

January 2026

# National Grid DSO Independent Advisory Panel

Second Report

nationalgrid ▶ DSO

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## Summary

This second report of the NG DSO Independent Advisory Panel is set in the context of ongoing change in the UK energy market and the rapid evolution of the role of the DSO within that market. The Panel's work covered a wide range of relevant topics, with an emphasis on a number of key themes.

### DSO Benefits

During the year we focussed strongly on the need to articulate the benefits of the DSO role in terms of stakeholder outcomes. NGED DSO has done some excellent work on articulating these benefits and in moving towards outcome based KPIs. For example in its most recently published KPI report the DSO notes that the carbon intensity of flexibility dispatch was zero – that is all flexibility assets dispatched were non-fossil fuel.

We look forward to seeing this developed further during 2026. We are pleased that the Ofgem Performance Panel identified positive progress in this area.

**We support the linking of incentives to outcomes in the future and encourage the DSO to submit early proposals to Ofgem for outcome-based incentives in ED3.**

### Governance

We also maintained our challenge around the governance of the DSO, emphasising the need for transparency and evidence to assure stakeholders their interests are being effectively taken into account. We welcomed the development (and publication) of the DSO governance framework.

We have sympathy with the need to maintain a laser focus on delivery and the potential for licence separation (or other types of separation) to distract from this. However, as the DSO role matures, we expect stakeholders' expectations in this area to increase. This 'raising of the bar' means that to maintain the highest quality governance, NG DSO will need to continuously improve and evolve its framework.

We also consider there is potential value in publishing post hoc assessments of decisions taken, especially where these have been the subject of differences between the DSO and DNO.

**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.**

## Digital

We appreciate the scale of the challenge the DSO faces in maximising its use of technology to deliver efficiently and effectively. We are encouraged that enough progress has been made to enable NGED to make proposals around data sharing and AI as part of ED3. At the same time, we believe this is just the first step in a transformational that is essential to the future success of the DSO function.

**We believe this topic is a critical success factor for the DSO and we will revisit in DSO to understand**

- **Progress on delivering a base level of digital capability**
- **Plans and timing of the digital transformation that will be essential to realise the long-term benefits of the DSO for its stakeholders.**

## Evolving role of the DSO

We are supportive of expanding the role of the DSO and consider this role of managing the transmission-distribution (T-D) interface is an important one. We have asked the DSO to provide us with a deep dive on how this would work in practice so that we can challenge the potential effectiveness of the proposal.

As this role evolves we will further explore the level of transparency that is appropriate to assure stakeholders that it is being performed independently and effectively in stakeholders' interests.

**For this role to work effectively we consider that ED3 should focus on outcome-based delivery – allowing the DSO to take an agile and flexible approach to how those outcomes are delivered.**

We look forward to building on these themes and working with NG DSO to support and challenge effective delivery of the DSO strategy in the interests of all stakeholders.

# Introduction

## 1.1 NG DSO

National Grid (NG) Distribution System Operator (NG DSO) has been set up as a functionally separate division of National Grid Electricity Distribution (NGED) to deliver the relatively recently defined role of DSO in its Distribution Network Operator (DNO) licensed areas.

In the 5-year price control period from 2023 to 2028 (ED2), Ofgem described the role of DSO as *'a set of functions and services that are required to run a smarter electricity distribution network'*, including 'planning and network development, network operation and market development'.

In its consultation on the next price control (ED3), Ofgem considers this role needs to evolve to include network planning, flexibility services, voltage optimisation and losses optimisation. This is intended to *'ensure that DSOs operate in a transparent, accountable, and forward-looking manner, delivering benefits for consumers, the whole system, and the environment'*.

Responding to the ongoing evolution of the DSO role, NG DSO revisited and revised its strategy during 2025, including its vision and mission. Another important development during the year was the publication by Ofgem of its 2024/5 assessment of the DSO performance against its commitments in ED2. These developments form an important backdrop to the work of the Independent Advisory Panel during the year.

