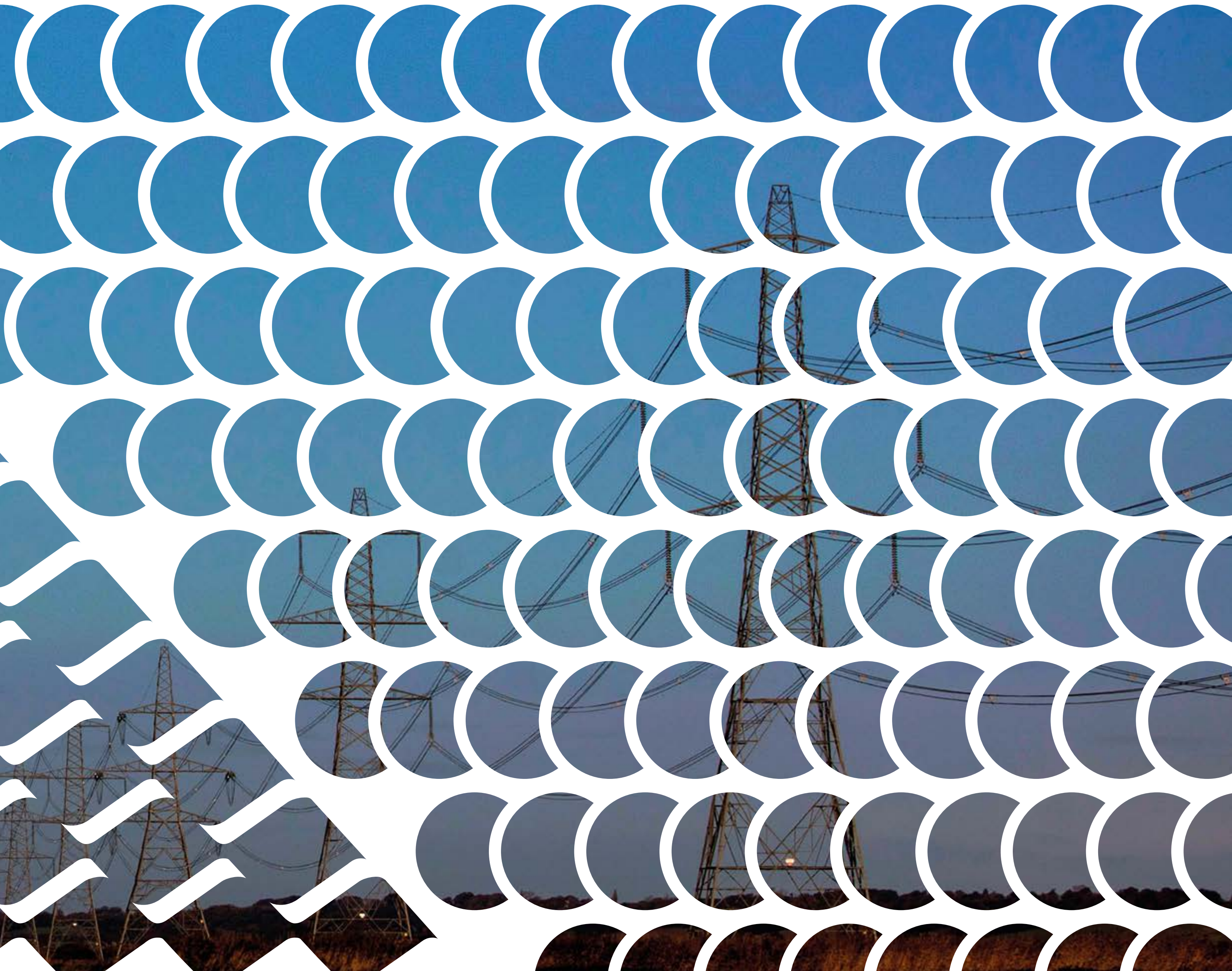
Electricity Settlements Company

Annual Report and Accounts
for Electricity Settlements Company Ltd

2020/21

Company registration number: 08961281



OUR VISION

is to be at the heart of the delivery of the UK's goals for secure, affordable and sustainable energy.

OUR MISSION

is to implement and develop electricity market schemes by providing independent expertise, insight and leadership.

ESC'S GUIDING PRINCIPLE

is to maintain market participants' confidence in the Capacity Market settlement process and minimise costs to consumers.[1]

Electricity Settlements Company (ESC) is an operationally independent, not-for-profit private company wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). The company carries out the key role of Capacity Market Settlement Body, supporting the delivery of the Government's objective of "ensuring that the country can deliver its goal to provide a reliable, low cost and clean energy system"[2].

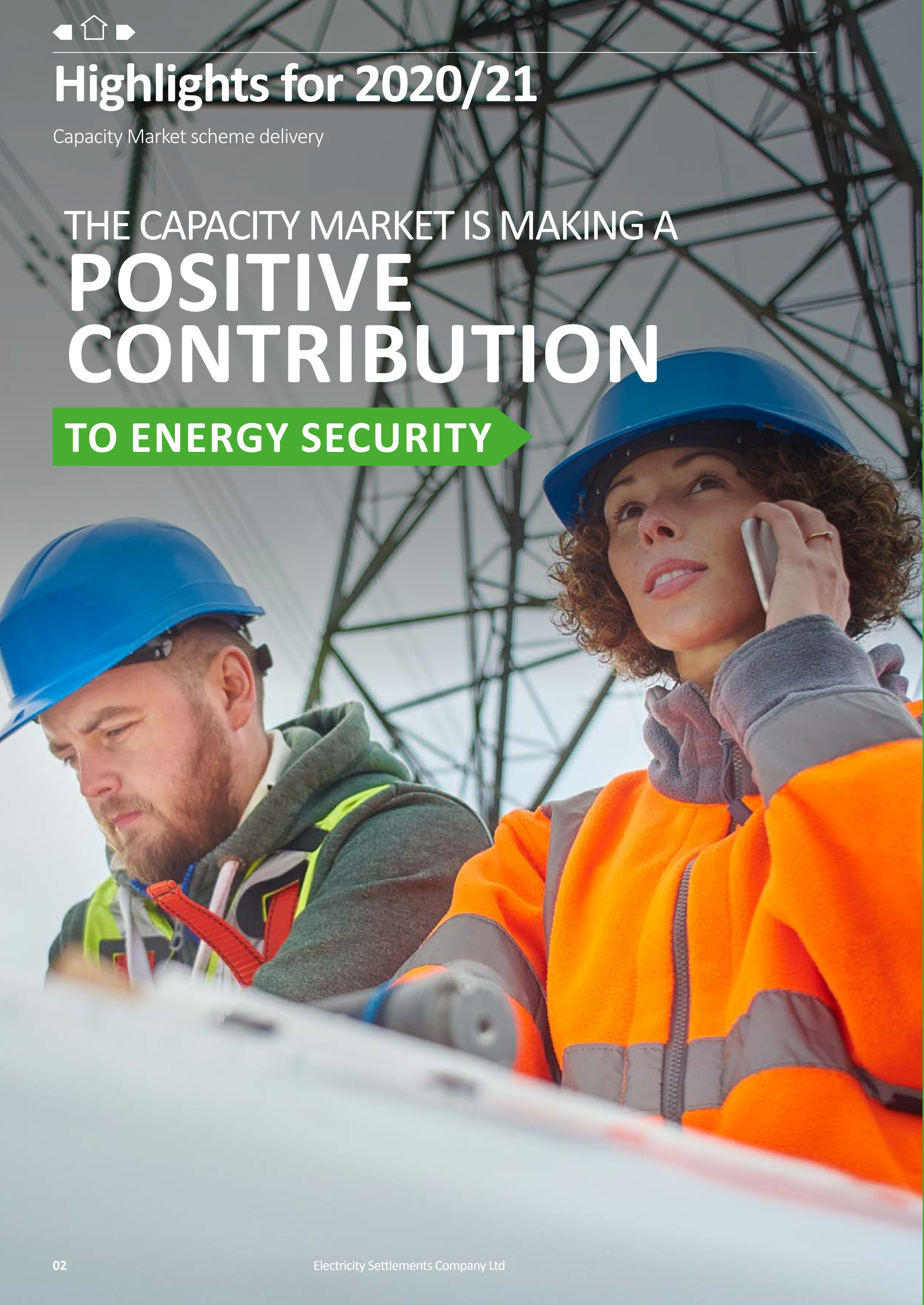
As Capacity Market Settlement Body, ESC is responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as credit cover, meter assurance, penalties, and payments to capacity providers.

Biogas plant

1. ESC Framework Document available at lowcarboncontracts.uk/corporate-governance.
2. BEIS Single Departmental Plan, updated 27 June 2019: www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan-june-2019.

CONTENTS

Capacity Market scheme delivery



THE CAPACITY MARKET IS MAKING A
POSITIVE CONTRIBUTION
TO ENERGY SECURITY

Delivering Excellence

RESTART
FINALISED ALL SYSTEM, PROCESS AND RECONCILIATIONS from regulatory changes implemented to restart the Capacity Market.

DATA
PROVIDED A NEW METERED DATA PORTAL FOR CAPACITY PROVIDERS to improve visibility of Stress Events, Satisfactory Performance Day and DSR tests.

DEMAND
AUTOMATED THE PROCESS OF REQUESTING, COLLATING, AND INPUTTING SUPPLIER DEMAND for use in the CM supplier forecasts.

Developing as a Centre of Expertise

PROJECTIONS
PUBLISHED NEW CAPACITY MARKET COST PROJECTION DASHBOARDS in response to electricity supplier focus group feedback.

TESTING
DELIVERED A STRESS EVENT TESTING PROGRAMME to ensure that systems, end-to-end processes and interfaces for a Stress Event were tested and automated where required.

PROCESSES
END-TO-END EVALUATION, AND SUBSEQUENT STREAMLINING OF PROCESSES, including simplifying Satisfactory Performance Days, through optimising our data flows with the Delivery Body.

Acting as a Trusted Advisor

IMPROVE
ADVISED BEIS AND OFGEM ON POLICY, REGULATION AND RULE CHANGE using our growing analytical capability to improve the efficient operation of the Capacity Market and achievement of its policy objectives.

RESPONSE
WORKED CLOSELY WITH COLLEAGUES IN OFGEM ON CM RULE CHANGES and submitting a response to their Summer 2020 consultation on Capacity Market Rule change proposals.

ENGAGE
ENGAGED WITH CAPACITY PROVIDERS WITH NEW ESC WEBINAR AND AT DELIVERY PARTNER EVENTS. New CM timeline created to help participants understand end-to-end Capacity Market actions and dependencies.

Key

Capacity Market (CM) activity

Chair's foreword

Last year I wrote a foreword for the ESC Annual Report that celebrated the success of restarting the Capacity Market (CM) after its enforced standstill. The ESC team had worked tirelessly to ensure that once the signal had been given, the machine would spring back to life – which it did, magnificently. However, the effort required to perform this resuscitation was at the cost of the more workaday labour of refining and improving the systems and processes of the CM. This year I am celebrating successes that are quieter and less visible, but no less worthy of celebration, in making this mechanism work better from end to end. This progress is even more remarkable given that all our staff were working entirely remotely for the whole year.

Resilience underpinned by continuous improvement

Prime among these activities was the programme of work undertaken to ensure that, if a Stress Event is called, the underlying processes are fit for purpose – so that the reliable capacity the CM is intended to secure actually delivers as intended. The continuous improvement methodology used to improve the Stress Event processes has also been applied to simplification of the CM from end to end, across all delivery partners. Four such reviews were conducted in the past year, each resulting in improvements. The team now has the bit between their teeth and are looking to grow this programme next year.

One area where I am particularly proud progress has been made in 2020/21 is the publication of the underlying data for CM settlement. ESC aspires to be an exemplar of the 'presumed open' principle for energy data, and this year we have started to deliver on that aspiration. We have established a data portal, which hosts a growing number of data sets – allowing users to download the underlying data and perform their own analyses.

Efforts have also been made to improve communication with suppliers and capacity providers, despite the limitations of lockdown, through webinars and focus groups. There is more to do for these stakeholders but we have made good progress and fully utilised remote technology to proactively reach as many as possible. I look forward to being able to meet members of these key groups when we can have face to face interactions again.

An evolving landscape

Our operational excellence and commitment to continuous improvement is the foundation on which our expertise in scheme delivery is built. That expertise, in turn, allows us to advise Government and Ofgem in the ongoing evolution of the CM. We continue to develop our data and analysis capability further, to enable us to propose changes within the forthcoming 10-year review of the CM based on the evidence of how the electricity system is actually working and from our unique vantage point at the centre of the market interacting with suppliers and generators in both the Contracts for Difference (CfD) and CM.

Regina Finn
Chair

Chief Executive's statement

While our societal ambition to deliver a Net Zero economy ramps up, it is still vital to ensure that our supplies of electricity are secure as well as sustainable. We are conscious that the Capacity Market (CM) needs to deliver this objective in an efficient and resilient manner, to ensure that power supplies are there when we need them most. I am proud that we have successfully continued this vital work during the most unusual and difficult of circumstances, with colleagues entirely working from home throughout the financial year.

The new normal

After the hard work to ensure a smooth restart of the CM in 2019/20, 2020/21 saw a return to more normal activity in the mechanism, with the regular cycle of annual auctions and payments resumed. Onshore wind and solar projects won more CM agreements, with nameplate capacity of 528MW of onshore wind and 556MW of solar PV being successful across the T-1 and T-4 auctions. This year, no coal plant was successful in either auction, showing that the exit from this technology is almost complete, while over 10GW of interconnectors secured agreements in the T-4 auction. The capacity mix in GB is changing, and we are working hard to ensure that the CM evolves to match this.

Delivering improvement

This evolution of the CM must be based on a strong foundation of processes and systems that are robust in the face of change, both expected and unexpected. This year we have turned our attention to these foundations, looking to where we can make improvements to their efficiency and resilience.

This year we delivered more frequent checks of the underlying CM processes, allowing a swifter feedback loop for continuous improvement and enabling the impact of system and policy changes to be tested as they are implemented. This approach is being continued into 2021/22 and should improve the robustness of CM Stress Event infrastructure markedly.

We have also made system, process and service improvement changes on the EMRS portal that we hope will further improve the experience of system participants and improve the efficiency of the service overall.

Over the course of the year, ESC handled Capacity Payments totalling £1,094.7m, less than the £1,483.3m in 2019/20, with the latter including back payments to cover the whole of the 2018-2019 Standstill Period. The total net operating costs of the company for the year were £7.0m (2019/20: £7.0m), compared to the pre-approved budget of £7.5m (2019/20: £7.6m). Consequently, we will be returning £0.5m to suppliers for 2020/21.

Advising on policy

Our Trusted Advisor function continues to grow in importance, with one of our staff members embedded one day per week within the CM team at BEIS in the run-up to the system's 10-year review. Our role is also underlined by our membership of the CM Policy Board and co-chairing of the Regulatory Change Advisory Board. We have responded to BEIS consultations such as the 2020 consultation on Future Improvements, as well as responding to Ofgem's Summer 2020 consultation on CM rule change proposals. All this is underpinned by less formal inputs where our expertise can help Government and regulators improve the system and deliver on their objectives.

Our advisory work is rooted in our deep understanding of the CM's operations and the data on it that we hold and analyse. We are continuing to publish more of that data, as well as a two-year forecast of the cost of the CM to aid suppliers in their longer-term planning. Such openness is starting to be reflected in stakeholder feedback on our work, which we aim to improve further in the coming year.

