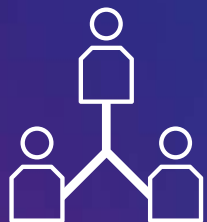


**Electricity
Distribution**



A Guide to Governance

March 2026

nationalgrid ▶ DSO

Purpose

We publish our Guide to Governance annually to provide stakeholders with an understanding of how National Grid DSO operates.

Our DSO-DNO Functional Separation Arrangement¹ details how the DSO was originally set up and the objectives under which we operate.

This document is intended to:



Explain the context within which National Grid DSO operates as part of National Grid Electricity Distribution (NGED) and the wider National Grid Group.



Demonstrate the value that our approach to governance provides



Explain the progress we have made against our governance commitments

¹<https://commercial.nationalgrid.co.uk/downloads-view-reciteme/690881>



This Guide to Governance is intended to provide a comprehensive overview of the governance of our DSO, how it operates, and how this adds value to consumers, aiding stakeholders to navigate the functions of the DSO.

We are always evolving our approach to governance, aiming to achieve the maximum value outcomes for our customers, and welcome all feedback on the content of this guide.

Context

National Grid DSO is a functionally separate directorate operating within National Grid Electricity Distribution (NGED) licensed areas. Within this document, references to NGED refer to the collective group of licensed entities. You can find more about NGED² on our website.

The DSO is responsible for three core roles which have been established by the Office for Gas and Electricity Markets (Ofgem) through a consultative process and finalised in their guidance which was published in 2023³.

The three core DSO roles are:



Planning and network development

Plan efficiently in the context of uncertainty, taking account of whole system outcomes, and promote planning data availability.



Network operation

Promote operational network visibility and data availability and facilitate efficient dispatch of distribution flexibility services.



Market development

Provide accurate, user-friendly and comprehensive market information and embed simple, fair and transparent rules and processes for procuring distribution flexibility services.

In addition to these obligations, National Grid DSO goes further, leading on the delivery of two further accountabilities which we have decided offer the best value to customers by residing within the DSO's obligations:

Provision of network models and analysis tools to support both DSO and DNO activity on connections and outage planning.

Transmission-Distribution (T-D) interface management analysis to support the connections process (assessing the potential impact of distribution generation connections can have on the wider transmission network).

We have included these additional areas of responsibility as they reduce NGED costs (which therefore reduce customer costs) by focusing expertise within our DSO teams, as well as enabling us to increase the speed of connections by addressing transmission constraints through activities such as our work on Technical Limits.

² <https://customer.nationalgrid.co.uk/about-us>

³ <https://www.ofgem.gov.uk/decision/decision-proposed-modifications-riio-2-electricity-distribution-licences>

Introduction

In establishing the core roles of a DSO, Ofgem also outlined the risk that the requirements of a DSO might be at odds with the established decision making incentives within the wider distribution network.

As noted under paragraph 3.2.5 of the DSO Governance Document

“DNOs to introduce other proportionate measures, developed with robust stakeholder engagement, to identify and address actual and perceived conflicts between its DSO and network ownership roles or other business interests”⁴.

A specific example of a potential Conflict of Interest which occurs in our DSO-DNO relationship relates to our network planning role and responsibilities for the creation and use of flexibility markets.

The DSO position to explore all avenues to resolve constraint issues can be at odds with the traditional DNO position of building network reinforcement.

Our approach to governance has been developed to mitigate the risk of actual or perceived Conflicts of Interest. This includes:



Our Independent DSO Panel

A panel of experts who scrutinise all aspects of our DSO's work and provide a critical friend function, providing independent oversight of our actions.



Functional Separation

Our approach to sufficiently separate ourselves from the DNO allowing us to operate with the independence necessary to be an effective DSO. This includes:

- **Our Functional Separation Steering Group:** Where the DSO and DNO work together to avoid, mitigate or address any Conflicts of Interest.
- **The appointment of the Managing Director DSO:** To embed Functional Separation at NGED Executive level and with our external stakeholders.



Our DSO Policies

Designed to ensure that staff across both the DSO and DNO are able to complete their roles effectively, reducing the risks of Conflicts of Interest and provide clarity to our stakeholders on the work we do.



