

SP Energy Networks

DSO Conflict of Interest Management Plan March 2025



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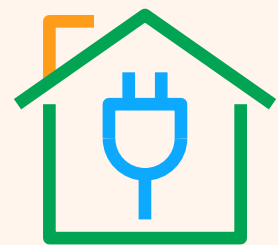
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Who we are

We are SP Energy Networks. We have Distribution System Operation (DSO) responsibilities to develop flexibility markets, share data, and support and audit the development and operation of our distribution network.

This network covers Central and Southern Scotland (SP Distribution) and North and Mid-Wales, Merseyside, Cheshire, and North Shropshire (SP Manweb). It's through these two networks of underground cables, overhead lines, and substations that we provide our 3.5 million customers with a safe, reliable, and efficient supply of electricity.



3.5 million

Our distribution network serves 3.5 million business and domestic customers



107,390km

Our distribution network contains 38,145 kilometers of overhead lines and 69,245km of underground cables

Our DSO Strategy

As part of our transition to a smarter, more flexible energy system, SP Energy Networks DSO is evolving to enhance network efficiency, enable greater customer participation, and support the UK's Net Zero targets. By improving network visibility, optimising the use of distributed energy resources (DER), and fostering market-based flexibility, we are driving a more resilient, reliable, and decarbonised electricity system.



Our DSO Outcomes

We have updated our approach to DSO, building it around four key customer outcomes. These outcomes have been tested with, and are supported by, our stakeholders.

These outcomes ensure our network evolves to meet future energy demands while delivering value, enhancing reliability, and enabling the transition to Net Zero for our customers. They provide a clear framework for how we will operate, engage, and make decisions in a way that supports customers, stakeholders, and the wider energy system.



Enabling capacity for customer connections, growth and decarbonisation

#1

Helping customers to participate in a flexible energy system

#2

Providing easy access to accurate and timely data

#3

Operating a reliable and decarbonised network

#4

This document

Delivering the network capacity and operational capabilities needed to run a decarbonised electricity system is the challenge that defines this decade. Achieving this will only be possible through close collaboration with our customers and stakeholders – we depend on them to share their plans and data with us, help shape our strategy and methods, and provide us with flexibility services.



This collaboration will only be effective if they believe that we are acting in the best interests of current and future customers, and that we are unconflicted in delivering our plans, activities, and decisions. In contrast, perceived or real Conflicts of Interest which aren't mitigated risk the trust and engagement we need.

That is why, as the DSO responsibilities we deliver could create perceived and/or real Conflicts of Interest, we need a consistent, robust, and transparent approach towards DSO Conflict of Interest management and mitigation. That is the purpose of this document: it is our procedure to identify and manage any perceived or real Conflicts of Interest in the delivery of our DSO responsibilities. It is one of the risk reduction measures we've employed to reduce Conflicts of Interest.

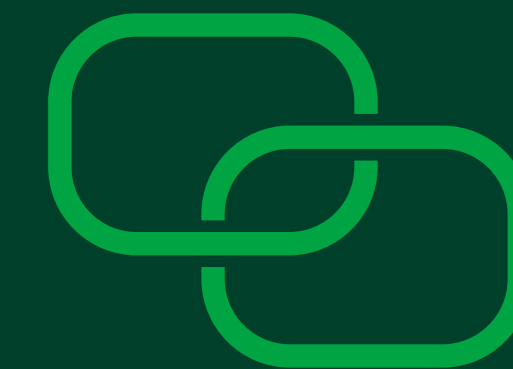
This document is one of the measures we're taking to give customers and stakeholders confidence that we are using the most appropriate interventions, give flexibility market participants confidence that we are a neutral market facilitator, and address any Conflict of Interest concerns.



What is a Conflict of Interest?

A Conflict of Interest is a situation in which we have (or are perceived to have) multiple interests, financial or otherwise, and serving one interest could potentially undermine the ability to act in the best interest of another. In the context of this document, it is where our DSO responsibilities may be in tension with our interests as a distribution network licensee¹.

