes

This year we have further refined our conflicts management process to encourage consideration of potential conflicts that extend beyond structural DSO DNO interactions. We have looked more broadly at wider system interactions, behavioural and operational neutrality risks, and strategic tensions.

We have strengthened transparency by publishing our [Conflicts of Interest Policy](#), a formal [conflicts of interest reporting form](#), and refreshing our [Conflicts of Interest Register](#). The updated register sets out pre-identified risks that have been used to support the development of conflict mitigation processes and ways of working and also conflicts that have been raised are part of our conflicts management process, demonstrating how these are identified, recorded and managed. Conflicts are reviewed monthly by the DSO DNO Decision Group, and the register is reviewed quarterly by the DSO Stakeholder Panel to ensure proportionality and transparency. Where

required, matters can be escalated to the DSO Strategic Forum and ultimately to the COO's Executive Committee. All cases remain subject to monitoring until they are formally closed.

Some examples of the conflicts of interest identified and managed by our COI process are as follows:

Example 1: 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.

Because SP ENW defines funding criteria and allocates grants, we identified potential and perceived conflicts relating to strategic bias, distributional fairness and project selection balance.

Conflict identification

We identified these risks during fund design, and our Social DSO Manager engaged with the DSO Compliance Officer to commence the review process set out in our governance framework.

Key risks included:

- Strategic bias toward DSO-aligned projects.
- Perceived imbalance in prioritising vulnerable groups.
- Over-weighting social value (SROI) relative to deliverability or scale.
- Information asymmetry favouring well-resourced applicants.

These risks were assessed as inherent to a Social DSO model and therefore requiring structured mitigation rather than elimination.

Action taken

We implemented a transparent, balanced scoring framework for assessing funding applications with equal weighting (20% each) across five categories (strategic alignment, engagement of at-risk individuals, deliverability and risk, availability of match funding and NPV/social return on investment). No single criterion 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.

The role of oversight

The fund assessment panel includes internal and external representation. We share decisions and scoring outcomes with the DSO Stakeholder Panel for transparency and challenge.

Round 1 approved six projects and rejected five. Applicants reported clear criteria and constructive feedback, reinforcing transparency and confidence.

Example 2: Primacy signalling and CLASS

Under Primacy arrangements, the DSO can signal to NESO where local constraints risk conflict with national balancing services. Because CLASS operates as a NESO service provided by the

DNO, this created both a potential and perceived conflict: DSO signalling could exclude CLASS or competing providers from dispatch in specific locations.

As NESO operates a pay-as-clear auction, excluding lower-priced providers could influence clearing prices, creating a perceived risk of market distortion. This extended beyond internal DSO–DNO boundaries into national market outcomes.

Conflict identification

The DSO team proactively identified this risk during preparation for Primacy trials and formally logged it under our COI framework. We categorised it as both a potential and perceived conflict due to its system-wide implications.

Action taken

We have implemented structural and transparency-based mitigations:

- Established clear, objective signalling criteria.
- Published DSO conflict risk reports.
- Confirmed that NESO retains final commercial dispatch authority.
- Enabled external review of signalling volumes and forecasting by NESO and Elexon.
- Committed to six-monthly reviews once trials commence.

We also operate under a formal CLASS Separation of Duties and REMIT Compliance Policy (v3.2, November 2025), which enforces organisational separation between commercial bidding and network operations and codifies inside information controls.

The role of oversight

The DSO–DNO Decision Group reviewed and approved the mitigations and the DSO Stakeholder Panel provides independent scrutiny. Escalation to the DSO Strategic Forum or Executive Committee remains available if materiality increases.

Example 3: Operational neutrality

As flexibility markets mature, we identified a behavioural and operational neutrality risk. Historically, control engineers frequently curtailed DERs under flexible connection arrangements. As ANM and flexibility markets expand, there is a risk that familiarity or perceived simplicity could bias operational decisions toward curtailment or reinforcement rather than economically efficient set-point optimisation or dispatch of flexibility services.

Conflict identification

The DSO team identified this internally and formally logged it under the COI framework as a potential conflict. We recognised that cultural practice could influence neutrality as much as structural governance.

Action taken

We are addressing both process and behaviour through:

- Delivering targeted training on set-point optimisation.
- Increased automation through ANM systems to reduce manual bias.
- Auditing flexibility utilisation against the ODMF.

- Publishing our decision-making methodology for transparency.
- Monitoring connection offers and uptake of set-point-enabled schemes.

The role of oversight

The DSO–DNO Decision Group reviewed and approved the assessment. We have embedded ongoing monitoring into routine governance processes and provide visibility to the Stakeholder Panel where appropriate.

Example 4: Iberdrola acquisition of ENWL

Following Iberdrola’s acquisition and formation of SP ENW, the DSO Stakeholder Panel requested explicit assessment of perceived conflicts arising from wider group ownership.

Conflict identification

This issue was raised by a DSO Stakeholder Panel member as part of the panel’s regular review of the conflicts of interest register. The DSO Compliance Officer took an action from the meeting to commence the review process.

Action taken

Mitigations include the requirement to comply with Distribution Licence Condition 42, CMA-approved acquisition arrangements, a published Business Separation Policy, segregation of systems, restricted information access, non-discrimination controls and prohibition of cross-subsidy.

The following factors were identified as appropriate mitigations for the potential conflicts raised:

- Iberdrola SA’s acquisition of ENWL (88% shareholding) was approved by CMA.
- SP ENW has regulatory obligations through its Distribution Licence to keep its Distribution business activities fully separate from any competitive energy activities carried out across the ScottishPower Group. Failure to comply with the obligations can result in Ofgem imposing financial penalties on SP ENW and there is also a risk of reputational damage to ScottishPower and the wider Iberdrola Group.
- Following the acquisition SP ENW has developed and published a [business separation policy](#). This applies to employees of ENWL and the wider SP ENW group of companies and includes (but is not limited to) requirements around managerial and operational separation, non-disclosure of information, segregation of systems, restricted access to premises, prohibitions of cross subsidies, non-discrimination of metering and connection services, and branding.

The role of oversight

The Compliance Officer’s conclusions were presented to the DSO Stakeholder Panel and it was agreed that the item would be recorded as a perceived conflict of interest but that ongoing monitoring would not be required.

These case studies demonstrate our stringent and thorough approach to management of conflicts of interest not just between our DSO and DNO functions but looking at wider system interactions and societal tensions.

7. Data and reporting

Overview and context

To support transparency and support the activities of our stakeholders and customers, we publish a wide range of data outputs. We are guided by stakeholders regarding what data is useful to them through publication of our Data Roadmap and related engagement events.

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. Our stakeholders are increasingly interested in data about our network, our assets, and our operations. Our transparent reporting framework is designed to share insights, trends, and highlights on how our Portal is being developed and how it is meeting stakeholder needs.

Progress and outcomes

True to our commitment to transparent and valuable data provision, we have continued to publish a wide range of datasets via our Open Data Portal and via our website. A list of available data items can be found via our [website](#).