In all, 2020/21 has been a quieter year for ESC and the CM overall, but that has allowed us to get on with the job of seeing through long-desired upgrading and enhancement. We hope that the benefits of that investment of time and energy will become increasingly visible to all in the months and years ahead.

Neil McDermott
Chief Executive

CAPACITY

The capacity mix in GB is changing, and we are working hard to ensure that the CM evolves to match this.

> £1 BILLION

Over the course of the year, ESC handled Capacity Payments totalling £1,094.7m

Strategic Report

Our role in delivering affordable, reliable and clean electricity

Our mission is to implement and develop electricity market schemes by providing independent expertise, insight and leadership.

- ESC is the Capacity Market Settlement Body responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as credit cover, meter assurance, penalties, and payments to capacity providers.
- ESC maintains market participants' confidence in the Capacity Market settlement process by providing guidance and communicating regularly through bulletins and via our dedicated settlement portal.

Key outcomes in 2020/21

Capacity Market settlement outcomes[3]	Total payments made by ESC to capacity providers	Total annual cost (including ESC settlement (i.e. operational) cost levy)	Operational costs as a percentage of total annual cost
Availability payments made to 22.6GW of capacity for Delivery Year 2019/20 and 29.0GW for Delivery Year 2020/21	**£405.3m** (for Delivery Year 2019/20)[4] **£689.0m** for Delivery Year 2020/21 from October 2020 to March 2021)[4]	**£1,101.9m**	**0.6%**

3. Figures may not reconcile due to rounding.
4. A Capacity Market Delivery Year runs from 1 October to 30 September the following year.

Performance against Strategy

Overview of company's role

Electricity Settlement Company (ESC) is an operationally independent company wholly owned by the Secretary of State for BEIS, which carries out the key role of Capacity Market Settlement Body. The company's main function under the Capacity Market scheme is to perform the levy collection and settlement role set out in the Capacity Market Regulations.

As part of this role, the company also collects credit cover provided by applicants to Capacity Auctions, pays the credit cover back to unsuccessful applicants and processes the credit cover of successful applicants in accordance with the requirements of the Capacity Market Regulations. This credit cover is intended to provide a level of security for the performance by capacity providers of their obligations under the Capacity Market Regulations. In addition, as part of its role under the Capacity Market scheme, the company undertakes meter assurance activities to check that capacity providers are providing the capacity they are required to provide under their Capacity Agreements.

Our mission is to implement and develop electricity market schemes by providing independent expertise, insight and leadership. Figure 1 depicts our three strategic objectives, against which our performance is measured.

Figure 1: Our three strategic objectives

Performance Overview

ESC has continued to deliver our core Capacity Market business activities in what have been challenging times for all. During the pandemic, our focus has been to inform and support generators and suppliers; key initiatives we have worked on include:

- Introducing a data portal, following feedback from stakeholders on the value to them of downloadable data
- Focusing on improvements to Stress Event processes following evaluation of the mock Stress Event in 2019
- Hosting virtual events for suppliers and capacity providers
- Continuing to work on improvements to the settlement system.

Despite operating virtually for the entire year, we have delivered operational excellence in our settlements, with 99.30% of issued invoices (combined for CfD and CM), notifications and payments accurate and on time, and 100% of Requested Meter Tests completed.

Delivery Excellence

Excellence during COVID-19

If there has ever been a time to show resilience and agility, it has been during 2020/2021. We have continued to work remotely throughout the pandemic and remained 100% operational. We have also used remote working technology to increase the amount of engagement we undertake on the Capacity Market. In addition to new webinars aimed at capacity providers and more events in collaboration with EMRS, we have held focus groups with smaller suppliers to understand their needs better.

Stress Event testing programme

We engaged capacity providers at the EMR Delivery Body's Capacity Market event on 15 July 2020 to highlight our approach to testing the Stress Event process, in preparation for an actual Stress Event. We received feedback that visibility of change and improvement is more important than just a one-off mock Stress Event.

This year has seen more Capacity Market Notices (CMNs), and this further raises the question of how we prioritise resource related to Stress Events.

Although these CMNs did not result in any Stress Events, we continued with our Stress Event testing programme and will consider the delivery of a mock Stress Event in 2021, or at least similar testing that allows us to prove readiness. Following from the last mock Stress Event, it was identified that capacity providers would benefit from being able to see the data they provided during the Stress Event. This change was implemented and is now available on the EMRS portal.

We have also been working with the Delivery Body (ESO) to test the system interfaces in case a Stress Event was to occur. This test has been successful and shown that the Delivery Body and ESC systems and processes align. This test is on the critical path to deliver a mock Stress Event with dummy data, if deemed appropriate.

We continue to work with BEIS and Ofgem to ensure future policy change is considered and organised appropriately.

CM T-1 Auction

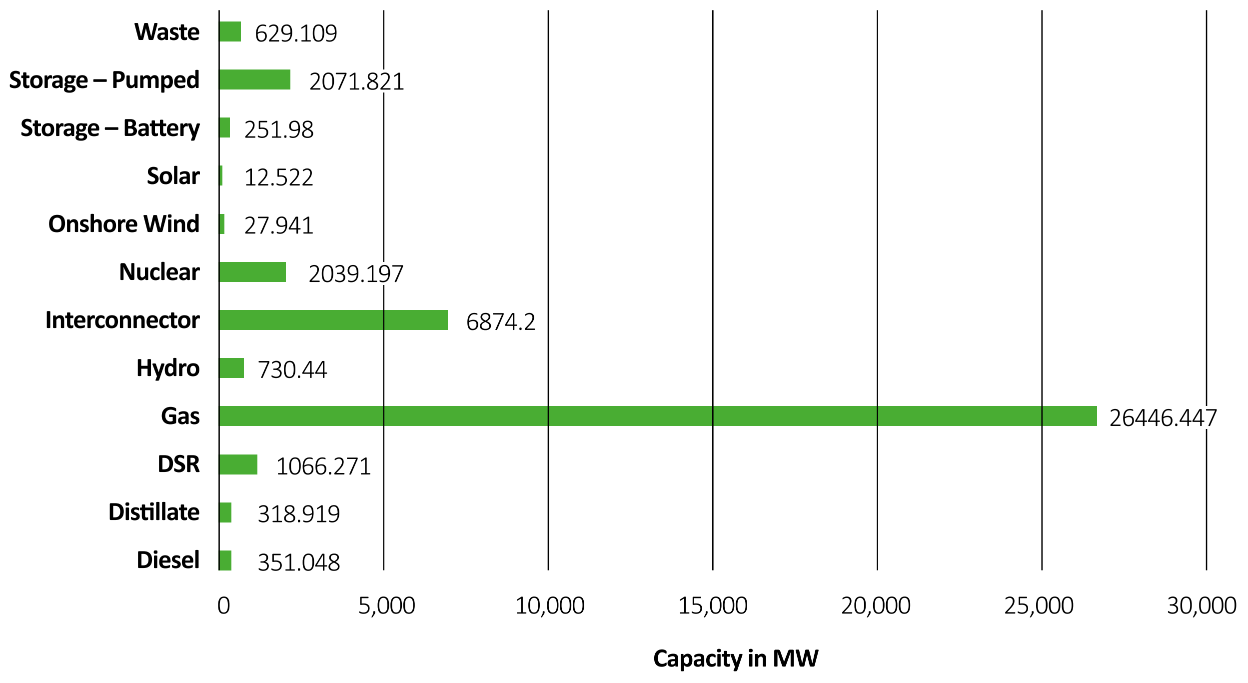
The T-1 Capacity Market auction cleared at a price of £45/kW/year and secured 2,252MW of capacity for Delivery Year 2021/22. This compares to £1/kW/yr last year where there was only a 300MW requirement. Adding this to the 52.8GW of capacity secured in the earlier four-year-ahead (T-4) auction for the same Delivery Year, the total of 55.05GW means we can have confidence that we will have sufficient capacity available to deliver electricity when needed next winter.

The auction saw renewables continuing to enter the Capacity Market, with new build onshore wind (169.5MW nameplate/14MW derated) and solar (21MW nameplate/5MW derated) getting contracts.

CM T-4 Auction

The T-4 Capacity Market auction cleared at a price of £18/kW/year and secured 40,820MW of capacity for Delivery Year 2024/25. This compares to £15.97/kW/year last year. Onshore wind and solar were also successful in the T-4 auction, with 358MW of the former (28MW derated) and 535MW of the latter (13MW derated) securing agreements.

Figure 2: Capacity awarded by primary fuel type



Capacity Market process reviews and data analysis

As part of ESC's responsibility for managing the Capacity Market (CM) scheme, we conducted a number of end-to-end process reviews with the goal of improving efficiency. We evaluated what steps occurred against the core deliverables. One of these processes was the Satisfactory Performance Days (SPD) requirement, where CM participants have to prove they can deliver the capacity obligation that was acquired through the CM auctions held.

There were a number of efficiency gains made as a result of the review, but most importantly we recognised the requirement to improve the visibility of auction acquired capacity against metered data. We have started to look at how we can utilise this data further for improved understanding of the performance of the CM, and potentially to remove unnecessary operational steps.

From the Satisfactory Performance Days review, and acting on capacity provider feedback, the first delivery was to give the Delivery Body (ESO) access to EMRS' data portal in order to reduce the time taken to request data; this will save significant time, allowing EMRS more time to manage data discrepancies. Going forward we are looking to see if we can pre-qualify SPDs when the data shows that capacity providers have achieved the appropriate levels.

Change delivery

Over the course of the year, we delivered four significant system, process and service improvement changes on the EMRS portal:

Meter Data on Portal – As described above.

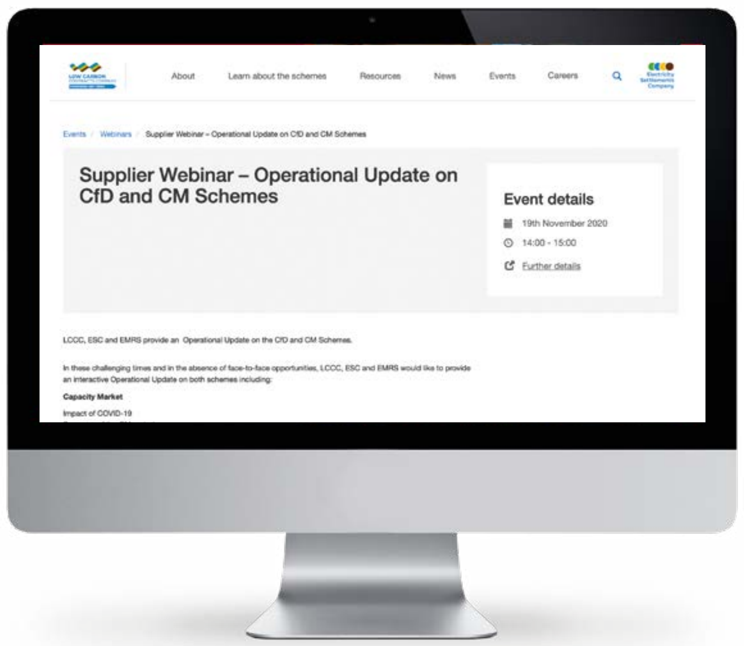
Capacity Metered Volume Reallocation Notification Portal (CMVRN) submission – Provided a template form on the EMRS Portal for capacity providers to correctly fill in their CMVRN details. It also provides a reject or process status following submission.

Automation of Capacity Market Supplier Demand Forecast Process – Automated the production of CM supplier demand forecast templates to forecast a supplier's demand. This should save them time and also automates the process at EMRS to improve efficiency.

Satisfactory Performance Days Process Improvement – As described above.

Engaging with our Capacity Market stakeholders

The pandemic has challenged us to continue engaging with our stakeholders virtually. In place of our annual stakeholder event, we hosted the supplier Update in late 2020 which was attended by over 140 suppliers. Furthermore, in January 2021, a virtual event for capacity providers on the Capacity Market timeline was also well received. Recordings of these events are available on the LCCC/ESC website.[5]



5. www.lowcarboncontracts.uk/dashboards/capacity-provider-activity-timeline

Centre of Expertise

Sharing knowledge

This year, we have been building on our successes from last year by making data more accessible to stakeholders. The data portal was introduced in December 2020, providing downloadable data to stakeholders. In addition, we have introduced the 24-month cost projection for the Capacity Market.[6]

The Capacity Market dashboard[6] was launched in early 2021 and allows capacity providers to identify upcoming Capacity Market Activities and display high level information, such as the relevant Capacity Market Delivery Partner(s) and links to useful guidance, working practices and materials.

Figure 3: The Capacity Market Forecast dashboard contains the forecast CM monthly costs over a two year horizon

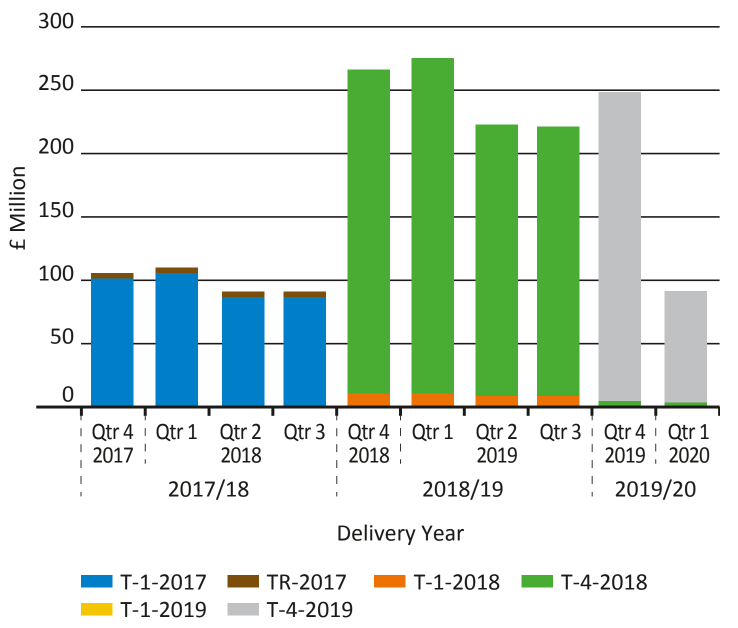
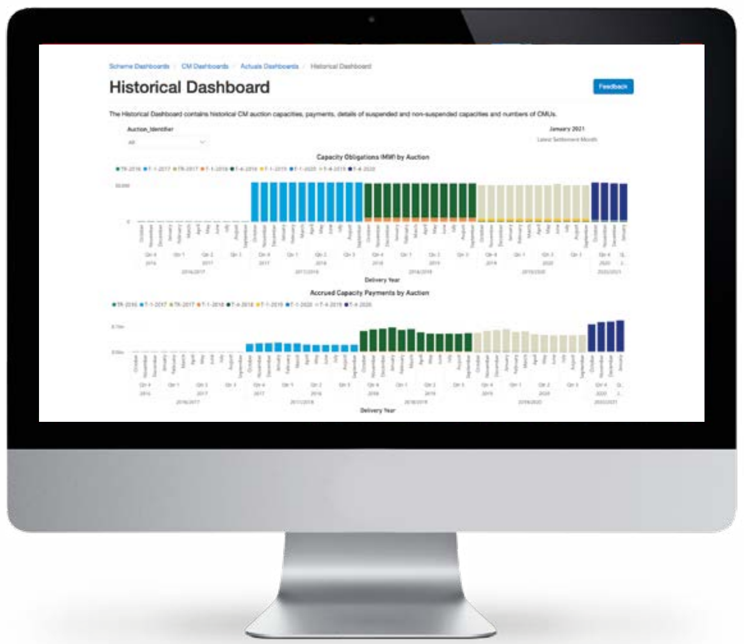


Figure 4: Screenshot of the CM historical data dashboard



6. www.lowcarboncontracts.uk/dashboards

Trusted Advisor

Supporting scheme development

We have continued to share our knowledge of the Capacity Market with the BEIS Electricity Security and Market Evolution (ESME) policy team, working on changes to the scheme collaboratively and through our membership of the Capacity Market Policy Board, as well as through the ESC and Delivery Body (ESO) jointly chaired Regulatory Change Advisory Board which is attended by BEIS and also Ofgem.