The National Audit Office explains that “conflicts of interest are not uncommon and are a normal part of business in any organisation, but it is important to manage them well.”²



1. We use the terms “distribution network licensee”, “SP Energy Networks”, and “we” to mean the whole licenced organisation covering both DNO and DSO responsibilities. Where we use the term “DSO”, it refers to DSO responsibilities.

2. National Audit Office, ‘Managing conflicts of interest; Guide for leaders and decision-makers’, published November 2024. Available at: <https://www.nao.org.uk/wp-content/uploads/2024/11/managing-conflicts-of-interest-good-practice-guide.pdf>

Our approach

Within SP Energy Networks there are existing processes covering how we avoid potential Conflicts of Interest. However, for DSO, we have introduced additional safeguards. This plan describes how potential DSO Conflicts of Interest are to be managed.

Real and perceived Conflicts of Interest

It is important to recognise that there are **real** Conflicts of Interest and **perceived** Conflicts of Interest:

- **Real Conflicts of Interest** occur when a DSO responsibility we must deliver is in tension/conflict with another business interest. These situations are rare, but they should be identified and appropriate mitigation(s) established to manage them.
- **Perceived Conflicts of Interest** occur when third parties incorrectly consider that a real Conflict of Interest exists. In these situations, it is important to recognise in advance that there is a risk of a perceived conflict such that it can be communicated and managed in a robust and transparent manner.

Appendix C gives an example of a real and a perceived DSO Conflict of Interest.

Are perceived Conflicts of Interest less important than real Conflicts of Interest?

If a customer believes a conflict exists, it's a moot point as to whether they are correct or not as the impact is the same – they will be wary about collaborating with us and engaging with our flexibility markets. We therefore take both types seriously and need to develop mitigating measures for each.

Where they do differ is that the types of mitigation measures will likely be different. Mitigations for perceived conflicts may include transparency and customer/stakeholder education, whereas real Conflicts of Interest may require strong governance and separation measures.

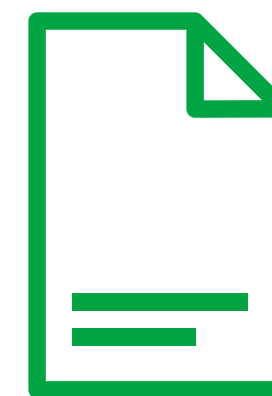
Scope and applicability

This document describes the policy and associated process to ensure that Conflicts of Interest with regards to DSO responsibilities are robustly managed.

The principles of the policy comprise:

- identification of potential Conflicts of Interest (real or perceived), either by SP Energy Networks staff or third parties (including customers and stakeholders);
- a risk-based Conflict of Interest assessment, which is designed to consider both the probability and consequences of a Conflict of Interest (real or perceived) and how to mitigate/manage it; and
- a clear strategy for the ongoing revision, enforcement, and development of the policy.

This Conflict of Interest Management Plan applies from 31 March 2025.

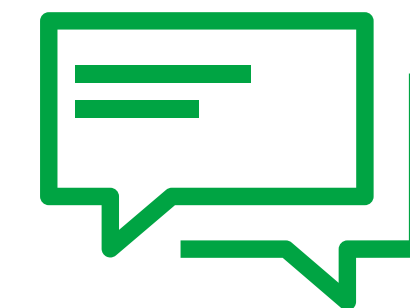


Incorporating your views

It's important that this Conflict of Interest Management Plan meets the needs of our customers and stakeholders, so we sought stakeholder input by sharing this document for public consultation. We also received input from our INZAC³. We thank our stakeholders and INZAC for helping to shape this document.

Whilst the consultation has now closed, input and questions can be sent at anytime to: DSO@spenergynetworks.co.uk

3. Our Independent Net Zero Advisory Council (INZAC) is a group of external experts who provide challenge and specialist knowledge to our DSO and other activities.



