

# OUTLINE OF STRAW MAN FOR THE GOVERNANCE OF ELEXON

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Set out below is the ELEXON Board's straw man for the governance of ELEXON.

This follows bilateral meetings with members of the BSC Panel, the funding Parties and a joint Panel/ Board workshop. This straw man represents the broad consensus that emerged at the Panel/ Board workshop. Unless there are good reasons not to, or the BSC prevents it, the UK corporate governance code has been considered as an appropriate model to follow.

## 1. Accountability

### **A new power to remove ELEXON directors exercisable by BSC Parties in their role of quasi shareholders.**

ELEXON will be held accountable to the funding parties, through a voting mechanism that would reflect the voting mechanism normally used by shareholders of public companies. In practice, this means that funders have the ability to:

- Vote on the removal of directors.
- Raise issues through special resolution which could include, but is not limited to, strategy. These resolutions are non-binding, but may lead to further resolutions on director removals.

Further work is needed on:

- Whether we need voting rights or representation for non-funding stakeholders, which could include: consumers, Ofgem, DSOs, independent experts, future/new entrants (who don't yet fund, but have an interest in the future arrangements).
- What the formula for allocating votes might be – a separate paper has been circulated by ELEXON with broad options on this.
- What the thresholds should be for motions to be carried (i.e. to call a special meeting, pass a resolution, remove Directors etc.)

## 2. Director's appointments

**The UK Corporate Governance Code would be followed for the appointment of directors (ie by the Board on the recommendation of a nomination committee).**

**To improve the balance of NEDs and Executive directors (bearing in mind currently the only executive director is the part-time Chairman) members of the executive team could be appointed to the board.**

**Provided there is strong interaction between the Board and Panel, then there is no requirement for the Panel Chair and Board Chair to be the same person. The Panel Chair would automatically sit on the Board and would be eligible but not be required, to be the Board Chair. The Board Chair would be appointed by the Board on the recommendation of a nomination committee in accordance with the UK Corporate Governance Code and the Panel Chair appointed by the Panel.**

### 2.1 Board appointments

The Chair of ELEXON is appointed separately to the Chair of the Panel and consequently there could be different Chairs for each.

Board members (Chair, Executive and Non-Executive members) are appointed by the Board, through a nominations committee.

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## 2.2 Membership

The membership of the board could include the CEO and other members of the executive team, in accordance with the UK Corporate Governance Code.

The Chair of the BSC Panel is automatically a member of the ELEXON Board.

## 3. Setting strategy

**The Panel would have earlier input to the ELEXON strategy, formulating its own settlement priorities on which it wished ELEXON to focus; as a consequence, the Panel's endorsement of ELEXON's strategy would no longer be required because industry will have made its views known through the increased engagement (and through the circulation of the strategy for comment as today) and industry would be able to threaten and ultimately remove members of the board, or even the entire board, through the director removal voting process.**

The ELEXON Board will set ELEXON's strategy.

While doing so, the Board will ensure that it consults with and informs the Panel. In particular, it should use input from the Panel when forming its strategy and the Panel should be able to comment on it as it is developed. The Panel may want to form its own settlement strategy, which would act as an input into ELEXON's strategy.

## 4. Communication

**An increase in routine engagement with industry to ensure industry is familiar with and ascertain the level of support for ELEXON's strategy and activities.**

If this, or any governance model is to work effectively, there needs to be better communication between ELEXON, the BSC Panel and BSC Parties. This should include:

- Setting out a clear process for developing ELEXON's strategy that includes sufficient interaction with the Panel and wider stakeholders. The Panel strategy should act as an input to this process.
- Developing a meeting and/ or a forum where ELEXON's performance is assessed and future plans can be explained/ challenged (in effect a substantive Annual BSC Meeting).
- Greater focus on providing a service similar to 'investor relations' in public companies.

Further work is needed to better define the right communication and information structures necessary to make the governance structure work.

## 5. Next steps

Once this model has been discussed and iterated with the Panel, BSC Parties and wider stakeholders, its route to progression would be via a Modification to the BSC.