## 1.2 NG DSO Independent Advisory Panel

The NG DSO Independent Advisory Panel was set up in April 2024 to support the DSO by providing strategic and constructive challenge to its plans and its delivery. The Panel reported on its first nine months of operation in its first report in January 2025. This second report covers the period from January 2025 to January 2026.

As the wider energy market and the role of the DSO mature significantly, expectations of the DSO's performance have (rightly) increased. This is reflected in our own challenge to the DSO as well as in the report of the Ofgem Performance Panel published in September 2025. This means that whilst the NG DSO Panel was established to challenge and support delivery during ED2 it is inevitable that we have engaged with the DSO on its future plans for ED3 and beyond.

We held four formal meetings in 2025 and benefitted from four 'deep dives' where we received more detailed information on key topics. Details of these meetings and the topics covered are in Annex B. We also strengthened our linkages with other DSO panels to help us understand the challenges facing the energy distribution sector more generally; the Chairs of the various DSO Panels have met informally during the year to exchange views. Finally we have established strong links with the Independent Stakeholder Group (ISG) which has been set up to challenge NGED's business plan for ED3, with the Chair of the DSO Panel becoming a member of the ISG.

We have now established the Panel's ways of working which includes

- Openness and trust between the Panel members and the DSO executive

- Independence of thought and challenge, supported by closed sessions amongst panel members at each meeting
- A focused forward work plan that revisits the key themes we have identified as critical to the success of the DSO, and
- Regular and open communication between panel members and the DSO executive in between meetings.

We would like to thank the DSO team for their support and assistance which are critical to us fulfilling our role effectively.

### **1.3 About this report**

This report is about the activities of the Independent Panel; it is not a report on the work of the DSO itself. For further detail about the DSO's activities, outputs and delivery please see the DSO website.

## Key Themes

In this section we draw out some of most significant themes that emerged from our work in 2025. These themes will form the core of our forward work programme for 2026 as we track progress and delivery. We also link these themes to our observations in our first report.

Whilst these are the key themes we focussed on, we did cover a wide range of other topics well and for completeness, section 2.5 summarises these.

### 2.1 Delivering the right outcomes – the ‘DSO benefits case’

As the DSO function has matured its stakeholders have become better informed about the role it plays in delivering the outcomes they want and need. During the year we engaged extensively with the DSO team on how to identify, capture, quantify and report on these outcomes. Our view is that it is critical to understand and track the benefits the DSO delivers for its stakeholders.

We held a deep dive into the ‘DSO Benefits Case’ in April 2025 where we challenged and supported the development of the DSO methodology for articulating the benefits it delivers. We revisited this during our formal meetings and in particular held a ‘challenge session’ where we reviewed and commented on the DSO’s submission on its benefits case to the Ofgem Performance Panel. We are grateful to the DSO team for taking on board our challenge and comments.

We were pleased that the Ofgem Performance Panel recognised this work and the progress made by NG DSO in its final report where it said *‘There was a very clear articulation of quantified benefits down to a low level and robust KPI tracking. The DSO Benefits Quantification Methodology demonstrated a clear method and quantification of benefits’*.

#### Linkages to our first report

The work on the DSO benefits case responds to the following challenges in our first report, including

- The need to better communicate the DSO role and the outcomes it can deliver for its stakeholders, and
- The need to develop KPIs that are outcome based rather than input or output based.

#### Our observations

NGED DSO has done some excellent work on articulating the DSO benefits and in moving towards outcome based KPIs. For example in its most recently published KPI report the DSO notes that the carbon intensity of flexibility dispatch was zero – that is all flexibility assets dispatched were non-fossil fuel.

We look forward to seeing this developed further during 2026. We are pleased that the Ofgem Performance Panel identified positive progress in this area.

**We support the linking of incentives to outcomes in the future and encourage the DSO to submit early proposals to Ofgem for outcome-based incentives in ED3.**

## 2.2 Governance

We continued to challenge the development of the DSO governance framework. It is particularly important to have clear, effective mechanisms for exposing, discussing and resolving any decisions where there is an actual or perceived conflict of interests between the DNO and the DSO.

