LOW CARBON
CONTRACTS COMPANY
POWERING NET ZERO

ACCELERATING THE TRANSITION TO NET ZERO

Annual Report and Accounts
for Low Carbon Contracts Company Ltd
2022/23

DELIVERING NOVEL SOLUTIONS FOR DECARBONISATION IN THE UK

CONTENTS

Our portfolio

LCCC is managing **165 Contracts for Difference (CfDs)** with an estimated fair value of **£84.5bn**, including the bespoke CfD for Hinkley Point C. Our counterparties hold CfDs that enable generators to deliver 29.4GW of new low-carbon capacity by 2030.

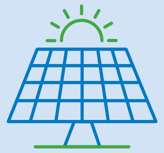
One CfD project began its difference payments in 2022/23.

6.5GW

Operational capacity facilitated per CfD

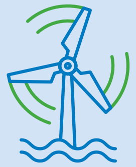
The CfD technologies and respective number of managed contracts

Solar PV



68

Offshore wind

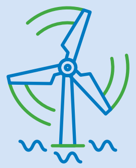


51

Onshore wind

25

Remote island wind

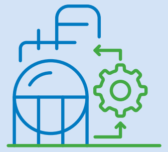


10

Tidal stream

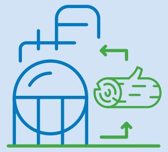
4

Advanced conversion technology



2

Biomass conversion

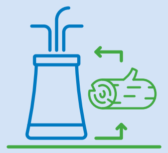


2

Energy from waste with CHP

1

Dedicated biomass with CHP

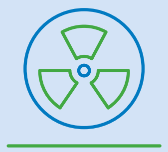


1

Floating offshore wind

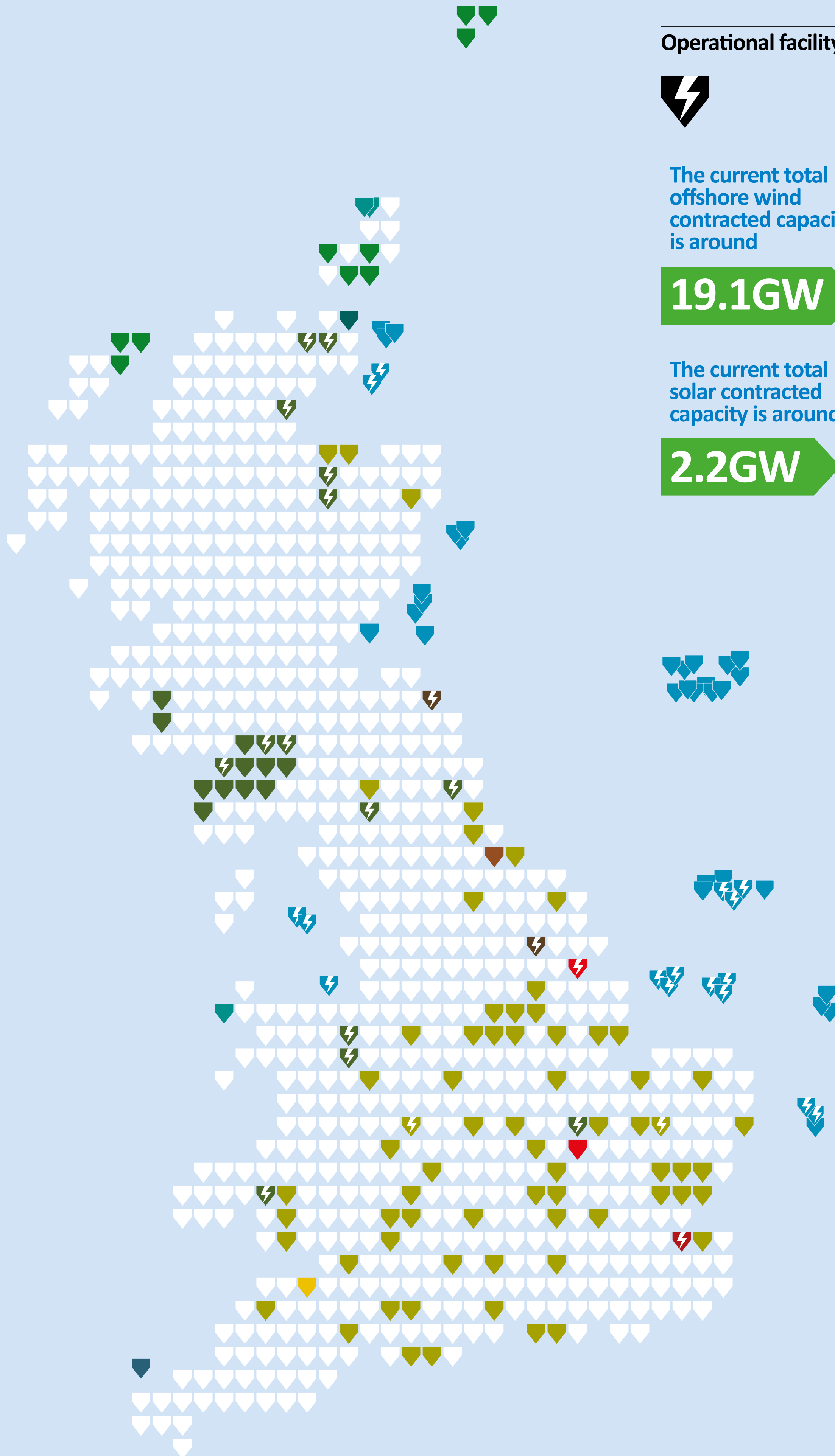
1

Nuclear



1

The CfD supports a diverse range of low carbon technologies



Operational facility

The current total offshore wind contracted capacity is around

19.1GW

The current total solar contracted capacity is around

2.2GW

All positions shown as of 31 March 2023.

Highlights for 2022/23

CfD scheme delivery

Accelerating the transition to net zero

CONTRACTS SIGNED

98 CONTRACTS FOR DIFFERENCE SUCCESSFULLY BROUGHT INTO THE PORTFOLIO

STREAMLINED

OUR CHANGES ENABLED ANNUAL CfD AUCTIONS

SUPPORTED

HELPED STAKEHOLDERS UNDERSTAND REQUIREMENTS OF NEW SCHEME CONTRACTS

Acting as a trusted advisor

BILLS CRISIS

ADVISED ON MECHANICS OF PROVIDING SUPPORT TO CONSUMERS USING OPERATIONAL EXPERIENCE

CONTRACT DESIGN

KEY PARTNER TO DESNZ ON CONTRACT DESIGN FOR NEW SCHEMES

SHAPING MARKETS

COLLABORATED WITH DESNZ TO SHAPE KEY ASPECTS OF A FUNDAMENTAL ELECTRICITY MARKETS REVIEW

Chair's foreword

OUR BUSINESS IS GROWING RAPIDLY TO MEET REDUCED CARBON EMISSIONS

When we published our annual report last year, it was not long after the Russian invasion of Ukraine. It was obvious that something big was happening, but the full implications were not then clear. Now, at the end of a tumultuous year, there has been a fundamental shift in how we view our energy landscape in general, and net zero in particular.

We no longer look upon the 'energy trilemma' as an unsolvable conundrum; we are focused on delivering decarbonisation, affordability and security of supply all at the same time. The crisis of the past year may have placed more emphasis on the second and third goals, but it has also clarified that the first – action to reduce carbon emissions – is critical if we are to deliver affordability and security.

Chris Skidmore's 'Mission Zero' report is just the most recent example of the growing consensus, in both political and business circles, that net zero is a huge economic opportunity. The US has sought to harness this opportunity with its Inflation Reduction Act and the EU has introduced its Green Deal Industrial Plan for the same reason.

With this consensus on what we need to deliver, there is a need now for a laser-sharp focus on how we deliver it. This is where LCCC plays a critical role. The business has long recognised the need to step up to the challenge – not only of decarbonising our energy system, but also of decarbonising other sectors, including carbon-emitting industries and even aviation fuel. Because of this foresight and the preparatory work LCCC has done over the past years, the business anticipates taking on key new roles in industrial carbon capture, usage and storage and hydrogen, which we describe later in this report. Together, our current roles will deliver about one-fifth of the emission reduction needed between now and 2035. And we expect to do yet more.

We are working with Government on more delivery schemes that will have a material impact on our carbon emissions and cement the UK's place as an innovator in emissions reduction. This success will be built on the unique, private-law, low-carbon Contract for Difference, which ensures investor confidence and attracts significant investment at least cost to consumers. This investment is essential if we are to reach the net-zero target.

Our business is growing rapidly to meet this challenge. We have doubled in size over the past two years and we will be looking to add the same number of people again in the next two. We are proud that our vision, mission and values attract a dynamic, highly skilled and enthusiastic set of colleagues who align and strengthen our purpose with their commitment and drive. This is reinforced by the diversity of our team: women make up 50% of our Board members and about 40% of our staff; we have 20 different nationalities represented among our colleagues and 58% of our staff are from ethnic minority groups.

I want to thank all of our people – long-standing employees and recent recruits – for their dedication and professionalism. I am also grateful to my excellent non-executive Board colleagues, who help us shape and deliver our strategy and bring their unique perspectives to the business. Together we are powerful, and we will continue to power our journey to net zero.

Regina Finn
Chair

Chief Executive's statement

DELIVERING OPERATIONAL EXCELLENCE IN CHALLENGING TIMES

LCCC has had another very successful year despite the challenges of the crisis in the energy markets. I am proud of how our team has performed to support consumers and investors in this challenging time. We continue to perform well in our core Contracts for Difference (CfD) business and, in parallel, we have been working closely with Government and investors on the development of new schemes, including in carbon capture, usage and storage and hydrogen production. We have also continued to develop other emerging schemes, including Greenhouse Gas Removals and Sustainable Aviation Fuels.

As we plan this growth, we have been recruiting a talented and highly motivated new cohort of employees, doubling in size, with a focus on contract-management and systems-development experience. It is an exciting time to work in LCCC, as we grow and explore new areas of decarbonisation, developing solutions that are being tackled for the first time in the UK and perhaps the world.

Turning first to our core CfD portfolio, the high and volatile energy markets meant the CfD has been returning money to consumers. Over the course of 2022/23, a net amount of £8.6m has been collected from generators for payment to suppliers. In this way, the CfD has served to reduce the impact of high energy-market prices on consumers.

However, as wholesale market prices fell in the face of a mild European winter and the return of French nuclear and Scandinavian hydro, CfD difference payments reversed and saw funds flowing to generators. This volatility in market prices presented a challenge to our teams in setting the Supplier Obligation Levy, the process by which we collect money from electricity suppliers to fund difference payments under the CfD. When wholesale market prices were above the strike prices in the contracts (the fixed prices secured during the auction process), we minimised collections from electricity suppliers. However, the warm winter meant we had to cover the scenarios where we would be making payments to generators, particularly in a windy weather pattern. I am delighted that we navigated this well, ensuring we always had sufficient funding to pay investors and yet minimising cash calls on suppliers at a challenging time.

For those projects that were operating under the CfD, we have seen an increase in offshore wind output balanced by a reduction in biomass output. This is despite only one CfD-backed offshore wind farm project beginning operations in 2022/23, and this was on the last day of the year. The pause in expansion of the operating portfolio should be the lull before the storm however, as projects from AR3 and AR4 progress towards their start dates. We have been busy behind the scenes, using this time to improve and automate processes to ensure we are ready for much larger numbers of operating projects.

Fulfilling our role in AR4 was a key focus for us in 2022/23. The round was a huge success, with 98 new CfDs signed, increasing the portfolio to 165 CfDs and the generation capacity by 50% to 29.7GW. Once all these CfDs are generating, they should produce about 120TWh annually. This represents approximately 30% of demand in Great Britain and an increase of about one-third over the position before AR4.

In the run up to AR4, we put in place key improvements to the process of producing and signing contracts and successfully steering projects through the Initial Conditions Precedent (ICP) process. This could be done only through automation and digitisation, creating a new portal for generators to submit their information and sign their contracts through DocuSign. These innovations are a testament to our commitment to excellence through continuous improvement.

Turning to our new schemes, we have worked with Government to develop business models and private-law contracts for Carbon Capture, Usage and Storage and low-carbon Hydrogen production, with good feedback from stakeholders. I was delighted to see the commitment from Government in the Spring Statement to these new technologies. We will be working alongside Government to ensure we are ready to play our part in the delivery of these new schemes in 2023/24 and beyond.

This growth in our wider business has, in part, been funded with income from Government funding. While this brings some complications, it allows us to extract synergies from spreading overheads over more activities and getting better value for both consumers and taxpayers. These synergies will include the development of technology solutions by in-house teams who will deliver settlement and other systems to support the implementation of new schemes.

Chief Executive's statement
(Continued)

We are seeing these synergies manifest in our draw on the Operational Costs Levy and hence unused levy that we are returning to suppliers. This year we used £13.9m of these funds out of £23.1m of levy collected, and so will be returning £9.2m to suppliers. Last year (2021/22) we used £9.8m, but this was reduced by one-off factors such as recognising income from the settlement of a legal dispute in our favour. The year before (2020/21), our net operating expenditure (after applying the ESC recharge) was £15.1m. While our CfD activities have expanded, our use of levy funding has reduced – as some of our overheads are covered by exchequer funding. This effect will only increase.

I am delighted to report that, in our 2022/23 Employee Engagement Survey, we achieved a 95% response rate and our overall engagement score is 86%. This is an improvement of eight points above last year's survey and one point above our Company Scorecard target. This is an outstanding result that puts LCCC in the top quartile of companies in the People Insight universe. This is the highest-ever level of engagement achieved in LCCC and comes at the end of a year when the company has dramatically increased employee numbers while delivering ever-more complex and innovative work.

To attract and retain the talent we need, we will redouble our efforts to make LCCC an excellent place to work, where employees can develop their careers. We already have an advantage through our mission to deliver key parts of the net-zero agenda, but we can't rest on our laurels. For this reason, I am especially proud of our staff-engagement score and the focus of our 'engagement champions', who have the mission to make LCCC an even better workplace.

LCCC has a bright future.
Even in interesting times!

Neil McDermott
Chief Executive

Strategic report

Strategic report

OUR VISION

is to accelerate the delivery of net zero.

OUR MISSION

is to shape and implement schemes which enable low-carbon investment at least cost to the consumer.

LCCC'S GUIDING PRINCIPLE

is to maintain investor confidence in the CfD scheme and minimise costs to consumers.[1]

With effect from 7 February 2023, the name of our parent entity was changed from Department for Business, Energy & Industrial Strategy (BEIS) to Department for Energy Security and Net Zero (DESNZ). HM Treasury has specified for simple arrangements to still refer to BEIS in the 2022-23 financial statements, but for the rest of this report our parent department will be referred to as DESNZ.

The Low Carbon Contracts Company (LCCC) is an operationally independent, not-for-profit private company, wholly owned by the Secretary of State for Energy Security and Net Zero (DESNZ). The company carries out two key roles that are central to the delivery of the Government's objective to "ensure the UK has a reliable, low cost and clean energy system"[2]:

- **Counterparty to Contracts for Difference** (CfDs), responsible for managing agreements with low-carbon electricity generators under the CfD scheme, forecasting and collecting the Supplier Obligation Levy that funds CfD payments, and settling and clearing the CfDs[3].
- **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. LCCC carries out these functions on behalf of its sister company, Electricity Settlements Company Ltd (ESC).

In October 2021, LCCC was confirmed by the Government as the scheme counterparty to the Dispatchable Power Agreement (DPA) for Carbon Capture, Usage and Storage (CCUS). Also, on 31 March 2022, LCCC was confirmed as the revenue collection counterparty for the nuclear Regulated Asset Base (RAB) funding model. The Government anticipates that LCCC will be the counterparty for the Low Carbon Hydrogen Agreement (the contract underpinning the hydrogen production business model) and both the Industrial Carbon Capture and Waste Industrial Carbon Capture Agreements. This is subject to successful completion of administrative and legislative arrangements.

Our role in accelerating the delivery of net zero

Our mission is to shape and implement schemes which enable low-carbon investment at least cost to the consumer.

- Our primary responsibility is as an operationally independent CfD Counterparty is to **manage CfDs throughout their lifetime**, ensuring low-carbon generators comply with their CfD obligations under the private law contract.
- To ensure we are always able to make payments to CfD generators, we forecast and collect in advance the CfD Supplier Obligation Levy, which we then use to **settle and clear the CfDs**.
- We use the knowledge, capability and experience built up in helping shape, and in operating, the CfD to **advise Government on developing existing and new low-carbon schemes**.
- To increase industry knowledge and build investor confidence in CfDs, we **provide information about the scheme and how it is performing** to the market.
- We carry out **Capacity Market settlement** functions on behalf of our sister company, ESC, via a cost-sharing arrangement. ESC's role in the Capacity Market is detailed in the ESC Annual Report.

1. LCCC Framework Document, available at https://lowcarboncontracts.uk/corporate-governanceCorporate Governance | Low Carbon Contracts Company
2. BEIS Single Departmental Plan, last updated in June 2019: https://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
3. Reference is made to the Energy Act 2013 and the CfD related regulations. The regulations are available at: http://www.legislation.gov.uk/all?title=Contracts%20for%20Difference%20regulations

Key outcomes in 2022/23

Table 1: Key scheme outcomes 2022/23[4]

Scheme	Outcomes	Total payments made under scheme	Total annual cost (including operational cost levies)	Operational costs as a percentage of total annual cost	Operational costs as a percentage of gross cash flow
CfD	**19.0TWh** of low carbon power produced Approximately **5.4m tonnes** equivalent of avoided CO_2[5]	**668.8m** (total payment) **£677.4m** (total receipts from generators) **£1,346.2m** (gross cash flow)	**£5.3m**	**262.3%[6]**	**1.0%**
Capacity Market	Availability payments made to **48.4GW** of capacity for delivery year 2021/22 and **52.7GW** for delivery year 2022/23	**£252.6m** (for delivery year 2021/22)[7] **£427.9m** (for delivery year 2022/23)[7]	**£685.8m**	**0.8%**	**0.8%**

4. Figures may not reconcile due to rounding.
5. Greenhouse-gas emissions avoided from the CfD portfolio, which are calculated using the actual CfD generation and BEIS annual generation, based long-run marginal emissions factors – https://www.lowcarboncontracts.uk/data-portal/dataset/actual-cfd-generation-and-avoided-ghg-emissions
6. Receipts from generators are unusually high, due to market prices, causing the calculated percentage of LCCC operational costs to increase beyond 100%.
7. A Capacity Market delivery year runs from 1 October to 30 September the following year.

Portfolio view

Progress of CfD generators as of 31 March 2022[8]

Key contractual definitions

- **MDD** – Milestone delivery date
- **FIC** – Final installed capacity
- **OCP** – Operational conditions Precedent
- **TCW** – Target commissioning window

CfD generators and respective number of managed contracts

CfD milestones	Pre-MDD		Pre-start date		Pre-FIC	Post-FIC	
	Offshore wind: 11	Onshore wind: 10	Offshore wind: 23	Onshore wind: 1	Offshore wind: 1	Offshore wind: 16	Onshore wind: 24
	Remote island wind: 10					Energy from waste with CHP: 1	
			Dedicated Biomass with CHP: 1	Advanced Conversion Technology: 1		Advanced conversion technology: 1	
	Solar PV: 64		Solar PV: 2			Solar PV: 2	Biomass conversion: 2
	Tidal stream: 4	Nuclear: 1					
	Floating offshore wind: 1						

CONTRACT SIGNED → MDD → START DATE → FIC

CfD project activity: DEVELOPMENT → CONSTRUCTION → OPERATIONS

Contractual process:

Pre-MDD: By the milestone delivery date (MDD), demonstrate commitment to the project by satisfying the milestone requirement either via the '10% spend' route or the 'project commitments' route (MDD is 18 months from contract signature).

Pre-start date: A generator can submit a start date notice once it has satisfied all of its operational conditions precedent (OCPs). Projects can start generation that will receive difference payments at any point after the start of the target commissioning window (TCW). The end of TCW is the latest point at which generation can start and still receive a full 15-year term of CfD payments. The contract has a Longstop Date beyond which the CfD can be terminated if the start date has not been achieved or the final installed capacity (FIC) has not been declared.

Pre-FIC: Before the FIC milestone, if the facility uses thermal technology, there are ongoing requirements for fuel measurement, sampling, and sustainability.

8. All positions shown as of 31 March 2022, except for two terminations that occurred after 31 March whose symbols have been removed.

Performance against strategy

The core activities in LCCC's portfolio are the two schemes that were established under the Coalition Government's Electricity Market Reform (EMR) programme – the Contract for Difference (CfD) and Capacity Market (CM). Increasingly, however, our portfolio has been diversifying under our new strategy, which is aimed at supporting decarbonisation in a wider range of sectors and technologies. This year has seen the scale of the original schemes grow significantly as well as extensive activity in new areas such as carbon capture, and we are making good progress towards our vision of accelerating the delivery of net zero.

CfD and CM delivery excellence: operating the contract

While the effect of COVID-19 has receded, this year saw the full impact of Russia's invasion of Ukraine on the UK economy, in particular the energy sector. This has made the job of managing our operating portfolio of CfDs challenging, with **large swings in energy prices making forecasting of the money flows to and from generators and suppliers difficult**. We have striven at all times to minimise burdens on stakeholders and communicate effectively with them to minimise uncertainty and ensure they have been able to manage their risks and businesses effectively.

CfD and CM delivery excellence: managing the project portfolio

In the project portfolio, the high prices available on the market prompted a small number of CfD generators that were approaching their start dates to postpone the triggering of difference payments. Consequently, only one new project has entered the operational portfolio during 2022/23. The fourth CfD allocation round, however, has seen a **huge increase in the number of contracts** we manage. We successfully steered these contracts through their Initial Conditions Precedent.

