

<p align="center">Modification Proposal – BSCP40/03</p>	<p>MP No: P325 (mandatory by BSCCo)</p>
<p>Title of Modification Proposal (mandatory by originator):</p> <p>Improving the accountability of BSCCo to stakeholders and better aligning BSCCo governance with best practice</p>	
<p>Submission Date (mandatory by originator):</p> <p>30th July 2015</p>	
<p>Description of Proposed Modification (mandatory by originator)</p> <p>Amend the Balancing and Settlement Code (BSC) to make BSC Company (BSCCo) (ELEXON) accountable to shareholders by issuing shares in BSCCo to BSC Parties, in proportion to their annual funding share(s); allow those parties to release or receive additional shares; and allow Distribution Network Operators (DNOs) and New Entrants to obtain shares. This allows the above named Parties to freely act as the shareholders in the company as envisaged by the UK Corporate Governance Code. In effect this will change the ownership structure of BSCCo through the issue of shares to BSC Parties, DNOs, New Entrants and the Authority as well as convert the existing National Grid shares into a single share.</p> <p>This in turn will allow BSCCo to operate a governance model entirely consistent with the UK Corporate Governance Code. In line with recommendations from the Knight Report, it will facilitate a more autonomous governance of BSCCo, more aligned to standard Corporate practice, with ultimate accountability to shareholders, including :-</p> <ol style="list-style-type: none"> 1. A single Board shall be established to govern BSCCo; 2. The Board shall adhere to the UK Corporate Governance Code; 3. Board members shall be appointed for a minimum 3-year term (renewable); 4. The Board shall establish its own Nominations Committee which will make recommendations on Board size and appointments to the Board; 5. BSCCo Chairman will be appointed by the Board upon recommendation of the Nominations Committee, subject to Ofgem approval; 6. Board members shall be remunerated, subject to the recommendations of a Remuneration Committee appointed by the Board; 7. BSC Parties and other key stakeholders shall be issued with shares and will have voting rights in proportion to their shareholding, subject to key restrictions designed to limit the ability to apply undue influence; 8. Shareholders shall have the right to dismiss Board members by ordinary resolution. <p>A more detailed proposal setting out the rules for share allocation and transfer and subsequent</p>	

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<p>voting rights is set out in the attached document “Appendix 1 – Share Allocation, Transfer and Voting”.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by originator)</p> <p>Following the publication of the Knight Review's findings, and upon further consideration of the current flaws in BSCCo’s governance model and potential remedies available, SSE agree with the conclusions that the current governance arrangements no longer remain fit for purpose. The current governance model does not allow the Board to function with optimum efficiency and restricts BSCCo’s ability to comply with good Corporate governance practice, as set out in the UK Corporate Governance Code.</p> <p>The Board has identified four key problem areas in its information paper to the June 2014 BSC Panel (Paper 225/20 – Moving Towards A New Governance Model For ELEXON) https://www.elexon.co.uk/wp-content/uploads/2013/12/225_20_Moving_towards_new_ELEXON_Governance_Model_v1-0.pdf :-</p> <ol style="list-style-type: none"> 1. Non-compliance with UK Corporate Governance Code; 2. Lack of clarity in the relationship between the BSCCo Board and the Panel; 3. Inefficient decision making; 4. Lack of accountability. <p>This Modification seeks to address, directly, two of those four problems namely ‘Lack of accountability’ and ‘Non-compliance with the UK Corporate Governance Code’, with the other two problems addressed indirectly as a consequence. Additionally the proposed solution will address a number of the recommendations arising from the Knight Report as to how to transition towards a better governance model.</p> <p>Further detailed reasoning on why the current model no longer remains fit for purpose are set out in the attached document “Appendix 2 - BSCCo Interaction with UK Corporate Governance Code”.</p>	
<p>Impact on Code (optional by originator)</p> <p>The proposed changes will mainly impact sections B (The Panel) and C (BSCCo Subsidiaries) of the BSC.</p>	

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Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
Impact on other Configurable Items <i>(optional by originator)</i>	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i> <p>The current governance model does not allow the Board to function with optimum efficiency and restricts BSCCo's ability to comply with good Corporate governance practice, as set out in the UK Corporate Governance Code. Additionally, significant time, effort and angst has been expended over the last few years in considering and attempting to remedy the issue, introducing additional inefficiency.</p> <p>Whilst initially incurring some expense and complexity to transition to a new governance model, we believe in the long-term that objective d) will be better facilitated through the introduction of new governance arrangements, as the Board is made more accountable to BSC Parties (through BSC Parties' rights as shareholders) and the BSCCo is able to govern itself more in line with good Corporate governance practice.</p>	
Is there a likely material environmental impact? <i>(optional by originator)</i> No	
Urgency Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i> No	
Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i> Not applicable	
Self-Governance Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i> No	

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Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i>	
Not applicable	
Fast Track Self-Governance Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i>	
No	
Justification for Fast Track Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)</i>	
Not applicable	
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>	
No relevant ongoing electricity SCR.	

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Attachments: Yes *(delete as appropriate) (mandatory by originator)*

If Yes, Title and No. of Pages of Each Attachment:

Appendix 1 – Share Allocation, Transfer and Voting (8 pages)

Appendix 2 – BSCCo Interaction with UK Corporate Governance Code (7 pages)