Policy statement

The purpose of this policy is to identify and manage any perceived or real Conflicts of Interest in the delivery of our DSO responsibilities.

This policy helps protect the integrity of SP Energy Network's DSO decision-making process, to enable our stakeholders to have confidence in our decisions and actions. This policy is one of several measures we're taking to do this. Others include our DNO:DSO Operating Framework, which sets out how responsibilities are separated across DNO and DSO personnel, and our Decision Making Framework, which explains how we make decisions in planning and operational timeframes to use flexibility services.

Where a potential Conflict of Interest or perception of a Conflict of Interest is identified, the process outlined within this policy is to be followed to assess the risk posed and implement possible mitigation if required.

If any Conflicts of Interest are identified as a result of DSO activities and responsibilities, the nominated DSO Lead is to be notified as soon as possible.

Any such disclosure and the subsequent actions taken will be recorded in the associated Conflict of Interest Assessment Form (Appendix B) and the Conflict of Interest Register.

The nominated DSO Lead within SP Energy Networks has the responsibility for ensuring that any specific processes are in line with this policy and management plan. The nominated DSO Lead is the approving authority for Conflicts of Interest risk assessments that have been reviewed by the DSO Governance Lead and completed by the appropriate Business Lead.

Examples of typical Conflicts of Interest for each DSO Role could include:

Planning & Network Development

Where SP Energy Networks' development of network investment and development plans does not appropriately consider non-traditional solutions.

Network Operations

Where SP Energy Networks' approach to decision making does not appropriately consider non-traditional solutions.

Market Development

Where SP Energy Networks' approach to the design of products, services, and commercial process does not appropriately support third parties to participate.

Policy application

The process set out in this document is to be applied to any DSO activity where a potential Conflict of Interest has been identified internally or by third parties (including by customers and stakeholders).

This management plan addresses Conflict of Interests from the following areas:

- Industry regulatory bodies, such as the Office of Gas and Electricity Markets (Ofgem)
- Private or public organisations that operate within this space
- Contractors or subcontractors
- Local or regional authorities
- Non-industry regulator/government agency/ department, such as the Department for Energy Security and Net Zero (DESNZ).

The approach to policy implementation is to complete a Risk Assessment for Conflicts of Interest, following the procedure (Appendixes A and B).

The Risk Assessment Form requires a summary of aspects of the DSO activity to be undertaken which includes:

- an assessment of the potential Conflict of Interest risk that could arise from undertaking the DSO activity (or justification if no Conflict of Interest is identified);
- whether a potential Conflict of Interest is real or perceived;
- recommendations for mitigating or controls for those risks; and
- approval of the Risk Assessment which the nominated DSO Lead will use to demonstrate that the Conflict of Interest assessment process has been completed, appropriate to the assessed risk type and level.

It is important to note that the assessment of a DSO activity as having a potential Conflict of Interest risk does not mean that the DSO activity should not proceed or be completed, but rather that the nominated DSO Lead should ensure that the potential implications for Conflict of Interest are agreed with the appropriate Business Leads and that any resulting risk management measures are implemented.

Guidance notes

This section of the management plan provides guidance on the application of the policy and approach to the management of risk and Conflict of Interest. The notes are to be used in conjunction with the flow chart procedure (Appendix A) and Risk Assessment Form (Appendix B).

Types of risk of Conflicts of Interest

There are three primary DSO areas for a potential Conflict of Interest. To identify and reduce the risk of a Conflict of Interest, all activity that has a potential Conflict of Interest will require an analysis of the risk in these areas and mitigation actions if required.

Particular areas for attention include:

- **Planning & Networks' development**
Where SP Energy Network's development of network investment and development plans do not appropriately consider non-traditional solutions.
- **Network Operations**
Where SP Energy Networks' approach to decision making does not appropriately consider non-traditional solutions.
- **Market Development**
Where SP Energy Networks' approach to the design of products, services, and commercial process does not appropriately support third parties to reduce barriers to participation.