New business delivery: implementing new schemes

New schemes activity has kicked off this year with the first substantial Government funding secured for implementation. We are the **appointed revenue collection agent for the new nuclear Regulated Asset Base (RAB)** mechanism, and will be ready to start these payments once the first project under the scheme reaches Final Investment Decision (FID). We are already **implementing the Dispatchable Power Agreement** under the Energy Act 2013, and, subject to the Energy Security Bill reaching royal assent, **preparing for the implementation of the Industrial CCUS and Hydrogen production business models.**

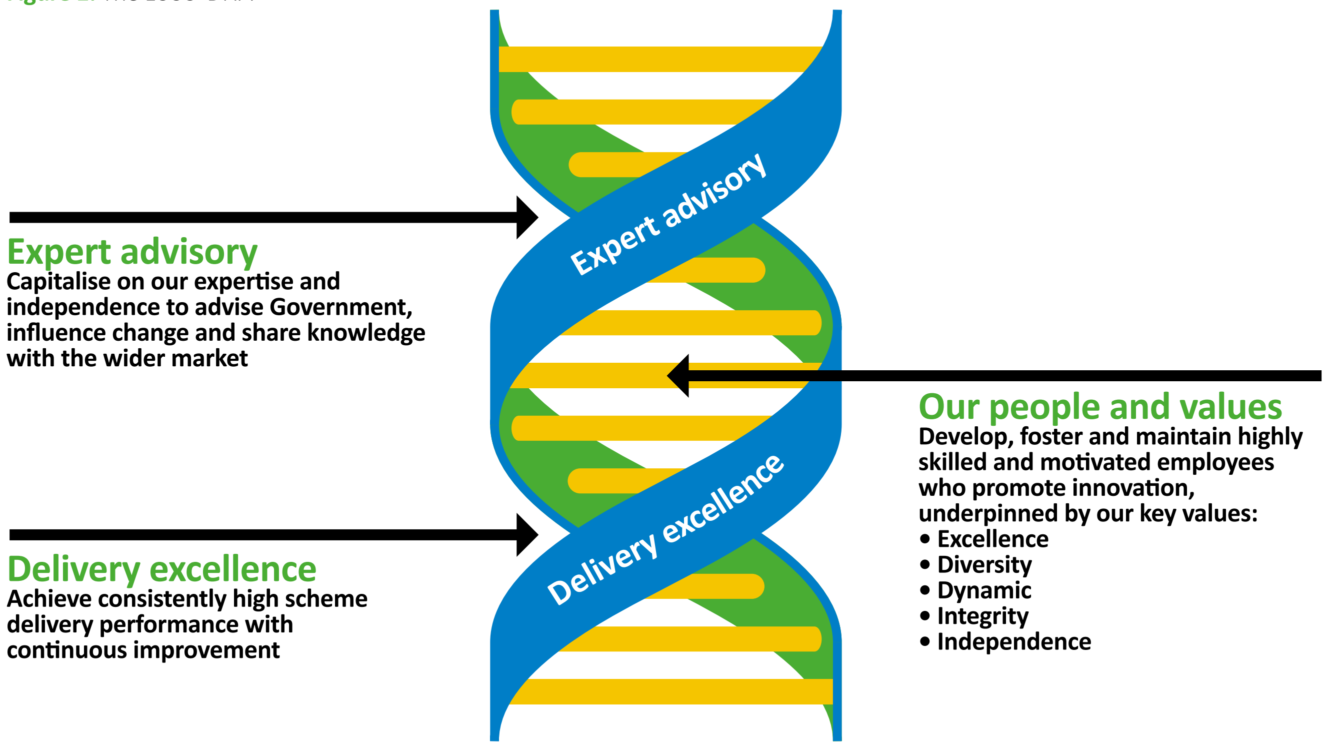
Our growth in these challenging times stems from an underlying confidence in the low-carbon CfD mechanism, which has demonstrated its resilience over the last year. The scheme's robustness to the challenges of this turbulent period shows its value.

A broader strategy

This year saw a widening and deepening of the realisation that complete decarbonisation of the UK is not only good for the environment, but also a large economic opportunity. This is something we recognised two years ago, and why we widened our strategy to encompass decarbonisation outside the electricity sector.

This strategy builds on our model of service for Government and the market. There are two key strands to our work: carrying out decarbonisation schemes successfully, and providing expertise and advice, built on our experience of delivery and our unique place within the industry. These are joined together by the knowledge and skills of our people and the values we hold, and can be conceived as the double helix of the LCCC 'DNA' as illustrated below. This model underpins our growth, both in our existing schemes and in the new schemes we are appointed to deliver.

Figure 1: The LCCC 'DNA'










Vision and mission

Informed by the net-zero imperative and our experience in facilitating investment with low-carbon contracts, we have vision and mission statements to guide our organisation over the next five years.

Our vision is:

TO ACCELERATE THE DELIVERY OF NET ZERO

This reflects the need to change the pace of delivery to meet the commitment to net-zero emissions by 2050. It expands our horizon beyond the electricity sector, encompassing both our existing CfD and CM work (and the significant acceleration in progress there) and new activity.

This is a wider vision of all parts of society contributing to accelerated delivery, with LCCC contributing where we can. Our involvement will be within the parameters set for us by Government in our Framework Document, which clearly sets out what we are expected and able to do. It will also be within the skills and experience of our organisation and the people within it. We can add value from our unique place in the energy ecosystem: we should be able to bring forward solutions, based on our individual knowledge and collective experience, that can aid the societal mission.

Our mission is:

TO SHAPE AND IMPLEMENT SCHEMES WHICH ENABLE LOW-CARBON INVESTMENT AT LEAST COST TO THE CONSUMER

This recognises our role in bringing forward investment as an operationally independent counterparty, and our strengths in managing schemes to do this. It also acknowledges how we use skills and experience gained in electricity to help shape new schemes outside the power sector, where such instruments are appropriate. The phrase about the consumer reflects the importance of reducing the cost of the energy transition for everyone.

These statements both recognise where the environment we work in is taking us and help us navigate the way through, by clearly stating what we aim to do.

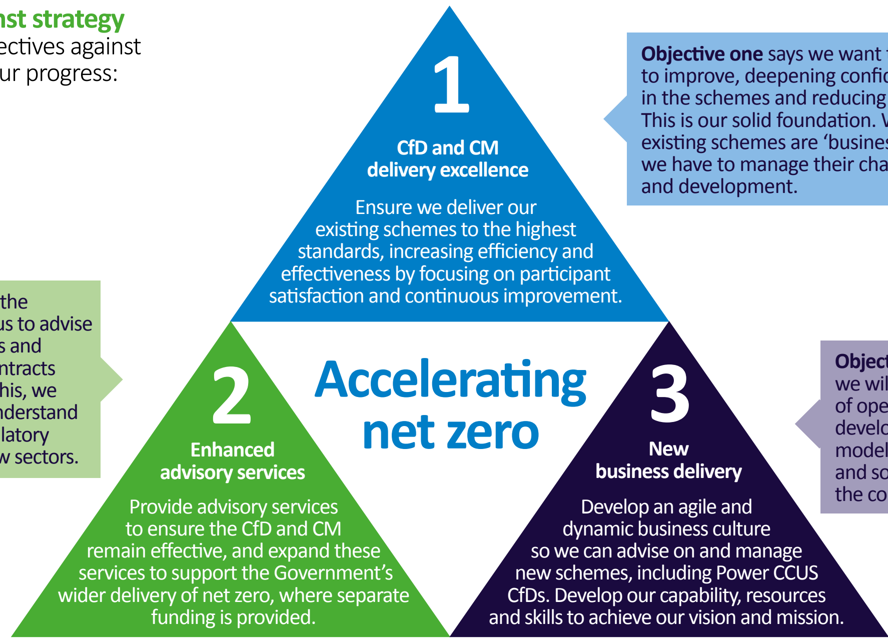
Performance against strategy

The key strategic objectives against which we measure our progress:

Objective one says we want to continue to improve, deepening confidence in the schemes and reducing cost. This is our solid foundation. While the existing schemes are 'business as usual', we have to manage their change and development.

Objective two is about the expertise that enables us to advise on our existing schemes and on using low-carbon contracts elsewhere. To achieve this, we need to monitor and understand market, policy and regulatory change, including in new sectors.

Objective three describes how we will expand our portfolio of operational schemes, and develop our existing business model to increase efficiency and so minimise cost for the consumer.



92 INDIVIDUAL PROJECTS COMPRISING 98 CONTRACTS ENTERED THE CfD PORTFOLIO THIS YEAR

Our key achievements

in 2022/23

Delivering excellence

60% INCREASE IN OVERALL CfD CAPACITY

NEW PROJECTS TO POWER 12 MILLION HOMES

INCREASED NUMBER OF SITE VISITS

145% INCREASE IN THE NUMBER OF CfD PROJECTS

80% INCREASE IN CfD PROJECT STAKEHOLDERS

AUTOMATING THE ONBOARDING PROCESS

COLLABORATIVE STAKEHOLDER EVENTS

AWARDING CfDs TO THE MOST POWERFUL TIDAL TURBINE IN THE WORLD

SOLAR FARM REACHES FIRST MILESTONE IN ONLY THREE MONTHS

CfD and CM delivery excellence

This year was particularly remarkable for scheme delivery, as we had an unprecedented volume of new CfDs to initiate through the fourth allocation round (AR4).

An impressive variety of technologies was supported through AR4. These consisted of exciting new projects like tidal stream and floating offshore wind generators as well as established technologies such as solar, onshore and offshore wind meant the round was the CfD scheme's most diverse yet. The projects supported range in size from solar PV developments with an average capacity of 33MW, to Ørsted's 2.8GW megaproject, the Hornsea 3 offshore wind farm. Partners in the Hornsea 3 CfD from LCCC and Ørsted came together in August 2022 to mark the AR4 milestone with the then UK Business and Energy Secretary, Kwasi Kwarteng.

Allocation round 4

Diversifying Great Britain's energy mix away from high-carbon energy has been a key aim of the CfD scheme, supporting the development of reliable and clean energy while maintaining price stability for both investors and consumers. The development of new generation capacity has also brought investment in communities due to the skilled jobs and infrastructure needed to carry out new power projects.

A total of 93 individual projects, comprising of 99 individual contracts, were awarded CfDs, hugely increasing the number of contracts under management. The discrepancy between projects and contracts is because some offshore wind projects use the option to phase their projects over two or three years, with one contract per phase. In addition, one developer signed their contract but did not pass the Initial Conditions Precedent (ICPs), so a total of 98 contracts were fully accepted into the portfolio from AR4.

The addition of AR4 projects saw:

- a 60% increase in overall CfD capacity, with new projects due to power around 12 million homes
- a 145% increase in the number of CfD projects in the scheme's portfolio
- an 80% increase in the number of CfD project stakeholders we engage with.

Automating the onboarding process

Given the size and diversity of AR4, we automated the process used to produce, distribute, and receive signed contracts, and launched the initiative in July 2022 when the auction results were announced. While the manual process used in previous allocation rounds saw 16 contracts produced and returned within ten days in AR3, this year's process saw all 99 contracts issued and returned within a shorter time period.

In August, we also launched a new online generator portal to manage the first milestone in the contract, the Initial Conditions Precedent (ICP). The ICP requires generators, within 20 business days of signing the contract, to provide specific information to demonstrate they can legally enter into a CfD and fulfil their obligations. There were 99 CfDs due to reach their ICP milestone, and, with the generators, we used the online generator portal to optimise ways of working and improve efficiencies – particularly when submitting information or evidence, providing feedback, and automating formal letters and notifications. The process was a huge success, with 98 of the 99 AR4 CfDs achieving their ICP, and only one choosing to terminate by mutual consent.

From left to right – George Pitt, Chief Financial Officer at LCCC, Benj Sykes, Vice President, Offshore, Head of Environment, Consenting & External Affairs at Ørsted and Kwasi Kwarteng, UK Business and Energy Secretary.

From left to right – Benj Sykes, Vice President, Offshore, Head of Environment, Consenting & External Affairs at Ørsted, Claire Daniels and Kevin Mettam, Lead Contract Managers at LCCC and Simon Fox, Commercial Project Manager at Ørsted.

Establishing relationships

With the long-term contractual relationships with AR4 generators secured, we launched two in-person AR4 Generator Welcome events in London and Glasgow. These were designed to share key information on the operation of the CfD and ensure relationships continue to develop effectively. We met new counterparties face-to-face and provided an overview of the Contract Management Team. We also discussed how we prefer to work together, AR4 statistics and analytics, broader stakeholder engagement and continuous-improvement processes, and the recommended approach to complete the next Milestone Requirement (MR), also known as the Milestone Delivery Date (MDD). The events were a huge success, with about 25 generators attending and providing overwhelmingly positive feedback, saying how they welcomed the collaborative approach and engagement.

60% INCREASE
in overall CfD capacity

145% INCREASE
in the number of CfD projects

NEW PROJECTS
to power 12 million homes

80% INCREASE
in the number of CfD project stakeholders

Kevin Mettam, Lead Contract Manager at LCCC, speaking at the AR4 Generator Welcome event in London.

Colette Woodall, Contract Manager at LCCC, speaking at the AR4 Generator Welcome event in London.

Gordon Edge, Head of Strategy and Corporate Affairs, speaking at the AR4 Generator Event in London.

Contract Management Team at the AR4 Generator Welcome event in Glasgow (from left to right – Claire Daniels, Andrew Varnava, Agne Bukauskaite, Christopher Jones, Ed Kriznic, Soby Nonju, Fattaur Rahman, Donella Abu-Bonsra, Kevin Mettam, Manmeet Badh, Colette Woodall, Alex Graves)

1
CfD and CM delivery excellence

NEW PROJECTS DUE TO POWER 12 MILLION HOMES WITH LOW CARBON ENERGY

1
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19.0TWH

THE TOTAL LOW-CARBON ELECTRICITY PRODUCED UNDER THE CfD IN 2022/23

ENOUGH TO POWER MORE THAN 80% OF SCOTLAND

CfD and CM delivery excellence (Continued)

Payments in the CfD scheme

The CfD scheme is designed to provide generators with price certainty over the lifetime of the contract, by topping up or deducting the difference between a reference price (a measure of the average market price) and a strike price (the fixed price secured during the auction process). The scheme is designed to work two ways, with CfD generators paying money back when market prices rise above their strike price, as illustrated in figure 2. The CfD therefore not only gives confidence to investors but also acts as a hedge for consumers, as we have seen in the current market.

This year, many generators were paying back to suppliers under the CfD contract, due to market conditions. We have been focused on helping generators automate these payments, when this has been relatively new activity for both sides. See the section below on forecasting for more detail on how the challenges of the volatile market were managed.

CfD management

We have seen the CfD scheme continue to demonstrate how resilient and flexible it is. In the course of the year, one new project has reached its operational milestone.

As of 31 March 2023, the total installed capacity commissioned under the CfD scheme was 6.5GW – over a fifth of the current total contracted pipeline. There was very little change in the operational capacity, as a small number of projects that commissioned opted to postpone their CfD start dates to take advantage of high prices on the open market. While this flexibility exists in the CfD, it was intended to enable developers to manage issues in construction. Government has changed the AR5 contract to give us more power to enforce start dates once a project has commissioned.

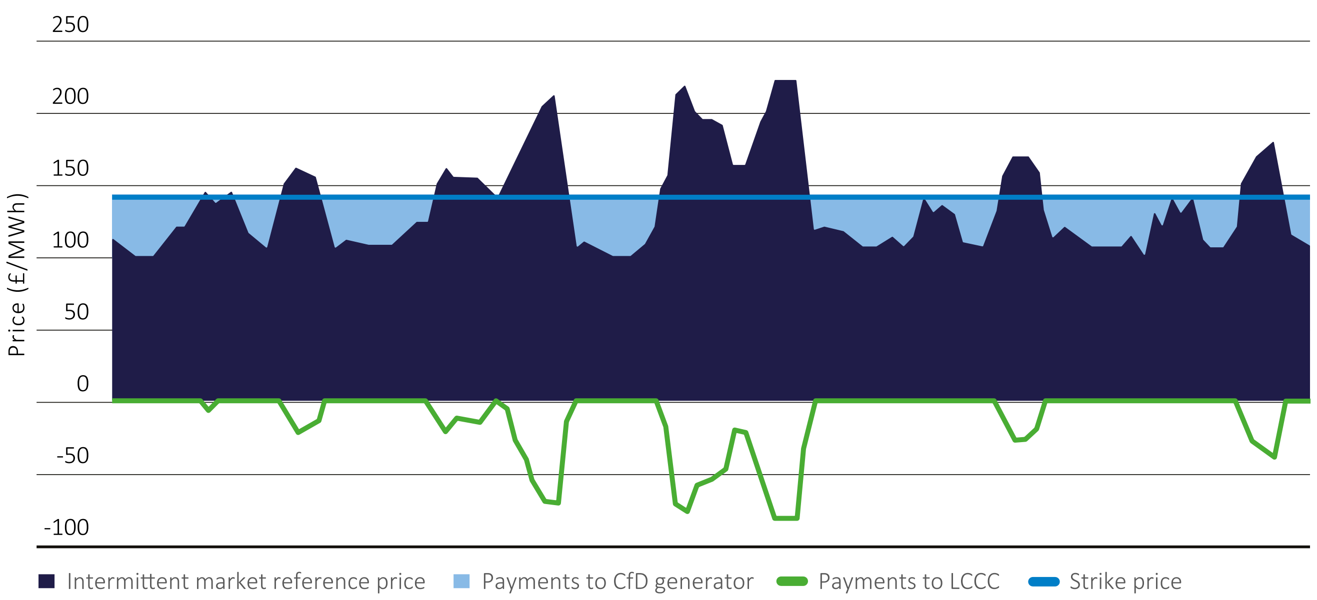
In 2022/23, the combined low-carbon electrical output under the CfD was 19.0TWh, enough to power more than 80% of Scotland. Pages 12-13 show the status of CfD projects as of 31 March 2023. Progress in the past year included the following:

- Triton Knoll Phase 3 offshore wind farm achieved its start date.
- AR4 projects achieved their Initial Conditions Precedent – 98 CfD contracts (10.7GW).
- We accrued income from generators of £639.1m, an increase from the £419m accrued in the previous year.

An important part of our role is to manage extension-of-time claims applicable to CfD milestones – in relation to force majeure (FM) events, or to any failure to carry out grid reinforcement or connection works specified in the construction agreement and attributable to the facility. The impact of the Ukraine conflict was felt by some generators, and we invested appropriate time and resources to reach optimal solutions with our counterparties.

By the end of the financial year, we managed to close 18 claims, either by agreeing related closure terms with our CfD counterparty, or accepting supporting evidence or information. We are pleased to report that only three claims needed extensions of time, which shows the resilience of the sector, while we reached amicable closure terms on the remaining 15 counterparties.

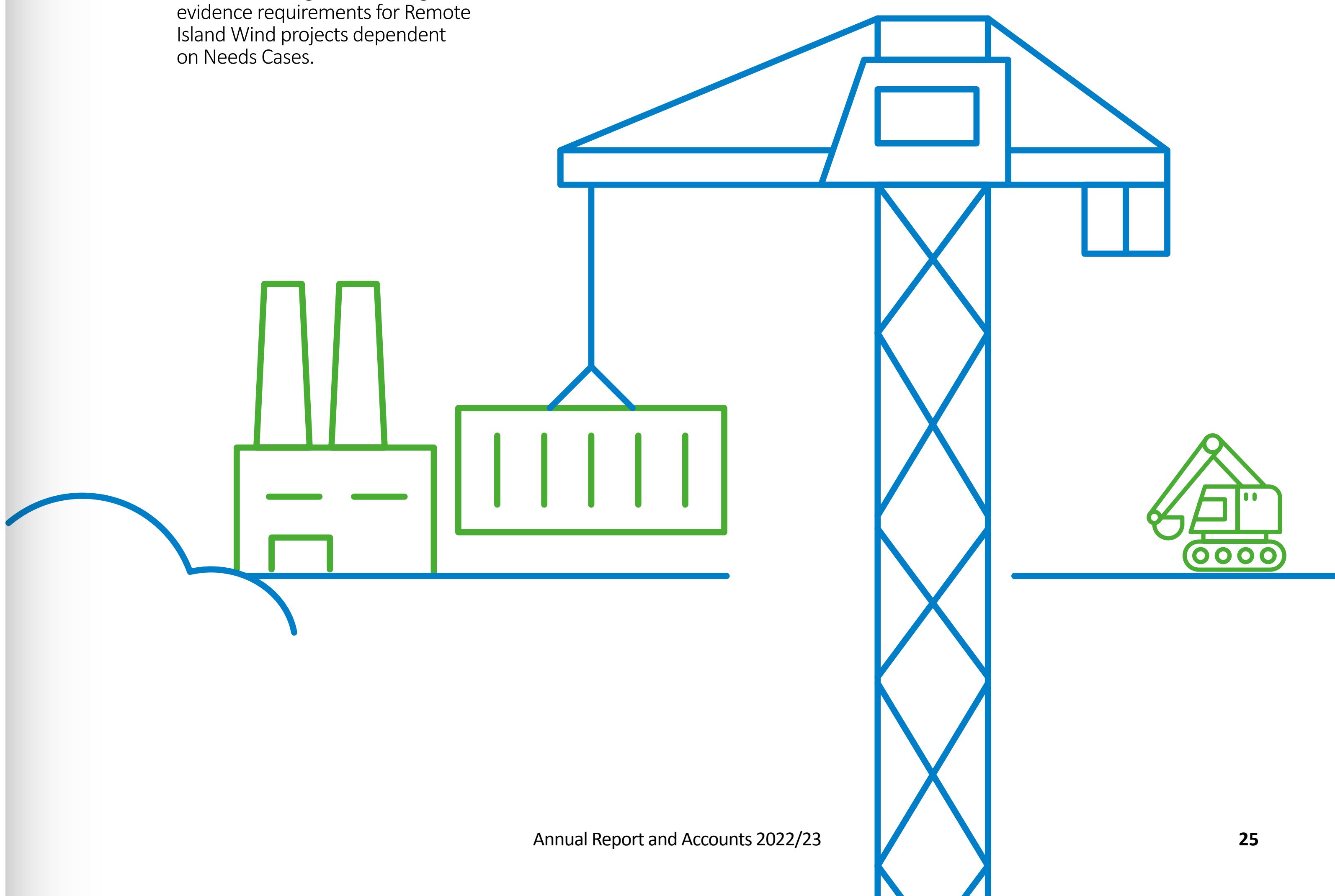
Figure 2: CfD Payment mechanism



In addition to our day-to-day contract-management responsibilities, building and sustaining long-term contractual relationships with our CfD counterparties remains a key focus for us. We recognise we need to continue engaging our stakeholders to help implement postive change to enable us to achieve our common goals, regardless of what stage a project is in its lifecycle. We continued to improve our stakeholder engagement, particularly in seeking feedback through multiple communication channels – targeting relevant organisation levels – to identify improvement opportunities and implement them (with help from our partners). Examples include:

- working with the Department for Energy Security and Net Zero (DESNZ) to modify the CfD, allowing more time for generators to submit evidence for Initial Conditions Precedent (ICP) and Milestone Delivery Date (MDD) milestones while automating and streamlining allocation round processes.
- streamlining claims by encouraging early force-majeure engagement and collaboration, establishing quick decision-making and reducing evidence requirements for Remote Island Wind projects dependent on Needs Cases.
- continuously improving our Know Your Customer (KYC) financial due-diligence process to create efficiencies in the obligations placed on generators.
- updating the Solar Commissioning, ICP and MDD guidance to reduce unnecessary documentation, refocus the scope of requirements, streamline associated processes and be clearer in our expectations of evidence.
- engaging existing generators to understand more about their potential participation in CCUS and Hydrogen schemes.
- improving digitalisation across the CfD scheme, with the introduction of an ICP portal, DocuSign replacing physical contracts, a new FMS/SC portal, and redevelopment of our website to improve navigation and ease of access to materials.
- developing new payment solutions and processes to help generators meet their payment obligations.

