

14 February 2019

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 4

This is the latest in what is now a firmly established regular communication with BSC Parties and our stakeholders on the key activities of ELEXON's Board. In this letter I am providing you with updates on our strategy, on our Foundation Programme and on our governance.

Foundation Programme

In my last letter I updated stakeholders on ELEXON's Foundation Programme (investing in BSC Systems to create an open, scalable and centralised digital platform) and Mark Bygraves, our CEO, has recently written to you in some detail about this Programme. As a strategically important programme requiring a large investment from BSC Parties, the Programme has continued to be a key focus for the Board. In fact, we have discussed the progress of the Programme at all recent Board meetings and meet regularly with CGI, the key service provider which is contracted to deliver the Programme.

The Foundation Programme will continue to be an important item on our agenda as we look forward to a successful delivery of Project TERRE and the initial phases of our Foundation Architecture.

ELEXON's Strategy

Energy Codes Review

In my June 2018 letter I described ELEXON's new corporate purpose, mission and strategy. A key part of our strategy is, with the support of our stakeholders and partners, to simplify and consolidate complex and fragmented code related services. ELEXON's Board therefore very much welcomed the review of industry codes and code governance launched by BEIS and Ofgem in November 2018.

ELEXON is already, and will continue to be, very much engaged with this review. We strongly believe it is only by simplification and consolidation, the sharing of best practice and the streamlining of processes that we can provide a cost effective way of enabling innovative change and unlocking benefits to end consumers, while still maintaining the rigorous assurance provided in the central market arrangements. These are the messages which we will be sharing with the Energy Codes Review team together with practical recommendations on how this might be achieved.

Capacity Market

A key element of our corporate purpose is to ensure "meter to bank" arrangements support the reliable delivery of energy to GB customers, for the benefit of the UK economy. It was with this in mind that, following the Government's announcement of a suspension of Capacity Market payments, ELEXON worked with industry stakeholders to develop a modification (P378) that would provide a potential interim solution to the most pressing problems created by that suspension. P378 would allow ELEXON to collect funds from Suppliers and hold those sums in an interim fund pending the completion of the European Commission's state aid investigation. The details of the proposals are on our [P378 webpage](#) but the scheme, if approved, would give greater certainty to capacity market participants (many of whom are BSC Parties) and provide protection to suppliers and consumers from potential price shocks.

One of the reasons why we were able to react so quickly and flexibly to the Capacity Market standstill was that we were already responsible for EMR settlement activities i.e. this is a clear example of where consolidation and coordination of central arrangements can bring benefits to industry and GB customers.

EMR Settlement

Continuing to focus on delivering our core services and being a trusted provider of settlement services is also a key part of our strategy. In this context, our role as EMR settlement services provider (mentioned above) has been on the Board's agenda. This is because our contract with LCCC and ESC provides for five yearly extensions and LCCC are currently considering whether to extend the contract or to re-tender. We are therefore engaging with LCCC and their consultants on a review of the contract, the services we provide and the underlying technology. This is an important issue for ELEXON and BSC Parties for several reasons, not least because the contract includes a contribution to existing overheads which would otherwise have been funded by BSC Parties. This has served to defray BSC costs by £3.75 million since 2014. We continue to highlight the many benefits to LCCC, BSC Parties and the wider industry of a continuation of ELEXON's not for profit industry and settlement expertise being utilised under the EMR arrangements.

Director of Strategy and Communications

The Board was pleased to welcome [Angela Love](#) to ELEXON's Executive team as Director of Strategy and Communications. This appointment represented an important step in ensuring ELEXON is able to deliver our new strategy and vision.

Governance

There are three areas of Board governance on which I would like to update stakeholders: executive remuneration, board appointments and risk management.

Remuneration

ELEXON's policy on executive remuneration includes, inter alia, the requirement to offer remuneration that enables ELEXON to attract and retain individuals of a suitable calibre, and to ensure that total remuneration is set by reference to appropriate market comparator data.

Over the last six months, the Remuneration Committee has been reviewing the basis on which we assess Executive remuneration. We have made a great deal of progress and are expecting this to lead to a new, more robust, approach. To this end, we have completed detailed assessments of our Executive roles which will enable us to use a much wider set of relevant market comparator data. One of the outstanding challenges we are seeking to resolve is how we can align Executive remuneration to the long term performance of the company (which is a principle of good corporate governance but which is normally achieved through long term share ownership schemes which are not available to ELEXON).

Appointments

In March 2019 we will be appointing two new industry directors to the ELEXON Board to replace Volker Beckers and Alison Chappell, who have both served on the ELEXON Board for six years; in line with best practice we felt it right to refresh board membership. Both Volker and Alison have made major contributions in directing ELEXON's efforts to serve the energy industry and consumers and we shall miss them both.

We were pleased to attract around 140 applicants for these roles. This was very good news as the last time we recruited an industry director we only had seven. This remarkable change was clearly a direct result of the P324 governance changes which, inter alia, were designed to ensure that we have a much wider and deeper pool of candidates to choose from.

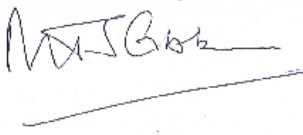
Risk Management

Our Audit and Risk Committee has been working with consultants on developing ELEXON's risk management framework, and especially on improving the organisation's understanding of the overall risk framework to enable robust risk management in all we do.

Finally, I would like to thank our stakeholders for taking part in Ofgem's Code Administrators Survey. We were delighted that this confirmed ELEXON as top Code Manager for the second year running and acknowledge that the survey provided feedback on how we can continue to enhance ELEXON's services.

I hope this letter has given you some insight into the work of the Board. If, however, you have any comments or 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