The DSO team responded to our challenge in our first report, and worked hard during the year to mature its governance framework. This included the establishment of a new decision-making group (the Functional Separation Steering Group) comprising the MD of the DSO and the key directors of the relevant DNO directorates such as Connections, Asset Management, Field Operations and Transformation.

The DSO also published all of its governance policies as it developed them, giving stakeholders transparency around their decision-making processes. We strongly support this and note that other DSOs may also have found this information useful.

At our request the DSO explored whether functional separation would be enhanced or hindered by the development of separate licence conditions for the DSO. Feedback from the DSO team was that such a step was most likely to distract attention and resources from the significant delivery challenge facing the DSO at the current time. The team favoured an approach of rapid and agile development of governance frameworks as well as full transparency instead.

We received updates on this work at all of our meetings and held a further deep dive on the topic in October 2025.

### Linkages to our first report

The work on the DSO benefits case responds to the following challenges in our first report, including

- The balance of incentives between the DSO and the DNO
- The potential for separate DSO and DNO licences
- The need for assurance of governance processes

### Our observations

We are grateful for the attention the DSO has paid to our challenge in this area and we are reassured by the development (and publication) of its governance framework.

We have sympathy with the need to maintain a laser focus on delivery and the potential for licence separation (or other types of separation) to distract from this. However, as the DSO role matures, we expect stakeholders' expectations in this area to increase. This 'raising of the bar' means that to maintain the highest quality governance, NG DSO will need to continuously improve and evolve its framework.

Whilst policies and processes are transparent, we consider there is potential value in publishing post hoc assessments of decisions taken, especially where these have been the subject of

differences between the DSO and DNO. This would provide evidence and assurance to stakeholders that the policies and processes are working effectively. This could be done through external assurance.

**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.**

## 2.3 Digital, data and innovation

In our first year of operation, we challenged the DSO to consider the importance of open access to data as well as the potential for technology to support the delivery of its strategy. The DSO responded by identifying and improving access to existing data including publishing data in forms that stakeholders could manipulate and use (rather than in flat .pdf formats).

We noted positive feedback from Local Authority stakeholders who reported improved accessibility and support in using DSO data during the year.

During 2025 we placed increasing emphasis on this topic including a very detailed discussion at our May meeting where the DSO team provided an assessment of current capability, plans for improvement and potential ambition. This allowed us to understand the scale of the challenge the DSO faces. It is clear that there are two aspects to the DSO digital challenge

- The first is to improve core systems and data to provide a base level of modern digital delivery capability
- The second, and probably more significant, is the transformation from an asset focused business to a leading digital provider which requires both a digital and cultural transformation of the business.

Panel members used their experience to recommend ways of bridging the gap between the current use of technology and future use, including using shadow systems and parallel running.

Since then, through our linkages with the ISG we have seen that the wider NGED group has now made early proposals to Ofgem for new incentives based around sharing of AI among DSOs and the development of data standards.

### Linkages to our first report

The work on the DSO on open access to data responds to our challenge in our first report.

### **Our observations**

We appreciate the scale of the challenge the DSO faces in maximising its use of technology to deliver efficiently and effectively. We are encouraged that enough progress has been made to enable NGED to make proposals around data sharing and AI as part of ED3. At the same time, we believe this is just the first step in a transformational that is essential to the future success of the DSO function.

**We believe this topic is a critical success factor for the DSO and we will revisit in DSO to understand**

- **Progress on delivering a base level of digital capability**
- **Plans and timing of the digital transformation that will be essential to realise the longer-term benefits of the DSO for its stakeholders.**

## **2.4 Evolving the DSO role: Transmission – Distribution interface**

As mentioned in section 1, the energy market is evolving rapidly and so is the DSO role. During the year we challenged the development of the DSO strategy and received a number of presentations on the emerging thinking for the next price control period – ED3.