Our relationship with Hinkley Point C, one of the UK's largest infrastructure projects, has continued to evolve, with the monitoring and reporting framework established in 2018/19 remaining effective in providing timely and current information to Government stakeholders regarding progress. Last year saw Hinkley Point C achieving another major milestone: the 250m tall 'Big Carl' crane lifted a 304-tonne prefabricated part of the Unit 1 reactor's steel containment liner (the third of three) into place. Despite the positive progress, the challenges related to the scale, complexity and nature of Hinkley Point C should not be underestimated. In May 2022, EDF SA announced that the Commercial Operation Date of Unit 1 is now expected in June 2027 (formerly June 2026) and the previously disclosed risk of a 15-month delay to the Commercial Operation Date of Unit 1 still remains. Finally, we completed the assessment of the impact of COVID-19 on the project, with the updated CfD reflecting the outcome.

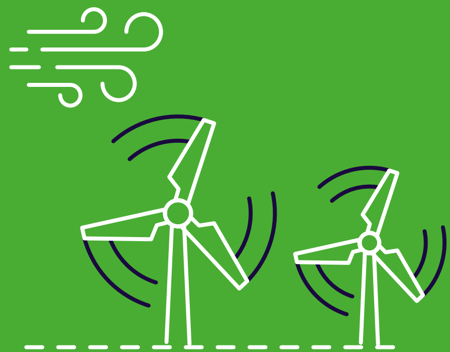


CfD and CM delivery excellence (Continued)

Site visits

Site visits provide a great opportunity to improve our understanding of different types of technology and to discuss the challenges our operational projects face. The purpose of these visits has always been to learn and to improve the generators' CfD journey on a day-to-day basis. In this, they are invaluable.

ORKNEY COMMUNITY WIND FARM PROJECT



57.6MW CAPACITY

12 TURBINES 4.8MW CAPACITY

From left to right – Claire Daniels, Lead Contract Manager at LCCC, Kevin Mettam, Lead Contract Manager at LCCC, and David Hannon, Strategic Projects Director at Orkney Islands Council visiting the site at Hoy Community Wind Farm, Orkney, Scotland

In early November 2022, Lead Contract Managers Kevin Mettam and Claire Daniels met with Orkney Islands Council, which was awarded two CfDs in AR4: Orkney Community Wind Farm Project – Hoy; and Orkney Community Wind Farm Project – Quanterness.

Together, they have an installed capacity estimate (ICE) of 57.6MW. After a 40-minute ferry ride from Orkney mainland to the island of Hoy, followed by a hike up a boggy hill, Kevin and Claire were standing on a site that will eventually comprise six wind turbines, each with a nameplate capacity of 4.8MW. They then returned to the mainland to visit the Quanterness site, located approximately 2.7km northwest of the boundary of Kirkwall Town Centre. This is a very flat site, around 0-20m above sea level. It will comprise of six wind turbines, each with a nameplate capacity of 4.8MW, totalling 28.8MW.

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CfD and CM delivery excellence

ORBITAL TIDAL TURBINE

7.2MW OF GREEN ENERGY

POWERS 10,000 HOMES

O2 tidal turbine at Orkney, Scotland

The following day, Lead Contract Manager Alex Graves and Contract Manager Fattaur Rahman joined Kevin and Claire to meet Orbital Marine Power's Chief Financial Officer, Chris Milne, for a visit to the Orbital offices and workshop.

Orbital's fully operational O2 tidal turbine is the most powerful tidal turbine in the world. It extracts energy from the passing tidal flow and produces enough electricity to power 2,000 homes.

In AR4, Orbital was awarded two CfDs, which contain a total of three tidal turbines and will be located off the coast of Eday, Orkney. Collectively, the turbines have an ICE of 7.2MW of clean green energy, powering up to 10,000 homes.

During the visit, the team was shown around Orbital's main headquarters, located in the Orkney Innovation Centre. They also saw the company's newly acquired workshop units, where the turbine operation and servicing activities will be based, supplementing the existing workshops where parts of the turbines are manufactured and assembled.

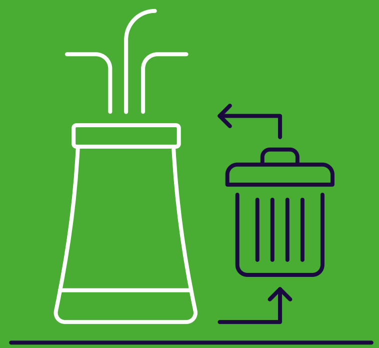
CfD and CM delivery excellence (Continued)

1
CfD and CM delivery excellence

Site visits

Site visits provide a great opportunity to better understand different types of technologies and discuss challenges our operational projects are facing. The purpose of these site visits has always been to learn and make improvements to the generators' CfD journey on a day-to-day basis. In this, they have been invaluable.

K3 COMBINED HEAT & POWER PLANT



45MW CAPACITY

2,500 TONNES OF WASTE DAILY

Top left – K3 turbine hall, top right and bottom left – K3 waste bunker from the crane operations chair, bottom right – K3 waste combustion

In March 2023, Lead Contract Manager Kevin Mettam, along with Andrew Varnava, Contract Manager for the Enfinium K3 contract, and colleagues from Ofgem, visited the K3 plant in Sittingbourne, Kent.

The visit coincided with the annual fuel measurement and sampling (FMS) audit, which was being carried out by consultant auditors Black & Veatch, who audit biogenic and other sustainability criteria. The K3 plant, which has a final installed capacity of 45MW, was awarded its CfD in AR1 in 2015, producing Energy from Waste with Combined Heat & Power (CHP), requiring 2,000-2,500 tonnes of waste to be delivered daily. Visiting the site during the FMS audit was critical in helping the Contract Management Team further understand the auditing process, including the technicalities involved in calibrating the multiple measurement systems.

LITCHARDON SOLAR PV FARM

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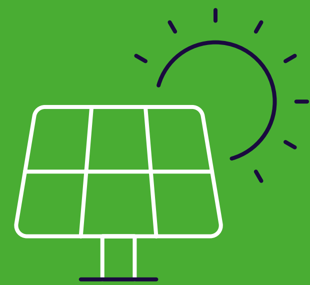
CfD and CM delivery excellence



112,000 PANELS

49.9MW CAPACITY

Top – Contract Managers Soby Nonju and Andrew Varnava, with Lead Contract Manager Alex Graves from LCCC

Bottom left and right – Litchardon solar farm located in Barnstaple, North Devon

In November, Alex Graves, Andrew Varnava and Soby Nonju visited the Infinis Litchardon solar farm in Devon. They were met at the site by Jon Crouch, Commercial Manager, and Adam Mugan, Project Manager, from Infinis Energy Group, an AR4 generator.

The site is a solar PV farm, which, on completion, will have 112,000 panels and 230 inverters, with an ICE of 49.9MW. The inverters convert the direct current (DC) power generated by the PV panels to alternating current (AC), which is then transformed up to a higher voltage for distribution. The solar PV panels on this site are bi-facial, meaning they can absorb energy that is directly captured by the top of the panel plus any reflected off the ground onto the underside.

This generator has exceeded expectations and achieved its Milestone Requirement in September 2022, 15 months ahead of schedule. It was the first of the AR4 contracts to do so. It also has a sister solar PV site at Bishampton, which is progressing well.

Jon Crouch said Infinis was delighted to host LCCC at its Litchardon solar site. On the granting of the CfD contract in summer 2022, the 50MW site moved swiftly into construction. Once operational, the site will produce enough electricity to power more than 17,000 homes. The visit brought to life some of the more technical aspects of administering the CfD, such as detailed site overviews and facility descriptions. The week before the visit, Infinis successfully achieved its MDD – another reason to congratulate the team there.

Our team found the visit informative, and was impressed not just by the scale of the operation and how quickly the generator has set the operation in motion, but how organised they were to receive visitors. We were also impressed by some of the nuances on site, such as the section cordoned off for archaeological reasons and the environmental requirement for the project to provide a protective 'badger hotel'. The site was well maintained and closely monitored, with safety being paramount.

The Milestone Delivery Date (MDD) occurs 18 months after the agreement between the generator and LCCC is signed. The purpose of the MDD is to satisfy us that the generator is on track to complete the project and be online, generating low-carbon electricity, by the Target Commissioning Date (TCD).

A generator can achieve the MDD by providing evidence of one of the following:

1
10% of the total project pre-commissioning cost has been spent, or

2
Sufficient plans and orders for material equipment are in place.

CfD and CM delivery excellence (Continued)

1
CfD and CM delivery excellence

Engaging with our stakeholders

It has been an exciting year, as we have attended and taken part in more in-person events, not only on CfD and Contract Management but also on CCUS and hydrogen production. The priority was to continue supporting our stakeholders on both the CfD and CM schemes through our events, bulletins and one-to-one engagement.

We continued with our online webinars, informing stakeholders about the quarterly Interim Levy Rate (ILR) and Total Reserve Amount (TRA). We also ran targeted webinars for generators, updating them on the CfD scheme, and a CfD masterclass providing an introduction to the CfD scheme.

Our subject-matter experts participated in a number of panel discussions, including at the following events:

- Windpower Finance and Investment Summit – Gordon Edge, Head of Strategy and Corporate Affairs, was part of a panel on 'How selling power is changing'.
- Leonidas Papanikolaou, Senior Head of Bespoke and New Schemes, participated in panels on 'How business models for hydrogen might bring forward its impact on CO_2' at Decarb Catalyst and 'The need for private investment in the green industrial revolution' at the 4th UK CCUS and H2 Conference.
- George Pitt, CFO, was part of a panel discussing the Regulated Asset Base and future financing – securing investment, stability in frameworks, and the scope to reduce consumer energy bills.

We have been delighted to be invited to participate at the UK Steel Climate Change Committee Roundtable, where subject-matter expert Oliver Coe spoke about the CfD as well as CCUS and hydrogen.

This year, we have attended events at all-party parliamentary groups that focus on the net-zero agenda. Our aim is to engage with parliamentarians on how the CfD works, and its successes, in addition to understanding the priorities of these groups in accelerating towards net zero.

1
CfD and CM delivery excellence

Forecasting the CfD levy

The year 2022/23 was a challenging one for forecasting the CfD levy, due to the extreme volatility of the markets. Electricity prices were both high and highly changeable, leading to difficulty in judging where to set key parameters, while still seeking to minimise burdens on suppliers. We sought to tell people what we were doing to set rates and pay back money to suppliers through a number of blogs and bulletins.

There was high interest from stakeholders – across Government, industry, media and the public – in our forecasts and the final out-turn of money flows, given that consumers were under extreme pressure and the CfD was perceived to be 'paying back'.

Timely execution of payments to suppliers was vital under the circumstances, and the settlement timetable was strictly adhered to.

The graphs below show the development of gas and electricity prices, highlighting their increased magnitude and volatility.

Figure 3: UK average day-ahead power prices

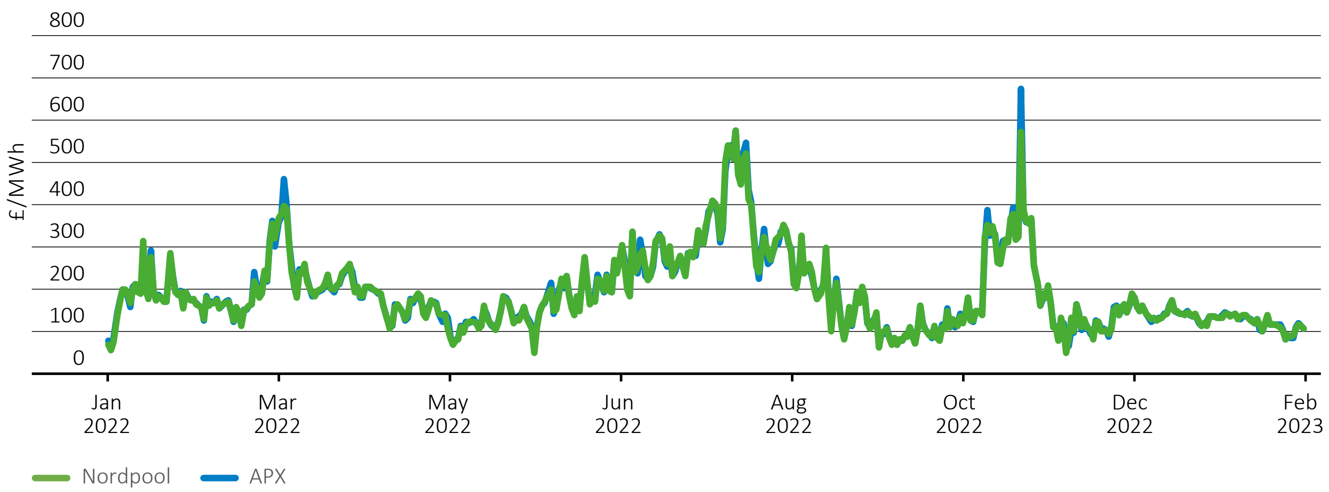


Figure 4: GB gas day-ahead prices

CfD and CM delivery excellence (Continued)

1
CfD and CM delivery excellence

While prices in the market had already been driven higher in the preceding year by recovery from the COVID-19 pandemic and erratic supplies of Russian gas, the movements of 2022/23 were down to three key factors:

- **Russia's invasion of Ukraine:** War considerably increased risks in gas supply, given Russia was providing 40% of Europe's gas before the invasion. The uncertainty of Russia's gas supply to Europe resulted in high volatility in the gas markets and periods of high prices, which led also to high electricity prices due to the role of gas as the marginal generator.
- **Gas storage:** One of the immediate measures agreed by EU countries in the face of the energy crisis was to increase gas reserves. A regulation was adopted in June 2022 to ensure storage capacities in the EU were filled before the colder months. By September 2022, EU storage facilities were filled to 80% on average, rising to 90% in October 2022. As can be seen in the graphs above, this reduced the gas day-ahead price in the autumn of 2022. By March 2023, following the cold season, the filling level was around 55%, which is much more than in the same month in 2022.
- **Weather:** As expected, during colder periods, gas prices, and therefore electricity prices, were higher compared to periods of milder weather. Overall, Europe had a mild winter, which drove down prices by the end of the season.

These factors created a disconnect between the forward and day-ahead power markets. This was highly unusual and brought considerable uncertainty to our forecasts – the majority of the CfD portfolio depends on the day-ahead power market, while our forecasts are based on traded forward prices. Normal forecasting did not work and we could not solely use probabilistic approaches to make sure there was enough money in the bank to pay generators.

We operate under a 'pay when paid' principle in our obligations to CfD generators. The two elements of our Supplier Obligation that pay for the CfD are the Interim Levy Rate (ILR), a per-MWh levy on suppliers, and the Total Reserve Amount (TRA), a cash buffer raised from suppliers that is set quarter to quarter using our judgement to maintain a 95% chance of having enough money to pay generators should market circumstances change.

Any cash left on account with us at the end of a quarter – be that income from generators or unused TRA – is reconciled back to suppliers before a new TRA is collected.

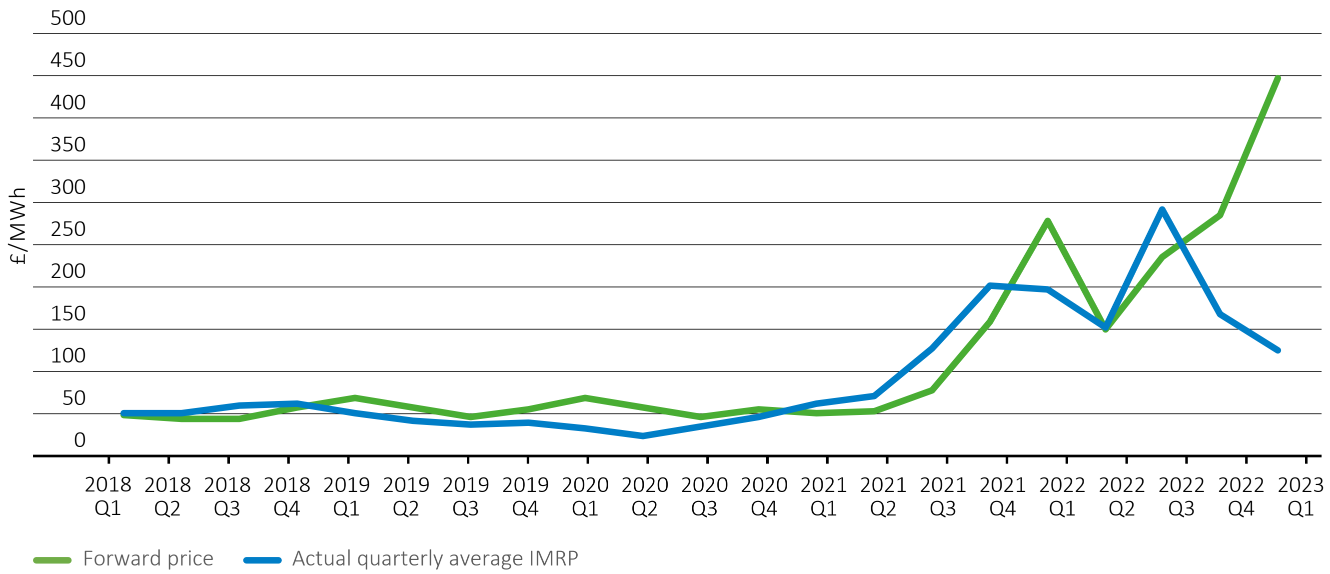
Over the course of 2022/23, the ILR was set to zero, apart from during a few weeks at the end of the year. This was because the operating CfD portfolio was in general paying us back, so an income from suppliers was not necessary. The risks market volatility posed to our cash position were therefore managed using the TRA – this included the risk of day-ahead prices dropping and requiring us to pay out to generators and not receive income from them. This reserve is set three months ahead of the start of the relevant quarter, and so there were times when the market conditions changed between the setting of the TRA and its collection. This led to much more volatility in the TRA, with both Before-Period Adjustments (BPAs) and In-Period Adjustments (IPAs) used.

Particularly notable was the first quarter of FY2022/23 (calendar Q2 2022), where originally a TRA of £233m was set, which was adjusted to £100m before the start of the quarter but then increased to £150m within the period. This was because a glut of liquefied natural gas cargoes had been arriving in the UK, and the gas could not be exported to the rest of Europe at the rate it was coming in. Prompt gas prices thus fell, with day-ahead power following suit. Despite the ongoing crisis, we were paying out to CfD generators and needed to be sure of having the cash at hand. In the end, £40.4m was paid to generators in the quarter, which was taken from the TRA.

Q4 2022 saw significant swings in prices and consequent uncertainty in our risk position. The significant disconnect between forward and day-ahead prices increased further in this quarter, which made the process harder still. This meant that our view of the TRA necessary moved from nearly £400m, when the initial determination was performed in March, to £100m in the run-up to the quarter and back up to £300m during the quarter. These changes were made on the basis of scenario analysis, and with the guiding principle of minimising burdens on suppliers.

