

Modification Proposal – BSCP40/03	MP No: 303 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i> Amendments to the Provisions for BSCCo Directors	
Submission Date <i>(mandatory by originator):</i> 21 May 2014	
Description of Proposed Modification <i>(mandatory by originator)</i> This modification proposal seeks two changes to the current provisions in respect of BSCCo directors: <ul style="list-style-type: none"> ▪ it seeks to ensure that all directors are eligible to be awarded remuneration and benefits as determined by the Panel Chairman after consultation with the Panel. The proposal seeks to achieve this by removing the current restriction that only non-industry directors can be awarded remuneration and benefits; and ▪ it seeks that definition of a non-industry director should be amended to remove the requirement of a five year gap since a Board member has been a Panel Member or an employee, director or representative of a Party. The only requirement would therefore be that a director is not currently a Panel Member or an employee, director or representative of a Party. 	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i> Under the arrangements introduced by P281 'Change of BSCCo Board of Directors and Chairman' that were implemented in October 2012, the size of the BSC Board is determined by a nomination committee with the restriction that, excluding the Chairman, the majority of directors should have electricity industry experience. At least two Board members should be non-industry, meaning that in the last five years they must not have been a Panel Member or an employee, director or representative of a Party. P281 left as it was a restriction already in the BSC that only the non-industry (termed industry independent) directors shall be entitled to be paid by the BSCCo “such remuneration and benefits as may be determined by the Panel Chairman after consultation with the Panel.” All other directors are only entitled to recover reasonable costs and expenses including travel and accommodation costs. This reflected and continued the arrangements prior to P281, where industry directors were also only entitled to recover costs and expenses. It is worth noting that the P281 process expressly determined not to address the issue of directors’ remuneration in its recommendations. The modification report notes “the workgroup considered remuneration in light of the points raised by the Panel. Some Workgroup members believed that industry Board members under the P281 arrangements should be paid, with the Nomination Committee Terms of Reference allowing some discretion around pay, to ensure that Board members of the right calibre can be found (i.e. without the framework of Panel elections).”	

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Other Workgroup members considered changes to Board remuneration arrangements to be outside the scope of P281, i.e. P281 seeks only to change the composition of the Board and the means of Board appointments, and remuneration should be considered separately.”

The report continues:

“The Workgroup agreed that no changes around Board remuneration arrangements should be added to the P281 Alternative solution or legal text, but that the Panel and Workgroups considerations should be noted with view that **a separate change in this area may be usefully progressed in the future.**”

The Authority decision letter on P281 does not touch on the matter. It does however note:

“Whilst we consider that there are areas P281 Alternative could have explored more fully, overall we consider that P281 Alternative increases the transparency of the election process and provides for greater industry engagement when compared to the current arrangements. An open process for Board elections and a robust Board capable of representing all BSC stakeholders will contribute to the achievement of efficiency in the BSC arrangements. Parties are not precluded from raising any further modification if it were felt that further elements of the BSCCo Board arrangements should be codified.”

The defect that this proposal seeks to address is that the current arrangements for directors restrict the pool of suitable candidates. There are two ways in which this defect is apparent.

The first way is that the current restrictions on the type of directors that can be awarded remuneration potentially limits the pool of suitable candidates who will be able to take on the role. The current lack of remuneration for industry directors does not reflect the time and effort that a Board member will need to commit in order to fulfil the role well and does not encourage the director’s company to commit time to discharging it to the fullest degree. The current situation is anomalous, as the existence of remuneration for other non-industry directors reflects their value to the Board and the time and effort they commit.

It is also anomalous as it is possible that someone that is not employed may have the experience to be an industry Board member. Therefore the lack of remuneration may further restrict the pool of suitable candidates.

The proposer accepts that it is possible to find industry participants that wish to join the Board without remuneration as a motivation and who wish to contribute their expertise. The argument for this part of the proposal is that remuneration would support industry directors to fulfil their roles both through the remuneration itself and through the signal this sends on the importance of the position. The role of a BSCCo director is a responsible and substantive one requiring considerable time and effort on behalf of the post holder to discharge the role well.

The second way the defect is apparent is in the current requirement for a non-industry director of a five year gap since a Board member has been a Panel Member or an employee, director or representative of

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<p>a Party. It is not clear why there needs to be this gap, rather than simply the requirement that a director is not currently a Panel Member or an employee, director or representative of a Party. It does not appear to be a necessary restriction to achieve an independent view. Removing the requirement would increase the pool of suitable non-industry candidates and these directors would also be eligible for remuneration under the current rules.</p>	
<p>Impact on Code <i>(optional by originator)</i></p> <p>The proposal would impact Section C4.4 <i>Expenses and Remuneration</i>.</p> <p>For the part of the proposal which would remove the restriction for industry board members to be remunerated, it is suggested to delete from C4.4.2 “any Director appointed under paragraph 4.1.3(c)” and all of 4.4.3.</p> <p>For the part of the proposal to remove the five year requirement the suggested change is to replace in C4.1.3 the words “shall not, at any time in the period of 5 years before their proposed appointment, have been” with “is not”.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>None</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>None</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>The BSC Applicable Objectives that would be facilitated is:</p> <p>d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.</p> <p>The proposal would improve the functioning of the BSCCo Board and improve the quality of scrutiny, challenge and decision-making.</p> <p>This would be through ensuring that the Board ensures that all members, including industry appointees, are properly able to devote the time and commitment required to discharge their roles</p>	

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<p>effectively through being appropriately remunerated. It would increase the pool of candidates able to devote the necessary time and effort to the role.</p> <p>The proposal to change the qualification to be a non-industry director would also facilitate (d) by expanding the number of suitably qualified candidates eligible to become Board members, who would under the current rules qualify for remuneration.</p>	
<p>Is there a likely material environmental impact? <i>(optional by originator)</i></p> <p>No</p>	
<p>Urgency Recommended: Yes/ No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p> <p>N/A</p>	
<p>Self-Governance Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i></p> <p>N/A</p>	
<p>Fast Track Self-Governance Recommended: Yes/ No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Fast Track Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)</i></p> <p>N/A</p>	
<p>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? <i>(optional by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)</i></p> <p>N/A - no ongoing SCRs.</p>	

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Attachments: Yes / No (delete as appropriate) (mandatory by originator)		
If Yes, Title and No. of Pages of Each Attachment: N/A		