How to raise Conflict of Interest concerns as an external party

If external parties (including customers and stakeholders) have concerns about DSO Conflicts of Interest, these should be emailed to: DSO@spenergynetworks.co.uk

Conflict of Interest treatment strategy

Having identified a potential Conflict of Interest (real or perceived), the approach to addressing the conflict of interest should follow the hierarchy below:

- **Eliminate:** this method presents the lowest risk. It involves eliminating the risk of Conflict of Interest by taking alternative action. This may not be possible, for example where the Conflict of Interest results due to the design of the regulatory regime.
- **Mitigate:** take measures that will reduce the risk of Conflict of Interest to very low levels. External mitigations that may already exist should be considered (see examples in Appendix C).

Frequency of updates for this Conflict of Interest Management Plan

There are two ways that updates to this Conflict of Interest Management Plan, including Appendixes A and B, will be triggered:

- **Internal:** we will review this Conflict of Interest Management Plan at least every two years to identify whether updates are required.
- **External:** stakeholder input, regulatory changes, or other third-party changes may trigger the need for updates.

In either case, we will inform our INZAC of the updates required and discuss their materiality. If updates are agreed to be minor then we will republish the document with an explanation of what has changed. If updates are agreed to be major then we will consult on them.

Changes to this document must be signed off by the Head of DSO and the Director of Network Planning and Regulation.



Individual responsibilities

The success in assessing and mitigating (if required) potential Conflicts of Interest is dependent on the application of this process. The overview of responsibilities for the production, approval, and maintenance of the Conflict of Interest Assessment is shown in the table below.

	Business Leads	DSO Governance Lead	Nominated DSO Lead
Produce Conflict of Interest Assessment	R1	R2	A
Adherence to process			A

R1 = Responsible 1 – devolved responsibility for performing the Conflict of Interest assessment.

R2 = Responsible 2 – absolute responsibility for ensuring that the Conflict of Interest assessment has been performed and that its content is accurate.

A = Accountable – ultimately accountable and therefore the approver of the assessment.

Nominated DSO Lead responsibilities

The nominated DSO Lead’s viewpoint is wider ranging than those of the DSO Governance Lead and Business Leads. As such, the nominated DSO Lead is best placed to review for potential Conflicts of Interest and so is accountable for the individual Conflict of Interest assessments. This ensures a senior level of oversight to the assessments.

The nominated DSO Lead’s accountabilities include:

- approval of Conflict of Interest assessments and mitigations; and
- maintain relations across SP Energy Networks business areas to support avoidance / mitigation of potential Conflicts of Interest between DSO responsibilities and the wider business.

Business Leads responsibilities

The Business Leads is responsible for:

- performing the Conflict of Interest assessment;
- management of the review of the Conflict of Interest assessment between the relevant stakeholders; and
- ensuring that their team members understand their responsibilities.

DSO Governance Lead responsibilities

The DSO Governance Lead is responsible for:

- ensuring that the Conflict of Interest assessment has been performed and the accuracy of the content of the assessment;
- ensuring that an additional assessment is performed should a significant project change occur;
- capturing any stakeholder raised Conflicts of Interest to be assessed internally and recorded;
- liaising with stakeholders to agree suitable mitigations for any real or perceived Conflicts of Interest identified; and
- reporting on DSO Governance.

Code of Ethics and compliance

Our Code of Ethics contains guidelines and rules of conduct to be followed by all as a reference in our daily work.

