

STATEMENT OF DIVISION OF RESPONSIBILITIES BETWEEN CHAIR AND CHIEF EXECUTIVE

Preliminary – This document applies respectively to Low Carbon Contracts Company Limited and Electricity Settlements Company Limited. Any amendments to this Statement shall be a matter reserved to the Board.

THE ROLE OF THE CHAIR

The Chair is responsible for:

1. Principal Overall Responsibility

- The leadership of the Board and ensuring its effectiveness in all aspects of its role.

2. Meetings

- Chairing Board meetings, general meetings and, where appointed to chair the nomination committee, chairing meetings of such committee.
- Ensuring the appropriate regularity and frequency of Board meetings.
- Setting the Board agenda and ensuring that it takes full account of the important issues facing the company and the concerns of all Board members. The agenda should be forward looking, concentrating on strategic matters rather than routine issues.
- Managing the Board to allow enough time for discussion of all agenda items, particularly strategic, complex or contentious issues. The Chair should ensure that directors (particularly non-executive directors) have sufficient time to consider critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making.
- Ensuring that the directors receive accurate, timely and clear information in order to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the company.

3. Directors

- Promoting a culture of openness and debate by facilitating the effective contribution of non-executive directors and ensuring constructive relations between the executive and non-executive directors.
- Holding an informal meeting(s) with the non-executive directors without the executives present, including (where required) to ensure that sufficient time and consideration is given to complex, contentious or sensitive issues.

4. Induction, Development and Performance Evaluation

- Ensuring that new directors participate in a full, formal and tailored induction programme, facilitated by the Company Secretary.
- Ensuring that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the Board and on Board committees.
- Regularly reviewing and agreeing with each director their training and development needs.
- Ensuring, with the assistance of the Company Secretary, that the development needs of the directors are met.
- Ensuring the performance of the Board, its committees and individual directors is evaluated at least once a year and acting on the results of such evaluation by recognising the strengths and addressing the weaknesses of the Board. This includes, through the Nomination Committee,

proposing that new members be appointed to the Board or seeking the resignation of others (subject to and taking into account the role and rights of the shareholder in relation to the appointment of directors¹).

5. Relations with the Shareholder

- Ensuring that there is an effective and appropriate system of communication with the shareholder, including through Board meetings and by the Chief Executive, Finance Director and other executive management.
- Ensuring that where the views of the shareholder (as shareholder) are expressed, those views are communicated to the Board as a whole so that all directors develop an understanding of the shareholder's views.
- Ensuring that contact (as required) about remuneration policy is maintained by the chair of the remuneration committee with the shareholder².

6. AGM

- Arranging for the chairs of Board committees to be available to answer questions at the AGM and for all directors to attend.

7. Direct Reports

- The Chair's direct reports are the Chief Executive and, in relation to the Board, the Company Secretary.

8. Other Duties and Responsibilities

- Promoting the highest standards of integrity, probity and corporate governance throughout the company and, in particular, at Board level.
- With the assistance of the Company Secretary, promoting the highest standards of corporate governance, including compliance with the UK Corporate Governance Code. If full compliance is not possible ensuring, in accordance with the requirements of the Code, that the reasons for non-compliance are understood, agreed by the Board and explained in the Annual Report.
- With the assistance of the Company Secretary, promoting the highest standards of compliance with the corporate governance requirements of the Framework Document between the shareholder and the company and all relevant public responsibility guidance documents referred to therein³;
- Ensuring that he/she is fully informed about all issues on which the Board will have to make a decision, through briefings with the Chief Executive, the Company Secretary and members of the executive management as appropriate.
- Ensuring the effective implementation of the Board's decisions.
- Building an effective and complementary Board and, with the Nomination Committee, assisting the shareholder in initiating change and planning succession in Board appointments (except that of a successor as Chair).
- Establishing a close relationship of trust with the Chief Executive, Finance Director and Company Secretary, providing support and advice while respecting executive responsibility.
- Providing coherent leadership of the company, including (in conjunction with the Chief Executive) representing the company to industry, government, the shareholder, industry investors, the media, consumers and the public.

¹ The shareholder is the Secretary of State of Energy and Climate Change.

² It is recognised that this requirement is effected by a member of the remuneration committee being a shareholder nominated director.

³ These documents include Treasury's guidance on Managing Public Monies, Corporate Governance in Govt. Departments and the Code of Conduct for Board Members of Public Bodies.