In our response to the BEIS 2020 consultation on Future Improvements we supported reducing the Minimum Capacity Threshold to participate in the CM from 2MW to 1MW as this was in line with the wider Smart Flexibility agenda. Also, we supported the exclusion of standalone storage units from entering the CM under a DSR de-rating in future auctions.

We also continue to work closely with colleagues in Ofgem on CM rule changes and submitted a response to their Summer 2020 consultation on Capacity Market rule change proposals.

In February 2021, Omer Ahmad, Policy and Regulation Manager at LCCC was invited by BEIS to support work on policy development of the scheme and is now embedded within the ESME team one day a week.

Growing our analytical capability

Data analysis on the CM is a growth area for ESC. In 2020/21, the process evaluation work we conducted on Satisfactory Performance Days highlighted that the greater utilisation of data could play an integral role in the operations of the CM. We have already seen benefits from these changes for delivery partners and we plan on developing this further to inform wider changes for capacity providers.

A secondary benefit has enabled us to cut the data in different ways to support data analysis on what the Capacity Market is doing in different scenarios. Utilising this data effectively to support operations improvement, policy change and decision-making is a priority for 2021/22 and to support Ofgem and BEIS through their ten-year review.

"We value the advice and expertise ESC provides in translating our Capacity Market policy proposals into settlement functionality. I expect them to continue to play a key role as a Delivery Partner, and Trusted Advisor, in future change to the CM, especially as we commence the 10 Year Review and Future Market Design process."

Matthew Deitz
Head of Future Markets (Electricity Security), BEIS

Financial Overview

Capacity payments

The total amount of capacity payments in the financial year was £1,094.7m (2019/20: £1,483.3m).

The Delivery Year for the Capacity Market runs from 1 October to 30 September of each year. The capacity payments for each Delivery Year are summarised in the table below, by reference to each financial year.

Capacity Market delivery	FY 2020/21	FY 2019/20
T-1 Capacity Auction 2018/2019	£0.4m	£33.4m
T-4 Capacity Auction 2018/2019	-	£953.9m
T-1 Capacity Auction 2019/2020	£1.2m	£1.5m
T-4 Capacity Auction 2019/2020	£404.1m	£494.5m
T-1 Capacity Auction 2020/2021	£0.5m	-
T-4 Capacity Auction 2020/2021	£688.5m	-
Total	**£1,094.7m**	**£1,483.3m**

Capacity payments for the 2018/19 Delivery Year were recognised in the 2019/20 financial year due to the Standstill Period. In November 2018, the European Court of Justice (ECJ) annulled one of the Capacity Market state aid approvals (SA.35980 granted in July 2014) on the basis that the European Commission should have conducted a formal investigation prior to granting the relevant approval. Subsequent to this decision, the European Commission undertook the required investigation, pending the results of which the Capacity Market was in a "Standstill Period". With the Standstill Period coming to an end in October 2019, subsequent to the European Commission granting the relevant state aid reapproval, ESC recommenced its normal business operations. This included the collection of supplier charges and the making of capacity payments for the 2019/20 Delivery Year, and also the collection of "deferred payments" which totalled £987.3m from suppliers in relation to the 2018/19 Delivery Year.

The company obtains the funds to make payments to capacity providers by charging electricity suppliers as set out in the Capacity Market Regulations, with suppliers being obliged to pay their charges within three working days of receipt of an invoice from the company. The company does not, however, under the Capacity Market Regulations, make capacity payments until 29 working days after the end of the relevant month. This provides protection for the company against cashflow timing issues.

Suppliers must lodge credit cover as security against their failure to pay amounts for which they are liable. Where the credit cover is called upon and proves insufficient to cover the amount due from a particular supplier, the shortfall is "mutualised" between the remaining suppliers (i.e. the remaining suppliers have to make up the shortfall between them). As at 31 March 2021, the company held £27.8m in supplier credit cover (2019/20: £27.3m). During the year, £6.1m of supplier charge was mutualised to other suppliers (2019/20: £12.6m).

The Capacity Market also places financial obligations on capacity providers. If a capacity provider does not provide the capacity required, it may, in accordance with the Capacity Market rules and regulations, be obliged to pay a penalty to the company. Where the company receives penalty monies from capacity providers, it pays these monies to suppliers. There may also be circumstances where a Capacity Agreement is terminated pursuant to the Capacity Market rules. Where the company receives termination fees, these amounts are passed on to the Government's Consolidated Fund via BEIS Treasury.

Operational costs

The day-to-day operational costs of the company are funded by suppliers under the annual fixed 'settlement' or operational costs charges set by the Supplier Payment Regulations. The amount set out in the Supplier Payment Regulations is amended by Parliament, after public consultation, to reflect the company's required operational costs for the relevant financial year. The amount is then divided between suppliers and charged to them in accordance with their market share.

The total settlement costs charges for 2020/21 were fixed at £7.502m and for 2021/22 is set at £7.472m.

The company has delivered its operational role within the budget set by the operational costs levy for 2020/21.

The company applies robust financial management in order to ensure that its collection of the settlement costs levy is carried out in good time in order to meet its commitments to capacity providers.

The company shares resources with LCCC, which are paid for by LCCC with the proportion of the costs related to the Capacity Market being recharged to ESC, as further set out in note 2.6 to the financial statements.

The total net operating costs of the company for the year were £7.0m (2019/20: £7.0m). As a result of its strong financial performance over the financial year, the company will return £0.5m to suppliers for 2020/21 (2019/20: £0.6m).

Post balance sheet events

There are no post balance sheet events to be recognised or disclosed.

Significant accounting matters and key judgements in the financial statements

There are no significant accounting estimates and key judgements to be recognised or disclosed.

Viability Statement

The Directors have assessed the viability and prospects of the company over the next three years. In doing so the Directors have undertaken a robust assessment of the company's current position, the emerging and principal risks faced by it and the potential impact of these risks on the future prospects and development of the company (including those that would threaten the company's business model, future performance, solvency or liquidity). The Directors consider the company to be viable for at least three years up to March 2024. The company currently has approved budget until March 2022, and the Government has publicly stated its intention to consult later this year on a budgetary period covering 2022/23 to 2024/25, for which the company is currently preparing its business plan.

The financial arrangements relating to the company minimise the risk of the company being unable to meet its liabilities. As set out in the preceding financial overview, the company is not obliged to make payments to capacity providers unless and until it has the funds to do so, and the annual budget for its operational costs will roll forward each year pending the passing of regulations setting a new budget. The company also applies prudent financial management and robust financial forecasting and cashflow procedures to ensure that its operating costs are covered by the settlement costs levy.

As part of the strategic planning process and in assessing viability, the Directors have considered the regulatory and legal environment within which the company operates, and do not foresee any changes that will significantly affect the finances of the company within the viability period of three years referred to above. The Directors have also carefully considered the way in which the company manages its principal risks and have assessed the potential financial impact of the principal risks identified, and do not feel that these risks will bring into question the company's viability.

A significant risk that the Directors considered in the prior year when making their assessment of the company's viability was the impact of COVID-19. As the company's operational cost funding is recovered through the settlement costs levy on suppliers, it was identified that there was increased risk, as many suppliers have faced significant uncertainty regarding the level of electricity demand. This risk has been continually monitored during the year. The Directors believe that, as a result of the fixed nature of settlement costs levy, the pay when paid mechanism for capacity payments, the option to request a working capital loan from BEIS and the potential for requesting BEIS to support an in-year adjustment to the applicable settlement costs levy rate, the company is able to mitigate this risk.

Based on their assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the relevant period.

£7.0M

The total net operating costs of the company for the year were £7.0m

£1,094.7M

The total amount of capacity payments in the financial year was £1,094.7m

Risk Management – principal risks and uncertainties

The Board formally reviews the material risks facing ESC and ensures that they are appropriately managed by the Management Committee, with a focus on ensuring that management is alert to and takes account of any new or emerging risks. The Board retains ultimate responsibility for the company's risk management framework, with oversight of the overall effectiveness of the risk management programme being delegated to the Audit, Risk & Assurance Committee. The company has an Assurance & Risk function to provide assurance over controls, including those to mitigate key risks. Assurance & Risk co-ordinates risk management activity across LCCC, with regular sessions held at Management Committee to review, scrutinise, and update strategic risk. During the year, a new Head of Assurance & Risk was appointed.

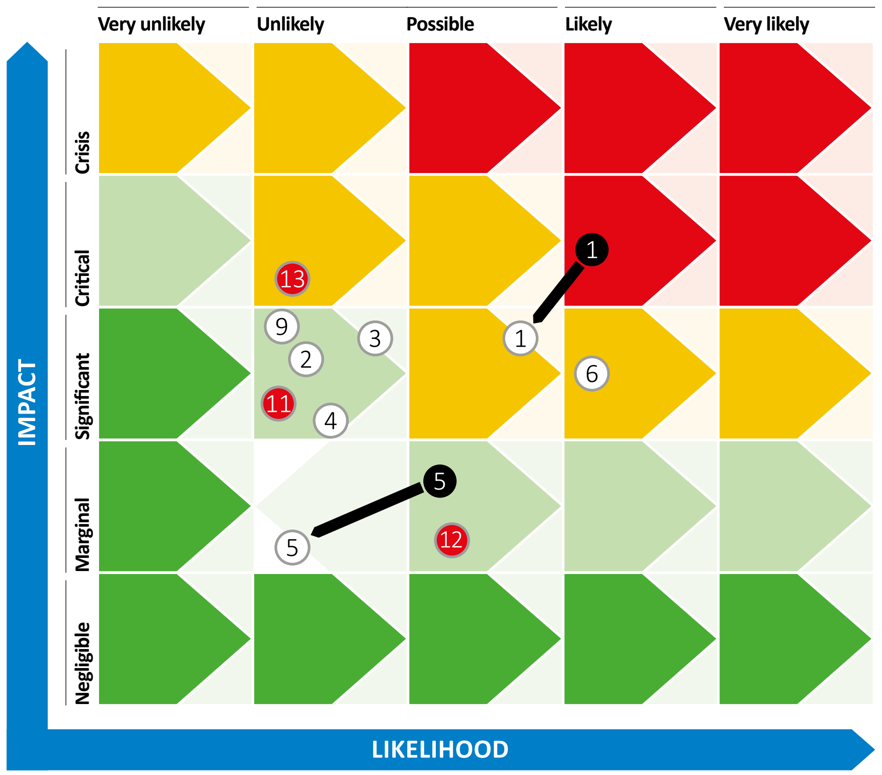
The risk management framework has continued to develop in 2020/21, with a refresh of the Framework Document to align with the revised HM Treasury's Orange Book on risk management. Continuing from 2019/20, risk appetite has been further developed following Board workshops, with appetite established against key risk themes (Financial, Operational, Reputational, Compliance/Legal, Information) – these have been used to set risk targets for each strategic risk. At operational level, risk management is embedded in activities, with regular updates provided alongside performance reporting and as part of the Heads of Teams forum. The concept of risk appetite has been a more active measure as we seek to understand both risks and opportunities in developing our new company strategy. The strategic risk register and company-wide approach will be refreshed for the start of 2021/22 financial year.

The company's approach to risk management is further detailed in the Corporate Governance Report on page 28. The assessment of the company's most significant principal risks considered by the Board and the corresponding mitigating controls are set out below.

Risk Heat Map

The heat map depicts the assessment of impact and likelihood of the company's principal risks.

Table 1: ESC principal risks



Key

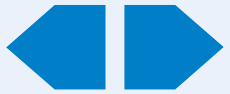
- 2020 position
- 2021 position
- New risk

Risk

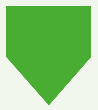
1 People
2 Cyber and information security
3 Provision of settlement services
4 External market
5 EU exit
6 Reputation and relevance to stakeholders
7 Knowledge
8 Scheme fraud and error
9 CfD
10 Governance
11 Working arrangements and office move
12 Ability to adapt
13 Organisational Resilience

Strategic Risks

Our risk landscape continued to evolve in 2020/21, particularly given the wider impact of COVID-19. This allowed us to refresh a number of different risks and consider our approach to managing these, as well as the potential for opportunities and efficiencies. We have also been mindful of external risks, with a view of assessing how we can improve our visibility on risk areas that we are unable to directly manage. We have also been reviewing how we can develop new areas of business and how we manage the associated risks/opportunities. A summary of key risk activity and movement since March 2020 is provided below; while there have been further risk movements in-year, this represents a net comparison between the annual positions. There have been risk additions and amendments to ensure the right cause and impacts have been reflected (e.g. COVID-19 risk has been reframed to focus on overall Organisational Resilience to provide a more strategic view). Further mitigations are in progress to ensure risks are managed in line with risk appetite.

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Cyber and Information Security Data is lost, stolen or compromised (by LCCC/ESC or within our supply chain) resulting in disruption to business operations, financial loss and reputational damage.	• Movement to this risk in-year reflected the potential increased risk from remote working and awareness of cyber attacks in the sector. We actively reviewed key lessons learned from wider cyber attacks to apply within LCCC/ESC, as we moved our wider IT infrastructure to the cloud. • We have also sought external expertise to assist us in the longer term for assurance in IT matters, including cyber security. A review is currently underway to benchmark our new operations to best practice, with a roadmap to be produced of potential improvement actions.	
Provision of Settlement Services • System Change – Business model, systems and processes may not be fit for future resulting in inefficiencies and late/missed delivery of change. • Operational Controls – System and controls may not be robust resulting in errors and reputational damage.	• During the year, the risk was reviewed to differentiate between system change and operational controls to provide better operational join-up. The risk likelihood increased due to wider external risk in the settlements process, although this has since reduced with further mitigations. • Continuous improvement actions have been ongoing, with further assurance provided through an Internal Audit review providing a roadmap for improvements. ARAC also conducted a deep dive of this risk, from which further mitigation actions were taken forward.	
External Market There is a risk we have limited ability to anticipate and respond to competition and the complexity and volume of change in the market, and wider structural market change. We may also have limited ability to proactively influence and prioritise change and scale up activity quickly.	• We have continued to strategically engage with various stakeholders to manage and scale up to different change opportunities, as well as being responsive to wider market change. • With the challenges of COVID-19 on the sector, we have worked closely with stakeholders to manage potential impacts. • We have further developed our insights, with a focus on delivering analysis in-house where possible.	