Auditing

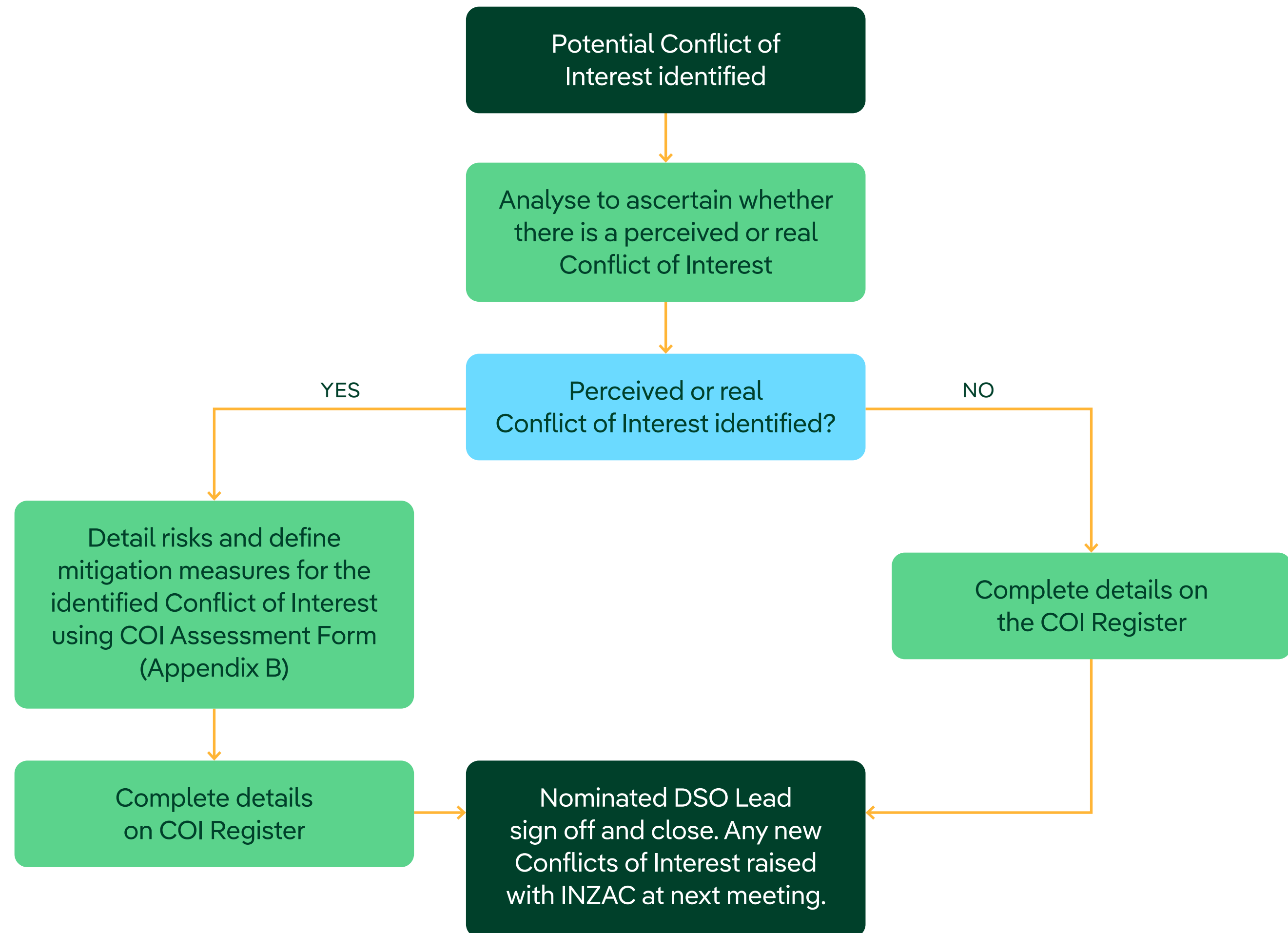
It is essential that the process is followed rigorously. The Conflict of Interest assessments undertaken through the application of this management plan will be retained for potential auditing purposes.

Reporting

Any new perceived or real Conflicts of Interests that have been identified and assessed will be reported to the INZAC at the next planned meeting.