Our approach to Audit and Assurance of our policies

Ensuring that our policies are accurate and effective.

Each of the above points are explained in further detail throughout this Guide to Governance.

⁴<https://www.ofgem.gov.uk/decision/changes-electricity-distribution-system-operation-incentive-governance-document-and-regulatory-instructions-and-guidance-rigs-annex-riio-ed2>

Our Independent DSO Panel

Since the launch of our DSO Panel⁵ in 2024, it has held quarterly meetings and subject specific deep dives. The Panel has continued to make tangible impacts on our activities – most notably in our approach to governance and transparency.

Our Panel is an integral part of our Functional Separation model, providing a critical friend to, and effective challenge of, the DSO and the wide variety of our activities.

We are grateful to have the expertise of the members of our panel in a position to ensure the actions we take are efficient, effective and in the interest of customers.



Regina Finn (Chair)

Lucerna Partners



Nina Skorupska

Great British Energy



Janine Michael

Centre for Sustainable Energy



Doug Cook

Decentragrid



We consider it best practice for the DSO to have its governance policies and framework independently assured. We appreciate that it is challenging to choose a ‘right time’ to commission such assurance, but are of the view that independent assurance can be helpful both in reassuring stakeholders and in supporting the ongoing development of governance policies and processes.

Such assurance could also audit actual decisions made to provide evidence of the effectiveness of policies and processes.

Independent DSO Panel Report, January 2026



⁵This is different to the DSO Performance Panel, which is appointed by Ofgem to assess DSOs' performance

Our Independent DSO Panel

Our DSO Panel has continued to scrutinise and contribute to our growth as a DSO.

At the outset of RII0-ED2 we committed to ensuring independent oversight of our DSO, and our panel fulfils this obligation through their input in an advisory capacity, as well as being a non-executive, forward-looking advisory board for the DSO.

These roles are enshrined in the Panel's Terms of Reference which we have published⁶. Within its remit, the Panel challenges us on our decision-making processes, on our transparency and on our wider DSO activities.

During the year we held a deep dive session with our Panel on our approach to Governance. There were two key outcomes from their challenge and feedback. First, it was clear that external accreditation of our DSO processes, whilst providing a strong visible signal to stakeholders on the robustness of our approach, would not be a proportional use of resources.

The business case for such expenditure would not therefore deliver sufficient value for consumers if we were to go ahead. The second outcome was a recommendation that we establish a robust change management policy across the DSO.

