

**Modification Proposal – BSCP40/03**

MP No: 281

**Title of Modification Proposal:**

Change of BSC Co Board of Directors &amp; Chairman.

**Submission Date:**

30 December 2011

**Description of Proposed Modification:**

Elexon have expressed their desire to diversify and extend their activities outside the administration of the Balancing & Settlement Code to take advantage of their skills and expertise in the development of market arrangements to support amongst other things, smart metering and likely changes arising from Electricity Market Reform (EMR). We support Elexon's aspirations in this regard and have confidence that they are well placed to make a valuable contribution to these market developments.

Ofgem commissioned a report from Richard Morse to look at how Elexon might unlock the vires within the BSC to allow them to do this and to consider what the future governance requirements might be. BSC Issue 40 was also raised to look at Elexon's proposal and the alternatives put forward by BSC Parties on the necessary governance and funding arrangements to support new business opportunities. Both Richard Morse and Issue 40 concluded that in order to facilitate Elexon's aspiration it will be necessary to allow Elexon to operate independently of the Balancing & Settlement Code, under any of the proposed models. On 21 November 2011 Ofgem sought views on the potential expansion of the role of Elexon, including the organisational options (the subsidiary or contractual models) to facilitate this.

In order to shield the Balancing & Settlement Code and BSC Parties from any potential risk or conflicts of interest (under either model), it would be sensible to fully separate the management of the BSCCo from any other commercial activities which Elexon may seek to establish. The proposal therefore seeks to change the make-up of the BSCCo Board of Directors and to require the Board to be made up of BSC Party representatives, relevant and appropriately qualified independent experts and an Independent Chair – whose appointment will be undertaken by the BSC Board and ratified by Ofgem.

It is suggested that the new BSC Co Board could be made up of 4 BSC Parties:

2 electricity suppliers – 1 large and 1 small;

2 generators – 1 large and 1 small; and

An independently appointed Chairman, whose appointment will be ratified by Ofgem

The BSC Board could also appoint up to a maximum of 3 independent and appropriately qualified experts to offer support to the Board on for example, technical, procurement and financial matters (for clarity these will be non-voting roles. The BSC Board chairman will also continue to fulfil the role of the Panel Chairman. (It is not envisaged that the current Chairman will be removed by this modification before his appointment period ends and of course he would be eligible for consideration as a candidate for any future appointment.)

New arrangements to appoint both the Board of Directors and a new independent Chairman will need to be agreed, however they should include the following requirements:

- Existing Panel members would be eligible to be elected to one of the constituent seats on the Board and would be able to fulfil both roles.

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<ul style="list-style-type: none"> <li>• Voting for constituency candidates would be based on constituency market shares.</li> <li>• No BSC Trading Group would be able to be represented in more than one constituency.</li> <li>• Chairman to hold only a casting vote for circumstances where the Board are deadlocked.</li> </ul> <p>The Modification Group may wish to consider any other changes to the proposal that address the issue/defect outlined below.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address:</b></p> <p>The current BSCCo Board arrangements can allow the non industry Non- Executive Directors and the Chairman and to carry Board decisions against the will of industry Non-Executive Directors members. This means Elexon resources can be used, budgets set and expenditure incurred even though such decisions may not be widely supported by BSC Parties and other affected stakeholders. Should Elexon be permitted to diversify its activities, it will become even more important to establish a BSCCo Board that is able to safeguard the interests of BSC Parties that fund the BSC arrangements.</p> <p>The reform of the BSCCo Board is thus an essential component of the changes required to enable Elexon to diversify its activities. It will help ensure the appropriate separation of the BSCCo Board from the management of Elexon who currently perform the administration of the Balancing &amp; Settlement Code.</p>	
<p><b>Impact on Code:</b></p> <p>Section C</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code:</b></p> <p>None</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties:</b></p> <p>None</p>	
<p><b>Impact on other Configurable Items:</b></p> <p>None</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives:</b></p> <p><i>(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements described in paragraph 2;</i></p> <p>The proposal will enhance the corporate governance arrangements for BSCCo allowing parties to have a more active say in management and oversight of BSCCo. By ensuring the Board are better able to reflect the views of BSC Parties in their decisions, Elexon will become more accountable for the services that they provide to BSC Parties. Efficiency in the implementation and of the balancing and settlement arrangements will be promoted through the better alignment of the balancing and settlement processes with those of BSC Parties.</p> <p>Without this change there is a risk that inefficiencies will arise as Elexon seeks to pursue new business opportunities within an unsatisfactory governance framework. By providing appropriate safeguards particularly in relation to the management of BSCCo resources, budget, setting and business planning this proposal will provide greater confidence to BSC Parties that the changes that are necessary to allow Elexon to diversify its activities can be progressed without adversely affecting the existing BSC</p>	

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arrangements.	
<b>Is there a likely material environmental impact?</b>	
None	
<b>Urgency Recommended:</b>	
No	
<b>Justification for Urgency Recommendation:</b>	
N/A	
<b>Self-Governance Recommended:</b>	
No	
<b>Justification for Self-Governance Recommendation</b>	
N/A	
<b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b>	
N/A	
<b>Details of Proposer:</b>	
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<b>Attachments:</b>	
No	