Appendix A

Conflict of Interest flowchart





Appendix B



Conflict of Interest Risk Assessment Form

	DSO CONFLICT OF INTEREST RISK ASSESSMENT FORM	
COI Register Reference:		
	CONFLICT OF INTEREST ASSESSMENT	
	<p style="text-align: center;">Real</p> <p style="text-align: center;">Detail potential risks and associated mitigations. If none, include a brief justification.</p>	<p style="text-align: center;">Perceived</p> <p style="text-align: center;">Detail potential risks and associated mitigations. If none, include a brief justification.</p>
COI short description		
Risk details (or justification)		
Mitigations / controls		
	RISK ASSESSMENT SIGN OFF	
COI Role	Name (Signed)	Date
Approved by nominated DSO Lead		
Reviewed by Governance Lead		
Originated by Business Lead		



Appendix C

Conflict of Interest examples

This appendix provides an example of a real (this page) and a perceived (next page) Conflict of Interest, and the associated mitigating actions and safeguards.

Project CLASS

Customer Load Activation System Services (CLASS) is a type of flexibility product distribution network licensees can provide to the National Energy System Operator (NESO). It works as follows: the distribution network licensee lowers the distribution network voltage, which results in reduced network demand.

This demand reduction is sold by the distribution network licensee to the NESO as a balancing service. Profits of this are shared with the customers of the distribution network licensee. Ofgem has permitted this arrangement for all distribution network licensees for RIIO-ED2.⁴

Separately, distribution network licensees have a DSO responsibility to enable our customers to sell flexibility services to the NESO and participate in NESO balancing markets. In some instances, these customers could be selling into the same markets that we are selling CLASS services to, meaning that we would be competing in the same market.

This creates a Conflict of Interest: our DSO role in enabling customers to provide services to the NESO is misaligned with our potential CLASS interests, as customers' participation in those markets may reduce the CLASS revenue we receive.

This Conflict of Interest exists, so is rated as **real**.⁵ This Conflict of Interest applies to all distribution network licensees, it is not specific to SP Energy Networks.

Mitigation measures and safeguards

There are four main mitigation measures and safeguards:

- 1. Materiality:** Ofgem assessed this Conflict of Interest risk when reaching their decision on whether distribution network licensees could provide CLASS services in RIIO-ED2. They concluded "neither Ofgem nor stakeholders had identified any historical examples of anticompetitive behaviour" and that "DNOs face limited incentive and opportunity to discriminate against potential rivals" (paragraphs 3.30 and 3.31 of footnote 3).
- 2. DNO:DSO separation of responsibilities:** CLASS is a DNO activity (in accordance with Ofgem's decision) whereas our DSO responsibility for flexibility market development and enabling our customers to sell services to the NESO is delivered by DSO personnel. This means that there is separation between the CLASS personnel and the DSO personnel enabling flexibility markets.
- 3. DSO Incentive:** the DSO Incentive is a major incentive mechanism in RIIO-ED2. 50% of the reward/penalty is determined by stakeholder survey. We agree with Ofgem's view that this "should ensure that if a DNO were, for example, to promote its own business interests (such as CLASS) at the expense of its role in ensuring neutral flexibility market facilitation it would run the risk of incurring penalties" (paragraph 3.40 of footnote 3).
- 4. Legislation:** Section 18 of the Competition Act 1998⁶ prevents parties from abusing a dominant market position. Preventing customers providing flexibility services to the NESO to safeguard our CLASS revenue could fall under this. Ofgem have concurrent powers with the Competition and Markets Authority to enforce this competition law. Breach of competition law is a serious issue and could, for example, result in distribution network licensees receiving a significant fine. This is a strong safeguard against us not abusing our position.

This Conflict of Interest exists for all distribution network licensees. However, the materiality is low and the potential financial and legal penalties sufficiently severe to provide a safeguard against distribution network licensees favouring CLASS over enabling flexibility markets. In addition, there are separate personnel for CLASS and enabling flexibility markets.