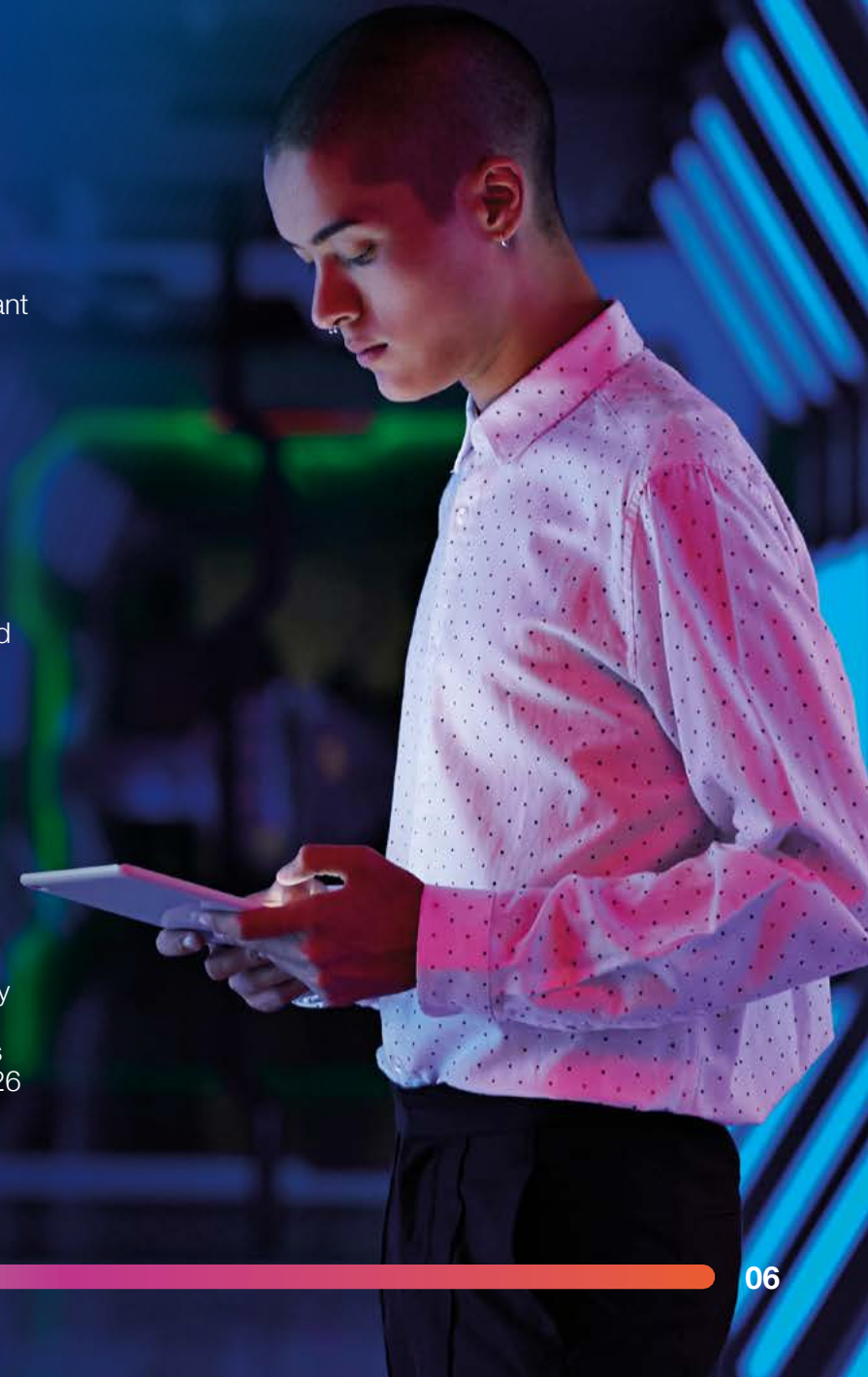
This was an item that the Panel felt was important to ensure good governance and following their input we have developed a comprehensive approach under our DSO Policies. More detail on this project can be found in "Our new Change Management Approach" section.

A challenge was raised from our Panel on our Key Performance Metrics (KPIs), highlighting their belief that the previous KPIs were not driving DSO performance in the right way, nor were their impacts being appropriately explained to stakeholders. We responded by revising our metrics for 2025/26 with improvements to how we explain their purpose and the benefits they drive. In January, we spotlighted our Capacity Added vs Directed metric in response to the Panel challenging us to better demonstrate how the DSO, through Functional Separation, can drive meaningful improvements for consumers by targeting work across our network using the data we collect.

Each year, our Panel Chair produces a summary report on the work of the Panel throughout the year and presents this to the NGED Board at its January meeting. You can read the January 2026 version here⁷.

⁶ <https://dso.nationalgrid.co.uk/about-dso/independent-dso-panel>

⁷ <https://dso.nationalgrid.co.uk/about-dso/independent-dso-panel>



Functional Separation and our Functional Separation Steering Group

We formally established Functional Separation between the DSO and DNO with the first publication of the DSO Parent Directive in April 2023. Since then, we have evolved this approach to ensure it works as effectively as possible.

Last year we highlighted our work on DSO-DNO Conflicts of Interest and the appointment of the Managing Director for DSO to establish Functional Separation at an Executive Level. With the assistance of our Functional Separation Steering Group, comprised of senior leaders from both the DSO and DNO, we have matured this relationship through expanded ways of working and the launch of a formalised training module across NGED to help us root out Conflicts of Interest as they arise.

The experience to date has reinforced our conviction that a strong Functional Separation between the DSO and DNO provides the greatest value to consumers, both from a financial and an operational standpoint. We believe we have struck a balance between ensuring a level of separation which allows the DSO to execute its obligations in an independent and objective manner, whilst ensuring efficiency and sharing of skills, reducing costs for consumers.

Our confidence in our position arises from our assessment of the alternatives. A lesser extent of separation could lead to an inability for the DSO to make independent decisions in the interest of customers, whilst a greater extent of separation (such as formal legal separation implemented with a separate licence) would limit our ability to access broader Group resources, requiring higher investment from billpayers.