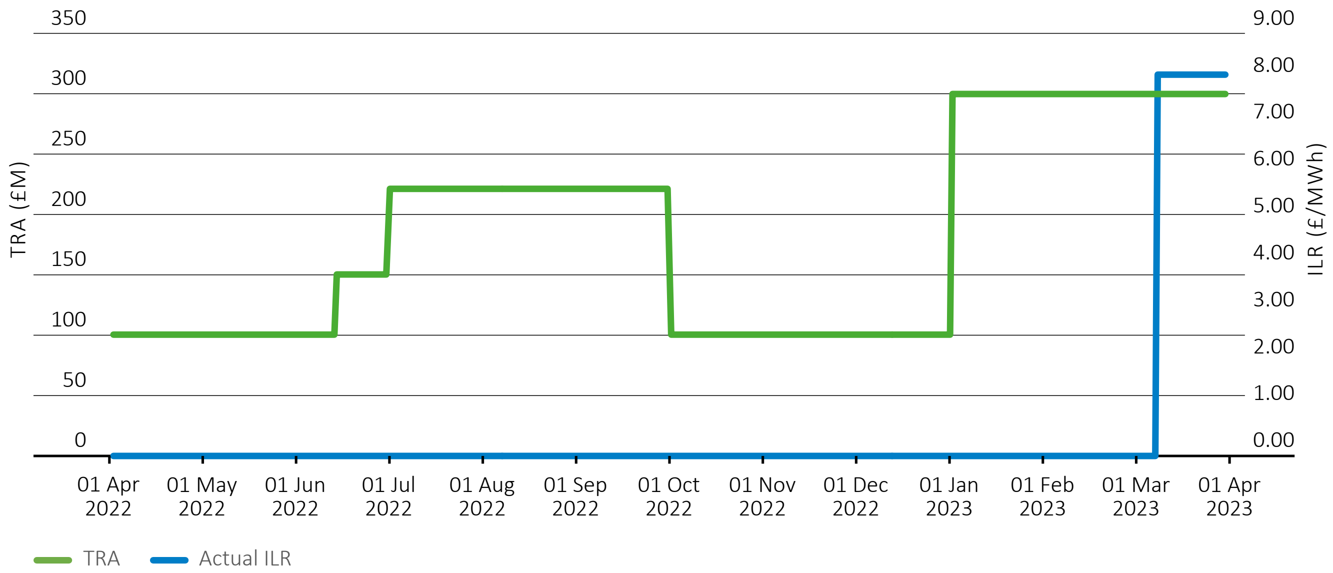
In Q1 2023, the divergence of forward and day-ahead prices became even more extreme – to the point that our forecast said we would be receiving income from generators, but the actual data indicated the opposite. This led to the decision during the quarter to adjust the ILR above zero for the first time in 18 months.

Figure 5: Traded forward electricity prices and day-ahead (IMRP) prices since 2018. Historically these have been close, but in 2022/23 there was unprecedented divergence



Period	Description	ILR (£/MWh)	TRA (£)
Q2 2022	Initial Determination	0.000	233,290,074.31
	Before Period Adjustment	0.000	100,000,000.00
	In Period Adjustment (effective 14 June)	0.000	150,000,000.00
Q3 2022	Initial Determination	0.000	221,302,176.06
Q4 2022	Initial Determination	0.000	390,333,501.70
	Before Period Adjustment	0.000	100,000,000.00
	In Period Adjustment (effective 28 November)	0.000	300,000,000.00
Q1 2023	Initial Determination	0.000	100,000,000.00
	Before Period Adjustment	0.000	300,000,000.00
	In Period Adjustment (effective 9 March)	8.120	300,000,000.00

Figure 6: ILR and TRA throughout 2022/23



CfD and CM delivery excellence (Continued)

Over the course of the year, we took £668.8m from suppliers and received £677.4m from generators, on a cash basis, resulting in a net flow of £8.6m from generators to suppliers. This small net annual figure is all the more remarkable when the significant quarterly variation, as shown in figure 7, is considered.

Given the forecasting challenges of the past year, and the age of our Supplier Obligation Forecasting Model, during 2022/2023, we looked at options to redevelop and improve our forecasting and modelling capabilities to:

- meet the rising expectations of the users of our forecast
- cope with the increasing complexity and volatility of the GB power market
- prepare for the incorporation into our forecast of new schemes, such as power CCUS.

Capacity Market scheme

We operate the Capacity Market (CM) scheme on behalf of our sister company, Electricity Settlements Company (ESC), which has no direct employees. The CM ensures continuity of electricity supply by making fixed payments to generators that are related to their ability to meet peak power demand. The payments are set in technology-neutral auctions one and four years ahead of each delivery year. Scheme operation is complex due to the large number of live Capacity Agreements (933 currently), and consequently large data flows. ESC must operate this system effectively so that when 'stress events' are called, the paid-for capacity is available and the lights stay on.

More detail on the functioning of the CM and our approach to it can be found in the ESC annual report, but a summary is below. Having both the CfD and CM under one roof maximises our understanding of the electricity industry, and brings synergies to our operations as a result.

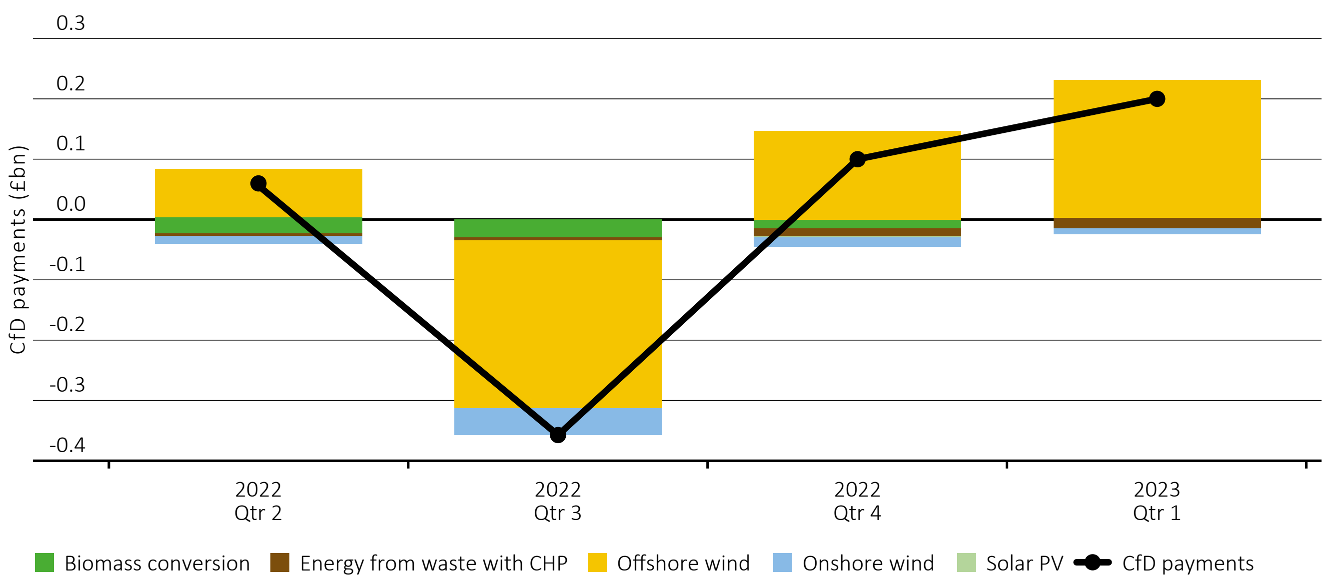
ESC's focus in 2022/23 has been to maximise the use of existing data to automate highly manual scheme processes and improve the overall level of data quality. This has removed administrative burdens from Capacity Providers and made the system more accessible to smaller flexibility providers. An addition benefit is that the data used in potential stress events is now validated and used appropriately.

ESC's development of a new Satisfactory Performance Day and Extended Performance report, automating the process for Capacity Providers, went live in 2022. This uses existing data to satisfy requirements when there is already a known positive outcome, and we worked with the Delivery Body to enable this. ESC automated the Satisfactory Performance Day process fully in the 2022/23 delivery year, following a proof of concept completed in March 2022.

There have been several benefits to automating this highly manual process, a critical one being an ability to identify where issues with data exist – so these can be fixed and scheme aims achieved with confidence. CM Scheme Data inputs are important to ensure any automation modelling is successful. If any data inputs are erroneous, then the automation will not work, and additional resource is used by Delivery Partners and Capacity Providers to resolve issues.

We are also continuing initiatives in metering data – particularly in metering aggregation, but also where there are other instances of missing metered data. Stress-event preparation is another key focus, driving down the risk of inaccurate settlement of these events, which would harm confidence in the CM as a whole.

Figure 7: CfD payments by quarter



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CfD and CM delivery excellence

Change delivery

Industry changes

BSC (Balancing and Settlement Code) modification P399 has resulted in the need to update some data-input interfaces, to continue to support the CfD and CM schemes to ensure continuation of services.

Service-improvements changes

We streamlined the requirements of the forecasts generators provide, by either simplifying the approach to receiving data or reducing the frequency with which this is required. By introducing this amendment in the contract terms, the administrative burden on generators, and on us, has been significantly reduced to ensure only meaningful data is requested.

For AR4, we introduced a brand-new web-based portal to support generators through their Initial Conditions Precedent (ICP) process. This allowed all participating generators to submit the information required to fulfil their ICPs and ratify their CfD. They also had an opportunity to provide feedback in one of our Generator Welcome events, which reported that this portal was simple, easy to navigate and very helpful when progressing towards the ICP milestone.

We are currently working on further improving the operational delivery of our Know Your Customer (KYC) process. A newly released KYC Policy & Standards focuses on Event Trigger Reviews, and more frequent reviews when our generators are at the operational stage and payments are being settled. We will also ensure the KYC process for all schemes is not only fit for purpose operationally, but also efficient and represents value for money for the public.

Settlement system enhancements

LCCC has been implementing enhancements to our systems. Many of these are linked to improvements in data transfer and processing. Due to a year of relatively low volume regulatory driven change, more time has been spent on optimising and improving other operational processes.

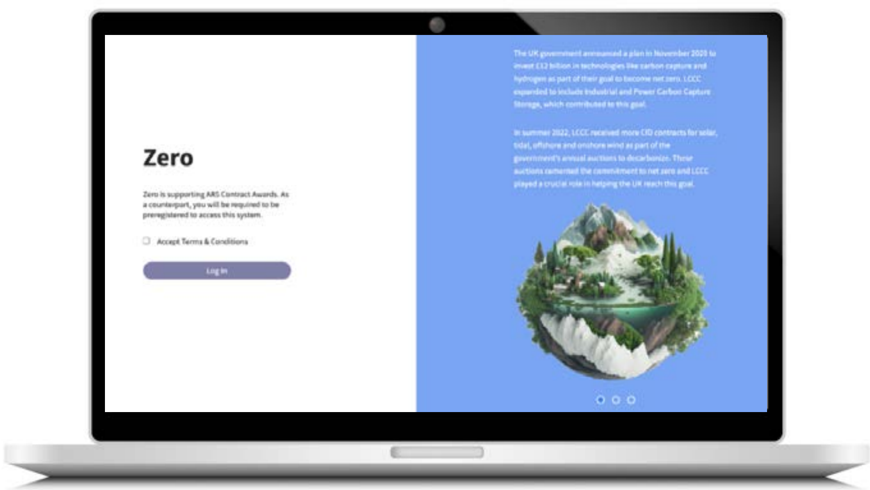
Zero

We have been developing a new system call Zero, a digital platform that will support all engagement with counterparties – from the initial contract signature to managing milestones and interactions, to the place where calculation results can be found from our in-house Settlement Service. The solution is being built using Micro Services, creating reusable modules that can be configured for the requirements of each of our schemes. Zero is a public-facing service, but those who can access it are LCCC users and energy generators. These users are managed by the LCCC Technology Team.

The platform is nearing completion. At first, we will use it to support the CfD AR5 contract award, planned to start in June 2023. Then we will reuse the same system for other energy-contract awards in the future, across all our schemes, existing and new. Our team will also use it to communicate with, and provide solutions for, energy generators. Zero will be rolled out across 2023, becoming the doorway for all our counterparties to interact with us.

Data architecture

Our Data Team has redefined our data flows and architecture to make them simpler to manage, enabling us to format the data flows in a standardised and scalable way using tools that can automate data processing. This makes the data-flow processes more efficient, scalable, and ready for each new energy scheme's data flows.



ZERO

A digital platform that will support all engagement with counterparties.

Enhanced advisory services

Our role in net zero as a trusted advisor to Government

The net-zero challenge will require the decarbonisation of much of the wider economy, going well beyond LCCC's original footprint. This challenge has led Government to look to build on the success of the Contracts for Difference (CfD) scheme. The CfD scheme is a private law contract that has successfully brought in a wide range of investors that, among other things, has enabled a large and growing offshore wind sector.

Government has regarded us more and more as a key trusted advisor, seeking our help and advice, as the CfD counterparty, on:

- policy proposals to decarbonise a range of sectors of the economy
- drafting those proposals into a contract
- how to operationalise and implement those schemes, including financial settlement, forecasting and levy collection.

This advice has been sought across an increasing number of policy areas, as set out below, and has been vital in ensuring these complex policy instruments can be delivered quickly, and are operationally sound. Our advisory services have expanded rapidly this year, and while they have generally led to additional new roles, we are not limited to providing advice on schemes that have the potential to offer an implementation role.

Examples of working with DESNZ include considering how the contracts should deal with sharing gains ("gainshare mechanism"), and the conditions which would allow Opex to be reconsidered. Here, capitalising on our contractual experience in such areas and our wider commercial insights, we ensured the contractual provisions were as simple and clear as possible, striking a balance between policy objectives for value for money, an appropriate level of risk being held by the projects, and a proportional contractual burden on counterparties and LCCC. As a result, we are expecting the draft contracts to be received well by the industry, and to be investable and as straightforward as possible to administer.

Another example is the future-proofing of contracts against industry changes expected in the coming years. For instance, the development of negative emissions (credit) markets should result in additional revenue streams. We have been advising on how to track, and take into account, these revenues in the simplest way possible. The aim is to ensure value for money for consumers and taxpayers, as well as appropriate incentivisation for projects to participate in such markets when they are mature enough.

This year, however, our knowledge and experience has also been drawn on by Government in its response to the turmoil affecting the energy market, and thus consumers, as a large part of the cost of living crisis. During the period of very volatile and rising markets, before and after the invasion of Ukraine, we played a part in advising BEIS on potential Government intervention in wholesale, consumer and business markets for electricity. Given our experience in implementing schemes, we were able to advise on the deliverability of various options and their impact on market operation and sentiment.

Dispatchable Power Agreement (DPA)

The DPA is a private law contract, developed by DESNZ to incentivise private-sector investment in natural gas fired power generation plant that can deploy conventional technology alongside industrial-scale carbon-capture plants, to trap the waste CO_2 normally emitted during the electricity-production process. The DPA will incentivise so-called 'mid-merit' operation after lower cost and lower carbon technologies, like wind or nuclear, but before higher carbon unabated thermal generation plant. This will provide low-carbon firm power essential to decarbonising the electricity grid by 2035 but minimise the quantity of gas used and CO_2 stored. The DPA will form the contractual relationship between generators and LCCC, in much the same way as the low-carbon electricity CfD does.

As the designated counterparty to this new contract, we have been advising on detailed terms as DESNZ prepares to negotiate the first wave of power CCUS contracts. Our role has been vital in ensuring contracts are both workable and fair.

Industrial Carbon Capture (ICC) and Waste ICC agreements

The ICC and Waste ICC agreements are also private law contracts that seek to incentivise a range of industries such as cement, refining, chemicals and energy from waste to deploy carbon-capture technology that will trap their CO_2 emissions for geological storage, instead of emissions to the atmosphere. The agreements are also based on the CfD, though there are several differences, including payments being based on tonnes of CO_2 captured and stored. These agreements will form the contractual relationship between emitters and LCCC.

TRUSTED ADVISOR

The Government has increasingly sought LCCC's advice on low carbon proposals and policies.

2
Enhanced advisory services

As with the DPA, we have been advising Government on the detailed terms of these contracts, using our experience and knowledge of operating the power CfD. As a publicly-owned non-profit company, we are able to give unbiased advice, which Government has found valuable.

Low Carbon Hydrogen Agreement (LCHA)

The Low Carbon Hydrogen Agreement (the contract underpinning the hydrogen production business model) will be a private law contract between hydrogen producers and LCCC. The objective of the hydrogen production business model is to incentivise the production and use of low carbon hydrogen. The contract will offer both price and volume support due to the nascent nature of the market. The business model will support a range of hydrogen production pathways, including electrolytic and CCUS-enabled hydrogen (so-called 'green' and 'blue' hydrogen). Producers will need to meet a UK Low Carbon Hydrogen Standard (LCHS) to qualify for support.

We have supported the development of this business model from the outset, advising on key design elements such as the variable premium payment mechanism. As Government has sought to accelerate the delivery of hydrogen, we have been advising on the detail of the contract to support this aim.

Revenue Support Agreement for Transport and Storage

The Revenue Support Agreement (RSA) is a mechanism intended to provide mitigation against demand-related risk of shortfall in actual revenues earned by Transport & Storage Companies (T&SCos) for carbon and hydrogen, compared with the allowed revenue set by the regulator under the economic regulatory regime (ERR). RSA will allow a T&SCo to recover a shortfall in its Allowed Revenue or – where the first user is delayed in joining the T&S network – unavoidable operating expenditure and allowed cost of debt.

We will act as the RSA counterparty, subject to parliamentary approval of the Energy Security Bill and implementation of the RSA counterparty designation process. In the event of a shortfall, we will evaluate evidence and calculations submitted by the T&SCo, and make arrangements for the collection of money from the Treasury and payment to the T&SCo. Our experience as settlement body for the CfD and CM, and now also the nuclear RAB mechanism, has been vital in ensuring the detailed design of this scheme is workable and deliverable.

Power BECCS (Biomass Energy with Carbon Capture and Storage)

The Power BECCS business model is a bespoke private law contract between generators and potentially LCCC (to be confirmed) based on the low-carbon electricity CfD. The business model is being established to incentivise the generation of negative emissions and electricity using carbon capture and storage technology. As a result, a combined CfD for electricity (CfDe) and carbon (CfDc), known as a dual CfD, is the current proposal for the payment mechanism structure. The negative emissions generated are likely to have a significant positive impact on the UK's ability to achieve their 2050 net zero statutory target. Policy decisions are currently under development within DESNZ, and external engagement with stakeholders is ongoing. We are working closely with the relevant teams in DESNZ to ensure a workable model is designed to support Power BECCS deployment in the UK.

Engineered greenhouse gas removals (GGRs)

It may not be feasible or economic for all sectors of the economy to fully decarbonise by 2050. In which case, it may be necessary for these residual emissions to be balanced by GGRs, the 'net' in net zero. This business model will support engineered removals of greenhouse gases, and so is not aimed at supporting nature-based solutions but technologies such as Direct Air Carbon Capture and Storage (DACCS). A private law contract is the Government's preferred support mechanism for engineered removals, and once again we are providing advice to ensure a workable and fair outcome.

New nuclear Regulated Asset Base (RAB)

The Nuclear Energy (Financing) Bill was laid in Parliament on 26 October 2021 and received royal assent on 31 March 2022. We were named as the settlement agent for the new nuclear economic RAB scheme because of this legislation, and this year we have been preparing to implement this role. In the run-up to the legislation being sent to Parliament, we had been involved in advising on the legal set-up and implementation requirements for managing a RAB-based payment scheme, building on our experience of levying funds from suppliers to pay for the CfD and CM. This advice should ensure the system can be delivered smoothly alongside our existing schemes.

Electricity market design

LCCC is advising on issues relevant to the CfD and CM schemes which are set out in the Government's recent consultation on its Review of Electricity Market Arrangements (REMA).

Over the past year, we have also supported the Offshore Transmission Network Review (OTNR), led by DESNZ and Ofgem. The OTNR will allow the offshore energy sector to transition at the pace required to deliver net zero, and allows the potential for exciting new arrangements in the CfD scheme, such as Multi-Purpose Interconnectors. We have been contributing our expertise in the operation of the CfD and how it could interact with new network arrangements.

Finally, we are also supporting the energy industry by starting to transition our settlement system to align with Ofgem's Market-wide Half-hourly Settlement programme. This will ensure we are taking the lead with industry standards while also delivering consumer and technological benefits to the wider economy.

Move to annual CfD auctions

Following the announcement by the Secretary of State in February 2022[9] to move to annual CfD auctions from March 2023, we have been supporting DESNZ by undertaking external stakeholder engagement with industry. The aim has been to gather feedback on how to implement an annual CfD auction process, streamlining and simplifying processes so they can be delivered on a 12-month cycle. As a result of this and other engagement, DESNZ has streamlined and sped up the allocation round timetable.

9. www.gov.uk/government/news/government-hits-accelerator-on-low-cost-renewable-power

New business delivery
Implementing new schemes

3 New business delivery

LCCC's role as a counterparty and settlement agent

The success of LCCC as private law counterparty to the CfD has led policy-makers to expand the use of the low-carbon contract mechanism within and beyond the electricity sector in order to achieve the UK's net-zero ambitions. Our established expertise has resulted in DESNZ nominating LCCC as counterparty or settlement agent to new schemes:

- The Nuclear RAB
- The Dispatchable Power Agreement (DPA) supporting Power CCUS
- Industrial CCUS (ICC)
- The Low Carbon Hydrogen Agreement (LCHA).

The latter two areas are subject to the successful completion of administrative and legislative arrangements.

As noted in the previous section, we have also supported, and will continue to support, the development and implementation of these schemes through advisory work to DESNZ, as well as developing settlement systems for these schemes.