4. Ofgem decision available at: <https://www.ofgem.gov.uk/decision/decision-regulatory-treatment-class-balancing-service-riio-ed2-network-price-control>

5. Whilst we're not currently providing CLASS services, we are working towards providing CLASS services.

6. Available at: <https://www.legislation.gov.uk/ukpga/1998/41/section/18>

Reinforcement vs flexibility decisions

We need to increase distribution network capacity to accommodate decarbonisation and general load growth. There are a range of intervention options available to do this, including reinforcement and procuring flexibility services from customers.

There is a perception among some stakeholders that distribution network licensees are **culturally biased** and/or **financially incentivised** to choose reinforcement solutions over flexibility services.

This perception may go back to the DPCR price control regime, which ended in 2015 for distribution. Under this, distribution network licensees really were financially incentivised to choose capital expenditure (e.g. reinforcement) over operational expenditure (e.g. flexibility services) as they got a greater financial return.⁷ However that financial incentivisation ended in 2015 with the introduction of the RIIO regime. Under RIIO, the differing financial treatment of capital and operational expenditure was removed. Ofgem has confirmed as such: “the current [RIIO-ED2] totex approach equalises incentives for capital and operating costs, including flexibility.”⁸ If distribution network licensees spend more money than they need to, then their return is reduced under the Totex Incentive Mechanism (TIM) sharing factor.⁹ This means distribution network licensees are incentivised to choose the intervention that delivers the outcomes at best value, regardless of what type it is.

In summary, there is no financial incentive on distribution network licensees to use reinforcement over flexibility, other than when it is the best solution. As such, this conflict is rated as **perceived**. This Conflict of Interest applies to all distribution network licensees, it is not specific to SP Energy Networks.

Mitigation measures and safeguards

There are three main types of mitigation measure to address this:

1. **Explaining the RIIO framework to customers:** as explained, the RIIO framework equalises incentives for reinforcement and flexibility. We should highlight this to customers whenever this Conflict of Interest is raised, and inform them of Ofgem’s clarification of this fact.
2. **DNO:DSO separation of responsibilities¹⁰:** as part of our DSO responsibilities, DSO personnel review and audit the process used by the core network planning team to identify solutions to provide network capacity (e.g. reinforcement, flexibility services). This means:
 - a. We tender for flexibility for all viable network capacity needs as standard, and DSO personnel run the flexibility tenders and filter out non-compliant bidders. This means it’s not possible for our network planning team to unduly influence which capacity requirements are taken to tender and how those flexibility tenders are run.
 - b. The industry-standard CEM tool is used to set the ceiling price for flexibility tenders. It was developed by external consultants for all distribution network licensees to use. This means that a key reinforcement versus flexibility decision making tool has been independently developed and is operated by DSO personnel separate to the network planning team.
 - c. DSO personnel will review and sign off the optioneering decisions identified by the network planning team. This means that there will be an independent DSO check on the decision to use flexibility versus reinforcement. In the future, DSO personnel will contract and manage external audits for high value intervention decisions and publish the outcomes.
3. **Transparency in our decision making process, market activities, and intervention decisions.** We publish data related to our optioneering decisions and the process we use to reach them. This includes the outcomes of flexibility market tenders, our Decision Making Framework, our Network Development Plan (NPD), and our Distribution Network Options Assessment (DNOA). These latter two explain how we plan to develop our network over the next 10 years, and our assessment decisions of the interventions we plan to use. This transparency opens up our decisions and the underlying data to external scrutiny.

In summary, this Conflict of Interest is perceived rather than real. We are taking a range of measures, such as organisational separation and decision transparency, to demonstrate that there is no financial or cultural bias incentive that pushes us away from utilising flexibility services.

7. Capital expenditure entered the RAV and earned a regulated return, whereas operational expenditure was recovered in-year with no return.

8. Paragraph 5.16 of Ofgem’s ‘ED3 Framework Consultation’, published 6 November 2024. Available at: <https://www.ofgem.gov.uk/consultation/framework-consultation-electricity-distribution-price-control-ed3>

9. This sees distribution network licensees get to keep a proportion of any underspend.

10. This separation of responsibilities is set out in our DNO:DSO Operating Framework.