Were a greater level of separation (such as a full legal separation) be mandated, we believe there would be an inevitable increase in costs for consumers as essential resources which we currently use would have to be brought “in-house”.

Decisions would take longer to reach as we would not be able to operate collaboratively in the same manner as we have done to date. We also do not see any immediate value such a greater separation would provide.

Under our current separation arrangements, we have independent branding, independent oversight and independence in our approach to problems. In summary, we believe any greater level of separation would provide little to no value regarding an increase in independence, whilst incurring substantial additional costs for consumers.

One of the key functions of the Steering Group is to help avoid, and where necessary address, perceived or real conflicts of interest.

Where any are identified, we reflect this in our policies, which provide the first line of defence against any conflicts of interest.

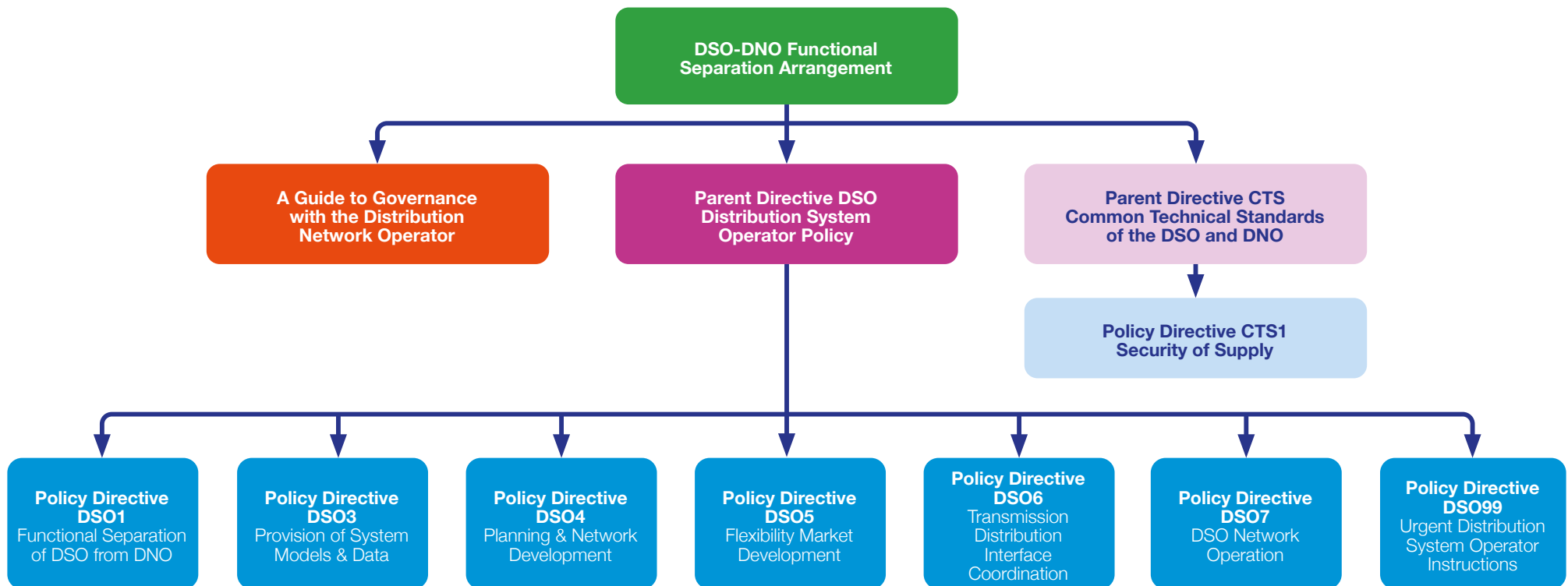


DSO Policies

National Grid DSO operates within the same policy structure and general procedures as the rest of NGED. In areas where the need for separate processes to run our DSO has been identified, we have created specific policies to outline these.

The DSO Policy Suite establishes these within the structure, with operational policies stemming from the DSO Parent Directive. As part of the standard procedure for creating policies within NGED, each policy is taken through a consultation process whereby the wider organisation, including the NGED Executive team, are invited to comment on the proposal. However, editorial control of the policy remains with Managing Director DSO.

