

12 June 2017

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES – NO 1

It is now over six months since BSC Modification P324 was approved, giving the ELEXON Board responsibility for its strategy and composition. P324 also introduced voting on the appointment of Directors, with the first vote to take place at the [Annual BSC Meeting on 13 July](#). These changes were designed to increase the accountability of the Board to the funding Parties, and to that end the Board and I are agreed that we should initiate a regular, direct communication with industry so that we can report on our recent and anticipated work and challenges. This is the first such communication, and we would welcome feedback from you as our funding stakeholders.

Strategy

One of the key responsibilities of any company board is to set the strategic aims of the company. Consequently, one of the areas that we have been looking at, with the Executive team and the company's experts, is the rate and scale of industry change over the next 10 years, and how best to position ELEXON to manage the impact of that change on ELEXON and the BSC.

Of course, the outcome of the CMA review and Ofgem's subsequent consultation on its intention to introduce licensing for code administrators have been central to our thinking. Amongst other things, these proposals lead to the competitive licensing of central industry bodies, which has the potential to change fundamentally the nature of ELEXON's business model. We are also very aware that the industry is changing rapidly with the impact of renewable energy, energy storage, electric vehicles and smart meters all likely to drive significant change to the market arrangements.

The foundation of our thinking is that ELEXON's people, culture, processes, and our track record of reliable delivery are a very valuable resource for the industry. This belief is reinforced annually by our excellent [customer survey responses](#) and, we were delighted to see, by Ofgem's [recent cross code survey](#). Our strategic planning is therefore focussed on considering how we can continue to be a successful central industry body that serves the interests of BSC Parties and our wider stakeholders, but also be able to adapt and respond rapidly to change.

Our strategic thinking has also been influenced by two specific issues which both relate to ELEXON's ability to undertake work beyond the BSC. BSC Modification P325, which has now been withdrawn by its Proposer, proposed a model whereby ELEXON could establish subsidiaries which could seek investment from BSC Parties to undertake new activities. This model raised important questions about how ELEXON could be enabled to play a fuller part in the evolution of the industry. These clearly remain unresolved at present.

Further, Modification P330 enabled ELEXON to take part in the tender for the Performance Assurance Framework Administrator role under the gas arrangements. The Board had to decide whether a bid should be made; we were satisfied that we would have been able to submit a leading quality bid based on our long standing and respected expertise in managing a risk based assurance framework for electricity settlement, but the commercial and contractual model prescribed in the tender did not provide scope for a not for profit/no liability company like ELEXON to bid successfully. We therefore very reluctantly concluded that ELEXON could not pursue this opportunity on such a basis. This conclusion, however, also raised questions about ELEXON's current model which are highly pertinent to our strategic thinking. The Board expects to reach initial conclusions on such issues in the coming months.

Resources

The Board has focussed on ensuring that the company has the necessary resources to meet its BSC obligations. In financial terms we do that by approving the Annual Budget and, for the first time this year, the [annual Business Strategy](#). We also consider whether ELEXON has the appropriate human

resources to deliver its obligations. We are particularly conscious that, with the growth of central industry bodies, there is increasing competition for the best people. We continuously review the level of our staff turnover (which is high), the drivers behind that turnover, and what we can do to ensure we continue to attract and retain the high quality people we need to provide a good service to the industry.

Governance

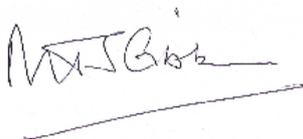
One of the changes implemented by BSC Modification P324 was to allow BSC Parties to vote on the appointment of Directors. Your first opportunity to do this will be at the Annual BSC Meeting on 13 July this year. Such accountability is a fundamental element of good governance so the Board was fully supportive of this development, which is a normal feature of other companies. I would urge all BSC Parties to exercise your right to vote at the Annual BSC Meeting; we have already sent out information on how you can do this. We also have some high quality speakers lined up for the day, following last year when the Chair of the CMA energy industry inquiry, Roger Witcomb, and Ofgem's chair David Gray were our speakers. This year we are delighted that Dermot Nolan CEO of Ofgem and Lawrence Slade CEO of Energy UK will be presenting. If you can't attend, then you can still vote by appointing a proxy who will exercise your vote on your behalf and in accordance with your instructions, and we urge you to do so.

There were a number of other elements to P324 which have allowed the Board to consider better governance. Since P324 was implemented my own role has changed from being an employee to become the Non-Executive Chairman of ELEXON, as is more normal corporate governance. We have similarly appointed the CEO, Mark Bygraves, as a director for the first time, reviewed the most efficient way of dividing work between the Board and the Executive, expanded the remit of the Board's Audit Committee (now the Audit and Risk Committee) to include a greater focus on risk, and reviewed the remuneration of our industry Non-Executive Directors to bring them into line with their non industry colleagues.

Also following P324 we shall revise the composition and scope of our Nominations Committee, where we will be ensuring that the company has robust succession plans in place for the Executive team. In this context I draw to your attention our search for a new non industry NED from 1 October; the relevant documentation and announcement has now been published. We are also procuring another externally facilitated evaluation of our performance as a board. We regard regularly reviewing our own performance as an important element in ensuring that we continue to operate effectively and that we spend our time looking at the right things, and at the right level, for the benefit of the company and BSC Parties.

I hope this letter has given you some insight into the work of the Board. If, however, you have any questions then please do let me know, or take the opportunity to raise them at the Annual BSC Meeting on 13 July.

Yours faithfully



Michael Gibbons CBE FEI
Chairman
On behalf of the ELEXON Board