We continue to build on our roll-out of digital platforms and to capitalise on the experience gained in running the ICP process for AR4. Translating experience in managing counterparties from existing to new schemes is just one of the synergies we anticipate in the extension of our portfolio.

This year, we were formally designated as the settlement agent for the Nuclear RAB model. In December 2022, DESNZ (then BEIS) laid in Parliament the Nuclear Regulated Asset Base Model (Revenue Collection) Regulations. These enable the collection of payments to support the RAB model, and obtained Royal Assent in March 2023. The RAB model is expected to attract private finance to nuclear projects and drive down financing costs, which are a major component of nuclear projects, hence reducing costs paid by suppliers and ultimately consumers. Under this new scheme, Ofgem, as the economic regulator, will interface with us to share information related to the project, so we can perform the settlements with suppliers and make the corresponding payments to the generator.

Over the past 12 months, we have been establishing a strong base for successful delivery of, and effective operation in, these additional areas over the coming years. With the award of implementation funding from Government, we have established dedicated teams to ensure the successful roll-out of new contracts, and have expanded teams in shared support service areas. In particular, our new Tech Hub Team has been growing rapidly to deliver the new systems that will support the growth of new business. This is an exciting time for us as an organisation poised for further rapid growth.

Our planning principles centre on increasing efficiency and resilience across schemes. The systems we are building are being designed considering synergies between all new schemes and the CfD, creating delivery efficiencies through automation. Creating streamlined and easier-to-use interfaces and processes for submission of data by counterparties will ultimately lead to an improved experience for our stakeholders and greater levels of administration efficiency.

THIS IS AN EXCITING TIME FOR US AS AN ORGANISATION, WE ARE UNDERGOING RAPID GROWTH

3 New business delivery

Spreading the message – engaging new stakeholders

As we grow and diversify, we will be working with a wider set of stakeholders across new sectors. In preparation for implementing new roles, we have been contacting key stakeholders in the areas where we will be operating to raise awareness of our new roles and to learn about their issues. Key targets have been industry trade bodies, such as UK Steel, and project developers who potentially could be our counterparties.

Key activities have included teach-in sessions on the DPA and ICC contracts with the Carbon Capture and Storage Association (CCSA) and participation in various industry conferences, where we were invited to speak as panellists and at various round tables, raising our profile as a counterparty and strengthening the overall message from the Government. Our New Business Team has also undertaken site visits, such as the trip to see work on the HyNet cluster in North West England (see box).

HyNet cluster site visit

The UK has ambitious plans for two carbon capture and storage hubs. Our New Business Team, who will be taking on contracts for projects attached to these hubs, recently travelled to the HyNet cluster, based around Liverpool and Manchester, for a tour of the producers and off-takers who will form the North-West cluster.

The first stop was the Carrington power station, which provides power to over a million homes in the Manchester area.

The plant is less than seven years old and one of the most thermally efficient gas-burning plants in the UK, running at approximately 58% efficiency (compared with the fleet average of about 50%). Its two turbines will be converted to run on hydrogen from the end of the decade, providing a low-carbon back-up to generation from renewables.

Next the team visited the future hydrogen production site at the enormous Essar refinery in Cheshire. This facility will produce 3.8GW of the Government's target of 10GW of hydrogen by 2030, making it by some way the largest producer in the country. The hydrogen fuel produced here will result in a reduction of emissions equivalent to taking 750,000 cars off the road.

Then it was onto the Hanson cement works in North Wales. Here the use of CCS will remove 700,000 tonnes of emissions a year, creating over 50 permanent jobs in the area.

The Hydrogen Team were able to stay for a second day and visited the Hydrogen Live event in Liverpool. Attended by the Mayor of Liverpool, who spoke enthusiastically and knowledgeably of the benefits of carbon capture and hydrogen to the region, the event showed clear local support for these schemes.

Members of the LCCC New Business Team at the Carrington Power Station in the Greater Manchester area, 7 February 2023

New Business Team members at the Hanson Cement Padeswood in Flintshire, 7 February 2023

750,000 CARS

The hydrogen fuel produced at Essar will result in a reduction of emissions equivalent to taking 750,000 cars off the road.

Our people

Our objective for our people is to develop, foster and maintain a highly skilled and motivated workforce. We aim to do this by attracting and developing a diverse and inclusive workforce, where our culture reflects our values and employees feel engaged and motivated. We encourage our employees to uphold the highest standards in our business interactions and to live by our values in everything they do.

Attraction and retention

We continue to develop our employer brand to attract the right talent into the organisation. Our philosophy is to offer everyone in our company the opportunity to develop and grow. We recognise this can be challenging in a small company, and this is why we have taken steps to ensure we continue to develop career paths for our people through succession planning and creating job families that will provide staff-progression opportunities.

Our default position is to fill role vacancies internally where possible and, in 2022/23, we promoted 16 employees in this way.

We have invested heavily in our talent-acquisition function, given the number of roles we have added in the past year. The recruitment process is tailored for each campaign, depending on the speed of the market and the complexity of filling roles. For instance, for some roles, we may have a People Team screening call with candidates, if we think the CVs tend to miss the information hiring managers are looking for. Tech and Data roles have technical online tests to increase the quality of candidates, while the graduate scheme we are implementing has a lengthier process than other roles to filter down a high volume of applications while identifying the top talent among them.

Given this investment, we are celebrating recruitment success in 2022/23 – we met the growth forecasts of the company, which was the key concern at the start of the year. Headcount grew from 98 to 148 employees, a 51% increase. The average time to hire was 41 days, which is below the target 49 days we set for all recruitment.

Apprenticeship scheme

Following the success of our apprenticeship scheme last year – which placed another apprentice in our business – we have continued with our commitment to developing young people and growing the skills we need for the future, by expanding the scheme to all functions within the business. We are delighted that two of our apprentices, who joined in 2020, have now been promoted into full permanent roles. This aligns with our talent-attraction strategy of creating more space for junior talent and developing frameworks that accelerate learning for early-career colleagues so they can build their industry knowledge and skills.

Rewarding our people

Innovation is central to our company, and we encourage our people to contribute new ideas and solutions for continuous improvement, and to enhance our Expert Advisory status both internally and externally. Throughout 2022/23, by way of our monthly all-staff meetings and annual values recognition awards, we have recognised and celebrated those employees who have innovated across the company and demonstrated our values.

This year, we concluded our internal change programme to build an agile and dynamic organisation that will help position the business to respond to our stakeholders in a rapidly changing environment, now and in the future, during our own organisational growth. This included the completion of several projects targeted at speeding up the way we work while streamlining and developing agility in our processes and ways of working. As a result, we have a great base from which to continue growing and to realise our vision of accelerating progress towards net zero.

We regularly benchmark our reward structures against the market to ensure we are a fair employer, while at the same time operating to appropriate company and individual performance measures.

WE AIM TO DEVELOP, FOSTER AND MAINTAIN A HIGHLY SKILLED AND MOTIVATED WORKFORCE

Our workforce

Our highly skilled workforce is one of our key strengths, and we want to be a place where people feel engaged and inspired to be their best. Our five values sit at the heart of this, to enable a culture that will achieve our strategic objectives. During 2022/23, we employed an average of 107 permanent employees and ten fixed-term employees. With continued growth of our business operations, we have filled 91 vacancies this year (temporary and permanent), which included 16 internal promotions.

Employee engagement

Our most recent staff-engagement survey, 'Your Voice Powers our Future', was conducted in February 2023 and had an extremely high response rate of 95%. With an overall engagement score of 86%, the survey results show we have successfully maintained our positive culture, and made meaningful gains in key areas employees said were important in the previous survey.

Our employees continue to recognise that LCCC is a good place to work: 92% said they are proud to work for LCCC, 76% said that our Senior Leadership Team make the effort to listen to staff and 79% feel like they belong at LCCC. About 85% of our people would recommend LCCC to friends and family as a good place to work and 93% of our colleagues care about the future of LCCC. Our engagement levels are driven by our positive and collaborative culture, as well as our collective role in supporting the UK Government's net-zero ambitions.

We are proud that most of our engagement drivers remain well above the external benchmark.

The survey results have provided useful insights to help us build on our areas of strength and respond to suggestions for improvement. Senior Leadership and our Engagement Champions will implement actions throughout 2023/24, and we will continue to monitor progress throughout this year.

Investing in our people – LCCC, a learning organisation

We empower our people to develop themselves and their teams, providing tools to boost career development and growth. As a learning organisation, we support staff in developing their skills and capabilities. In our recent engagement survey, 77% of employees agreed they have the right opportunities to learn and grow at work.

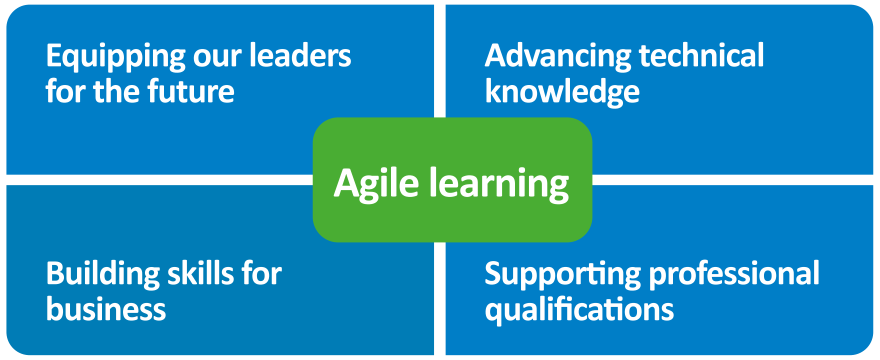
In 2022/23, we built on our new learning and development curriculum, continuing to give our people the business and industry-sector skills they need. We sponsored 19 professional qualifications in 2022/23. We also continued to use LinkedIn Learning as a source of knowledge, and have seen a significant increase in this mode of learning, with 7,408 learning videos viewed. In total, in 2022/23, our staff attended 627 days of learning.

Equity, diversity and inclusion (EDI)

Diversity is one of our core values. We recognise that employing a diverse workforce will help us develop the skills and capabilities we need to mobilise investment and make decarbonisation affordable for the future.

We are at our best when people with different backgrounds and experiences come together to collaborate and help us to empower the move to a more flexible energy future through new data, insight and capabilities.

Figure 8: Our learning and development strategy



Our people
(Continued)

We are committed to helping everyone be at their best by creating a sense of belonging, and valuing the individuality and uniqueness of each colleague. We want our people to feel they can be themselves at work. As we continue to grow, we continue to embed and harness diversity and inclusion in all areas of our practice – from the start, in all our recruitment activities, to celebrating various religious and festive events throughout the year. This year, we have striven to create a more diverse and inclusive culture by defining what inclusive leadership means at LCCC and rolling out inclusive culture training across the business, with a focus on bias, equality and fairness to demonstrate the business benefits of EDI.

As at 31 March 2023, we had 27 different nationalities represented by our employees, and an even wider range of backgrounds, skills and experience, all of which provide a lively and diverse environment for our staff to work within. Approximately 38% of our staff are from a black or minority ethnic group (BME); approximately 39% of our staff are female, and 33% of our Senior Leadership Team are female. Currently, 50% of our Board members are women. We are not complacent, however, and we continue to work hard to support diversity and inclusion in our business.

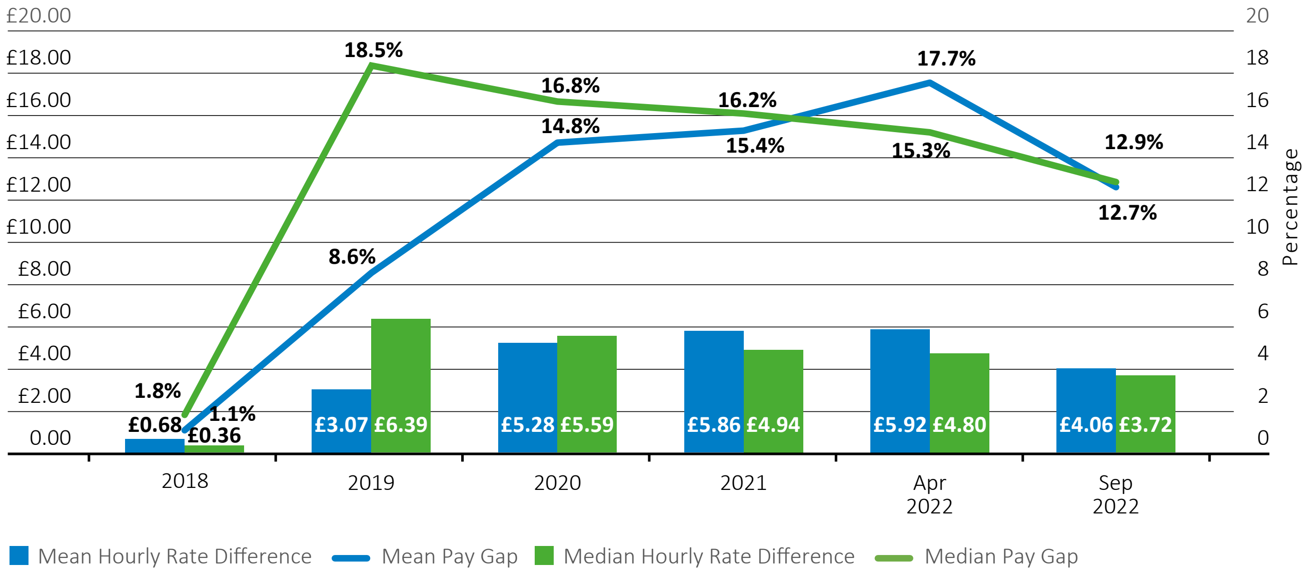
Gender and ethnicity pay reporting

While we are proud of our record on diversity, we are committed to further improving the gender and ethnicity balance across our business. We also report on our gender and ethnicity pay practice in support of, and using a methodology similar to, UK Government reporting requirements that look at the differences in hourly pay between men and women and between BME and white employees. LCCC only has a very small average employee population of 144, while the requirement for compulsory reporting starts at 250 employees. Overall employee diversity is good, with 32% of staff representing 27 non-British nationalities.

Gender pay gap 2022/23

The mean headline gender pay gap for 2022, as at 30 September, was 12.9% in favour of males, which is a decrease of 2.5% on LCCC's 2021 mean gender pay gap, as shown in the graph below. The median pay gap of 12.7% has decreased

Figure 9: Gender Pay Gap Trend



A negative pay gap value denotes that it is in favour of females.

Figure 10: LCCC Gender Split 2022/23 (%)

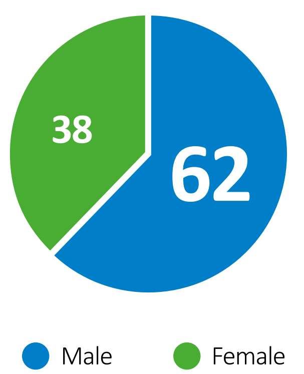
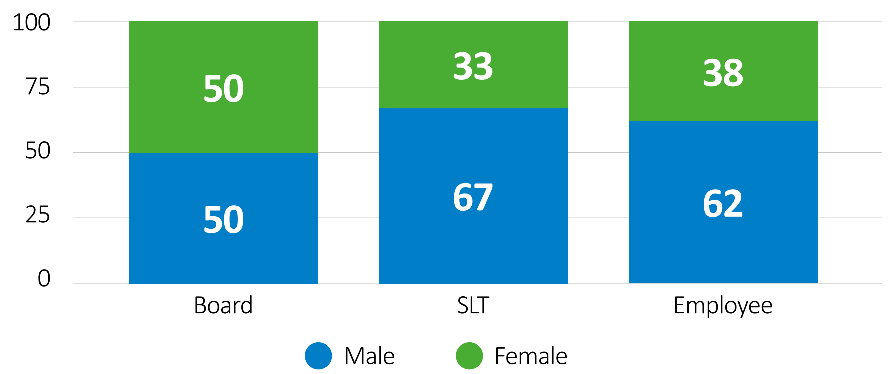


Figure 11: LCCC Gender Split – all levels (Board, Senior Team and Employees)



from 16.2% in 2021/22 (-3.5%). Gender distribution remains close to 2021/22, as we continue to employ more males than females (an overall split of 62%/38% in 2022) and this is most pronounced in the upper-middle and upper pay quartiles. The national median gender pay gap is 14.9% in favour of men, and LCCC's median gender pay gap is lower than this figure as we aim to continue to work to bridge the gap. The other pay quartiles show a more balanced picture, with a median pay gap in the lower quartile of 14.7% in favour of females. Gender pay quartiles continue to show a more positive picture, with most quartiles recording a pay gap of less than 5%, indicating that pay between men and women within each quartile is equitable. Given LCCC's size, small variations in staff make-up have a big impact on the data.

Ethnicity pay gap 2022/23

The mean ethnicity pay gap is 24.7% in favour of white employees, which equates to white employees earning, on average, £8.16 per hour more than minority ethnicity employees. The median ethnicity pay gap is 16.9% in favour of white employees. There continues to be greater representation of minority ethnicity employees at the lower-middle and lower quartiles, accounting for 75% of all minority ethnicity employees.

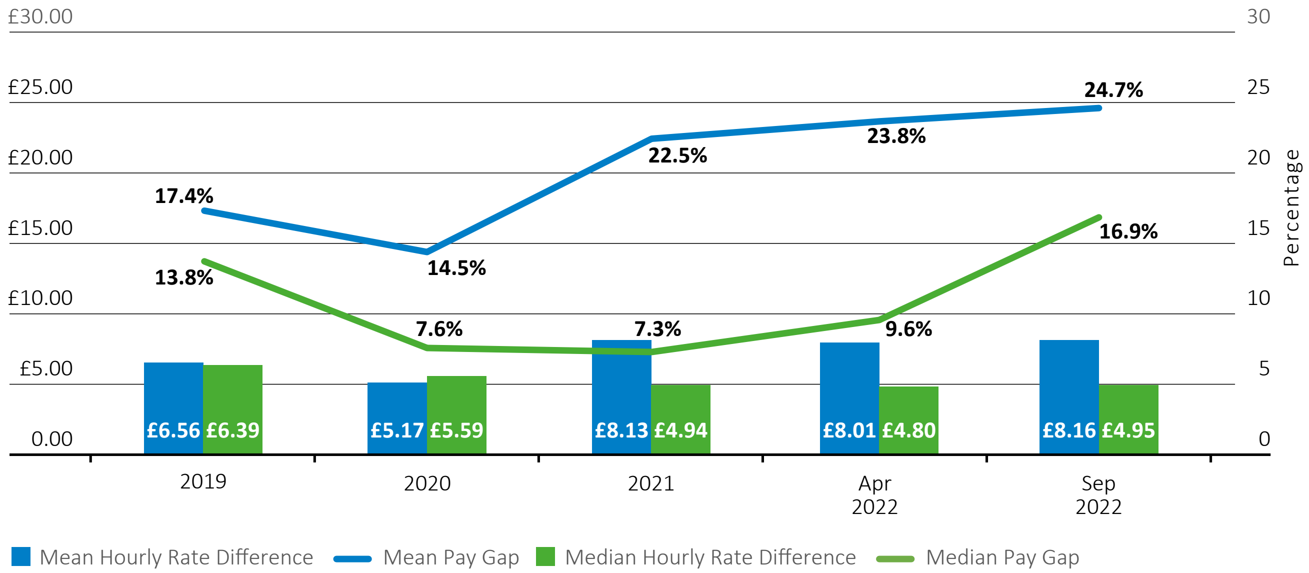
We continue to develop talent strategies within the business to ensure we create a truly diverse workforce at all levels of the organisation. This applies to both recruitment and succession planning, in all parts of the organisation. We also ensure a fair and consistent approach to salaries.

Corporate Social Responsibility

We are committed to having a positive impact in the communities where we work and live. Through our company volunteering scheme, we encourage staff to support a charity or community group of their own choice, or to support our charity partner, Renewable World, which tackles poverty through renewable energy. In 2022/23, we supported Renewable World through promoting opportunities for our colleagues to work pro bono. We also encouraged our people to learn more about the work of the charity at two breakfast briefings with Renewable World.

This year, our employees also supported a number of other not-for-profit organisations through smaller initiatives – such as raising £352 for Save the Children as part of their annual Christmas Jumper Day appeal, raising £287 for Movember during our spotlight on men's health in November, and donating food to homeless charity, The Manna Society.

Figure 12: Ethnicity Pay Gap Trend



A negative pay gap value denotes that it is in favour of ethnicities other than white.

Performance overview

Key performance indicators (KPIs)

The KPIs used to assess company performance comprised of quantitative and qualitative measures supporting each strategic objective and balanced across the four key business dimensions – Value for Money; Stakeholders; Operations; People.

- **Value for Money:** budget management; change cost management and efficiency; levy performance.
- **Stakeholders:** performance against an index derived from results of our annual stakeholder survey; results from an index derived from our brand impact.
- **Operations:** delivery of our contract-management obligations (including management of non-standard requests); accuracy and timeliness of CfD and Capacity Market settlement invoices and notifications; time management of internal change projects; meeting of AR4 and AR5 deadlines; performance of the settlements effectiveness index.
- **People:** staff engagement, as evidenced by our annual survey; the effectiveness of our hiring process.

We have delivered on our **strategic initiatives** over the last three years, and this has been part of our performance assessment. In 2022/23 we worked on three areas:

- **Business agility** (workforce-plan implementation, review governance and ways of working, cross functional ways of working, supporting a culture of agility).
- **Resilience of CfD and CM** (managing CfD scheme expansion, preparing for annual CfD auctions, CfD cross-functional working, CM operational development, consolidated view on analytics to support the Strategy & Development Team, strategic focus on CM).
- **Delivering new roles** (project management office, regulated asset base, organisation and skills, funding for new roles, system architecture).