In the past year we have issued 9 new and updated policies, are currently writing a further 16 and have a detailed roadmap to deliver a further 28.



DSO Policies

Our policies are a core element of our approach to governance, ensuring that staff across both the DSO and DNO are able to complete their roles effectively, reducing the risks of Conflicts of Interest and providing clarity to our stakeholders on the work we do.

In the past year we have been approached by another DSO to support their development of a policy, due to the sophistication and progress made regarding our policies.

We welcome these opportunities and have engaged with this DSO, as we believe in sharing our insights and are proud to be recognised as thought leaders in the DSO governance space.

Our Parent Directive and Policy Directives can be found online⁸.

Our internal technical process manuals, known as Standard Techniques and Specifications, are not published due to their internal focus.

Each of these sits below its Policy Directive in our DSO Policy Suite.

⁸ <https://dso.nationalgrid.co.uk/resource-centre/publications-library>

Mitigating and Managing Conflicts of Interest

One of the key areas which Functional Separation provides a benefit to NGED is in the mitigation (and, if necessary, management) of Conflicts of Interest between the DSO and the DNO. This is an area in which our Functional Separation Steering Group focuses intensely.

Electricity Distribution Licence holders have various interests, some of which are specific to the DSO or the DNO.

Whilst these interests are not fundamentally opposed to each other, in some cases they can conflict.

Whilst our policies are designed to avoid Conflicts of Interest as far as possible, we also proactively identify Conflicts of Interest in three ways:

1

'Top down' by Management whereby we have proactively identified where a Conflict of Interest may arise.

2

By stakeholders looking at our DSO/DNO from the outside. At our Stakeholder event in January 2024, a theme emerged that there were concerns that the pursuit of flexible solutions could impact security of supply – this is an example of a perceived conflict of interest, and we have therefore outlined our processes for transparency to mitigate this perception.

3

Those which arise through the day-to-day operation of our processes. Where a potential conflict is encountered, it is raised with the relevant department head.

Regardless of how they arise, all of our Conflicts of Interest are captured within our Conflicts of Interest register, which sits underneath our main DSO risk register. We have recently rolled out a package of e-learning for staff to increase awareness of potential DSO-DNO conflicts.

Developing an External Assurance Plan

As outlined in our original ED2 Business Plans and in our ambitions set forth in last year's Guide to Governance, we have considered and implemented a programme with regards to assurance, including external assurance.

We committed to follow the National Grid "three lines" model for internal risk management and compliance, which includes consideration of external audit for DSO policies.

This model requires us to consider the need for each policy to be assured to differing levels of depth. Through the use of the three lines model, we establish the correct balance between risk and expenditure (which is ultimately a cost to the consumer).

The three lines model:



Line 1

DSO managers review adherence to our DSO policies and associated standard techniques – these are our first line of defence capturing all the DSO-DNO interactions and decision making (these are our controls).

In adherence with this approach, we intend to deliver third-line assurance of our Planning & Network Development policy, which includes key outputs like our Distribution Future Energy Scenarios (DFES), Network Development Plan (NDP), and Distribution Network Options Assessment (DNOA).

We intend to focus on these policies as they have been identified by Ofgem as the most likely to cause Conflicts of Interest to arise and therefore represent a larger risk under the three lines model, justifying third-line assurance.



Line 2

The NGED Risk & Controls team undertake assurance reviews, where appropriate, of the operation of our policies to consider where controls can be improved.

We will keep all of our other policies under review in line with this risk-based approach and undertake second and third-line reviews as necessary.

The option to decide between full external audits or utilising internal group resources is a major benefit which arises from our approach to Functional Separation.

By having the option to use internal resources to assure our process as opposed to assuring every policy externally, we are reducing the costs faced by consumers substantially.



Line 3

Corporate/External audit of the operation of DSO policies.

Common Technical Standards

An element of Ofgem’s performance framework for DSOs is to develop formalised DSO-DNO relationships, including operational agreements and decision-making frameworks.

In parallel with our wider governance arrangements and our DSO Policies, we have developed the Common Technical Standards (CTS) series to set policy on topics which impact across both the DSO and DNO.