Risk Management – principal risks and uncertainties (Continued)

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
EU Exit There is a risk that we may suffer business disruption and associated reputational damage if we are unable to appropriately manage the effects of the UK exiting the EU. This could impact LCCC/ESC in areas such as our people, CfDs, and our supply chain.	• Significant preparation had been in place for exiting the European Union, with an internal committee established to measure impact and provide updates to the Board. • Following the end of the transition period, immediate impacts were assessed. Medium to long term impacts will continue to be monitored, although this is likely to be subsumed into business-as-usual.	
Reputation and Relevance to Stakeholders There is a risk that LCCC/ESC has limited ability to balance reputation with generators and industry of being independent, with the role of being trusted advisor to Government and providing insight.	• As with the risk on External Markets, we have continued to engage with stakeholders, promoting our role of Centre of Expertise. • We have also undertaken significant work to build and develop our external communications function, with a focused strategy in place in how we manage our reputation with generators and promote our advisory role in an independent manner. • Taking on new workstreams represents both a risk and opportunity, which we are managing in line with our risk appetite in this area. We have been successful in working with stakeholders to develop how new schemes might be delivered.	
Knowledge We may fail to optimise knowledge as an operational/reputational asset due to lack of sufficiently robust data and capability to develop insight. There is also a risk of the loss of institutional knowledge/corporate memory, if key employees are unavailable or leave the business.	• Identified as a new risk for 2020/21 in light of work to share better insights and our recognition on how we should effectively manage in-house knowledge and expertise. • We have developed a Knowledge Management Strategy to promote better knowledge management and information sharing within the business. This also includes a Process Architecture project to map and understand our existing business processes. • We continue to develop our internal succession planning and tailor this to opportunities internally, including secondments and training to improve overall knowledge management.	**NEW RISK IN 2020/21**

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Scheme Fraud and Error Scheme fraud/error could lead to financial losses and reputational damage, which could undermine confidence in schemes and the existence of LCCC/ESC. From an external perspective, this could be participants and others trying to defraud the scheme or result from error due to the different manual inputs. There is also an internal risk due to the potential for collusion, overriding of controls, or misappropriation.	• We have worked to develop the key roles and responsibilities on fraud and error detection with wider stakeholders, given the external involvement. This has helped us to improve overall visibility of the risk.	
Governance Changes arising from the Framework Document refresh and associated classification review present opportunities to clarify roles, responsibilities, and reporting. There may also be inefficiencies and delays in shareholder approval processes that might hinder effectiveness. There is also a risk that our internal systems of governance, policies, and risk management are not fit for purpose, resulting in a failure to achieve strategic goals, the potential for litigation against LCCC/ESC and/or poor decision-making.	• This risk was reviewed in 2020/21 to include both internal and external elements of governance. These represent risk and opportunity to the company. • We have continued to work with BEIS on new company activity, with consideration on the overall governance arrangements. • We have made several appointments in-year, including a new Chief Financial Officer, General Counsel and several Non-Executive Directors. Knowledge management and continuity have been key factors in terms of how this has been managed.	
Working Arrangements and Office Move Our existing office may not remain fit for purpose until LCCC/ESC moves to a new location. This may adversely impact employee engagement, reputation with visitors and health and safety. There is also a risk our office move may also be delayed or may not be fit for purpose, resulting in extra financial cost and disengagement with staff.	• We have continued to work remotely since March 2020, although we introduced 'touchdown days' during periods of reduced restrictions. This risk has been added in recognition of remote working, issues with our existing estate, and our planned move in the summer of 2021. • We have established projects to manage the potential return to our existing estate and our planned office move to Canary Wharf. Risks are kept under close review, with regular communications to staff during periods of lockdown. • We have reviewed our Flexible Working Policy in light of changes to traditional work arrangements. We are also exploring how we develop a more agile and dynamic approach to ways of working in the future.	**NEW RISK IN 2020/21**

Risk Management – principal risks and uncertainties (Continued)

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Ability to Adapt Opportunities may be missed if the organisation is not dynamic or efficient enough in terms of people, processes, systems, governance – including organisational independence – and controls to adapt to change and competition. There is also the potential for adverse reputational impact to LCCC/ESC if the organisation is not seen as relevant long term due to missed business development opportunities.	• This is also a new risk in 2020/21, recognising the potential for organisational change in light of new schemes. We also actively reviewed our internal processes to assess how these could be improved, with a view to making the organisation more adaptable. • We have undertaken business initiatives including simplifying and streamlining existing processes, as well as promoting different ways of working and engaging. This has also extended to external engagement to strengthen our overall brand and image.	NEW RISK IN 2020/21
Organisational Resilience LCCC/ESC – or wider stakeholders – is adversely impacted by a 'crisis event', resulting in significant business disruption, failure to achieve strategic objectives, and/or a negative impact on people. This also considers the longer-term impact of COVID-19 and the potential for any future lockdowns and business impact.	• This was adapted from our COVID-19 response, as we moved from a business continuity event to establishing new business-as-usual activities. It considered both our long-term resilience as an organisation, as well as our more immediate responses to ensuring business continuity. • We have re-prioritised existing work to ensure we can deliver on essential activities, given external pressures. We have closely monitored emerging risks and issues from COVID-19, as well as commenced activity to reconfigure our business continuity planning in a new working environment. This has also coincided with our move to a cloud-based infrastructure, with assurance activity underway on how this is being managed.	NEW RISK IN 2020/21

Effectiveness of our risk management and internal controls

The Head of Assurance & Risk provides an annual report and opinion on the systems of governance, risk management and control operating in LCCC and ESC based on the work undertaken during the year, knowledge of the business environment, and the work of other assurance providers (e.g. the National Audit Office). The Head of Assurance & Risk leads on each Internal Audit review, with co-sourced support from an outsourced provider, as well as separate specialist assurance on cyber security.

This provided an overall moderate assurance. Key areas reviewed in 2020/21 include:

- CfD
- Settlements Key Controls
- HR Key Controls
- Delegated Authority Framework
- Cyber and Information Security
- Scorecard Review.

Alongside the core assurance reviews, there was also significant advisory input during the year. This reflected the changes to the work environment alongside a programme of internal change. Areas of advisory work included the upcoming office move, managing COVID-19-related impacts, exiting the European Union, and procurement of new systems. Improvement actions were highlighted within individual reviews and positive assurances were provided across key business activities. Follow up of previous actions raised also noted a positive trend towards improving timeliness of responses and the consideration of risk exposure by the business, indicating an improvement in risk maturity. While several high-rated findings were raised on particular issues, these were recognised and accepted by LCCC and ESC and prioritised for improvement.

COVID-19 did not have a significant impact on the overall Internal Audit programme, with the proposed plan largely proceeding as scheduled and covering the planned areas. The impact of the pandemic was actively considered within each audit review to ensure risk has been appropriately considered; much of the Internal Audit input on the response to the pandemic was through ongoing advisory activity to the company.

N. McDermott

Signed on behalf of the Board.

Neil McDermott
Chief Executive
11 June 2021

COVID-19

COVID-19 did not have a significant impact on the overall Internal Audit programme

Environment Report

The company does not have any employees and its role is performed by LCCC on its behalf. The company accordingly does not itself have any direct Scope 1, Scope 2, or Scope 3 emissions. The company is, however, committed to ensuring its sustainability objectives and works closely with LCCC in relation to environmental matters. Reference is made to the environment report in the LCCC annual report for further details.

Board of Directors

This was the Board as at 10 June 2021, with the changes during the year shown on page 30.

Regina Finn
Board Chair
Nomination Committee (Chair)

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Anne Baldock
Non-Executive Director
Nomination Committee (member)

Maxine Mayhew
Senior Independent Director
Nomination Committee (member)

Chris Murray
Non-Executive Director
Nomination Committee (member)
Audit, Risk & Assurance Committee (member)

Steph Hurst
Non-Executive Director
Audit, Risk & Assurance Committee (member)

Gerard McIlroy
Non-Executive Director
Audit, Risk & Assurance Committee (member)

Helen Lamprell
Non-Executive Director

Declan Burke
Non-Executive Director

Amanda Aldridge
Non-Executive Director
Audit, Risk & Assurance Committee (Chair)

Committee memberships are stated under each profile. The two committees are: Audit, Risk & Assurance Committee; and Nomination Committee.

Directors' Report

The Directors present their annual report on the affairs of the company, together with the financial statements and Auditor's Report for the year ended 31 March 2021. The company's registered number is 08961281.

Board

The Board is responsible for the overall strategy and direction of the company. Details of the Board's composition are set out on pages 25 and 30 to 31.

Directors and corporate governance

Full details of the Directors and corporate governance matters are set out on pages 24 to 36.

Position of the company

Information relating to the strategy and to the development, performance and the future prospects of the company are set out in the Strategic Report.

Employees

The company does not have any employees.

Environment

Details are set out in the Environment Report on page 20.

Payment to suppliers

The company pays its suppliers in accordance with the provisions of its contracts with suppliers, subject to compliance by the suppliers with their contractual obligations.

Charitable and political contributions

During the year, the company made no charitable or political contributions.

Results and dividends

The company has prepared its 2020/21 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2021 are set out on pages 42 to 57.

The company is a not-for-profit company. The settlement role it performs ensures that the capacity payments it is required to make to capacity providers holding Capacity Agreements are matched with the levies it collects from suppliers. The company's costs are funded by the settlement costs levy referred to on page 12. The amount of any excess settlement costs levy collected above requirement is refunded to suppliers. This refund is recognised through the financial statements and matched with the income collected. On this basis the financial results for the year reflect a neutral profit position i.e. nil profit-nil loss. Consequently, the company does not pay a dividend. For a more detailed review of the results for the year and a more detailed explanation of the accounting profit, see the financial statements on pages 42 to 57 and the Strategic Report on pages 6 to 19.

Directors' third party indemnity provisions

The Directors have been granted an indemnity against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving this Directors' Report.

Going concern

The Directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements therefore continue to be prepared on a going concern basis. The basis of this view is outlined in more detail in note 2.2 to the financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with IFRS as adopted by the European Union and in accordance with applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are described herein, confirms that to the best of his or her knowledge:

- The financial statements, which have been prepared in accordance with international accounting standards (in conformity with the requirements of the Companies Act 2006), give a true and fair view of the assets and liabilities, financial position and the profit or loss of the company; and
- The Directors' Report and the Strategic Report include a review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

Auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

The company's auditor (the Comptroller & Auditor General, on whose behalf the NAO acts) has expressed a willingness to continue in office. The Board and the Audit, Risk & Assurance Committee consider the performance of the auditors and assess their reappointment on an annual basis. A resolution to reappoint the auditors will be considered and proposed at the relevant time.

By order of the Board

Allison Sandle
Company Secretary
11 June 2021

Corporate Governance Report

I am pleased to present our Corporate Governance Report for the year, which describes our Board's general approach to corporate governance and how the UK Corporate Governance Code is applied within the company. The Board believes that good corporate governance underpins the delivery of the company's strategy and objectives and is committed to ensuring that high standards of corporate governance are maintained throughout the company.

During the year we have carried out internal reviews of how we perform our Board duties, details of which are presented in the report below. We also continued to engage with our shareholder and with key stakeholders and the wider industry, using remote technology.

I would like to thank all Board members for their support to me, and for their dedication and commitment over the year. My particular thanks go to Tony Bickerstaff, our former Chair of ARAC, who has been with the company since the beginning and has been a valued member of the Board, who retired in October 2020. My thanks also to Simon Orebi Gann who retired from the Board in November 2020. In addition, I am delighted to welcome Maxine Mayhew, Gerard McIlroy and Helen Lamprell, who joined the Board during 2020/21.

Regina Finn
Chair

Background to the company

The company was established by the Secretary of State for Business, Energy and Industrial Strategy to be the Capacity Market Settlement Body. The Secretary of State is the sole shareholder of the company.

While the company was set up as an operationally independent private law company, it is also a governmental arm's length body, that is funded by and manages compulsory levies. Compulsory levies are normally classified as taxation, which effectively means that the company is managing public monies.

Accordingly, the company, both as an independent private company and as an entity having responsibilities for the administration of public monies, adopts the highest standards of governance and works to the highest standards of probity. The company recognises the importance of operating with regularity and propriety, the need for effectiveness and prudence in the administration of public resources and the need to secure value for public money. The company also recognises the importance of embedding the seven principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) into its culture and operations.[7]

This Corporate Governance Report outlines the company's governance structure and demonstrates how its arrangements align with the guidelines and principles set out in the UK Corporate Governance Code. An explanation is given below where any aspect of the Code has not been fully applied.

The company's activities in the year are described in the Corporate Report and in the Strategic Report.

Framework Document

The company's main governing documents are its Articles of Association and its Framework Document. The Framework Document, which establishes the fundamental relationship between the shareholder and the company, is published on the company's website to provide transparency of the relationship.

The Framework Document reflects the basic tenet that functional independence is compatible with financial oversight of an arm's length body by its parent department. The Framework Document makes it clear that the company has day-to-day operational independence, subject to certain limited exceptions set out in legislation, the company's Articles of Association and in the Framework Document itself. The limitations on the company's independence are those which are either:

- common to government-owned entities and necessary to satisfy government and parliamentary budgeting and accountability requirements; or
- provide the shareholder with specific controls in respect of policy implementation matters which it is the company's responsibility to execute.

The Framework Document recognises that the company is a separate corporate entity and that its governance, and decision-making processes, flow through its Board, with its executives reporting to that Board.

The Framework Document states that in carrying out its functions, activities and role, the company shall seek to maintain market participants' confidence in the Capacity Market process and minimise costs to consumers. This is known as the "Guiding Principle". The company recognises the importance of this Guiding Principle.

UK Corporate Governance Code

The company is required by the Framework Document to comply with the UK Corporate Governance Code as it applies to small, quoted companies (other than Section E relating to relations with shareholders) or specify and explain any non-compliance in its annual report. The company additionally believes that the adoption of the UK Corporate Governance Code is important as a means of recognising and embedding best practice in corporate governance.

The Board considers that the company has complied in full with the Code, other than as explained in this Corporate Governance Report. Any non-compliance is due to the requirements of the company's shareholder as reflected in the company's Articles of Association and the Framework Document or is due to a timing matter relating to the Senior Independent Director or other Board appointments.

Role of the Board

The Board is committed to ensuring high standards of corporate governance. It accepts that good governance is based on the underlying principles of accountability, transparency, probity and focus on the sustainable success of the company over the longer term.

The Board is collectively responsible for the long-term success of the company and is ultimately responsible for its strategy, management, direction and performance. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives, reviews progress towards the achievement of objectives and reviews the performance of management.

The Board establishes the values, culture, ethics and standards of the company and sets the framework for prudent and effective controls, which enables risk to be assessed and managed. The Board has delegated authority to its committees to carry out the tasks defined in the committees' terms of reference. The committees are (i) the Audit, Risk & Assurance Committee and (ii) the Nomination Committee. The written terms of reference of both committees are available on the company's website.

The Board has delegated the day-to-day management of the company to the Chief Executive.

Composition of the Board

The Framework Document and the Articles of Association provide that the shareholder's approval is required for all Board appointments. The Framework Document and the Articles of Association also state that the shareholder has the right to appoint the Chair, the Senior Independent Director and up to two Shareholder-Nominated Directors.

Regina Finn was appointed as Chair effective on 2 September 2019. Maxine Mayhew was appointed as Senior Independent Director on 13 August 2020, taking over from Jim Keohane who retired on 29 February 2020 at the expiration of his term of appointment.

The Board comprises nine other Directors, being currently two Shareholder-Nominated Directors, seven independent Non-Executive Directors, the Chief Executive and the Chief Financial Officer.

The Shareholder-Nominated Directors at year end (and currently) are Declan Burke and Steph Hurst, both appointed 29 January 2020 and both civil servants employed by BEIS. The Shareholder-Nominated Directors are appointed for the period required by the shareholder.