Performance against KPIs

Our performance against the metrics described above is summarised in the table below.

Table 2: Performance against KPIs

Strategy dimension	Performance measures	Score against target
Value for Money	• Operating costs actuals variance to first forecast of the financial year (excl. disputes and Demand contingencies, and adjusted by events beyond company control).	
	• % of change projects with budget variance against forecast <10% (for internal projects >£50,000 and all EMRS change projects).	
	• Levy performance.	
Stakeholders	• Stakeholder satisfaction index.	
	• Brand impact index.	
Operations	• % of LCCC's (response) notices for standard contractual processes delivered within the contractual timescales.	
	• % of LCCC's responses for non-standard requests from CfD generators delivered as per 'case manager' agreed plan, unless delays are due to actions or omissions of the generator or any other third parties.	
	• % of projects in the internal change portfolio delivered within +10% of planned completion date (for projects >=20WD effort).	
	• % of LCCC's AR4 and AR5 deadlines met (M&N process, contract signing, and ICPs).	
	• Settlements effectiveness index.	
People	• % employees engaged as per annual staff survey.	
	• % of vacant roles filled in 49 calendar days.	
Development	• Business agility.	
	• Resilience of CfD and CM.	
	• Delivering new roles.	

Financial overview

LCCC is the counterparty to – and is responsible for managing – a large number of long-term CfDs. We fund the payments we make to CfD generators by collecting levies from suppliers.

Generator payments

We pay CfD generators when the market reference price for electricity is lower than the contractual strike price applicable to the relevant generator. If the reference price is higher than the strike price, the CfD generator pays us the difference. The net amount of total payments to and from CfD generators for electricity generated in the 2022/23 financial year was £16.4m (2021/22: £270.8 m), so the net position is that generators paid us. As the market price exceeded some strike prices this financial year, the total amount of receipts from CfD generators in the 2022/23 financial year was £677.4m (2021/22: £419.1m), while we took £668.8m from suppliers.

We obtain the funds we need to make CfD generator payments from a levy we collect from suppliers. We forecast how much money we will need to make these payments and then levy suppliers for these funds under the CfD (Electricity Supplier Obligations) Regulations 2014 (as amended) ('Supplier Obligation Regulations').

The main levy relating to CfD generator payments is called the Interim Levy Rate (ILR) and is set quarterly, three months in advance of the quarter. Suppliers are obliged to pay us a daily amount equal to their eligible demand multiplied by the ILR. This amount is invoiced each working day and must be paid by the suppliers within five working days of receiving an invoice. We, on the other hand, have 28 calendar days to make the payments due to generators (thereby providing a positive cash flow due to timing). We can also issue an 'in-period adjustment' notice, requiring additional funding if it becomes clear that the amount to be collected under the ILR is likely to be insufficient (or to reduce the amount of the ILR if it is clear that there will be an over-collection).

In addition to the ILR, we collect a quarterly reserve, known as the Total Reserve Amount (TRA). This helps provide reassurance that we will have enough money to make CfD generator payments on time. The TRA is the amount we calculate we need to provide a 19 in 20 probability of being able to make all the required CfD generator payments during the relevant quarter, taking into account forecasting uncertainties such as electricity prices. In the current environment, where generators are paying us, the TRA has a slightly different role, mainly protecting us in case prices collapse unexpectedly.

At the end of each quarter, we calculate the difference between the total net payment to generators and the total amount collected from suppliers under each of the ILR and the TRA. We then return any 'excess' collected to suppliers or, in the case of the ILR, request additional funds if the payment made to the generators in the quarter is higher than the ILR collected. As of 31 March 2023, £31.0m was receivable from suppliers (2021/22: £210.2m payable) as part of the quarterly reconciliation. TRA due to be returned to suppliers is £424.0m (2021/22: £303.4m), of which £171m relates to the next quarter (due to timing differences in a before-period adjustment to the reserve amount), meaning £279m related to the quarter just finished. Subsequent to the financial year ended 31 March 2023, the unused TRA and the Supplier Obligation Levy payable will be reconciled based on the cash payments received from generators in the next quarter.

We collect credit cover from suppliers for 21 days of ILR payments to protect against supplier default. As of 31 March 2023, we held £48.4m (2021/22: £14.7m) of credit cover.

If a supplier fails to make the due levy payments, and there is insufficient credit cover in place to cover the full amount of the levy, the failure is 'mutualised' between the remaining suppliers (that is, the remaining suppliers have to make up the shortfall between them). There was no mutualisation in the current or previous financial year.

Operational costs

Our day-to-day operational costs are funded by suppliers under the 'operational costs levy' set out in the Supplier Obligation Regulations. The Supplier Obligation Regulations are amended by Parliament, after public consultation, to update the operational costs levy rate applicable to the relevant financial year. The operational costs levy for 2022/23 was set in the Supplier Obligation Regulations at £0.0879/MWh (which represented an expected budget for operational costs of £24.2m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2023/24 has been set at £0.0994/MWh (which represents an expected budget for operational costs of £27.0m). The operational costs levy rate has been set for one further year beyond this.

Financial overview
(Continued)

Table 3: Delivery years, budgets, and levy rate

Year	Budget (£m)	Forecast of eligible electricity demand (TWh)	Levy rate (£/MWh)
2022/23	24.210	275.38	0.0879
2023/24	26.978	271.46	0.0994
2024/25	29.051	266.87	0.1089

The total operational costs levy collected depends on the actual volume of gross electricity demand. The amount collected for 2022/23 was £23.2m (2021/22: £21.0m). This compares with a net operating cost of £13.9m (2021/22: £9.8m). As a result of operational costs being lower than budget and the higher operational costs levy collected, £9.2m of the total operational costs levy is being refunded to suppliers (2021/22: £11.2m).

We apply robust financial management to ensure our commitments are managed within both our budgeted levels of spend and the timing of the collection of our operational costs levy.

At the same time, there has also been a contribution to our lower cost base as we did not need to use our budgeted MWh electricity volume contingency of £1.5m. This contingency protects us against a potential shortfall should the volume of electricity demand (that is, the electricity actually supplied in the year) be less than that estimated when the operational costs levy was set. This is necessary as the operational cost budget is collected on a fixed £/MWh basis and, if MWh volumes of electricity supplied fall, the level of operational costs levy income collected will also fall.

We share resources, such as office accommodation, with ESC. We pay for these, with the proportion of the costs relating to the Capacity Market being recharged to ESC, as further set out in note 2.5 to the financial statements.

Significant accounting matters and key judgements in the financial statements

The key accounting issues, matters and judgements in relation to our financial statements and disclosures relate to the valuation of the CfDs (including the Hinkley Point C contract).

Valuation of CfDs (excluding Hinkley Point C)

The estimated net discounted value of payments we may be required to pay out over the life of a standard CfD (normally 15 years) is £24.9bn. Of our total portfolio of CfDs, £5.6bn is the value for those expecting to pay us over their standard life, and £30.5bn for those where we will pay the generator. The figure for 2021/22 was £36.2bn. The change is primarily due to changes in the short- and long-term outlooks for electricity prices. The actual cash payments made to generators over the life of the contracts will vary, depending on various key matters, such as projected wholesale electricity prices, commissioning dates for generation and the average load factor for each generator. Further details relating to the treatment of the valuation of CfDs are set out in note 20 of the financial statements.

Valuation of Hinkley Point C CfD

We entered into the Hinkley Point C CfD on 29 September 2016. This project has a maximum lifetime generation cap of 910TWh. The duration of Hinkley Point C's CfD is, at 35 years, more than double the length of other CfDs we enter into (normally 15 years).

The estimated discounted value of payments we may be required to pay out over the life of the contract is £59.6bn (2021/22 £61.4bn). This decrease is primarily due to a higher outlook for long-term power prices.

The HPC CfD contract contains a clause which states that if a CfD in relation to Sizewell C is entered into before the reactor one start date then the applicable strike price will be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh. There have been legal developments around RAB and Government investment during the year and management recognise that the likelihood of Sizewell C entering in to a CfD is greater than the prior year. Management has taken a view that Sizewell C is as likely to occur as not, and has threfore recognised 50% of the strike price adjustment in the valuation.

Financial overview
(Continued)

Viability statement

Our directors have assessed our viability and prospects over the next three years. In doing so, they have undertaken a thorough assessment of our current position, the emerging and principal risks we face, and the potential impact of these risks on our future prospects and development (including those that would threaten our business model, future performance, solvency or liquidity). The directors consider our company to be viable for at least three years up to March 2026.

The operational costs levy is set for the current year (to March 2024). This is part of a three-year budget (2022/23, 2023/24 and 2024/25) that was publicly consulted on and came into full legal effect (The Electricity Supplier Payment (Amendment) Regulations 2022) on 1 April 2022.[10] Beyond March 2025, in the absence of any further amendment to the regulations, the prevailing operating costs levy rate will continue; however, it is anticipated that a further amendment will be made in due course.

The financial arrangements relating to our company minimise the risk of being unable to meet our liabilities. As set out in the Financial Overview, we are not obliged to make payments to generators and suppliers unless and until we have the funds to do so, and the annual budget for our operational costs will roll forward each year until the passing of regulations sets a new budget. We also apply prudent financial management and robust financial forecasting and cash-flow procedures to ensure our operating costs are covered by our operational costs levy.

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

A significant risk that has been under review by our directors, when making their assessment of our viability, is the impact of fluctuating prices in the energy market, which are currently affecting suppliers and have forced some into administration. The rate of collections, recovery of levy and the potential for mutualisation are continually being monitored to mitigate any potential risk. In the event of a supplier failure, we firstly draw upon credit cover, which in the majority of cases is sufficient to cover any shortfall. After that, there are processes laid down in the regulations to ensure any shortfalls can be met through mutualisation between the remaining suppliers. The majority of supplier failures occurred during a quarter where the net cash flow was from generators (in aggregate) to suppliers, so the impact has been very limited.

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

10. www.legislation.gov.uk/uksi/2022/401/pdfs/uksi_20220401_en.pdf

Risk management

Risks affecting the delivery of our objectives

The Board formally reviews the material risks facing LCCC and ensures we are appropriately managed by the Senior Leadership Team (SLT), 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 our risk-management framework, with oversight of the overall effectiveness of the risk-management programme being delegated to the Audit, Risk and Assurance Committee. We have an Assurance and Risk function to provide assurance over controls, including those to mitigate key risks. Assurance and Risk co-ordinates risk-management activity across our company, with regular sessions held by SLT to review, scrutinise, and update strategic risk. As well as the regular updates to the Audit, Risk and Assurance Committee, strategic risk is also presented twice-yearly to the Board for review and discussion.

Our risk-management framework has continued to develop in 2022/23, with Strategic Risk Workshops held during August. This was partly done as a periodic refresh, but also to reflect the embedding of our strategy and growth.

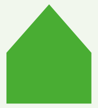
At operational level, risk management is continuing to be enhanced with updating of the operational registers and further development of an enterprise risk approach, including clear escalation points and operational interdependencies. We will also be developing key risk indicators to assist with the materialisation of the identified risks. Risk appetite is now a more active measure, as we seek to differentiate between the risks and opportunities in how we deliver our strategy. Our approach to risk management is further detailed in the Corporate Governance Report on pages 63 and 64. The assessment of the most significant principal risks considered by the Board, and the corresponding mitigating controls, are set out below.

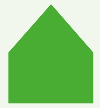
Strategic risks

Our overall risk landscape continued to evolve in 2022/23, particularly given the changes in the wider energy market and our growth strategy. Our refreshed Strategic Risk Register reflects changes in how some of these risks are managed, as well as further emphasis on opportunities and efficiencies. We have also been reviewing how we can develop new areas of business and how we manage the associated risks and opportunities. A summary of key risk activity and movement since August 2022 is provided below; where appropriate, a risk trend is provided. Further mitigations are in progress to ensure risks are managed in line with risk appetite, with target scores and timescales captured in the assessment of the risk.

Risk management

(Continued)

RISK	SUMMARY	RISK TREND (SINCE AUGUST 2022)
Stakeholder reputation Our stakeholders may lose confidence in our ability to deliver existing work or to take on new schemes. We may also miss opportunities to enhance our reputation with stakeholders. We may not be able to effectively maintain or demonstrate our operational independence due to taking on new areas of work.	• A new Director of Strategy and Development has been appointed. A new Communication and Stakeholder Engagement Team has been created to enhance the stakeholder journey. • This area of risk reflects the opportunities that are inherent in how we manage our stakeholder reputation. For example, we will face increased reputational risk as we commit to new areas of work, although effective delivery will potentially enhance our overall reputation and improve confidence.	
Funding Our funding arrangements may restrict us in terms of how we operate. This could affect our ability to effectively deliver new schemes and reduce our flexibility as an organisation. There may be issues with the sustainability of our funding approach in the future longer term.	• This also brings in a longer-term focus on how schemes will be funded in the future, linking closely to the new institutional-landscape risk. • As with the previous risk, there are inherent opportunities within this risk area too, linked to how we are structured and how we manage our funding to pursue longer-term objectives.	
Institutional landscape There may be wider changes in our role, resulting from changes in political prioritisation (e.g. outcomes of the HMT net zero review), as well as positive or negative impacts from the wider macroeconomic situation. There is a risk that our operating model (e.g. CfDs) is not perceived to be viable in the longer term. This may present a risk to our core objectives, but may also present opportunities to how we support net zero.	• This risk reflects the wider institutional landscape, our strategy, and our ambitions. • We will review our institutional landscape on an annual basis to continue to assess risks and opportunities. • There is a degree of scalability associated with this area in terms of what new schemes are managed, balanced against the delivery of existing schemes. During the year, there has been an upturn in risk likelihood due to the medium to long-term impact of external geopolitical activity.	

RISK	SUMMARY	RISK TREND (SINCE AUGUST 2022)
External market We are unable to anticipate, and respond effectively to, the competition and the complexity and volume of change in the market. There is wider structural market change (e.g. market consolidation, merchant capacity in renewables) that provides us with opportunities.	• Significant challenges have continued within the energy sector. In particular, market price and the potential for rolling blackouts across the UK during late 2022 and early 2023. • We have worked closely with stakeholders to manage the impacts, as well as understanding how this affects our existing internal activities (e.g. settlements). This has resulted in an increase in the overall risk environment. • We have engaged strategically with our existing stakeholders to explore and manage change to the CfD and Capacity Market, as well as being responsive to wider market change. • Internally, we have further developed our Insights programme, driven by our Policy and Advisory Team, aimed at influencing public debate and our positioning as key advisors on Carbon Capture Usage and Storage (CCUS).	
Organisational model We do not adopt the right organisational structure and culture to effectively deliver our new strategy, including the balance of existing work and new business development.	• During 2022/23, we continued to recruit for new roles and rearranged some existing structures to align business activities more closely. • This also links closely to the people risk, recognising the dependency between how we manage change and our retention rates.	
Scheme management and delivery We are unable to effectively deliver our obligations on existing schemes due to growing complexity of the schemes and our stakeholder interactions. We do not have adequate systems or processes in place to effectively deliver new schemes.	• This reflects the changes in volume on our existing schemes as we prepare for further CfD allocation rounds, as well as the potential for additional complexities within the Capacity Market. AR4 has been completed with positive feedback. Additionally, operational risk-management registers are now in place for both the CM and CfD. • This also encompasses the wider risks of scheme fraud and error.	

Risk management
(Continued)

RISK	SUMMARY	RISK TREND (SINCE AUGUST 2022)
Settlements Our business model, systems architecture, and controls may not be fit for the future, resulting in inefficiencies and late or missed delivery of change. We are not effectively aligned with our external stakeholders to deliver an efficient and cost-effective settlements process.	• This risk has reduced and is relatively stable, as it reflects business as usual. There are significant strategic and financial implications for our company if this risk were to materialise. Effective management of this risk also depends on the inputs from different external stakeholders. • Tri-party meetings with a formal structure are now operating to provide a Joint Assurance Framework with the external bodies, providing a wider view of scheme risk.	
People We do not have sufficient capacity or capability to deliver our strategy. We also may miss opportunities due to delays in obtaining the right skills. We may also fail to sufficiently engage existing staff within the context of business change, resulting in a potential loss of skills and knowledge.	• This risk relates to ensuring we have the right capacity and capabilities in the organisation to continue to deliver on our existing commitments, as well as for new schemes. • During 2022/23, two directors were recruited: Director of Strategy and Development, and Director of Scheme Delivery. The Director of People and Organisation Development left, but the position is being filled on an interim basis. • We have focused on developing our wider recruitment approach and managing retention challenges, against a backdrop of difficult market conditions (e.g. higher market movement following COVID-19). • Further work has been undertaken on our Business Agility initiative, focusing on culture and engagement, as well as applying these principles across operational delivery.	
Cyber and information security We are subject to a cyber-security incident, resulting in potential disruption to business operations, as well as data loss, financial loss and reputational damage. There is a cyber-security incident at a key stakeholder or within our supply chain, resulting in loss of our data, our wider reputation or confidence in the schemes.	• The audit review actions have been completed during 2022/23. A follow-up review is scheduled for completion in early 2023/24. • The risk has remained static since last year – but, reflecting the wider geopolitical risks at present, there is an increased likelihood of external cyber-attacks. These are under continuous monitoring.	

Effectiveness of our risk management and internal controls
The Head of Assurance and Risk provides an annual report and opinion on our systems of governance, risk management and control, 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 and Risk leads on each internal audit review, with co-sourced support from Evelyn Partners, as well as the NCC Group for specialist assurance on cyber security.

Key areas reviewed in 2022/23 include:
- Company Scorecard
- Purchase to Payment
- Recruitment, Retention and Workforce Planning.

Of particular note is that the previous Head of Assurance and Risk left LCCC in early September 2022 and there was a lengthy gap before a new Head of Assurance and Risk was appointed and joined us at the end of December 2022.

Signed on behalf of the Board.

Neil McDermott
Chief Executive Officer
12 July 2023

Environment report

We are in the eighth year of recording and reporting the carbon emissions from our activities and operations. We remain committed to minimising the environmental impact of our operations, increasing our resilience to climate change, and reporting transparently on our sustainability performance.

Environment report
(Continued)

During the 2022/23 financial year, we experienced rapid employee growth, increasing from 98 staff in April 2022 to 148 by March 2023, a rise of 51%. Despite this, office and desk space have remained the same, as we adopt a hybrid-working model: employees are in the office at least two days a week, with the remaining days working from home.

As reported in our former annual reports, data from previous years has been revisited where it has become available to improve the forecast estimates where data is missing. This may have resulted in changes to the original published data.

Scopes 1, 2 and 3 greenhouse gas (GHG) emissions

The table below shows a breakdown of emissions, by scope and activity, for the 2022/23 reporting year. The emissions are compared against the previous financial year (2021/22) and also against the 2017/18 reporting year, which is used as a baseline to benchmark sustainability performance, according to emissions, over time.

Table 4: Breakdown of emissions, by scope and activity, for 2021/22

Greenhouse gas emissions (Total tCO_2e)	2017/18 Apr – Mar [11]	2018/19 Apr – Mar [12]	2019/20 Apr – Mar	2020/21 Apr – Mar[13]	2021/22 Apr – Mar[14]	2022/23 Apr – Mar	% change against 2020/21	% change against 2017/18
Scope 1: direct emissions	35.78	28.33	40.08	2.36	1.38	0.37	-74%	-99%
Scope 2: indirect emissions	89.45	70.41	62.67	27.88	22.69	17.40	-23%	-81%
Total Scope 1 & 2 emissions	**125.23**	**98.74**	**102.75**	**30.38**	**24.07**	**17.76**	**-26%**	**-86%**
Scope 3: other indirect emissions – Water, Waste Water and Waste	1.56	2.20	1.00	0.28	0.21	0.13	-37%	-92%
Scope 3: other indirect emissions – Travel	Data not recorded	0.04	0.04	Nil data	0.20	Data not recorded	N/A	N/A
Scope 3: Homeworking emissions	Data not recorded	Data not recorded	Data not recorded	62.38	38.47	42.23	10%	N/A
Scope 3: Videoconferencing emissions	Data not recorded	Data not recorded	Data not recorded	16.00	10.54	5.47	48%	N/A
Total Scope 3: building emissions	**1.56**	**2.20**	**1.00**	**0.28**	**0.21**	**0.13**	**-37%**	**-92%**
Total Scope 3: other[15] emissions	**Data not recorded**	**0.04**	**0.04**	**78.38**	**49.21**	**47.70**	**-3%**	**N/A**
Total Scope 1, 2 & 3 emissions	**126.55**	**100.98**	**103.79**	**109.04**	**73.49**	**65.46**	**-11%**	**-48%**

Total emissions for the financial year 2022/23 were 11% lower than in the previous year and 48% lower than the baseline financial year 2017/18, highlighting our efforts in reducing company emissions.

Scope 1 emissions from the use of gas in office buildings were 74% lower in 2022/23 than the previous year and 99% lower than the baseline year.

Scope 2 emissions from the use of electricity in office buildings were 23% lower than the previous year and 81% lower than the baseline. These decreases are a result of moving to 10 South Colonnade (10SC) on 1 August 2021, which meant four months' emissions from Fleetbank House were included in last year's figures. 10SC is a newer and more efficient building that uses significantly less energy. It is better insulated, has more efficient space and water heating, and has sensor taps reducing water usage. The building has a green roof, which helps regulate temperature, manage rain water and improve air quality. There are also plans to add solar panels to the roof, which will generate power for heating, cooling and lighting.

11. Estimated data – Scope 3 February–March.
12. Estimated data – Scope 1 March, Scope 2 March, Scope 3 February–March (excluding travel).
13. Revised data.
14. Estimated data February–March.
15. Revised data.

