

10 July 2018

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 3

In my February 2018 open letter to BSC Parties, I set out ELEXON's new corporate vision and some of the work we planned to deliver that vision. I also updated you on our Foundation Programme and on the work we have been doing over the last six months to ensure that we, as a Board, continue to operate effectively for the benefit of industry.

These remain crucial subjects for the Board so in this letter I will be updating you on:

- the work we have done to develop further our strategy and how some of ELEXON's strategic activities, of which you may already be aware, fit into that strategy;
- the increased emphasis that we are placing on stakeholder engagement;
- the work to ensure the successful delivery of our Foundation Programme; and
- governance changes, specifically to improve our effectiveness and accountability.

ELEXON's Corporate Strategy

Six months ago we set out a new vision for ELEXON. Since then we have developed a framework in which to plan the strategic activities needed to deliver our vision. We articulated this framework through a refined vision together with a newly developed corporate purpose, mission and strategy, which I now wish to share with you:

Vision: "By 2025 we will create the leading provider of essential market services to the GB energy sector, for the benefit of market participants and their customers."

Purpose: "We exist to ensure "meter to bank" arrangements support the reliable delivery of energy to GB customers, for the benefit of the UK economy"

Mission: "We will build on our valued market design expertise to create trusted and open services using our flexible platform, enabling innovation and competition"

Strategy: "With the support of our stakeholders and partners, simplify and consolidate complex and fragmented services, develop new market solutions and actively facilitate innovation for the benefit of GB energy markets and the UK economy"

In order to deliver our vision and strategy, we are working on a number of initiatives,. In particular we:

- believe that ELEXON has a very strong track record based on our successful delivery of the BSC and, more recently, EMR settlement services. A key limb of our strategy is to continue focusing on delivering our core services (i.e. business as usual) and being a trusted provider of settlement services;
- are committed to the development of innovative solutions for market problems. A good example was [ELEXON's White Paper on how BSC central services could be adapted to offer settlement solutions in support of individual customers buying electricity from more than one supplier](#). This has been attracting much interest and support in the industry and we hope to progress the idea with a modification proposal very soon;
- have been giving much thought to what we can do to help the successful delivery of changes to the market, and to that end we are planning further White Papers over the next few months, e.g. on electricity storage within the BSC arrangements and on what we can do to support the transition from DNOs to DSOs;

- continue to make the case for the simplification and consolidation of central services to improve the efficiency and coordination of the industry codes. We believe that the introduction by Ofgem of a new Retail Energy Code (REC) provides an opportunity for industry to kick start that consolidation and that there are a number of benefits that ELEXON, in particular, could bring to this role. We were delighted, therefore, that [Modification P365](#), enabling ELEXON to tender for the REC Manager role, was approved in April 2018.

Engagement

In our February letter, I explained that we already value enormously the very positive relationships that exist between ELEXON and industry participants. However, we recognise that a key element in delivering our corporate strategy and our Foundation Architecture will mean building on this to develop a broader and more robust approach to stakeholder engagement.

We are therefore focusing on the way we engage with all BSC Parties, as well as our other key stakeholders and potential future market participants in a more strategic and structured way. The aim is to engage with Parties and discuss what we can do together to lead industry change, enable innovation, and simplify complex and fragmented services. We want ELEXON to earn a reputation in the industry for championing these matters.

Foundation Architecture

Our industry is going through a period of transformational and disruptive change. ELEXON's role is to continue delivering core BSC services whilst supporting the industry through this evolution, enabling innovation and forward thinking by implementing new technology solutions and moving towards a digital-first future. To do this, we are going to use our Foundation Programme to support the delivery of our vision.

The [Foundation Programme](#) has been established to deliver a platform which will build a stable, flexible base for the future which will enable us to maintain and enhance the high quality of our core BSC processes and act as a central market platform to facilitate the decentralisation of, and innovations in the energy market.

During the last six months we successfully delivered phase one of the programme, within budget. This included designing our architecture, undertaking innovative proofs of concept, establishing a governance model for the programme, and planning phase two of the programme. Phase two will deliver the BSC changes related to TERRE and establish the new participant management platform and the data and calculations platform, providing us with a new stable, agile infrastructure.

In order to meet the TERRE regulatory timescales, we have commenced work on phase two of our programme ahead of Ofgem's decision on the TERRE Modification P344. At this stage our focus has therefore been to ensure that:

- there is a robust investment case based on a realistic determination of project costs;
- we deliver on our commitment to outstanding stakeholder engagement, and engage with Parties to get the right solutions.

Governance

Our [Annual BSC Meeting](#) on 12 July is a key forum through which ELEXON's Board demonstrates its accountability to BSC Parties. Not only will Parties have the opportunity to ask questions of me and the Board (and Panel) colleagues but, as with last year, Parties have the right to vote to confirm (or not) the appointment of those ELEXON Directors who were appointed during the last year. I strongly encourage all Parties to exercise your right to vote; those entitled to vote should already have received information on how you can do this. If you can't attend, but are entitled to vote then you can

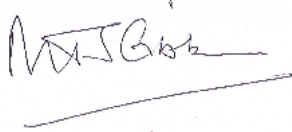
still do so by appointing a proxy who will exercise your vote on your behalf and in accordance with your instructions.

We also have some high quality speakers for the day. This year we are delighted that Lord Hutton (Chair, Energy UK), Victoria MacGregor (Director of Energy, Citizens Advice) and Dan Monzani (Director of Energy Security, Networks and Markets, BEIS) will be participating.

As reported in my last letter, and in line with good corporate governance, at the beginning of this year we commissioned a board effectiveness consultant to undertake a review of the effectiveness of ELEXON's Board. That review was completed in May and concluded that the Board, Committees and individual Directors are effective. However, the consultant also identified opportunities for the Board to improve its efficiency so that it can give greater focus to key areas, specifically stakeholder engagement, strategy, risk and succession planning. Our intention is to deal with these in the coming months and I will give further updates in future circulars.

I hope this letter has given you some insight into the work of the Board. If, however, you have any questions then as ever, please do let me know.

Yours faithfully

A handwritten signature in blue ink, appearing to read "M Gibbons", with a horizontal line underneath.

Michael Gibbons CBE FEI

Chairman

On behalf of the Elexon Board