The seven Non-Executive Directors as at year end (and currently) are Anne Baldock (appointed 11 November 2014 and re-appointed on 11 November 2017 and extended on 27 October 2020 for a further six months effective from 12 November 2020), Chris Murray (appointed 26 June 2018 and extended on 19 January 2021 for a further three years effective from 25 June 2021), Amanda Aldridge (appointed on 2 April 2020), Gerard McIlroy (appointed 27 October 2020) and Helen Lamprell (appointed 19 January 2021). Each Director was appointed after the consent of the shareholder was obtained in accordance with the Framework Document and the Articles of Association. The term of office of each independent Non-Executive Director is three years from the date of appointment or reappointment (as applicable, and may be extended). The other Non-Executive Directors that served during the financial year were Tony Bickerstaff (resigned 2 October 2020) and Simon Orebi Gann (resigned 11 November 2020).

Neil McDermott, the Chief Executive, was appointed as a Director on 22 July 2014. George Pitt was appointed Chief Financial Officer on 13 August 2020.

An external recruitment consultancy was used in the appointments or original appointments of the Chair, Senior Independent Director, independent Non-Executive Directors, Chief Executive and Chief Financial Officer. The search process was formal, rigorous and transparent and the searches were conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board. The Shareholder-Nominated Directors are civil servants selected by the shareholder.

No recruitment consultancy used by the company has any other connection with the company.

The details of all Board members, any changes in the year and attendance at Board meetings are listed on pages 30 to 31. All Directors, with the exception of the Shareholder-Nominated Directors, have written terms of appointment. These terms of appointment are available for inspection at the company's registered office during normal business hours.

The Chair was independent on appointment. The Board considers the Senior Independent Director and all Non-Executive Directors, other than the Shareholder-Nominated Directors, to be independent of the company.

The Board and its committees have an appropriate, effective and broad balance of skills, experience, independence and knowledge which enables them to discharge their respective duties and responsibilities effectively.

New Directors receive an induction programme and additional training that is tailored to their individual needs.

7. The 7 Principles of Public Life, available at www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life

Corporate Governance Report
(Continued)

Board changes
Reference is made to the table on page 30.

Board governance
The Board meets sufficiently regularly to discharge its duties effectively, generally meeting several times per year (with additional ad hoc meetings as required). The Board met seven times in 2020/21 and also held a separate strategy meeting in February 2021.

The following summarises the Board's main activities over the course of the year:

- Business performance and oversight – including receiving regular updates during the year on how the business is performing against its business plan, budget, strategic priorities and KPIs
- Strategy and progress – participated in the annual strategic workshop, also attended by senior management, to set a new long-term strategy. This meeting was preceded by a series of strategic workshops with external speakers that aimed to identify key risks and opportunities. The Board also reviewed the results of the annual industry stakeholder survey and the learnings from that survey and received strategy updates during the course of the year
- Risk and opportunity – reviewed the principal risks faced by the company and the actions being undertaken to mitigate against these risks, including in relation to cyber and information security
- Audit and annual report – reviewed the annual report and considered matters such as the re-appointment of the external auditors
- Governance and compliance – reviewed the results of the annual Board and committee evaluation. Further information about the evaluation process can be found on page 27
- Capacity Market – oversight and consideration of issues relating to the Capacity Market
- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.

The Chair has held a meeting with the Non-Executive Directors without the executives being present. The Non-Executive Directors, led by the current and former Senior Independent Director, have met without the Chair and Executive Directors being present to discuss matters such as the appointment of the Chair and/or Executive Directors.

Details of the Directors' interests are recorded in a register maintained by the company and reviewed at each Board meeting. The company has procedures in place to ensure that any actual or potential conflicts of interest are appropriately declared and managed. Directors are required to declare any actual or potential conflict of interest to the Board and to the Company Secretary as soon as they arise.

The Board is supplied in a timely manner with the appropriate information of the required quality to enable it to discharge its duties effectively and properly. The Chair, Chief Executive and Company Secretary have review processes in place to ensure the quality of the information provided to the Board and its committees. The Board and committees have concluded, after assessing the question as part of their annual evaluation processes, that they were being provided in a timely manner with appropriate information of the required quality. Board members have access to the Company Secretary and also to independent legal advice if appropriately required.

There is a formal schedule of matters specifically reserved to the Board. In high level terms, the day-to-day management of the company is delegated to the Chief Executive and senior management with the matters reserved to the Board including:

- Setting and approving the company's strategy
- Responsibility for the leadership of the company
- Approving the financial statements
- Approving (subject to shareholder consent) the annual business plan and budget
- Monitoring and overseeing risk management, financial reporting and the system of internal control
- Oversight of the company's operations
- Approving of financial commitments over specified monetary thresholds
- Setting the terms of reference for the Board committees.

The main roles and responsibilities of the Chair, Chief Executive, Senior Independent Director and Non-Executive Directors are summarised in high level terms below. There is a formal document, approved by the Board, setting out the division of responsibilities between the Chair and the Chief Executive.

The Chair
- Provides clear and effective leadership to the Board
- Is responsible for maintaining high standards of operation and governance
- Is responsible for promoting a culture of openness and constructive debate by facilitating the effective contribution of the Non-Executive Directors
- Facilitates the effective contribution and encourages the active engagement of all members of the Board
- Ensures the annual evaluation of the performance of the Board, its members and its committees
- Ensures constructive relations between the Executive and Non-Executive Directors
- Speaks on behalf of the Board and represents the Board to the shareholder
- Manages the business of the Board, including the Board's agenda and ensuring that adequate time is available for the discussion of all agenda items, in particular, strategic issues
- Is responsible for ensuring that the Directors receive accurate, timely and clear information.

The Chief Executive
- Fulfils his responsibilities as Accounting Officer[8]
- Leads the Executive Team in the day to day running of the company
- Makes and executes operational decisions
- Implements the strategy agreed by the Board
- Ensures delivery within the annual budget
- Ensures appropriate internal controls and risk management processes are in place
- Maintains appropriate dialogue with the Chair and the Board
- Facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- Ensures the values of the company are embedded within its operations and staff culture.

The Senior Independent Director
- Works alongside the Chair and provides a sounding Board for the Chair
- Is available as an intermediary to other Directors when necessary
- Leads the meeting(s) with the other Non-Executive Directors without the Chair being present, including to appraise the performance of the Chair.

Non-Executive Directors
- Non-Executive Directors (including via their activities in relevant committees) ensure that the Board fulfils its responsibilities, including in relation to strategy, monitoring the performance of management and satisfying themselves as to the integrity of financial information and that there are in place robust internal controls and a sound system of risk management.

8. The responsibilities of an Accounting Officer are described in HM Treasury guidance "Managing Public Money". They include accountability for the activities of the company, the stewardship of public funds and the extent to which key performance targets and objectives are met.

Board evaluation
The Board undertakes an annual formal and rigorous evaluation of its own performance and that of its committees and individual Directors. The committees also each separately undertake an annual evaluation process. The evaluation review in 2020/21 was undertaken by use of a focussed questionnaire for the Board and each committee, with the results being discussed by the Board and the committees.

The Board and committee evaluation process concluded that the Board and the committees are working cohesively and effectively, are performing their roles in a proper, good and appropriate manner and that there is strong corporate governance in place. There was some increase in neutrality in responses, however this was due to the introduction of new Board members who had not served for sufficient time to form conclusive views.

The Chair also regularly reviews and discusses with each Director their training and development needs. The Company Secretary also seeks to identify useful refresher training or industry familiarisation sessions for Directors, including briefings on internal expertise areas (such as forecasting and settlement systems), industry developments, data protection, cyber security and compliance matters.

Corporate Governance Report
(Continued)

Audit, Risk & Assurance Committee

At year end, the membership of this committee comprised four Non-Executive Directors, namely Amanda Aldridge (Chair), Chris Murray, Steph Hurst and Gerard McIlroy; Chris Murray and Steph Hurst were members for the whole year. Amanda Aldridge joined the committee on 2 April 2020 and was appointed Chair of the committee on 1 October 2020. Gerard McIlroy was appointed as a member on 3 December 2020. Tony Bickerstaff was Chair of the committee until his resignation on 1 October 2020. Simon Orebi Gann was a member of the committee until his resignation on 11 November 2020.

The Chair of the committee is a chartered accountant with current and relevant financial experience. The committee is composed of three independent Non-Executive Directors and one shareholder-nominated Non-Executive Director. The Framework Document, as permitted by the Articles of Association, requires the committee to include a Director nominated by the shareholder.

The committee met three times in the financial year 2020/21, with meetings in May 2020, October 2020 and February 2021.

The Chief Executive (as Accounting Officer), Chief Financial Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and external auditors attended each meeting. The Accounting Officer, Chief Financial Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and the external auditors have access to the Chair of the committee outside formal committee meetings. The Head of Assurance & Risk and the external auditors each separately meet informally with the committee in advance of every scheduled committee meeting.

The main responsibilities of the committee include:

- monitoring the assurance needs of the company in relation to risk, governance and the control framework;
- reviewing the company's internal controls (including financial controls) and risk management systems;
- monitoring the integrity of the company's financial statements and reviewing and reporting to the Board on significant financial reporting issues and judgements;
- monitoring the effectiveness of the company's internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing external auditor independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- reporting to the Board on how it has discharged its responsibilities;
- undertaking an evaluation of its own performance.

The committee has reviewed arrangements by which personnel are able, in confidence, to raise concerns about possible improprieties in matters of financial reporting or other matters.

The committee applies an external auditor independence policy to safeguard auditor objectivity and independence where the company's auditors have provided non-audit services. The external auditor has not provided any non-audit services in the financial year.

In the financial year, the committee discussed the following matters:

- Status of any Significant Accounting Estimates, Judgements and Special Issues
- External Auditor's Report
- Committee Annual Report on Activities to the Board
- Annual Report – Governance Statement, Accounts Recommendation and Report Process
- Internal Audit Charter – Annual Review
- Appointment of External Auditors and letters of engagement
- External audit plan
- Risk Deep Dive – Settlements
- Internal Audit Activity, Strategy and Plan
- Information Security update
- Committee Annual Evaluation
- Review of the Delegated Authority Framework
- Review of the ARAC Terms of Reference
- Risk Management Reviews and Risk Register Updates
- Letters of Representation.

The minutes of the meeting are circulated to the Board.

There were no significant issues considered by the committee in relation to the financial statements in respect of accounting treatments.

The company's main risks and related mitigating actions are set out on pages 14 to 19 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There have also been a small number of incidents of whistleblowing concerns raised in year. All have been investigated in accordance with the company's whistleblowing process and reviewed appropriately by the Audit, Risk & Assurance Committee. There are no common themes nor specific risks identified across the cases.

The re-appointment of the external auditor was approved by the Board in December 2020 upon the recommendation of the committee. The committee, in recommending the re-appointment, and the Board in approving the re-appointment, took into account the fact that the Framework Document stated the strong presumption that the company would appoint the National Audit Office (NAO) as its auditor and also that shareholder consent was required for the appointment of any external auditor. It also noted the significant benefits of appointing the NAO based on value for money, the potential synergies with BEIS's audit requirements and the NAO's understanding of both the complex environment within which the company operates and the wider government and public sector context.

The committee assessed the effectiveness of the external audit process and provided its comments on the effectiveness to the external auditor. In addition, the Chair of the committee attended a BEIS audit committee, which provided an opportunity to learn from the experience and activities of the BEIS audit committee and to discuss any common issues.

Nomination Committee

At year end, the committee comprised Regina Finn (Chair), Anne Baldock, Maxine Mayhew and Chris Murray. Regina Finn and Anne Baldock were members of the committee throughout the year. Maxine Mayhew replaced Simon Orebi Gann from 1 October 2020 and Chris Murray was appointed as member on 3 December 2020.

All members of the Nomination Committee (other than the Chair) are independent Non-Executive Directors.

The committee met three times during the year, in July 2020, December 2020 and March 2021. No member of the committee attended an agenda item in respect of which they had a personal interest or were discussed or appraised.

The committee's responsibilities include:

- regularly reviewing the structure, size and composition of the Board including skills, knowledge, diversity and experience;
- reviewing plans for the orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the Board and to ensure progressive refreshing of the Board;
- undertaking an evaluation of its own performance.

These matters were discussed by the committee during the course of the year, with particular reference to the:

- composition of the Board and balance of skills required;
- recruitment of Directors and Board appointments;
- committee appointments and ratifications;
- succession planning;
- review of Terms of Reference;
- review of Results of Committee Annual Evaluation;
- review Independence and Time Commitment of Non-Executive Directors;
- review Directors' Register of Interests;
- review Directors' Register of Conflicts.

The minutes of committee meetings are circulated to the Board.

Corporate Governance Report
(Continued)

Board and committee membership

The table below sets out the dates of appointment of the members to the Board and the committees and details of those Board members who resigned in the year.

Director	Role	Board	Audit, Risk & Assurance Committee	Nomination Committee
Amanda Aldridge	Non-Executive Director	App. 02/04/2020	App. 02/04/2020	
Anne Baldock	Non-Executive Director to 30/09/2018, interim Senior Independent Director from 01/10/2018 to 01/09/2019 & Non-Executive Director from 02/09/2019	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017 and extended on 27 October 2020 for a further six months effective from 12 November 2020)		App. 16/12/2014
Tony Bickerstaff	Non-Executive Director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017) Res. 02/10/2020	App. 16/12/2014 Res. 02/10/2020	
Declan Burke	Non-Executive Director	App. 29/01/2020		
Regina Finn	Chair	App. 02/09/2019		App. 04/10/2019
Steph Hurst	Non-Executive Director	App. 29/01/2020	App. 29/01/2020	
Helen Lamprell	Non-Executive Director	App. 19/01/2021		
Maxine Mayhew	Senior Independent Director	App. 13/08/2020		App. 01/10/2020
Neil McDermott	Chief Executive	App. 22/07/2014		
Gerard McIlroy	Non-Executive Director	App. 27/10/2020	App. 03/12/2020	
Chris Murray	Non-Executive Director	App. 26/06/2018 (extended on 19 January 2021 for a further three years effective from 25 June 2021)	App. 18/07/2018	App. 03/12/2020
Simon Orebi Gann	Non-Executive Director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017) Res. 11/11/2020	App. 16/12/2014 Res. 11/11/2020	App. 16/12/2014 Res. 11/11/2020
George Pitt	Chief Financial Officer	App. 13/08/2020		

Board and committee meetings

The table below shows the number of Board and committee meetings of the company held during the year ended 31 March 2020 and the attendance of the individual Directors. It should be emphasised that the table does not fully reflect the contribution made to the company's business by many of the Directors who have also attended other meetings (including with senior managers), attended briefings on various matters, addressed matters raised ex-committee, attended training and conferences, given talks to staff and attended events relating to the company's business and activities during the year. In addition, generally members who could not attend a meeting provided comments on the papers for the meeting.

Member attendance record during 2020/21

	Board	Audit, Risk & Assurance Committee	Nomination Committee
Number of meetings	**7**	**3**	**3**
Amanda Aldridge	7	3	
Anne Baldock	7		3
Tony Bickerstaff	4*	2*	
Declan Burke	7		
Gerard McIlroy	3**	1*	
Regina Finn	7		3
Steph Hurst	6	3	
George Pitt	4**		
Maxine Mayhew	4**		2**
Helen Lamprell	2**		
Neil McDermott	6		
Chris Murray	7	3	
Simon Orebi Gann	4*	2*	1*

* Resigned part way through the year.
**Appointed part way through the year.

