

Adam Lattimore
BSC Modification Secretary
ELEXON Limited
350 Euston Road
London

NW1 3AW

25 September 2014

Dear Adam,

P303 (Amendments to the Provisions for BSCCo Directors)

The ELEXON Board wish to provide a collective response to the P303 draft Modification Report. We believe that the changes sought under P303 would enhance the BSC arrangements and should be made.

We believe that it is in all BSC Parties' interests that ELEXON Board members are drawn from a pool of highly talented and experienced individuals. Allowing remuneration to be given to all members will encourage individuals and their companies to put themselves forward. We therefore strongly support the Proposed Modification.

The Board of ELEXON supports the Proposed Modification for the following reasons, in particular:

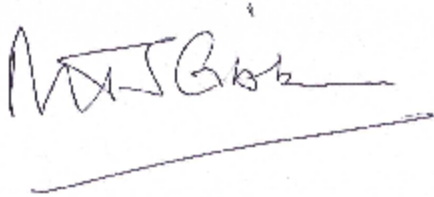
1. The need for remuneration of industry non-executive directors, as a principle, reflects best practice as expressed in the UK Corporate Governance Code which is widely followed in the UK and which is recommended to members by trade associations such as the CBI:

"Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role".
2. All ELEXON directors are expected to contribute significant time to their duties as directors of the company. The duties on industry board members are no less onerous than for non-industry directors. Similarly, the legal duties on all directors are exactly the same. Given that the obligations and duties on all ELEXON directors are the same, there are no grounds to discriminate between directors on remuneration. We are not aware of any other organisation that appoints its non-executive directors through an open recruitment process but which is prevented from offering remuneration to all candidates equally.
3. We are concerned that not having the option to remunerate board members will have a negative impact on the company's ability to attract suitable candidates of the requisite calibre. The legacy BSC restriction on remunerating industry directors was designed for the previous arrangements where the Panel was obliged to provide two board members. Consequently, no issue existed with attracting industry candidates. However, the appointment of industry board members now relies on being able to attract candidates through an open and transparent appointment process. One benefit of this system is that it allows the Board to select non-executive directors from amongst a wider pool of candidates. However, this benefit cannot be fully achieved unless ELEXON is able to offer an opportunity to potential candidates that is both commensurate with the role they are being asked to perform and competitive with the other opportunities that will be available to them. In particular, we note that:

- a. for potential industry non-executives with strong CVs, there are a number of opportunities available to give something back that will be remunerated and therefore be more attractive;
 - b. we can see no reason why the payment of industry non-executives would cause employment issues at their parent companies. Many organisations now encourage their senior executives to look at NED opportunities as a personal development route, indeed this is reflected in Section D.1.2 of the UK Corporate Governance Code. Typically, the parent company will give their employee the option to either keep their director's fee or to donate it.
4. We note the comments in the Modification Report to the effect that BSCCo is unique and that the BSCCo Board is not responsible for doing the things that 'normal' boards would do. We do not agree. The legal duties of directors are the same for all companies regardless of the role of the company. Non-executive directors are appointed by all manner of companies because of the contribution they make to the quality of board decision making. Although the role of ELEXON is to undertake particular functions under the Code, this does not negate the need to maximise the effectiveness of the Board in running the company which the Proposed Modification supports.
5. We are also concerned with the possible consequences of a directorship at ELEXON becoming seen as an opportunity to give something back to the industry. This may result in the company having to rotate industry non-executives so as to allow all industry participants to avail themselves of this opportunity equally.
6. Whilst the company was able to appoint good candidates during the recruitment that followed the implementation of P281, the number of applicants for the two non-industry roles was significantly higher, by several multiples, than the number who applied for the three industry roles. The fact that we were able to make appointments from amongst a limited pool is not indicative of whether the company will continue to be able to attract suitable candidates in sufficient numbers to enable the Nomination Committee to conduct a robust recruitment process.
7. The contribution of experienced portfolio non-executives is critical for UK plc. It is normal practice to appoint non-executives with cross sector experience elsewhere and we do not understand why it is felt to be inappropriate for ELEXON to conform to the same standard. It would not be in the best interests of the company, or the industry, to continue with arrangements that result in board recruitments focussing on applicants who have no experience of being non-executives and effectively excluding individuals with relevant experience of the electricity industry who are also experienced in directing businesses as non-executives.

For the reasons set out above, we believe that the Proposed Solution for Modification P303 would promote efficiency in the implementation and administration of the balancing and settlement arrangements and would therefore better facilitate BSC Applicable Objective (d). We also have a strong preference for the P303 Proposed Solution over the P303 Alternative Solution because the Alternative Solution falls short of delivering the benefits that we anticipate will be achieved by implementing the Proposed Solution.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M Gibbons', with a long horizontal line extending to the right.

Michael Gibbons
Chairman

On behalf of:

Volker Beckers, Independent Director

Nigel Cornwall, Independent Director

Alison Chappell, Independent Director

David Rigney, Non- Independent Director

Gillian Wilmot, Non-Independent Director