

1 FEBRUARY 2018

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 2

In my June 2017 open letter to BSC Parties, the first of its kind since the P324 changes to ELEXON governance, I set out the challenges then facing the Board in relation to strategy, resources and governance. In this letter I am updating you on those themes, as well as highlighting the important new system architecture work which we have initiated.

I highlight two caveats. First, we are conscious that while the ELEXON cog drives a fairly extensive industry wheel, there are parts of the industry to which ELEXON and the BSC are not as close; we acknowledge that we are just one part of wider industry change. Second, our strategic discussion as to where industry changes will take us does not, I assure you, reduce our collective focus on ensuring the business as usual requirements of the BSC and EMR regulations are successfully and efficiently met.

ELEXON's Corporate Strategy

Six months ago we said our overarching strategic challenge is to determine how best to position ELEXON and the BSC to manage the rate and scale of industry changes which are anticipated. We have decided to express our initial response in a new vision which is set out in our 2018/19 Business Plan, namely:

“By 2025 we will create the leading provider of central services to the GB energy sector, built on the best practice from the ELEXON service culture for the benefit of consumers and market participants.”

We think this is a very positive and challenging vision, and we have much work planned to deliver it. However, already we have identified several strands to the work in progress to this end, e.g.

- We have been making the compelling case for collaboration and consolidation of central services, rather than even further fragmentation. In this context, the introduction by Ofgem of a new Retail Energy Code (REC) with its own code administrator provides an opportunity for industry to start that consolidation. Indeed, we believe that there are a number of benefits that ELEXON could bring to this role, not least that we are good at what we do. This was evidenced again this year by our [2017 independent customer survey](#) where, building on our highest ever scores in customer satisfaction and customer advocacy in 2016, 94% of respondents said that our service has improved or stayed the same
- We recognise Half Hourly Settlement as a key enabler to deliver the benefits from smart metering, e.g. storage, aggregators, electric vehicles and Time of Use Tariffs. We are delighted that ELEXON is leading on the design of Half Hourly Settlement, which is recognition of ELEXON's expertise in this area.
- We are totally committed to making sure that the BSC is an enabler of change and certainly not a barrier to entry. We have fully engaged with Ofgem on these issues and we will continue to emphasise our commitment to listening to industry and its evolving needs.
- Very good evidence of our commitment to encouraging innovation and change is the progress to a regulatory sandbox, through modification P362 which the Panel raised, on ELEXON's recommendation, in November. We have received a hugely positive response to this initiative.

In each of these areas, we think it is important to emphasise our independence and our not for profit status. We reference our strong track record of delivering a high quality service to industry whilst reducing our costs by over 60% in ten years.

ELEXON's Architecture Strategy

The rationale underpinning our strategic thinking above is that the rate of industry change is growing. Over the last six months, ELEXON's Board has therefore been discussing how we can evolve our own processes and systems so that we can be as flexible and agile as possible in supporting those changes and ensure that in doing so we listen actively to those involved in the sector and those considering entering it.

Of course there are challenges with such a major change programme. However, we see this programme as a strategic priority and we have focussed on ensuring that:

- Robust governance arrangements are in place, including in relation to controlling costs.
- The company has the appropriate level of resources to deliver successfully the architecture strategy as well as BSC change projects.
- Good mechanisms are in place for engaging with industry stakeholders.

We have spent much time discussing the proposed investment in our architecture strategy. Our draft Business Plan includes a prudent cost estimate of £15m to deliver this programme, spread over three years to March 2021. We intend to refine that estimate when we sign off the final version of our Business Plan in March 2018.

Governance

In the likely absence of licensing of code administrators for the foreseeable future, we have re-emphasised to both BEIS and Ofgem our [suggested improvements to governance of all codes](#) and will continue to promote these improvements which we see as beneficial to industry and the change processes.

Our Annual Meeting in July 2017, the first under the new governance arrangements, was very well attended by Parties, not least because the CEOs of Ofgem and Energy UK were keynote speakers. We also ran the first vote ever on the appointment of some of our directors, and were pleased that all were strongly supported by BSC Parties. There will be another such vote this July, when two more of our directors need to be confirmed, including our newest appointment, Anne Heal (as a non-industry NED) and I take this opportunity to encourage Parties to participate again on 12 July.

As part of our governance model, we place a high value on good stakeholder relations. The Board continues to devote time to understanding the views and concerns of our stakeholders and we value enormously the very positive relationships that exist at all levels between ELEXON and industry participants.

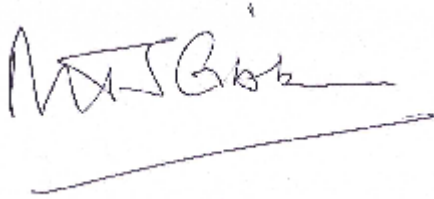
In respect of our Board Committees, over the last few months, we have:

- Revised the role of the Nominations Committee to include regular reviews of the Board's composition and an increased focus on Board and Executive succession planning.
- Changed the leadership of the Remuneration Committee following Gillian Wilmot standing down; Alison Chappell was appointed chair from 1 October 2017. This Committee initiated the benchmarking of Executive remuneration against comparable organisations.
- Continued to focus on enhancing, through the Audit and Risk Committee, the robustness of ELEXON's cyber security measures and the maturity of our risk management system.

Finally, in line with good corporate governance and given there have been some changes to the Board and the Executive team, we have decided to bring in a board effectiveness consultant, and I expect to be able to report the outcomes in my next communication.

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.

Yours faithfully

A handwritten signature in black ink, appearing to read "M. Gibbons". The signature is written in a cursive style and is positioned above a horizontal line that extends across the width of the signature.

Michael Gibbons CBE FEI

Chairman

On behalf of the Elexon Board