Corporate Governance Report
(Continued)

Relations with shareholder and stakeholders

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. There are two Shareholder-Nominated Directors. The company has also engaged in regular communication with industry and other stakeholders, including by stakeholder engagement events, annual stakeholder survey, regular newsletters and via its website. As a non-traded entity, the company does not propose to have an annual general meeting.

Maintenance of a sound system of internal control

The Board has overall responsibility for the company's risk management and system of internal controls and for reviewing their effectiveness. While retaining overall responsibility, the Board has established a clear organisational structure and well-defined delegated accountabilities for more regular and granular review of the effectiveness of the company's risk management framework to the Audit, Assurance & Risk Committee and executive. The key elements and procedures established to provide effective risk management and internal controls have been established. The systems in place are monitored and embedded and are as set out below.

Control and assurance environment

- The Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and where possible to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The Audit, Risk & Assurance Committee assists the Board in discharging its responsibilities (as further described below and in the section headed Audit, Risk & Assurance Committee on page 28).
- The Board, with the assistance of the Audit, Risk & Assurance Committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control.
- There have been no significant lapses in protective security.

Risk management framework

- The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. The company's strategic risk register is kept under regular review by the Senior Management Team and reported to the Board and Audit, Risk & Assurance Committee, with the top strategic risks and emerging risks receiving particular attention. Strategic risk is also discussed and monitored by the relevant Heads of Teams to ensure there is alignment and escalation of operational risk where appropriate.

Operational risk registers are also maintained to identify local and emerging risks, allocating responsibility for appropriate monitoring and the implementation of mitigating controls. A risk workshop was held at the start of the year to review risk appetite against key risk themes; this has since been applied to strategic risk, with risk tolerance levels established. Risk management processes are incorporated into the company's management and governance systems at all levels and form a part of the company's day-to-day operations.

- The Audit, Risk & Assurance Committee formally reviews the risk position at each scheduled meeting (in 2020/21, in May 2020, October 2020 and February 2021) and is updated on any significant risk matter which falls outside its formal review cycle. The committee considers the risk appetite of the company in relation to the principal risks and receives a completion report relating to the actions being undertaken to minimise and mitigate risk items.
- The Board reviews the strategic risk register twice per year (in 2020/21, in April 2020 and December 2020). The reports to the Audit, Risk & Assurance Committee and the Board include a report from management on the status of the risk management and internal control, significant failings or weaknesses identified during the period (if any) and any actions taken to remedy any significant weaknesses (if relevant).

- The Board has reviewed the risk framework, with the assistance of the Audit, Risk & Assurance Committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed risk report on pages 14 to 19.

Internal audit

- The company has an internal audit function that provides the Audit, Risk & Assurance Committee with independent, objective assurance regarding internal controls and the risk management process, as part of the company's risk management and assurance regime. The Audit, Risk & Assurance Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings. The annual audit plan takes into account current business risks. A new Head of Assurance & Risk was appointed during the year, with appropriate handover arrangements in place to support continuity. The Head of Assurance & Risk is supported by an external co-sourced partner to deliver the Internal Audit plan.

Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the Board.
- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability to ensure that a robust and prudent annual budget is prepared which also ensures cost control and value for money for consumers. The draft budget, which can be for a single or multi-year, is reviewed by the Board, subsequent to which it is submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently the settlement costs levy, which funds the company's budget, is laid before Parliament in the form of regulations.
- The company operates robust financial management processes to ensure that it manages within its operational budget so as not to exceed the settlement costs levy.
- An update on the company's progress, financial performance, budget forecasts and results is reported in the management information report submitted to each Board meeting.
- Senior management meet regularly with the Chief Executive and Chief Financial Officer to discuss business progress. Management accounts are reviewed regularly.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "Managing Public Money".[9]

Operational

- The Senior Management Team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the senior Executive Team.
- The Chief Executive and the Executive Team meet with appropriate regularity with the shareholder and other stakeholders.
- The settlement team and other functional teams work closely together to ensure the appropriate interfaces and communication in relation to Capacity Agreement settlement and metering assurance, with the governance, internal decision-making and critical processes being documented.
- The company reports on its significant matters relating to its operational activities at each Board meeting.
- The Board decides on matters falling within the schedule of reserved matters (e.g. financial commitments over the specified threshold) or otherwise raised to it for decision.

9. www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

Corporate Governance Report
(Continued)

Procurement
- The company has in place an effective procurement policy which requires it to procure all goods and services in compliance with the relevant requirements in 'Managing Public Money', Cabinet Office controls and the public procurement regulations.
- The company is required to carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for money.

Legal and compliance
- There is a system for monitoring and embedding compliance, including by company policies and procedures as well as training and guidance to support compliance (e.g. relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.
- The company expects the highest standards from all personnel and its supply chain.
- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.[10]

Treasury management
The finance department:
- operates within policies agreed by the Audit, Risk & Assurance Committee;
- uses its resources efficiently, economically and effectively, avoiding waste and extravagance;
- uses management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments; and
- uses internal and external audit to improve its internal controls and performance.

Insurance
- Appropriate insurance is in place, with insurance cover being reviewed annually by the Board

Neil McDermott
Chief Executive and Accounting Officer
11 June 2021

10. HM Treasury, Review of tax arrangements of public sector appointees, May 2012: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

Remuneration Report

The company's registered number is 08961281.

Employees
The company does not have any employees. The company performs its functions through LCCC.

Executive Directors
The Executive Directors are employed and paid by LCCC. They therefore do not receive any remuneration from the company. LCCC charges the company for its services, with an amount relating to full cost of the Executive Directors to LCCC forming a fair and properly allocated component of that charge. This arrangement is detailed in the "recharge" arrangements described in note 2.6 to the financial statements.

Non-Executive Director fees
The shareholder-nominated (or "governmental") Directors are not paid by the company.

Levels of remuneration for the remunerated Non-Executive Directors reflect the time, commitment and responsibilities of the role. The levels also reflect the advice on remuneration for the independent Non-Executive Directors (other than the Chair) and benchmarking information provided in 2014 by Odgers Berndtson (independent recruitment consultancy) as supplemented by advice in 2019 by Korn Ferry (independent recruitment consultant). Advice on remuneration and benchmarking was refreshed with GatenbySanderson for the appointment of the Chair and Senior Independent Director, and Korn Ferry for purposes of recruitment of Directors over the past several months.

No Director is involved in deciding his or her own individual remuneration.

For reasons of synergy, operational efficiency and cost effectiveness, the Board of Directors of the company and LCCC are identical. As the fees paid to the remunerated Non-Executive Directors relate to work for both companies, these fees are paid by LCCC, with a fair and properly allocated amount (generally 20%) being "recharged" by LCCC to the company under the "recharge" arrangements described in note 2.6 to the financial statements. This allocation is illustrated in the table below.. These fees (paid by LCCC with the relevant recharge to the company) are the only form of remuneration received by the remunerated Non-Executive Directors.

Non-Executive Directors' Remuneration (audited)

Name	2020/21 fees [11]	Principal positions held elsewhere at 31 March 2021
Amanda Aldridge	20% of £27,436[12] 2019/20: £nil (appointed after year end)	• LCCC – Non-Executive Director • Headlam Group plc – Non-Executive Director • Impact Healthcare REIT plc – Non-Executive Director • The Brunner Investment Trust plc – Non-Executive Director • St Francis College Trust – Director and trustee
Anne Baldock	20% of £31,417[13] 2019/20: £6,250[14]	• LCCC – Non-Executive Director • East West Railway Company Limited – Non-Executive Director • Electricity North West Limited – Non-Executive Director • Restoration and Renewal Delivery Authority Ltd – Director • 175 Greyhound Road Residents Ltd – Director • Submarine Delivery Agency
Tony Bickerstaff	20% of £15,738[15] 2019/20: 20% of £31,000	• Costain Group Plc – Group Finance Director until 30/11/2020 • LCCC – Non-Executive Director • Wincanton Plc – Director • Renown Investments (Holdings) Limited – Director • County and District Properties Limited – Director
Declan Burke	£nil (shareholder-nominated Director – civil servant)	• BEIS – Director, Nuclear Projects & Development • LCCC – Non-Executive Director

11. This column shows the only form of remuneration that each Non-Executive Director receives from ESC. ESC pays 20% to reimburse LCCC under the recharge arrangements with LCCC (other than in respect of Regina Finn, and Anne Baldock where the amount relating to ESC is as stated) – see note 2.6 to the financial statements.
12. 6 months pro rata (2 April–30 September 2020) at £25,000 and 6 months pro rata (1 October–31 March 2021) at £30,000.
13. 8 months pro rata (1 April–30 November 2020) at £30,000 and 4 months pro rata (1 December–31 March 2021) at £25,000. Includes £5k per annum supplemental addition to Director's fee, back dated to 1 September 2019 for Chair of the Remuneration Committee.
14. 5 months pro rata (1 April 2019–2 September 2019) at £8,000 and 7 months pro rata (3 September 2019–31 March 2020) at 20% of £25,000. 6 months pro rata (1 April–2 October 2020) at £31,000.
15. 6 months pro rata (1 April–2 October 2020) at £31,000.

Remuneration Report
(Continued)

Non-Executive Directors' Remuneration (audited) continued

Name	2020/21 fees [11]	Principal positions held elsewhere at 31 March 2021
Regina Finn	£25,000 2019/20: £14,583[16]	• LCCC – Chair • Places for People Group Ltd • Places for People Homes Ltd • Places for People Living + Ltd • Places for People Ventures Ltd • Places for People Ventures Operations Ltd • Lucerna Partners Ltd
George Pitt	N/A	• LCCC – Chief Financial Officer and Director
Steph Hurst	£nil (shareholder-nominated Director – civil servant)	• BEIS – Deputy Director, Energy Efficiency and Local Directorate • LCCC – Non-Executive Director
Neil McDermott	N/A	• LCCC – Chief Executive and Director
Chris Murray	20% of £26,628[17] 2019/20: 20% of £25,000	• LCCC – Non-Executive Director • APX3 Limited – Director • West Transmission Limited – Director • Belfast Gas Transmission Limited – Director • Mutual Energy Limited – Director • Premier Transmission Limited – Director • Moyle Interconnector Limited – Director • Energy & Utility Skills Limited – special advisor to the Board • LOROS Commercial Innovations Limited – Director
Simon Orebi Gann	20% of £15,353[18] 2019/20: 20% of £25,000	• LCCC – Non-Executive Director • Aspen Technology Inc (NASDAQ: AZPN) – USA – Non-Executive Director • Market Operator Services Ltd – Non-Executive Director • Treasury/Cabinet Office Major Programmes Review Group – independent panel member
Maxine Mayhew	20% of £22,167[19] 2019/20: £nil	• Costain Group Plc – Director • LCCC – Non-Executive Director • Calvert & Russell Limited – Director • Construction Study Centre Limited – Director • Brunswick Infrastructure Services Limited – Director • Hopkinsons of Lymm Limited – Director • Cranfield University – Independent Council Member
Gerard McIlroy	20% of £10,801[20] 2019/20: £nil	• LCCC – Non-Executive Director • WTL Holdings Ltd – Director • West Transmission Financing Plc – Director • Moyle Energy Investments Ltd – Director • West Transmission Ltd – Director • Moyle Interconnector Limited – Director • Mutual Energy Limited – Director • Premier Transmission Limited – Director • Interconnector Services (NI) Limited – Director • Belfast Gas Transmission Limited – Director • Northern Ireland Gas Transmission Holdings Limited
Helen Lamprell	20% of £5,032[21] 2019/20: £nil	• LCCC – Non-Executive Director • Employers Initiative on Domestic Abuse – Director • Vodafone Limited – Director

11. This column shows the only form of remuneration that each Non-Executive Director receives from ESC. ESC pays 20% to reimburse LCCC under the re-charge arrangements with LCCC (other than in respect of Regina Finn, and Anne Baldock where the amount relating to ESC is as stated) – see note 2.6 to the financial statements.
16. 7 months pro rata (2 September 2019–31 March 2020) at £25,000.
17. 8 months pro rata (1 April–30 November 2020) at £25,000 and 4 months pro rata (1 December 2020–31 March 2021) at £30,000.
18. 8 months pro rata (1 April–11 November 2020) at £25,000.
19. 8 months pro rata (13 August–31 March 2021) at £35,000.
20. 6 months pro rata (27 October–31 March 2021) at £25,000.
21. 3 months pro rata (19 January–31 March 2021) at £25,000.

Independent Auditor's Report

to the sole shareholder of the Electricity Settlements Company Ltd

Opinion on financial statements

I have audited the financial statements of the Electricity Settlements Company Ltd ("the company") for the year ended 31 March 2021 which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Cash Flows;
- the Statement of Changes in Equity; and
- the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

I have also audited the information in the Director's Remuneration Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of the result for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditors responsibilities for the audit of the financial statements section of my report.

Those standards require my staff and I to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the company in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of Authorities	
Authorising legislation	Energy Act 2013
Parliamentary authorities	Capacity Market Rules
Regulations issued under governing legislation	Electricity Capacity Regulations 2014
Shareholder, HM Treasury and related authorities	• Articles of Association • Framework Document between the Secretary of State and the company • Managing Public Money and Cabinet Office spending controls (to the extent they are applicable to the company)

Independent Auditor's Report

to the sole shareholder of the Electricity Settlements Company Ltd (Continued)

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the company's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the Director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included.

- reviewing the provisions of the legislation under which the company collects the settlement costs levy it uses to fund operational costs;
- considering the internal business planning process relevant to operating costs; and
- considering additional funding options available to the company (relevant to operating costs).

I consider the key aspects of management's assessment to be their view that:

- there is a minimal cash flow risk arising from the company's role as Settlement Body for the Capacity Market as a result of the statutory 'pay when paid' mechanism; and
- there are options available to the company to mitigate forecast operating cash flow and funding shortfalls.

The assertions made by management are consistent with my review of the Capacity Market Regulations and the company's framework agreement with the Department for Business, Energy and Industrial Strategy.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the Engagement Team. These matters are addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I did not identify any key audit matters to communicate in my report for the 2020-21 audit.

In previous years I have identified key audit matters in relation to Capacity Market payments. For example, in the prior year I placed increased focus on the payments made by the company during the restart of the Capacity Market following its Standstill Period.

I identified the risk of management over controls as a significant audit risk in accordance with the requirements of ISA (UK) 240 *The Auditor's Responsibility Relating to Fraud in Financial Statements*. This had a lesser effect on my overall audit strategy, allocation of resource and direction of effort that the key audit matters reported. My work in this area has not identified any matters to report.

The areas of focus for my audit were discussed with the Audit, Risk & Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on page 28.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements as a whole as follows:

	Electricity Settlements Company Ltd.
Materiality	£22.0 million
Basis for determining materiality	2% of gross expenditure
Rationale for the benchmark applied	In my professional judgement, the users of the financial statements are most interested in gross expenditure, comprising operating costs and Capacity Market payments, on the basis that these are the costs which fall to energy suppliers and ultimately bill payers.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2020-21 audit (2019-20: 75%). In determining performance materiality, I considered the low level of uncorrected misstatements identified in previous years.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Audit, Risk & Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. We also report to the Audit, Risk & Assurance Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements. There were no unadjusted misstatements or disclosure matters to report.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity wide controls, and assessing the risks of material misstatement.

Other Information

The other information comprises information included in the annual report but does not include the parts of the Director's Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules) is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which I report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or certain disclosures of Director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company; or
- I have not received all of the information and explanations I require for my audit.