A key element of that thinking is how the DSO role should evolve and how that should be treated in ED3. One proposal by NG DSO is that the DSO should have responsibility for the management of the interface between the transmission and distribution networks. This is a complex nexus with a range of critical stakeholders including National Energy System Operator (NESO), and a number of new and emerging tools and mechanisms, including the Transitional Regional Energy Strategic Plan (TRESP) and Regional Energy Strategic Plans (RESPs).

Assigning a role to the DSO in the management of this nexus would allow it to respond in real time to stakeholder needs as these evolve during the price control period, enhancing whole system optimisation and resilience.

We note that this has been proposed by NGED in its early submissions to Ofgem as part ED3.

### **Our observations**

We are supportive of expanding the role of the DSO and consider this role of managing the T-D interface is an important one. We have asked the DSO to provide us with a deep dive on how this would work in practice so that we can challenge the potential effectiveness of the proposal.

As this role evolves we will further explore the level of transparency that is appropriate to assure stakeholders that it is being performed independently and effectively in stakeholders' interests.

**For this role to work effectively we consider that ED3 should focus on outcome-based delivery – allowing the DSO to take an agile and flexible approach to how those outcomes are delivered.**

## 2.5 Other topics

The Panel addressed a number of other important topics during the year, including (but not limited to):

### **DSO Strategy including strategy for ED3**

The Panel has been regularly consulted on the drafting of the 10-year DSO strategy in its role as critical friend. An update on the DSO's position and approach to ED3 has been provided at each meeting for discussion and at each stage the DSO executive has demonstrated how it has taken on board the Panel challenges. This includes changes to the scope and nature of early proposals for the role of the DSO and the role of incentives in ED3

### **Delivery against the DSO Strategic Action Plan (SAP)**

The Panel was given an overview of the current delivery by the DSO against its SAP commitments as part an overview of Key Results. It has subsequently input and challenged on the planning process of delivery through to the end of ED2.

### **Stakeholder views and strategic engagement**

Stakeholder feedback is a crucial part of the DSO incentive, and the Panel has challenged the DSO on its approach, including its stakeholder mapping as well as its methodologies. The Panel noted that the range of stakeholders is likely to increase significantly as flexibility markets grow and as the role of the DSO expands.

### **Strategic workforce planning**

The Panel has focussed consistently on ensuring the DSO is appropriately considering its present and future resourcing requirements. Panel members have cautioned the DSO on increasing market pressures and skill shortages and has encouraged the DSO to consider collaborative opportunities particularly around education and training.

### **KPI evolution and reporting (transparency)**

The DSO has responded to challenge from the Panel to evolve its use of KPIs and how these are communicated to stakeholders, and this is expected to continue into next year.

### **Carbon impact of flex**

The Panel has welcomed updates from DSO that no fossil fuel-based flexibility was instructed by the DSO through to November 2025, with 4GWh of Flexibility instructed across over 41,000 dispatches across this period.

### **Ofgem DSO Performance Panel**

The Panel held a challenge session on DSO submission to the OFGEM DSO performance panel to help the DSO frame that submission. Following the Ofgem Panel assessment a further deep dive and lessons learned session was held.

The Panel also considered the stakeholder survey results for 2024/5 and the stakeholder survey approach for 2025/6. As noted above, the range of stakeholders is likely to increase significantly as flexibility markets grow and as the role of the DSO expands. The Panel noted that this is likely to impact stakeholder results as new stakeholders with less familiarity with the DSO role are engaged with.

## **Annex A: Links to reference materials**

NGED DSO Strategic Action Plan

<https://www.nationalgrid.co.uk/dso>

Independent Advisory Panel members

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

Independent Advisory Panel Terms of Reference

<https://www.nationalgrid.co.uk/downloads-view-reciteme/665513>

Minutes of Panel meetings

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

NGED DSO Performance Metrics

<https://www.nationalgrid.co.uk/dso/dso-performance-metrics>

Distribution System Operation (DSO) Incentive Report for Regulatory Year 1 April 2024 to 31 March 2025