Environment report
(Continued)

The use of gas is limited to water heating, rather than space heating, and the electricity used in 10SC is from 100% renewable sources. The area we occupy has also decreased from 535 m^2 at Fleetbank House to 340 m^2 at 10SC. Scope 3 building emissions are 54% lower than in the previous year. This is due to a number of factors, but primarily to the significant reduction in water usage at 10SC.

Please note, energy and water usage, as well as waste-production volumes, are calculated for the entirety of 10SC and then the contributions apportioned by the floor area (square metres) we occupy in the building. We remain committed to working with and encouraging landlords to implement sub-metering to all floors in the building, in order to obtain more accurate consumption data.

Home working and digital communications
From April 2022 to March 2023, our employee numbers rose from 98 to 148. To calculate the impact of these employees' home-working activities, we have used the EcoAct[16] base case methodology, GHG conversion factors published by the Department for Energy Security and Net Zero[17] and internal FTE and working hours data, based on the knowledge that employees work from home three days a week on average. Summer cooling has not been included, as, although it is not known if any employees have air conditioning at home, it is relatively uncommon in the UK and is therefore assumed they do not.

Table 5: Home working and digital communications

	kWh p.a.	tCO_2e p.a.
Office equipment	18,591.30	3.93
Heating energy	413,346.57	38.31

Despite the importance of using digital technologies to reduce travel and therefore limit emissions, we recognise that our use of online platforms and data generates its own indirect emissions. This is the third year we have included emissions from video-conferencing in our Scope 3 reporting, acknowledging the importance of including all emissions resulting from our operations. These emissions have been calculated using Microsoft Teams data[18] and an independent 2020 study[19]. As employees have adopted the hybrid-working model, in-person meetings have reduced total video-conferencing hours and in turn emissions to 5.47 tCO_2e, a decrease of 48% on the previous financial year.

The paperless office
During Q1 of 2021/22, we undertook a paper-reduction exercise, becoming a paperless organisation where only essential hard-copy contracts and records were kept. This also resulted in fewer items needing to be moved when we relocated offices. We continued with this in 2022/23 and started using DocuSign, where all our contracts are issued online, both eliminating paper and saving time. We encourage our staff to choose digital rather than printed options wherever possible – and the hybrid-working model used throughout 2022/23 has provided an opportunity to break the habit of printing by default, as many staff now have limited access to printing facilities.

16. Source methodology and assumptions: EcoAct Homeworking emissions whitepaper.
17. GHG conversion factors 2022, DESNZ and BEIS https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022
18. Estimation methodology: Monthly averages determined by available MS Teams data – from August 2020 to date (February 2021).
19. Carbon emissions factor – 150gCO_2e / hr Zoom use: Researchers from Purdue University, Yale University and the Massachusetts Institute of Technology (2020).

Board of directors

This was the Board as at 12 July 2023, with the changes during the year shown on page 65.

Regina Finn
Board Chair

Nomination Committee (Chair)
Remuneration Committee (member)

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Amanda Aldridge
Non-Executive Director

Audit, Risk and Assurance Committee (Chair)

Helen Lamprell
Non-Executive Director

Remuneration Committee (member)

Steph Hurst
Non-Executive Director

Audit, Risk and Assurance Committee (member)

Chris Murray
Non-Executive Director

Remuneration Committee (Chair)
Nomination Committee (member)
Audit, Risk and Assurance Committee (member)

Maxine Mayhew
Senior Independent Director

Nomination Committee (member)

Gerard McIlroy
Non-Executive Director

Audit, Risk and Assurance Committee (member)

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

Declan Burke, Shareholder-nominated Non-Executive Board Director and member of the Remuneration Committee served for the full financial year 2022/23. Declan resigned from the Board on 10 July 2023.

Directors' report

THE BOARD IS RESPONSIBLE FOR THE STRATEGY AND DIRECTION OF THE COMPANY

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 2023. The company's registered number is 08818711.

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 61 to 66.

Directors and corporate governance
Full details of the directors and corporate governance matters are set out on pages 60 to 68.

Position of the company
Information relating to our strategy, and to our development, performance and future prospects, are set out in the corporate governance report and strategic report.

Employees
We recognise that the commitment of our highly skilled and experienced workforce is key to efficiently and effectively fulfilling our functions and achieving our strategic objectives. Further information is set out in the strategic report. Our employee numbers (including executive directors but excluding non-executive directors and secondees) as at 31 March 2023 were 148.

Environment
Details are set out in the environment report on pages 54 to 56.

Payment to suppliers
We pay our suppliers according to the provisions of our contracts with them, subject to their compliance with their contractual obligations.

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

Results and dividends
We have prepared our 2022/23 financial statements according to International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2023 are set out on pages 82 to 109.

We are a not-for-profit company, with the payments we make to CfD generators being matched or 'counterbalanced' by the Supplier Obligation Levy we collect from suppliers. Our other costs (operational costs) are funded by the operational costs levy referred to on pages 45 to 46. Any operational costs levy we collect that exceeds our 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, that is, nil profit-nil loss. Consequently, we do 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 pages 82 to 109 of the financial statements, and the strategic report on pages 9 to 53.

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 we have 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 according to international accounting standards (conforming to the requirements of the Companies Act 2006) and in line 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 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
- 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, our financial position 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 to prevent and detect fraud and other irregularities.

Each of the directors, whose names and functions are detailed herein, confirms that to the best of their knowledge:

- the financial statements, which have been prepared according to international accounting standards (conforming to 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 we face.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on our 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.

Auditor
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 their 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 they are obliged to take as a director in order to make themselves 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 National Audit Office acts) has expressed a willingness to continue in office. The Board and the Audit, Risk and Assurance Committee consider the performance of the auditor and assess their reappointment on an annual basis. A resolution to reappoint the auditor will be considered and proposed at the relevant time.

By order of the Board.

Allison Sandle
Company Secretary
12 July 2023

Corporate governance report

I AM PLEASED TO PRESENT OUR CORPORATE GOVERNANCE REPORT FOR THE YEAR

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 our strategy and objectives, and is committed to ensuring that high standards of corporate governance are maintained throughout our company.

I would like to thank all Board members for their support, dedication and commitment over the year.

Regina Finn
Chair

Background to the company

Our company was established by the Secretary of State for Business, Energy and Industrial Strategy as an independent private law company. We are also a governmental arm's length body, which is funded by and manages compulsory levies, and the Secretary of State is our sole shareholder. Compulsory levies are normally classified as taxation, which effectively means we are managing public money.

Accordingly, as an independent private company and as an entity having responsibilities for the administering of public money, we adopt the highest standards of governance and work to the highest standards of probity. We recognise the importance of operating with regularity and propriety, the need for effectiveness and prudence in administering public resources, and the need to secure value for public money.

This corporate governance report outlines our governance structure and demonstrates how our arrangements align with the guidelines and principles set out in the UK Corporate Governance Code. Where any aspect of the Code has not been fully applied, an explanation is given below.

Our activities in the year are described in the corporate governance report and the strategic report.

Framework Document

Our main governing documents are our Articles of Association and our Framework Document. The Framework Document[20], which establishes the fundamental relationship between our shareholder and our company, is published on our website to provide transparency of the relationship. A new version of the document was agreed this year, bringing our governance up to date and gearing up for future growth.

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. It makes it clear that we have day-to-day operational independence, subject to certain limited exceptions set out in legislation, our Articles of Association and in the Framework Document itself. The limitations on our independence are those which either:

- are common to Government-owned entities and necessary to satisfy Government and Parliamentary budgeting and accountability requirements; or
- provide our shareholder with specific controls in respect of policy implementation matters relating to CfDs. (Essentially, these specific controls are matters for which shareholder consent is required, mainly in relation to material change to the CfDs).

20. Framework Document available at https://www.lowcarboncontracts.uk/sites/default/files/publications/Electricity%20Settlements%20Company%20Framework%20 Document%20-%20August%202014%20-%20Signe....pdf.

The Framework Document recognises that we are a separate corporate entity, and that our governance and decision-making processes flow through our Board, with our executives reporting to that Board.

The Framework Document states that, in carrying out our functions, activities and role, we will seek to maintain investor confidence in the CfD scheme and minimise costs to consumers. This is known as the Guiding Principle. We recognise the importance of this Guiding Principle.

UK Corporate Governance Code

We are 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 to specify and explain any non-compliance in our annual report. We also believe 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 we have complied in full with the Code, other than as explained in this corporate governance report. Any non-compliance is due to either the requirements of our shareholder, as reflected in our Articles of Association and the Framework Document, or to a timing matter relating to 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 and probity, and a focus on the sustainable success of our company over the longer term.

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

The Board establishes the values, culture, ethics and standards of our company, and sets the framework for prudent and effective controls, which enable risk to be assessed and managed. The Board reviews the results of the annual employee survey and receives reports on stakeholder engagement from the Chair and Chief Executive.

The Board has delegated authority to its committees to carry out the tasks defined in their terms of reference. There are three committees: the Audit, Risk and Assurance Committee, the Remuneration Committee and the Nomination Committee. The written terms of reference of the committees are available on our 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 state that our shareholder's approval is required for all Board appointments. They also state that our shareholder has the right to appoint the Chair, the Senior Independent Director and up to two shareholder-nominated directors.

Regina Finn is the current Chair of the Board and Maxine Mayhew is the current Senior Independent Director.

At year end, the Board comprised ten directors, being the Chief Executive and the Chief Financial Officer, two shareholder-nominated directors, and six independent non-executive directors (including the Chair and the Senior Independent Director).

The shareholder-nominated directors at year end were Declan Burke and Steph Hurst, both civil servants employed by DESNZ. They were appointed by our shareholder.

The six non-executive directors as at year end (and currently) are Regina Finn, Amanda Aldridge, Helen Lamprell, Maxine Mayhew, Gerard McIlroy and Chris Murray. Each of them was appointed with the consent of our shareholder in accordance with the Framework Document and the Articles of Association. The term of office of each independent non-executive director is in line with the Governance Code on Public Appointments (Cabinet Office, December 2016) under which there is a strong presumption that no individual should serve more than two terms or serve in any one post for more than ten years.

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, having been appointed interim Chief Financial Officer on 4 November 2019.

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 former 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 our shareholder.

No recruitment consultancy we use 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 65 to 66. All directors, with the exception of the shareholder-nominated directors, have written terms of appointment. These are available for inspection at our 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.

Corporate governance report
(Continued)

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. An annual review of the skills of the Board has been undertaken to ensure they are the skills needed to support our company as we evolve.

New directors receive an induction programme and additional training, tailored to their individual needs.

Board changes
Please see the table on page 65.

Board governance
The Board meets sufficiently regularly to discharge its duties effectively, generally several times a year (with additional ad hoc meetings as required). The Board met seven times in 2022/23, in June 2022, July 2022, October 2022, December 2022, February 2023 and March 2023, with one ad-hoc Board meeting in January 2023. Additionally, the Board approved two matters by unanimous decision by email in June 2022 and November 2022. It also held a separate strategy meeting in February 2023.

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

- Review of Declarations of Directors Interests
- Review of Board and committee reports/minutes of meetings
- Approval of the company scorecard, mid-year performance update and results
- Approval of the companys' strategic initiatives
- Approval of Annual Reports and Accounts and Letters of Representation
- Approval of CEO Objectives
- Update and actions from 2022 external Board evaluation
- Approval of delegated authority for executing key contracts
- Approval of re-appointment of the external auditor
- Approval of the 2023/24 strategy and mid-year performance update
- Annual review of the Schedule of Board Reserved Matters
- Annual review of the division of responsibilities between Chair and CEO
- Annual review of the industry stakeholder survey
- Annual risk review
- Annual review of the staff engagement survey and recruitment updates
- Annual cybersecurity and data protection updates
- Review of the Business Plan
- Review of the Communication and Stakeholder Strategy plan
- Updates on scheme delivery and new schemes
- Insurance renewal
- Deep dives on CCUS, the Capacity Market, winter and global energy conditions, Hydrogen Certification schemes, impact of volatile markets on levy rates, REMA overview, regular external guest speakers on industry-specific topics
- Environmental, Societal and Governance review.

The Chair has held meetings with the non-executive directors without the executives being present. The non-executive directors, led by the current Senior Independent Director, have met without the Chair and executive directors being present.

We record details of the directors' interests in a register, and review them at each Board meeting. We have 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. No such conflicts of interest were identified in the financial year 2022/23.

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 with appropriate information of the required quality. This was also confirmed by an external Board evaluator in March 2022. Board members have access to the Company Secretary, and to independent legal advice if they need it.

There is a formal schedule of matters specifically reserved for 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 for the Board including:

- setting and approving the company's long-term strategic aims and objectives
- responsibility for our leadership, values and standards
- approving our financial statements
- approving our proposed annual operating costs levy budget
- approving (subject to shareholder consent) our annual business plan and budget
- monitoring and overseeing risk management, financial reporting and the system of internal control
- overseeing our operations
- approving financial commitments over specified monetary thresholds
- decisions on extending our activities into new business or geographic areas
- decisions on specified important CfD matters
- 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, which is reviewed annually.

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 our shareholder
- ensures there is an effective and appropriate system of communication with our shareholder
- manages the business of the Board, including its agenda, and ensures adequate time is available for the discussion of all agenda items, in particular, strategic issues
- is responsible for ensuring the directors receive accurate, timely and clear information.

The Chief Executive:
- fulfils his responsibilities as Accounting Officer[21]
- leads the Executive Team in the day-to-day running of our 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 our shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- ensures our values are embedded in our 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:
- ensure the Board fulfils its responsibilities, including in relation to strategy
- monitor the performance of management
- satisfy themselves as to the integrity of financial information and the strength of internal controls and our risk-management system
- include these responsibilities in their activities in relevant committees.

Board evaluation
The Board undertakes an annual formal and rigorous evaluation of its own performance and that of its committees and individual directors. The UK Corporate Governance Code recommends that Boards should be evaluated externally once every three years; our last independent Board evaluation was concluded in March 2022 and we have acted on recommendations arising from it. Also, recommendations from the annual internal Board evaluation have been analysed and are being acted on.

Each committee also separately undertakes an internal annual evaluation. In 2022/23, this was done through a questionnaire, with the results being discussed by the Board and the committees. We concluded that the committees are working cohesively and effectively, and performing their role in a proper and appropriate manner with strong corporate governance in place.

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.

Audit, Risk and Assurance Committee
At financial year end, membership of the Audit, Risk and Assurance Committee (ARAC) comprised four non-executive directors, namely Amanda Aldridge (Chair), Steph Hurst, Gerard McIlroy and Chris Murray.

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 2022/23, with meetings in June 2022, September 2022 and January 2023.

The Chief Executive (as Accounting Officer), Chief Financial Officer, Head of Assurance and Risk, Company Secretary and the external auditor attended each meeting, and they have access to the Chair of the committee outside formal committee meetings. The Head of Assurance and Risk and the external auditor each meet informally with the committee at the end of every scheduled committee meeting.

The committee's main responsibilities 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, reappointment and removal of the external auditor, and approving their remuneration and terms of engagement

21. 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.

Corporate governance report
(Continued)

- reviewing the independence and objectivity of the external auditor, and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- reporting to the Board, identifying any matters it considers need action or improvement, 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 anyone can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The committee applies a policy on external-auditor independence to safeguard auditor objectivity and independence where the company's auditor has 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:

- internal audit annual opinion/update
- status of any significant accounting estimates, judgements and special issues
- external auditor's report
- policy for maximum term of external audit lead
- report on activities of the Audit Committee during the year
- annual report planning
- annual report – governance statement and accounts recommendation
- Internal Audit Charter – annual review
- external audit plan
- internal audit activity, strategy and plan
- internal audit update and activity process
- review and update of Financial Delegated Authority
- Joint Assurance Framework update
- committee annual evaluation
- review of the ARAC terms of reference
- review of Whistleblowing Policy and Procedure
- review of schedule of decisions
- risk-management reviews and risk-register updates
- Risk deep dive on organisational model
- letters of representation
- Accounting Officer letters.

The minutes of the meeting are circulated to the Board.

The company's main risks are set out on pages 49 to 53 of the strategic report. There have been no failures in, or breaches of, information security (other than minor or non-significant ones). There have been no whistleblowing concerns raised in the last year.

The reappointment of the external auditor was approved by the Board in December 2022 on the recommendation of the committee. The Board approved the reappointment, taking into account the fact that the Framework Document stated the strong presumption that the company would appoint the 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 DESNZ'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.

Nomination Committee

At year end, the committee comprised Regina Finn (Chair), Maxine Mayhew and Chris Murray.

All members of the Nomination Committee are independent non-executive directors.

The committee met three times during the year, in July 2022, November 2022 and March 2023. 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 and committees, 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
- undertaking an annual evaluation of its own performance.

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

- composition, size and diversity of the Board, including a review of skills
- committee membership and tenure
- succession planning and training for the Board, executive directors and senior leadership
- succession planning below senior leadership level
- review independence and time commitment of non-executive directors;
- review of the Nomination Committee terms of reference
- committee annual evaluation and review of previous evaluation actions arising.

The minutes of committee meetings are circulated to the Board.

Remuneration Committee

The membership and responsibilities of the Remuneration Committee are described in the Remuneration Report on pages 69 to 72.

Board and committee membership

The table below sets out the appointment dates of Board and committee members, along with details of those Board members who resigned in the year.

Table 6: Board and committee membership

Director	Role	Board	Audit, Risk and Assurance Committee	Nomination Committee	Remuneration Committee
Amanda Aldridge	Non-executive director	App. 02/04/2020	App. 02/04/2020		
Declan Burke	Non-executive director	App. 29/01/2020			App. 29/01/2020
Regina Finn	Chair	App. 02/09/2019		App. 04/10/2019	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			App 29/07/2021
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	App. 18/07/2018
George Pitt	Chief Financial Officer	App. 13/08/2020			

Corporate governance report

(Continued)

Board and committee meetings

Please note that the table does not fully reflect the contribution made to our 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 our business and activities during the year. In addition, generally members who could not attend a meeting provided comments on the papers for the meeting.

Relations with our shareholder and stakeholders

In accordance with our Framework Document, we maintain an appropriately regular dialogue with our shareholder. We have two shareholder-nominated directors, and have engaged in regular communication with industry and other stakeholders, including by stakeholder-engagement events, annual stakeholder surveys, regular newsletters and through our website.

As a non-traded entity, we do not propose to have an annual general meeting.

Maintenance of a sound system of internal control

The Board has overall responsibility for our 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, Risk and Assurance 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 system 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 and Assurance Committee helps the Board discharge its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 63 to 64).
- The Board, with the help of the Audit, Risk and 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.

Table 7: Member attendance record during 2022/23

	Board	Audit, Risk and Assurance Committee	Nomination Committee	Remuneration Committee
Number of meetings	**7**	**3**	**3**	**5**
Amanda Aldridge	7	3		
Declan Burke	7			5
Gerard McIlroy	7	3		
Regina Finn	7		3	5
Steph Hurst	6	2		
George Pitt	7			
Maxine Mayhew	5		3	
Helen Lamprell	6			4
Neil McDermott	7			
Chris Murray	7	3	3	5

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 and 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. Risk-management processes are incorporated into our management and governance systems at all levels and form a part of our day-to-day operations.
- The Audit, Risk and Assurance Committee formally reviews the risk position at each scheduled meeting (in 2022/23, in June 2022, September 2022 and January 2023) and is updated on any significant risk matters that fall 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 reviewed the Strategic Risk Register in June and December 2022. The reports to the Audit, Risk and 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 and 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 our business model, future performance, solvency or liquidity. Please see the more detailed risk report on pages 49 to 53.

Internal audit

- We have an Internal Audit function that provides the Audit, Risk and Assurance Committee with independent, objective assurance regarding governance, risk management and internal controls, as part of our risk management and assurance regime. The Audit, Risk and 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. The Head of Assurance and Risk is supported by an external co-sourced partner to deliver the Internal Audit plan. The previous Head of Assurance and Risk left LCCC in early September 2022; there was a delay in appointing a replacement, but the post was filled and commenced in late December 2022.

Financial management and reporting

- We have a comprehensive strategic planning, budgeting and forecasting process, with the business plan (including the annual budget) being approved by the Board.
- Our 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, providing cost control and value for money for consumers. The draft budget, which can be for a single year or multi-year, is reviewed by the Board and then submitted to our shareholder for further review. Our shareholder then undertakes a public consultation on the proposed budget. Subsequently, the operational costs levy, which funds our budget, is laid before Parliament in the form of regulations.
- We operate robust financial-management processes to ensure we manage within our budget and do not exceed the operational costs levy.
- An update on our 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.
- We are required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including compliance with the relevant requirements in HM Treasury guidance entitled 'Managing Public Money'[22].

Operational

- The Senior Leadership Team meets on a fortnightly basis to review our operations, 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 our shareholder and other stakeholders.
- The operational, legal and other functional teams work closely together to ensure the appropriate interfaces and communication in relation to CfD management, with the governance, internal decision making and critical processes being documented.
- We report on significant matters relating to our operational activities at each Board meeting; this includes CfD management matters.
- The Board decides on matters falling within the schedule of reserved matters (for example, financial commitments over the specified threshold) or otherwise raised for decision.

22. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

Corporate governance report
(Continued)

Procurement

- We have a Procurement Policy that requires us to procure all goods and services in compliance with the relevant requirements in Managing Public Money, Cabinet Office controls and the public procurement regulations.
- We are 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 (for example, relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health and safety, and other legislative and good-practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.
- We expect the highest standards from our employees and our supply chain.
- We consider and implement the requirements of the Alexander Tax Review in relation to the retention of consultants.[23]

Treasury management

Our finance department:

- operates within policies agreed by the Audit, Risk and 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
- 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
12 July 2023

23. HM Treasury, Review of tax arrangements of public sector appointees, May 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

Remuneration report

Remuneration committee

At year end, the Remuneration Committee comprised Chris Murray (Chair), Regina Finn, Declan Burke and Helen Lamprell.