Independent Auditor's Report

to the sole shareholder of the Electricity Settlements Company Ltd (Continued)

Corporate governance statement

The Listing Rules require me to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified [set out on page 22];
- Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate [set out on page 13];
- Directors' statement on fair, balanced and understandable [set out on page 23];
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out on pages 32 to 33];
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems [set out on pages 32 to 33]; and
- The section describing the work of the Audit, Risk & Assurance Committee [set out on page 28].

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as Directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the company's Head of Assurance and Risk' and those charged with governance, including obtaining and reviewing supporting documentation relating to the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the company's controls relating to the Capacity Market in respect of Capacity Market rules and the Electricity Capacity Market Regulations 2014;
- discussing with the Engagement Team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I considered the potential for fraud in the following areas: posting of unusual journals and levy income; and
- obtaining an understanding of the company's framework of authority as well as other legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, Energy Act 2013, Capacity Market rules, Electricity Capacity Market Regulations 2014, the Framework Document between the company and the Secretary of State.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit, Risk & Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all Engagement Team members including internal specialists and significant component Audit Teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

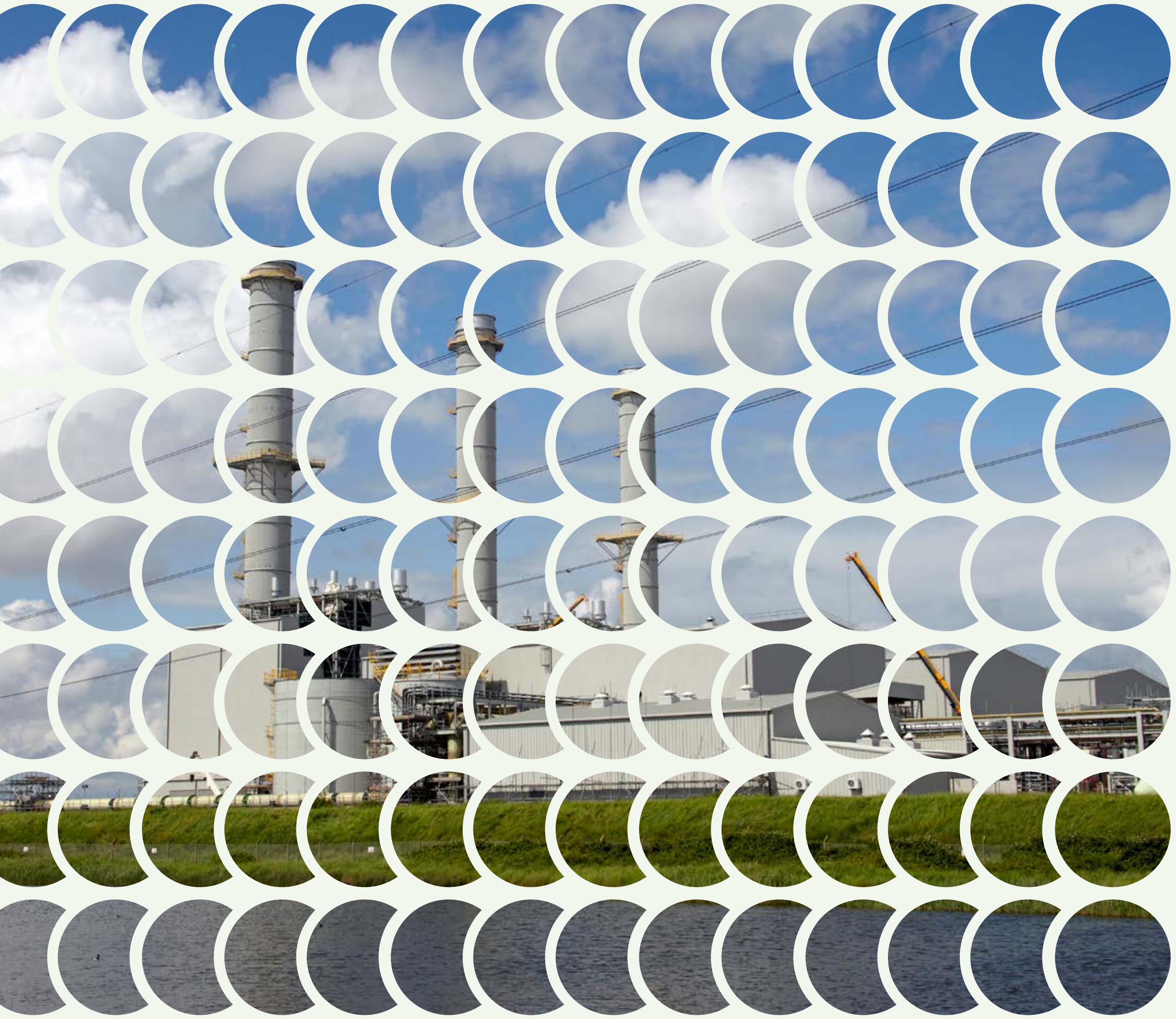
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Susan Clark

Susan Clark
Senior Statutory Auditor
11 June 2021

For and on behalf of the
Comptroller and Auditor General
(Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements and notes to the accounts



Statement of comprehensive income for the year ended 31 March

	Note	2021 £'000	2020 £'000
Other income	6	1,101,894	1,490,333
Other operating costs	7	(1,101,894)	(1,490,333)
Profit for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year		–	–

All operations are continuing operations.

The notes on pages 47 to 57 form part of these accounts.

Statement of financial position

as at 31 March

	Note	2021 £'000	2020 £'000
Non-current assets			
Intangible assets	8	248	757
Current assets			
Levy and capacity payments receivable	9	11,918	12,172
Prepayments		156	33
Cash and cash equivalents	10	334,372	242,687
Total current assets		**346,446**	**254,892**
Total assets		**346,694**	**255,649**
Current liabilities			
Levy and capacity payments payables	11	(273,421)	(198,929)
Trade and other payables	12	(72,980)	(55,920)
Lease liabilities	13	(293)	(507)
Total current liabilities		**(346,694)**	**(255,356)**
Non-current liabilities			
Lease liabilities	13	–	(293)
Total non-current liabilities		**–**	**(293)**
Total liabilities		**(346,694)**	**(255,649)**
Net assets		**–**	**–**
Shareholders' equity and other reserves			
Share capital	14	–	–
Retained earnings		–	–
Total equity		**–**	**–**

The notes on pages 47 to 57 form part of these accounts.

The financial statements were approved by the Board of Directors on 10 June 2021 and signed on its behalf on 11 June 2021 by:

N. McDermott

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 31 March 2019	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2020	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2021	–	–	–

As at 31 March 2021 the company has one authorised ordinary share, issued and fully paid.

The notes on pages 47 to 57 form part of these accounts.

Statement of cash flows

for the year ended 31 March

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit for the year		–	–
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation of intangible assets	8	509	511
Working capital adjustments:			
Decrease/(increase) in levy and capacity payments receivables	9	254	(11,188)
Increase in prepayments		(123)	(12)
Increase in levy and capacity payments payables	11	74,492	195,165
Increase in trade and other payables	12	17,060	39,616
Net cash inflow from operating activities		**92,192**	**224,092**
Cash flows from financing activities			
Repayment of lease liabilities	13	(507)	(507)
Net cash outflow from financing activities		**(507)**	**(507)**
Net increase in cash and cash equivalents in the year		**91,685**	**223,585**
Cash and cash equivalents at the beginning of the year		242,687	19,102
Cash and cash equivalents at the end of the year	10	**334,372**	**242,687**

The notes on pages 47 to 57 form part of these accounts.

Notes to the financial statements

for the year ended 31 March 2021

1. Authorisation of financial statements

The financial statements of Electricity Settlements Company Ltd (the "company") for the year ended 31 March 2021 were approved and authorised for issue in accordance with a resolution of the Directors on 10 June 2021.

The company is a company limited by shares, incorporated and domiciled in the UK. The company's registered office is at Fleetbank House, 2-6 Salisbury Square, EC4Y 8JX. The company is unlisted and wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (the "shareholder") making it the company's ultimate controlling party.

1.1 Principal activities

The company has been established to act as the Settlement Body for the Capacity Market. The company will also undertake such other activities that the Board considers to be consistent with the company's functions, duties, obligations and constitution.

2. Accounting policies

2.1 Basis of preparation

These financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£'000).

The financial statements of the company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006..

These accounts have been prepared under the historical cost convention as modified for the treatment of financial instruments.

The Capacity Regulations as identified below are defined hereafter as the "Regulations":

i. The Electricity Capacity Regulations 2014 as amended;

ii. The Electricity Capacity (Supplier Payment etc.) Regulations 2014 as amended.

2.2 Going concern

The Directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements are, therefore, prepared on a going concern basis.

In forming this view, the Directors note that the company:

i. applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its settlement costs levy;

ii. undertakes a robust and detailed annual business planning and budgeting process to establish its operational costs requirements for each financial year;

iii. has considered the potential impact of credit risk and liquidity risk detailed in note 3; and

iv. is exposed to minimal cash flow risk through Capacity Market transactions as a result of the statutory 'pay when paid' mechanism explained below.

The day-to-day operational costs of the company are funded by electricity suppliers under the Capacity Market "settlement costs levy" which is set by the Regulations.

The settlement costs levy is reset by new amending Regulations and has currently been set for the next year (to March 2022).

The Directors note the risk that the total settlement costs levy set for a year will be insufficient or that a timing mismatch might arise between the time when monies are raised by the levy and the time when monies are required to meet a spend commitment made by the company.

During the course of a year, the company may, where it identifies that there is likely to be a shortfall in the collection of the settlement costs levy against its requirements, request BEIS to support an in-year adjustment to the applicable levy rate. Such an adjustment would be subject to public consultation and the making of new regulations in accordance with the same process that has applied to the setting of the annual settlement costs levy. The company can also request a working capital loan from BEIS if there is a shortfall in its operating cash flow.

The requirement to pay capacity payments to capacity providers is set out in the Regulations. The payments to be made to capacity providers are funded by suppliers under the Regulations. It should be noted that the Regulations state that the company's obligation is to pay when paid (i.e. the company has no obligation to pay the capacity providers until it receives adequate funds from suppliers to perform its obligation).

A significant risk the Directors considered when making their going concern assessment was the impact of COVID-19. As the company's operational costs are funded by electricity suppliers through the settlement costs levy, it was identified there is increased risk, as many suppliers have faced significant uncertainty regarding the level of electricity demand. This risk has been continually monitored during the year. The Directors believe that, as a result of the option to request a working capital loan from BEIS, and the potential for requesting BEIS to support an in-year adjustment to the applicable settlement costs levy rate, the company is able to mitigate this risk.

2.3 Settlement costs levy income

Under the Regulations, the company is entitled to recover its operational costs through the settlement costs levy on suppliers referred to above. The total amount of the levy has been set for the next year. Any surplus at the year-end is reimbursed to suppliers by issuing credit notes against the following year's levy and is classified as part of levy and capacity payments payables within current liabilities.

Settlement costs levy income is recognised as 'other income' in the financial year to which it relates and is presented net of any settlement costs levy repayable to suppliers.

ESC continues to apply its accounting policy of recognising the income to match operational costs which follows the IFRS Conceptual Framework for Financial Reporting.

The settlement costs levy is collected through monthly invoices. The settlement services provider, EMRS, administers the collection process.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

2.4 Capacity Market supplier charge income

Capacity Market supplier charge income relates to the charges which electricity suppliers are required to pay under the Regulations to meet the cost of funding capacity payments. Under the Regulations, the company is entitled to collect the Capacity Market supplier charge before making capacity payments. The total amount of the Capacity Market supplier charge is set before the start of the Delivery Year based on suppliers' forecasts. The Capacity Market supplier charge is re-determined in monthly and yearly reconciliations. Re-determination of the Capacity Market supplier charge takes the following into account:

i. transition from forecast to actual meter data; and

ii. adjustments to capacity payments payable.

Any surplus Capacity Market supplier charge at the year-end is classified as part of levy and capacity payments payables within current liabilities.

2.5 Capacity payments

Capacity payments are payments to the capacity providers under the Regulations for their commitment to meet a capacity obligation during a Delivery Year. Total capacity payments are based on the capacity cleared price achieved in the auction in respect of which the Capacity Agreement was awarded. Capacity payments are split into 12 monthly payments which are weighted to reflect the seasonal variation of electricity demand in Great Britain during a year.

Following a transmission system Stress Event, capacity providers may be eligible for additional payments or subject to financial penalties, depending on whether they exceed their capacity obligations (over-deliver) or fail to meet them (under-deliver).

2.6 Recharges

The company is recharged a proportion of costs which it shares with Low Carbon Contracts Company Ltd (LCCC). LCCC is a sister arm's length body owned by the Secretary of State for Business, Energy and Industrial Strategy and is responsible for acting as the counterparty to CfDs. In order to maximise operational cost efficiency, LCCC provides certain services to the company and makes certain payments on its behalf. Typically this includes common costs such as staff costs, shared IT infrastructure and the use of shared resources and facilities. The recharge also includes costs incurred on those activities that allow the company to perform its functions in relation to the Capacity Market.

This recharge is based on an estimate of the time LCCC's employees will spend on the company's activities during the relevant financial year, together with an appropriate allocation of overhead costs (including rent, service charge, IT infrastructure and telephony support) and a 'use of asset' charge. It also includes a proportion of the salaries of the Board members who divide their time between the two companies. LCCC undertakes these activities on behalf of the company and the company's Board retains responsibility and accountability for the quality and cost of services provided by LCCC.

The company and LCCC are part of the same VAT group, therefore no VAT is charged on costs recharged by LCCC. The company's income is outside the scope of VAT so it will be unable to recover its input VAT on any of its expenditure.

2.7 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all the attached conditions.

2.8 Financial assets

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management determines the categorisation of financial assets at initial recognition and re-evaluates this designation at each reporting date.

2.8.1 Classification

Financial assets are classified and measured at amortised cost.

2.8.2 Recognition and measurement

Financial assets at amortised cost are initially recognised at fair value, subsequently measured at amortised cost using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The only financial asset held by the company at the reporting date is cash and cash equivalents.

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash held at a bank and is subject to an insignificant risk of change in value.

2.9 Financial liabilities

2.9.1 Recognition and measurement

Financial liabilities are classified, at initial recognition, as other liabilities (i.e. lease liabilities, borrowings and payables as appropriate).

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2.9.1.2 Other financial liabilities

After initial recognition, other liabilities are subsequently measured at amortised cost using the EIR method (if material). Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

2.9.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.10 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses (if any). Intangible assets have finite lives and are amortised over their useful economic life, or assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised over the following periods:

	Years
Settlement System	5
Other IT Software	5

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

2.11 Leases

2.11.1 Company as a lessee

At inception of a contract, the company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

2.11.2 Measurement of lease liabilities

Lease liabilities are initially measured at the present value of the contractual lease payments that are not paid at the commencement date, discounted (if material) by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term.

2.11.3 Measurement of right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, adjusted for any lease payments made at or before the commencement date, and increased for any initial direct costs. Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are amortised to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The amortisation starts at the commencement date of the lease.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 2.12.

2.12 Impairment of non-financial assets

Intangible assets are only subject to amortisation to the extent that they are available for use. Assets, which are not available for use, are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, the company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Impairment losses are charged to the statement of comprehensive income and prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

2.13 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle that obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accounting policy allows for an increase in the provision due to the passage of time (time value of money) which would be recognised as an interest expense.