These are jointly written and approved by the DSO and DNO.

At an internal workshop on security of supply in April 2025, we identified a growing need to set standards for operational security of supply in electricity distribution.

While operational security of supply has long been codified in electricity transmission, the historically passive operation of distribution networks meant it has not been codified before.

This topic affects both the DSO and DNO, so we agreed that it was an ideal application for the Common Technical Standards model.

We started by jointly developing and agreeing the following overarching principles of security of supply:

Operate within the safe limits of the electricity system, to prevent:



- Damage to the equipment that makes up the electricity system
- Injury to people and damage to property

We have since used these to jointly write Policy Directive CTS1, Security of Supply. The first issue will focus on requirements for outage planning, which will standardise and improve security of supply in frequently encountered scenarios.

The DNO’s Control Centre and the DSO’s Energy Management Centre will run a joint trial of Policy Directive CTS1 for arranged outages on the primary distribution system in Devon and Cornwall during the 2026 outage season. We have decided to adopt this trial approach to refine our proposals, opting for a balance between the risks of not having a single,

Give equitable and transparent access to the electricity distribution system, balancing:



- Reliable supplies to consumers
- Market access for generators
- Outages to maintain and build the electricity system

coordinated standard alongside introducing a new standard which has not been tested in practice yet.

We believe that successful delivery of the CTS workstream will lead to greater clarity and collaboration between the DSO and DNO, leading to smoother interworking and ultimately better outcomes for consumers.

By taking a trial approach, we are ensuring that the final plans are tested under real-world conditions and minimising the risk of any unforeseen circumstances arising from the policy suite.

Our New Change Management Approach

Following challenge from our DSO Panel, we commenced work on developing a specific policy to establish a clear and robust approach to change management which is to be applied across the DSO.

The aims of this policy are to ensure that we are horizon scanning and accounting for any factors which may result in our governance arrangements becoming outdated, understanding the impact and intricacies of these issues, and then implementing appropriate measures to correct any associated conflicts.

We will introduce a triage system whereby any triggers of change (be they internal or external in nature) are immediately flagged and processed. Following identification of instances, an assessment of the impact they may have on current DSO policies will be undertaken. The outcome of this process is a summary of current documents which are impacted by the change alongside any new processes which may need to be developed to accommodate the change in question, ensuring the DSO continues to operate effectively.

Where any external or internal factors are found to invalidate the current policies implemented across the DSO, we will introduce an immediate suspension process for the now outdated policy,

ensuring there are no circumstances where operations move forward on an incompatible basis once a change in overall environment has been identified. In these instances, the work will progress outside of a formal policy at the discretion of DSO managers until a new updated policy is introduced to formalise working arrangements.

Our change management process ensures that any modifications to current operating procedures involves all key stakeholders across the organisation, building on the strong foundations set out in other policy directives.

Our process also includes feedback loops to mitigate the risk of any changes being implemented in a specific element of the DSO not being accurately reflected in other, co-dependent areas.

We believe our commitment to this area demonstrates the evolution of our DSO, and the importance we place on accurate and mature governance arrangements.

Conclusion

Over the past year, we have continued to strengthen our governance framework, deepening the maturity of our Functional Separation arrangements, expanding our DSO Policy Suite, and undertaking work on new mechanisms, such as Common Technical Standards and our developing change management process.

Together these enhance transparency, accountability and clarity.

The continued challenge and support from our Independent DSO Panel have been central to this progress.

It has helped us to refine our approach, improve our key performance metrics, and maintain a strong focus, all in the interests of consumers.

Our work this year has also laid the foundations for a more structured and proportionate assurance regime.

By adopting the National Grid three lines model, we have taken significant steps toward a more risk-based and transparent approach to policy assurance.

In the next 12 months, we will build on this by delivering third-line assurance of our Planning & Network Development - including key outputs such as DFES, NDP and DNOA - which reflects Ofgem's view of where the potential for conflicts of interest is most acute.

As our role continues to grow in complexity and importance, we remain committed to reviewing our DSO governance through a structured and risk-based lens.

Through this ongoing programme of governance, audit and continuous improvement, we aim to ensure that our DSO continues to operate transparently, in the best interests of consumers.



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