- Ensuring that there is appropriate delegation of authority from the Board to the executive management.

THE ROLE OF THE CHIEF EXECUTIVE

The Chief Executive is accountable to the Board and reports to the Chair and the Board. The Chief Executive is responsible for the following, within the authority limits delegated to him/her by the Board:

1. Principal Overall Accountabilities and Responsibilities

- running the company's business.
- all executive management matters affecting the company. All members of executive management report, either directly or indirectly, to the Chief Executive⁴.

2. Chair, Board and Board Committees

- Ensuring that the Board and Board committees have the information and resources required by them to perform their roles.
- Ensuring that he/she maintains a dialogue with the Chair on the important and strategic issues facing the company and that the Chair is informed of forthcoming strategic, contentious or sensitive issues affecting the company of which the Chair might not otherwise be aware.
- Providing input into the Board's agenda.
- Ensuring that adequate and appropriate communication and information is given to the Board.
- Ensuring the timely and effective implementation of Board decisions.

3. Business Strategy and Management

- Proposing and developing the company's overall strategy and objectives, having regard to the company's responsibilities to its shareholder and to industry, industry investors, consumers, employees and other stakeholders.
- Successfully achieving objectives and the execution of strategy following presentation to, and approval of, such objectives and strategy by the Board.
- Recommending to the Board an annual budget and annual Business Plan.
- Regularly reviewing the operational performance and strategic direction of the company's business.
- Leading the other executive director(s) and the senior executive team in the day to day running of the company's business.
- Formalising the roles and responsibilities of the senior executive team, including clear delegation of authorities.

4. Shareholder

- Facilitating effective communication with the shareholder in accordance with the processes accepted by the Board.
- Ensuring effective communication with the Department of Energy and Climate Change ("DECC") teams interfacing with the company.

5. Accounting Officer Responsibilities

- Fulfilling his/her Accounting Officer responsibilities⁵, which include the responsibility to be satisfied that the resources authorised by Parliament are used for the purposes intended by

⁴ The Company Secretary has reporting accountabilities to the Chair in relation to Board matters. The Head of Internal Audit has reporting accountabilities to the Audit Committee.

Parliament and that all the company's funds, and any receipts, are properly accounted for; that the company's use of resources and retention of any reserves in carrying out its functions complies with the requirements of the Framework Document and the relevant legislation; and that public funds are safeguarded and used with propriety and regularity⁶.

6. Governance Document Reporting and Other Requirements

- Ensuring the company's compliance with the requirements of its governance documents, including the Framework Document and the Finance and Reporting Letter⁷.

7. Financing

- Examining all significant expenditure proposed by the company and recommending to the Board that which falls within the authority levels which the Board has reserved to itself.
- Ensuring the proposed operational costs budget is prepared in a timely manner.
- Ensuring delivery within the annual budget following receipt of Board and other required approvals relating to such budget (including regulatory confirmation of the annual operational costs).

8. Risk Management and Controls

- Managing the company's risks in accordance with the processes accepted by the Board and/or relevant committee.
- Ensuring that appropriate internal controls are in place and implemented.

9. Communication

- Otherwise than where and to the extent that such matters form a Matter Reserved to the Board, dealing with the press and other media and approving the issue or process for issuing press releases.
- Ensuring compliance with the requirements of the Framework Document processes in relation to the relevant liaison with the shareholder in respect of press and other media communications.
- Representing the company to the DECC interface teams, industry, industry investors, government, consumers, employees, the media and the public.

10. Other

- Promoting and conducting the affairs of the company with the highest standards of integrity, probity and corporate governance.
- Setting or (as relevant) recommending to the remuneration committee the company's HR policies, including management development and succession planning for the senior executive team.
- Developing the policies required by the company and seeking Board approval for those where Board approval is required.
- Ensuring that all company policies and procedures are implemented followed and conform to the highest standards.

⁵ The Chief Executive has, by letter of appointment, been appointed by the Secretary of State of Energy and Climate Change as Accounting Officer.

⁶ The further relevant responsibilities of the Accounting Officer are set out in the Accounting Officer letter of appointment and in chapter 3 of HM Treasury's guidance on Managing Public Monies and other government guidance.

⁷ The Finance and Reporting Letter dated 1 August 2014 from the Secretary of State to the company.