2.14 Segmental reporting

The company operates solely within the UK and within one business segment; hence no segmental reporting is required. This is consistent with the internal reporting provided to the Directors of the company, who are considered the company's chief operating decision makers.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

2.15 Bid bond collateral
In order to enter Capacity Market auctions, applicants must lodge bid bond collateral with the company where, on Prequalification Results Day, those applicants receive a notice from National Grid, as transmission System Operator, that states Prequalification of their Capacity Market Unit(s) is conditional on providing bid bond collateral.

Bid bond collateral will be held by the company until one of the following triggers set out in the Regulations occurs:
- the relevant Capacity Market auction is delayed;
- the potential capacity provider notifies that it no longer intends to bid in the relevant Capacity Market auction;
- the Capacity Market auction takes place and the potential capacity provider does not win a Capacity Agreement; or
- the capacity provider demonstrates capacity in the manner required by the Regulations.

Bid bond collateral may not be returned to the capacity providers if the Capacity Agreement is terminated.

When a Capacity Agreement is terminated, either a termination fee becomes payable or bid bond collateral is drawn down. These amounts are passed onto the Government's Consolidated Fund via BEIS and are not included in the statement of comprehensive income.

3. Financial risk management

3.1 Financial risk management and financial risk factors
Due to the nature of its operational and financial arrangements the company is not exposed to any significant financial risk. The financial risk is minimal by virtue of the company's levy funding arrangements with licensed suppliers, which are set out below.

3.2 Credit and liquidity risk
Under the legislation there is an obligation placed on licensed suppliers to fund in advance, via payment through a levy, the capacity payment obligations as they crystallise. The company has no obligation to pay the capacity providers until it receives adequate funds from suppliers to perform its obligations.

As the Capacity Market settlement timetable is structured such that monies to be received by the company are invoiced and collected prior to the issue of credit notes and payments out from the company, the liquidity risk is minimal.

4. Accounting judgements, estimates and assumptions
The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The results form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Estimates
The assumptions and estimation uncertainties at the reporting date are not deemed to have a significant risk of resulting in a material adjustment to the carrying amounts of the assets and liabilities in the next financial year. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

4.1.1 Estimating useful lives and residual values of intangible assets
At each reporting date, the useful lives and residual values of intangible assets are reviewed. Assessing the appropriateness of useful life and residual value estimates requires the company to consider a number of factors such as the technological advancement, expected period of use of the asset by the company, and expected disposal proceeds (if any) from the future sale of the asset. An incorrect estimate of the useful life or residual value will affect the amortisation expense recognised in the statement of comprehensive income and the asset's carrying amount.

4.2 Significant judgement
Management has made the following judgement in applying the company's accounting policy.

4.2.1 Capacity Agreements
Capacity Agreements are arrangements between National Grid (as System Operator) and capacity providers. They require the capacity provider to be ready to provide a certain amount of capacity in their applicable Delivery Years when called upon to do so by National Grid.

The company is not party to Capacity Agreements but is only responsible for acting as an administrator for the settlement process. A Capacity Market obligation for the company only arises when settlement levy payments are received from electricity suppliers (i.e. only pay when paid) and the capacity provider delivers the required capacity in line with the capacity arrangements. As a result no provision is raised in the statement of financial position and Capacity Agreements are not classified as financial instruments because the company's role is driven by statute rather than contract.

5. New standards, amendments and interpretations applicable to the company but not yet adopted
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the company has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, onerous contracts – cost of fulfilling a contract
- Amendments to IAS 16 *Property, Plant and Equipment*, proceeds before intended use
- Annual improvements to IFRS standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

The following amendments are effective for the period beginning 1 January 2023:
- Amendments to IAS 1 *Presentation of financial statements*, classification of liabilities as current or non-current and disclosure of accounting policies
- Amendments IAS 8 *Accounting policies, changes in accounting estimates and errors*, definition of accounting estimates.

The adoption of the above is not expected to have any impact on the company's accounting policies or have any other material impact on the financial position or performance of the company.

6. Other income

	2021 £'000	2020 £'000
Settlement costs levy income	7,502	7,554
Less: amount repayable to suppliers	(518)	(611)
Net settlement costs levy income	**6,984**	**6,943**
Capacity Market supplier charge income	1,094,737	1,483,310
Late payment interest	173	80
Other income	**1,101,894**	**1,490,333**

Capacity Market supplier charge income amounting to £0.99bn for the 2018/19 Delivery Year was recognised in the prior year, due to the suspension of the Capacity Market.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

7. Other operating costs

	2021 £'000	2020 £'000
Capacity payments	1,094,737	1,483,310
Operational settlement costs	3,689	3,522
Costs recharged by LCCC	2,793	2,756
Amortisation	509	510
Legal, professional and consultancy	14	107
Auditor's remuneration	37	39
Miscellaneous costs	115	89
Other operating costs	**1,101,894**	**1,490,333**

Auditor's remuneration represents audit fees of £31K (2020: £33K) excluding VAT. The fees shown in the table above are VAT inclusive.

The Delivery Year for the Capacity Market runs from 1 October to 30 September of each year.

The capacity payments for each Delivery Year (DY) are summarised in the table below:

Capacity Market payments	FY 2020/21 £m	FY 2019/20 £m
T-1 Capacity Auction DY 2018/19	0.4	33.4
T-4 Capacity Auction DY 2018/19	nil	953.9
T-1 Capacity Auction DY 2019/20	1.2	1.5
T-4 Capacity Auction DY 2019/20	404.1	494.5
T-1 Capacity Auction DY 2020/21	0.5	nil
T-4 Capacity Auction DY 2020/21	688.5	nil
Total	**1,094.7**	**1,483.3**

Capacity payment expenses for the 2018/19 Delivery Year were recognised in the prior year due to the suspension of the Capacity Market.

8. Intangible assets

	Settlement System £'000	Other IT Software £'000	Total £'000
Cost			
As at 31 March 2019	2,538	15	2,553
Additions during the year	–	–	–
As at 31 March 2020	2,538	15	2,553
Additions during the year	–	–	–
As at 31 March 2021	**2,538**	**15**	**2,553**
Amortisation			
As at 31 March 2019	1,274	11	1,285
Charge for the year	508	3	511
As at 31 March 2020	1,782	14	1,796
Charge for the year	508	1	509
As at 31 March 2021	**2,290**	**15**	**2,305**
Net book value as at 31 March 2020	756	1	757
Net book value as at 31 March 2021	**248**	**–**	**248**

The company leases the settlement system from BEIS. The settlement system went live in September 2016. The lease term is 5 years which is the period over which the asset will be amortised.

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

9. Levy and capacity payments receivable

	2021 £'000	2020 £'000
Capacity Market supplier charge	10,521	9,084
Capacity providers receivable	231	1,687
Termination charges receivable	1,089	826
Settlement costs levy	77	575
Total levy receivable	**11,918**	**12,172**

Capacity Market supplier charge receivable relates to unpaid Capacity Market supplier charge invoices (i.e. suppliers ceased trading). Balance recoverable through the mutualisation process.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

10. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank	261,431	186,849
Bid bond collateral	45,170	28,547
Suppliers' credit cover	27,771	27,291
Total cash and cash equivalents	**334,372**	**242,687**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, suppliers' credit cover and bid bond collateral as stated above. Suppliers' credit cover and bid bond collateral are restricted cash balances and relate to credit cover provided by the capacity providers and electricity suppliers. No interest is earned on suppliers' credit cover and interest earned on bid bond collateral is returned to the capacity providers.

11. Levy and capacity payments payables

	2021 £'000	2020 £'000
Capacity payments	224,607	161,314
Capacity Market supplier charge	46,234	35,591
Settlement costs levy	1,341	1,198
Termination charges payable	1,239	826
Total levy and capacity payments	**273,421**	**198,929**

Capacity payments payables are the amounts due to the capacity providers under the Regulations for their commitment to meet a capacity obligation during a Delivery Year. Total capacity payments are based on the capacity cleared price achieved in the auction that the Capacity Agreement was awarded.

The settlement costs levy payable relates to the difference between the operational costs which have been collected from electricity suppliers during 2020/21, based on estimated spend for the year, and the operational costs actually incurred during the year. The difference is refunded to suppliers in the following financial year.

The Capacity Market supplier charge payable relates to the difference between Capacity Market supplier charges which have been collected from electricity suppliers during the 2020/21 financial year, based on estimated payments to the capacity providers, and the actual payments made during the year. The difference is refunded to suppliers in the following financial year.

Termination charges payable relate to the relevant charges receivable, when a Capacity Agreement is terminated, that are payable to the Government's Consolidated Fund.

12. Trade and other payables

	2021 £'000	2020 £'000
Bid bond collateral	45,169	28,547
Suppliers' credit cover	27,771	27,291
Accruals and other payables	40	82
Total trade and other payables	**72,980**	**55,920**

Bid bond collateral relates to credit cover provided by the capacity providers.

13. Lease liabilities

	£'000
As at 31 March 2019	1,307
Repayment of lease liability	(507)
As at 31 March 2020	800
Repayment of lease liability	(507)
As at 31 March 2021	**293**

Maturity analysis:

	2021 £'000	2020 £'000
Less than 1 year	293	507
Between 1 and 5 years	–	293
As at 31 March	**293**	**800**

The lease liability is held in respect of the settlement system right-of-use asset which has been funded by BEIS through EMRS, a wholly owned subsidiary of ELEXON Limited.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

14. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
Ordinary share capital issued and fully paid:	**£**
As at 31 March 2019 and 31 March 2020	1
Share capital issued during the year	–
As at 31 March 2021	**1**

15. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Services from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Entities with significant influence:			
2020			
LCCC	2,756	–	–
BEIS	–	–	800
2021			
LCCC	2,793	–	–
BEIS	–	–	293

Services from LCCC comprise shared costs of premises, staff and Directors' payroll costs, IT infrastructure and use of assets which are incurred in the first instance by LCCC but are then recharged to the company based on the estimated usage of those services. Amounts owed to BEIS relate to the lease liability in respect of the settlement system asset.

16. Financial assets and liabilities

Financial assets	Note	2021 £'000	2020 £'000
Cash and cash equivalents	10	334,372	242,687
Total financial assets		**334,372**	**242,687**

Financial liabilities	Note	2021 £'000	2020 £'000
Trade and other payables	12	72,980	55,920
Lease liabilities	13	293	800
Total financial liabilities		**73,273**	**56,720**
Total current		73,273	56,427
Total non-current		–	293
Total financial liabilities		**73,273**	**56,720**

17. Events after the reporting period

There are no post balance sheet events which have a material impact on the company's financial results.

Glossary

Acronym	Description
BEIS	Department for Business, Energy and Industrial Strategy.
BSC	Balancing and Settlement Code (BSC) is a legal document which defines the rules and governance for the balancing mechanism and imbalance settlement processes in respect of the wholesale electricity market in Great Britain. Find it at: https://www.elexon.co.uk/bsc-and-codes/
Capacity Agreement	A Capacity Agreement is a regulatory and rule based arrangement between National Grid, as System Operator, and a successful applicant in a Capacity Market auction. The Capacity Agreement provides a regular retainer payment to the successful applicant or "capacity provider".
Capacity Auction	At a Capacity Auction, applicants who offer the lowest bid can win a Capacity Agreement. A Capacity Auction relates to delivery of capacity approximately four years ahead (T-4). For instance, the Capacity Agreements resulting from the 2014 T-4 Capacity Auction required capacity to be delivered in the Delivery Year commencing 2018/19.
Capacity Market	The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded Capacity Agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions.
Capacity Market Regulations	Capacity Market Regulations means the Electricity Capacity Regulations 2014 (as amended) and the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended).
Capacity Market Settlement Body	Means the entity appointed under the Capacity Market Regulations 2014 to obtain supplier charges and make capacity payments and to have overall accountability and control of the Capacity Market settlement process.
Capacity Market Stress Event	A System Stress Event that has occurred at least four hours after a Capacity Market Notice has been issued and post-event analysis by National Grid ESO has confirmed that a System Stress Event has occurred.
Capacity provider	A capacity provider is the holder of a Capacity Agreement with National Grid (as System Operator). Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand side reductions (Demand Side Response). Capacity providers provide capacity under either a Capacity Agreement resulting from a Capacity Market auction or from a Transitional Arrangement Auction.
Delivery Partners	Organisations involved in delivering the Capacity Market, namely ESC, and (EMR) Delivery Body, Electricity System Operator, National Grid, and Ofgem.
Delivery Year	This is a defined term within the Capacity Market rules referring to the obligation period of a Capacity Agreement being 1 October to 31 March of the following year.
Demand Side Response	Demand Side Response helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the "demand side") in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. Demand Side Response is seen as having the potential to help lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.
ECJ	Means the General Court of the Court of Justice of the European Union. The General Court annulled the relevant scheme Approval on 15 November 2018 (Case T–793 14).
EMRS	EMR Settlement Ltd (EMRS) is a wholly owned subsidiary company of ELEXON Ltd.* It is the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (*ELEXON website: www.elexon.co.uk/).

Acronym	Description
Energy Data Taskforce	The Energy Data Taskforce was established by Government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency.
ESC	Electricity Settlements Company Ltd.
ESO	The Electricity System Operator (ESO), a ring-fenced part of National Grid, includes the 'EMR Delivery Body', which manages CfD and Capacity Market auctions.
LCCC	Low Carbon Contracts Company Ltd.
Meter assurance	Under the Capacity Market, capacity providers with complex or non-BSC metering arrangements need to undergo metering checks in accordance with ESC meter standards guidance. Find it at https://www.electricitysettlementscompany.uk
Ofgem	Office of Gas and Electricity Markets, a non-ministerial government department and an independent national regulator.
Scheme Approval	State aid approval (SA.35980) granted by the European Commission in July 2014 for the main Capacity Market scheme.
Secretary of State	Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder.
settlement system	The settlement system used to settle all monies collected from suppliers to make payments to Capacity Market providers, and to settle all monies collected from Capacity Market providers which are payable to suppliers (or, in the case of the termination payments, to BEIS).
Standstill	Means the situation affecting the Capacity Market as a result of the annulment of the relevant scheme Approval on 15 November 2018. The full operation of the Capacity Market therefore could not take place during the Standstill Period, and the Capacity Market was termed in "standstill" for this period.
Standstill Period	Standstill Period means the period beginning on 15 November 2018 and ending on (as further described in the Supplier Payment Regulations).
Standstill Regulations	Refers to the Electricity Capacity (No.1) Regulations 2019, http://www.legislation.gov.uk/uksi/2019/862/contents/made
State aid	State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition in the European Union.
Supplier Payment Regulations	Supplier Payment Regulations means the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended), including as amended by the Electricity Capacity (No. 1) Regulations 2019). http://www.legislation.gov.uk/uksi/2014/3354/contents/made Also amended by the Electricity Supplier Payments (Amendments) Regulations 2021 https://www.legislation.gov.uk/ukdsi/2021/9780348219296
System Operator	Organisation licenced by Ofgem to operate the GB electricity system, a role currently held by National Grid Plc. The Electricity System Operator's current responsibilities include balancing the electricity system, running electricity Capacity Auctions, coordinating and administering aspects of industry rules and codes and supporting efficient transmission network development.

Management Committee

This was the Management Committee
as at 10 June 2021.

Neil McDermott
Chief Executive Officer

Ruth Herbert
Director of Strategy & Development

James Rushton
Director of Scheme Delivery

Allison Sandle
General Counsel & Company Secretary

Cynthia Duodu
Director of People & Organisational Development

George Pitt
Chief Financial Officer

Fleetbank House
2–6 Salisbury Square
London EC4Y 8JX
lowcarboncontracts.uk