[https://www.ofgem.gov.uk/sites/default/files/2025-09/DSO\\_Incentive\\_Report\\_2024\\_25\\_V1.pdf](https://www.ofgem.gov.uk/sites/default/files/2025-09/DSO_Incentive_Report_2024_25_V1.pdf)

## Annex B: Panel Activities

### Formal meetings

<p>20 January 2025:</p>	<ul style="list-style-type: none"> <li>- High-level discussion on DSO recruitment strategy and wider corporate culture.</li> <li>- Challenge to DSO’s KPIs; encourage to develop more consumer outcome focussed KPIs.</li> <li>- Review of DSO’s response to its October session on Governance. Challenge on whether Functional Separation remained the right approach to governance, and advised on the assurance approach to this.</li> <li>- Challenge to DSO approach to Stakeholder Engagement in response to the previous DSO Stakeholder Survey. Exposed need to better clarify DSO-DNO roles.</li> <li>- Considered the DSO’s role in ED3 planning, subsequently added a regular update to agendas.</li> <li>- Highlighted need to quantify overall value added to NGED in System Models &amp; Data team – became the Efficiency KPI.</li> </ul>
<p>12 May 2025:</p>	<ul style="list-style-type: none"> <li>- The importance of stakeholder engagement for ED3 and opportunities to further enhance the stakeholder engagement strategy around the evolving national context.</li> <li>- The ambitious nature of the IT &amp; Digital transformation and the value it will deliver to NGED and DSO.</li> <li>- Challenge session on the Ofgem Performance Panel Submission.</li> <li>- The importance of the credibility of independence assurance of DSO governance policies.</li> <li>- Opportunities to further refine the DSO’s KPIs to provide an intuitive story to stakeholders.</li> </ul>
<p>20 July 2025:</p>	<ul style="list-style-type: none"> <li>- Advised on ED3 areas to explore further, such as DFES and delivery risks posed by Load Related Expenditure plans.</li> <li>- Discussed how DSO fits with digital theme, and their role in driving innovation in the space across the industry. More work on benefits and outcomes for consumers.</li> <li>- Looked at feedback from Ofgem Performance Panel and Stakeholder survey responses, advised on proposed improvements to engagement with Ofgem longer term, and the need to align next Strategic Action Plan with stakeholder feedback. Noted likelihood</li> </ul>

	<p>that stakeholder segments will increase significantly with expanding DSO role.</p> <ul style="list-style-type: none"> <li>- Challenged DSO strategy at an early stage, reaffirmed stakeholder engagement as a priority for NG DSO.</li> <li>- Role of the DSO in unlocking benefits to consumers and the need to demonstrate cumulative performance over time. Suggested a more holistic approach to Internal and External Reporting Metrics. Action taken by DSO management to completely overhaul.</li> </ul>
10 November 2025:	<ul style="list-style-type: none"> <li>- Ofgem Performance Panel Annual Report [and DSO Incentive score] Discussed action taken by DSO to respond to Ofgem feedback, and opportunities for further improvement.</li> <li>- Key Performance Indicators – Challenged the DSO on the importance of its Capacity Added vs Directed metric in demonstrating a key DSO-DNO interface to stakeholders including Ofgem.</li> <li>- DSO Strategy – reviewed the updates to the draft DSO Strategy since the previous meeting, primarily the proposed Key Results.</li> <li>- Strategic Action Plan 2026 – Reiterated the need for DSO meet previous commitments to stakeholders on assurance, and outline the DSO role to achieve CP2030.</li> <li>- ED3 including SSMC update – Discussion on whether Ofgem should shift toward outcome driven incentives, and reviewed the DSO’s approach to the Sector Specific Methodology Consultation.</li> <li>- Strategic Workforce Plan – Scrutinised the DSO’s long term Strategic Workforce plan, recognising the significant challenges ahead as competition for business critical roles continues to increase. Opportunities for collaboration were particularly highlighted.</li> </ul>

## Deep Dives

13 January 2025:	System Models and Data
15 April 2025:	DSO Benefits case
1 October 2025:	Governance: action plan to date, forward plan and scope of assurance