The Framework Document requires that one shareholder-nominated director is a member of the committee. The committee consists of a majority of independent non-executive directors.

The committee's responsibilities include:

- setting the overall Remuneration Policy for the company
- setting the conditions of employment, including levels of salary and pension arrangements for executive directors and senior management, but subject to our shareholder's consent being necessary to the remuneration (or material variation to the remuneration) of any executive director or employee whose salary is equal to or higher than the threshold set in Cabinet Office Senior Pay Approvals guidance
- recommending the level of remuneration of the non-executive directors to the Board, but subject to our shareholder's consent being necessary to the remuneration (or material variation to the remuneration) of any director
- ensuring the remuneration package for employees, and salary levels, are appropriately benchmarked
- undertaking an evaluation of its own performance
- setting our approach regarding executive directors and other appropriate senior employees accepting non-executive appointments outside the company.

During the year, the committee met five times and discussed the following matters:

- company performance 2021/22 including internal audit assessment
- company scorecard performance
- proposal for 2022/23 company scorecard
- proposals for in-year recognition awards
- amendments to Bonus Policy
- staff annual incentive scheme award proposals
- 2022/22 Senior Leadership Team annual incentive scheme award proposals
- CEO annual incentive scheme award and 2022/23 CEO objectives
- LCCC benefits review (including additional life-events and length-of-service benefits plus deep dive on life assurance and income protection)
- people policies overview (including hybrid working)
- succession planning – general staff overview, including staff turnover and retention
- Equity, Diversity and Inclusion Report, including gender and ethnicity pay gap
- pay flexibility, pay controls and pay review
- staff salary benchmarking and employee pay award proposal
- Senior Leadership Team salary review proposal
- Senior Leadership Team recruitment update
- overview – Board director and senior executive approvals process
- committee annual evaluation, including terms of reference.

The minutes of each meeting are circulated to the Board.

Directors and senior management remuneration

We obtained advice on remuneration for the executive directors and Senior Management Team in early 2022 from consulting firm, Korn Ferry. Korn Ferry is currently retained (as one of our panel of recruitment consultants) to help us recruit non-executive directors and senior executive staff. Korn Ferry has no other connection with the company.

No executive director is involved in deciding their own individual remuneration.

Public sector reporting bodies have a good-practice requirement to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. We have used an annualised figure to better reflect contractual salary. The annual remuneration of the highest-paid director is £307,152 (2021/22: £293,661).[24] In 2022/23, this is 5.1 times the median remuneration of the company's workforce (2021/22: 5.1) which is £60,227 (2021/22: £ 58,051).[25] No employees receive salary in excess of the highest-paid director.

Procedures for developing policy and determining remuneration

The committee is responsible for setting the compensation arrangements for the Board and the executive directors. It also sets the broad framework for employee remuneration and benefits. The committee has access to the information it needs, and has the authority to obtain the advice of external advisors.

The committee assesses where to position the company regarding remuneration matters relative to other companies and the requirements of our business and operations. The company undertakes an annual benchmarking of employee salaries.

The committee is required under its Framework Document to comply with rules relating to the level of director and staff remuneration. Our shareholder's consent is required for any increase in excess of the level specified in these rules.

24. The total remuneration figure includes salary, non-consolidated performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions, cash payments in lieu of pension contributions and the cash equivalent transfer value of pensions.

25. It should be noted that while the median calculation for 2022/23 includes all salary, performance bonuses and benefits payable to staff members, not all staff members will receive a bonus. The reason for this is that a number of staff members may not have been with the company for the qualifying period or may have given notice and are no longer employed prior to year-end. It is also true that staff who are not considered to have met performance requirements will not receive a bonus.

Remuneration report
(Continued)

Statement of Remuneration Policy
The Remuneration Policy is to:

- provide a compensation package to attract, motivate and retain high-quality employees in furthering the mission and strategy of the company
- assess remuneration relative to other arm's length bodies and other organisations (including in the private sector) engaged in functions or operations of similar size and complexity
- set the performance targets to incentivise and reward sustainable business performance while not encouraging inappropriate business risks to be taken.

A range of methods are used to ensure that the levels of compensation are appropriately benchmarked against external organisations.

Pay review
After carefully considering the performance of the executive directors and other staff, the range of salaries offered to other staff, and relevant market-reference points including inflation, the committee approved a general pay review increase of 5% effective from 1 April 2023, with the specific amount to be awarded depending on the company's Remuneration Policy and/or other approvals. We obtain the consent of our shareholder before implementing any increase that would be above the level specified in the Framework Document.

Executive directors
The remuneration of the executive directors (being the Chief Executive and Chief Financial Officer) has been designed to promote the long-term success of the company. Their respective earnings in the financial year consisted of: a base salary plus taxable benefits (for example, permanent health insurance, private medical cover (Chief Executive only) and life assurance); a defined contribution pension scheme; and an incentive bonus. The bonus links corporate and individual performance with an appropriate focus on delivery targets and the balance between short- and long-term elements. The committee, based on an assessment of individual and company performance towards key objectives, agreed a bonus for 2022/23 (paid in mid-2023/24) for the Chief Executive and the Chief Financial Officer. The details of these bonuses are set out below.

Neil McDermott (Chief Executive) and George Pitt (Chief Financial Officer) are the relevant executive directors for the period. Pension benefits disclosed relate to both employer contributions to personal pension schemes and cash paid in lieu of pension contributions in accordance with employment contract arrangements.

As performance-related incentive bonuses are only approved for payment and paid in the year following the year to which they relate, any bonus relating to 2022/23 is not paid until mid-2023/24. Such bonuses are £48,400 for Neil McDermott and £30,701 for George Pitt.

Non-executive director fees
Fees are payable to all non-executive directors, except the shareholder-nominated directors. The company provides services to ESC, and, for reasons of synergy, operational efficiency and cost effectiveness, the Board of directors of the company and ESC are identical. The fees paid to directors therefore relate to work for both companies. The fees are paid by the company, with the appropriate amount relating to ESC (generally 20%) being recovered under the 'recharge' arrangements described in note 2.5 to the financial statements.

Levels of remuneration for the remunerated independent non-executive directors reflect the time commitment and responsibilities of the role. They also reflect the advice on remuneration for directors and benchmarking information provided by Gatenby Sanderson for the appointment of the Chair and Senior Independent Director, and Korn Ferry for purposes of the remaining non-executive directors.

The shareholder-nominated (or 'governmental') directors are not paid by the company.

No director is involved in deciding their own remuneration.

Executive directors' remuneration (audited)

Name	2022–23 salary	2022–23 performance related pay (bonus)	2022–23 Ex-gratia/ special payment	2022—23 taxable benefits	2022–23 pension payments	2022–23 total
Neil McDermott	2022/23: £249,483 2021/22: £236,477	2022/23: £45,877 2021/22: £46,349	2022/23: nil 2021/22: nil	2022/23: £11,792 2021/22: £10,835	2022/23: £24,948 2021/22: £23,647	2022/23: £332,100 2021/22: £317,308
George Pitt	2022/23: £158,250 2021/22: £150,000	2022/23: £27,645 2021/22: £27,930	2022/23: £11,500 2021/22: nil	2022/23: £963 2021/22: £870	2022/23: £15,825 2021/22: £15,000	2022/23: £214,183 2021/22: £193,800

Non-executive directors' remuneration (audited)

Name	2022/23 fees[26, 26a]	Principal positions held elsewhere during 2022/23
Amanda Aldridge	£30,000 2021/22: £30,000	• ESC – non-executive director • Impact Healthcare REIT plc – non-executive director • The Brunner Investment Trust plc – non-executive director • The Letchworth Garden City Educational Trust (Formerly St Francis College Trust) – director and trustee
Declan Burke	£nil (shareholder nominated director – civil servant)	• DESNZ – director, Nuclear Projects & Development • ESC – non-executive director • British Nuclear Fuels Ltd – director • British Nuclear Group Ltd – director • BNFL (Investments US) Ltd – director
Regina Finn	£100,000 (including £12,000 relating to ESC) plus £443 in relation to expenses 2021/22: £100,000 (including £25,000 relating to ESC) plus £356 in relation to expenses	• Electricity Settlements Company Ltd – non-executive director • Places for People Group Ltd – non-executive director • Places for People Homes Ltd – non-executive director • Places for People Living + Ltd – non-executive director • Places for People Ventures Ltd – non-executive director • Places for People Ventures Operations Ltd – non-executive director • Lucerna Partners Ltd – director • Chorus Homes Group Ltd – non-executive director • Chorus Homes Ltd – non-executive director • Cotman Housing Association Ltd – non-executive director • Derwent Housing Association – non-executive director • Motor Fuel Group Ltd – non-executive director
George Pitt	N/A	• ESC – Chief Financial Officer and director • Pitt Consulting Ltd – director
Steph Hurst	£nil (shareholder nominated director – civil servant)	• DESNZ – Deputy Director, Energy Efficiency and Local Directorate • ESC – non-executive director
Neil McDermott	N/A	• ESC – Chief Executive and director
Chris Murray	£30,000 2021/22: £30,000	• ESC – non-executive director • APX3 Limited – director • LOROS Commercial Innovations Limited – director • LOROS (Leicestershire Hospice) – trustee • Water Resources Southeast – chair • MS Society – non-executive director
Maxine Mayhew	£35,000 plus £2,206 in relation to expenses 2021/22: £35,000	• ESC – non-executive director • Hopkinsons of Lymm Limited – director • Biffa Waste Services Limited – director • Biffa Municipal Limited – director • Biffa Environmental Municipal Service Limited – director • Company Shop Limited – director

26. This column shows the only form of remuneration that each non-executive director receives from LCCC. LCCC receives 12% of the directors' fees from ESC under its re-charge arrangements with ESC (other than in respect of Regina Finn where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

26a. The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC.

Remuneration report

(Continued)

Name	2022/23 fees[26, 26a]	Principal positions held elsewhere during 2022/23
Gerard McIlroy	£25,000 plus £5,738 in relation to expenses 2021/22: £25,000 plus £1,108 in relation to expenses	• ESC – non-executive director • WTL Holdings Ltd – director • West Transmission Limited – director • Moyle Energy Investments Ltd – director • West Transmission Financing plc – director • Moyle Interconnector Limited – director • Moyle Interconnector (Financing) plc – director • Moyle Holdings Limited – director • Mutual Energy Limited – director • Premier Transmission Limited – director • Premier Transmission Holdings Limited – director • Premier Transmission Financing plc – director • Interconnector Services (NI) Limited – director • Belfast Gas Transmission Limited – director • Belfast Gas Transmission Holdings Limited – director • Belfast Gas Transmission Financing plc – director • Northern Ireland Gas Transmission Holdings Limited • PRISMA European Capacity Platform GmbH – non-executive director
Helen Lamprell	£25,000 2021/22: £25,000	• ESC – non-executive director • Employers Initiative on Domestic Abuse – trustee • Aveva Solutions Ltd – Director • Aveva Group Plc – General Counsel and Co Sec

26. This column shows the only form of remuneration that each non-executive director receives from LCCC. LCCC receives 12% of the directors' fees from ESC under its re-charge arrangements with ESC (other than in respect of Regina Finn where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

26a. The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC.

Independent auditor's report

to the sole shareholder of Low Carbon Contracts Company Ltd

Opinion on financial statements

I have audited the financial statements of Low Carbon Contracts Company Ltd ("the company") for the year ended 31 March 2023 which comprise the company's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of the result for the year then ended;
- have been properly prepared in accordance with the UK adopted International Accounting Standards 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 (UK) (ISAs (UK)), applicable law and Practice Note 10 'Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I considered the threat to my independence arising from the Engagement Director's long association with the entity. This is the sixth year that the Engagement Director has directed the audit of the company as Senior Statutory Auditor. In consultation with others in the firm, I considered the significant accounting estimates and judgements relevant to the audit and noted our plans to engage external experts to support us on key matters. We considered the extent the risk was mitigated by this and determined additional review prior to audit completion, supervised by another Director, was required. This covered review of evidence obtained in respect of the company's significant estimates and judgements. I am satisfied that this safeguard was appropriate to mitigate the independence threat arising from long association. In all other respects 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.

Independent auditor's report

to the sole shareholder of Low Carbon Contracts Company Ltd (Continued)

Framework of Authorities	
Authorising legislation	• Energy Act 2013 • Companies Act 2006 • The Contracts for Difference (Counterparty Designation) Order 2014
Parliamentary authorities	• The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014
Shareholder, HM Treasury and related authorities	• Articles of Association • Framework Document between the Secretary of State for the Department for Energy Security and Net Zero and the company • Managing Public Money and Cabinet Office spending controls (to the extent they are applicable to the company)

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 directors' 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 levies it uses to fund operational and contracts for difference (CfD) scheme 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 minimal cash flow risk arising from the company's role as counterparty to CfDs as a result of the statutory 'pay when paid' mechanism; and
- there are options available to the company to mitigate forecast cashflow and funding shortfalls.

The assertions made by management are consistent with the findings of my review of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 and the company's framework agreement with the Department for Energy Security and Net Zero.

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 judgment, were 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 were 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.

This is not a complete list of all risks identified though the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls which I identified as a significant risk in accordance with the requirements of the ISAs (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 than the key audit matters reported. My work in this area has not identified any matters to report.

The key audit matters were discussed with the Audit, Risk and Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 63 to 64.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- Although not a key audit matter, I identified a new risk in relation to the company's payments to generators which had a risk of material misstatement due to the high value of the payments and the number of new generators in year following Allocation Round 4. My work in this area has not identified any matters to report.

Fair Value of Contracts for Difference

Description of risk

The company accounts for Contracts for Difference (CfDs) as financial instruments measured at fair value through profit or loss. As disclosed in note 21 to the financial statements:

- management has estimated the total (net) fair value of CfDs (excluding the Hinkley Point CFD) to be -£24,942 million at 31 March 2023. This includes 32 CfDs with a total estimated fair value of +£2,598 million that were assessed as having a positive fair value at the reporting date and 132 CfDs with a total estimated fair value of -£27,540 million that were assessed as having a negative fair value at the reporting date.
- the Statement of Financial Position recognises, as an asset or liability, the change in the assessed fair value of CfDs since their initial recognition (adjusted for the amortisation of the 'day one' deferred measurement difference and any payments to/from generators). Management has recognised financial liabilities and financial assets arising from CfDs (excluding the Hinkley Point C CfD) of -£10,834 million and +£6,130 million respectively at 31 March 2023.
- management has estimated the fair value of financial liabilities arising from the HPC CfD to be -£59,564 million at 31 March 2023, of which -£8,738 million has been recognised in the Statement of Financial Position as a change in the assessed fair value of the CfD since its initial recognition, with the remainder continuing to be deferred.

As disclosed in the notes to the financial statements:

- the company determines the fair value of CfDs using an income (discounted cash flow) approach that relies on significant unobservable inputs;
- key unobservable inputs include forecast electricity generation volumes and forecast wholesale electricity prices;
- the forecasting of wholesale electricity prices into the late 2030s (for CfDs excluding the HPC CfD) involves the making of assumptions with regards to: future electricity demand; future commodity prices; future government policy; and the development and deployment of electricity generation technologies;
- the HPC CfD duration is more than double (35 years) the length of other CfDs (typically 15 years) entered into by the company and includes judgemental elements around the future of nuclear energy generation in its valuation; and
- the company has applied an independent, industry recognised price series to the CfD valuations.

I have assessed the fair value measurement of the company's CfDs to be an area of significant risk for my audit based on materiality and due to: the sensitivity of the fair value estimate to input or calculation error; the degree of estimation uncertainty inherent in forecasting electricity generation volumes and wholesale electricity prices into the late 2030s (for CfDs excluding the HPC CfD) and into the 2060s (for the HPC CfD); and the subjectivity involved in selecting a wholesale electricity price forecast input that conforms to the principles of fair value.

The fair valuation estimate is particularly sensitive to certain inputs, one of which is the price series used to forecast future electricity prices. In previous years, the company used the Dynamic Dispatch Model (DDM) as produced by the Department for Energy Security and Net Zero. As disclosed in note 21.4.1, the company has this year used an independent, industry recognised price series as the DDM was not seen to provide a fair representation of prices as at 31 March 2023 to use in the CfD valuation.

The fair value estimate for the HPC CfD reflects the company's assumptions around future nuclear generation, specifically Sizewell C. In prior years, management's assumption was that a CfD (or equivalent) in relation to Sizewell C would not be entered into before the HPC reactor one start date and this was reflected in the HPC strike price. Due to events in year, management have revised this assumption and accordingly adjusted the HPC strike price.

The uncertainties inherent in determining the fair value of CfDs are further discussed in the disclosures made in notes 4 and 21 to the financial statements.

Independent auditor's report

to the sole shareholder of Low Carbon Contracts Company Ltd (Continued)

Fair Value of Contracts for Difference continued

How the scope of my audit responded to the risk	I assessed the company's controls over the valuation of CfDs; for example, over the governance in place around the valuation model. To gain substantive assurance over management's point estimates for the HPC CfD and for other CfDs I reviewed the appropriateness of the independent price series selected by management, including consideration of management bias in selecting the price series. To support this I: • consulted with independent industry experts; • assessed the reasonableness of the future electricity volume and future market price inputs used by management and considered the plausibility of possible alternatives. In doing so, I considered the principles of fair value, which include the concept of an exit price for the asset or liability being valued, and wherever possible based my auditor's range on data sources which would be consulted by counterparties in a theoretical exit transaction (for instance, by using forecast wholesale electricity price series from reputable third-party industry forecasters); and • obtained evidence of the reasonableness of other valuation inputs. **Key observations** For the first time at 31 March 2023: • there are CfDs with a positive fair value which are collectively material to the financial statements; and • there are CfDs for which there has been a positive movement in the assessed fair value since initial recognition, which are collectively material to the financial statements. Additionally, during the year to 31 March 2023: • management concluded that the electricity price forecasts produced by the DDM model (which had previously been used as a input to management's fair value assessment) were no longer a fair representation of market views. For the first time, management therefore chose to value CfDs using an independent industry recognised price series; and • management changed its assessment of the likelihood of the Sizewell C clause within the HPC CfD contract being triggered. I am satisfied that these developments have been appropriately disclosed in the notes to the financial statements. I am content, following my review of the assumptions underpinning the balances and disclosures for the CfDs, that management has made a reasonable estimate and presented it appropriately.

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:

	Overall financial statement materiality	Lower materiality threshold for account balances and transaction streams not connected to the valuation of the Contracts for Difference and to support my opinion on regularity
Materiality	£1,000 million	£26 million
Basis for determining materiality	Materiality is equivalent to approximately 0.75% of the total estimated value of CfDs at the reporting date. I consider that a threshold of up to 2% may be acceptable to the users of the accounts, however, in the wider context of day one losses, and the precision that users would expect due to the impact of the deferral of 'day one' losses which results in amounts less than the total estimated fair value being recognised on the company balance sheet. In my professional judgement, the users of the financial statements could reasonably expect a precision of at least +/- £1 billion on the balances recorded in the primary statements.	Approximately 2% of the combined value of gross operating expenditure and payments to CfD generators.
Rationale for the benchmark applied	I chose this benchmark because I consider it to be of principal interest to users of the financial statements as one of the company's primary objectives is to manage CfDs.	I determined that for financial statement components unconnected with the valuation of CfDs, misstatements of a lesser amount than overall financial statement materiality could influence the decisions of users of the accounts.

Independent auditor's report

to the sole shareholder of Low Carbon Contracts Company Ltd (Continued)

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 2022-23 audit (2021-22: 75%). In determining performance materiality, I have considered the low level of uncorrected misstatements identified in the previous period.

Other materiality considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs 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 to support my opinion on regularity and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error reporting threshold

I agreed with the Audit, Risk and 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. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit, Risk and Assurance Committee would have increased net liabilities by £635.96m if they were adjusted for.

Audit scope

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

Other information

The other information comprises the information included in the Annual Report, but does not include 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.

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 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 Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements; and
- 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
- 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 my 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
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company.

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 the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified [set out on page 58];
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate [set out on page 48];
- Directors' statement on fair, balanced and understandable [set out on page 59];
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out on page 67];
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems [set out on page 67]; and
- The section describing the work of the Audit, Risk and Assurance Committee [set out on pages 63 to 64].

Responsibilities of the directors for the financial statements

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

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the company from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of the financial statements to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, which includes the Remuneration Report, in accordance with the Companies Act 2006; and
- 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.

Independent auditor's report

to the sole shareholder of Low Carbon Contracts Company Ltd (Continued)

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the applicable law and International Standards on Auditing (UK) (ISAs (UK)).

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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance, including the design of the company's accounting policies,
- inquired of management, the company's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the company's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - 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 company's compliance with the Companies Act 2006, Managing Public Money, the Energy Act 2013, the Contracts for Difference (Counterparty Designation) order 2014 and the Contracts for Difference (Energy Supplier Obligations) Regulations 2014;
- inquired of management, the company's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the company for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the company's framework of authority and other legal and regulatory frameworks in which the company operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in 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, the Energy Act 2013, the Contracts for Difference (Counterparty Designation) order 2014 and the Contracts for Difference (Energy Supplier Obligations) Regulations 2014 and employment law and/or tax legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit, Risk and Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members 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.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

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 I identify during my audit.

Susan Clark

Susan Clark
Senior Statutory Auditor
~~12~~ July 2023
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For and on behalf of the
Comptroller and Auditor General
(Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
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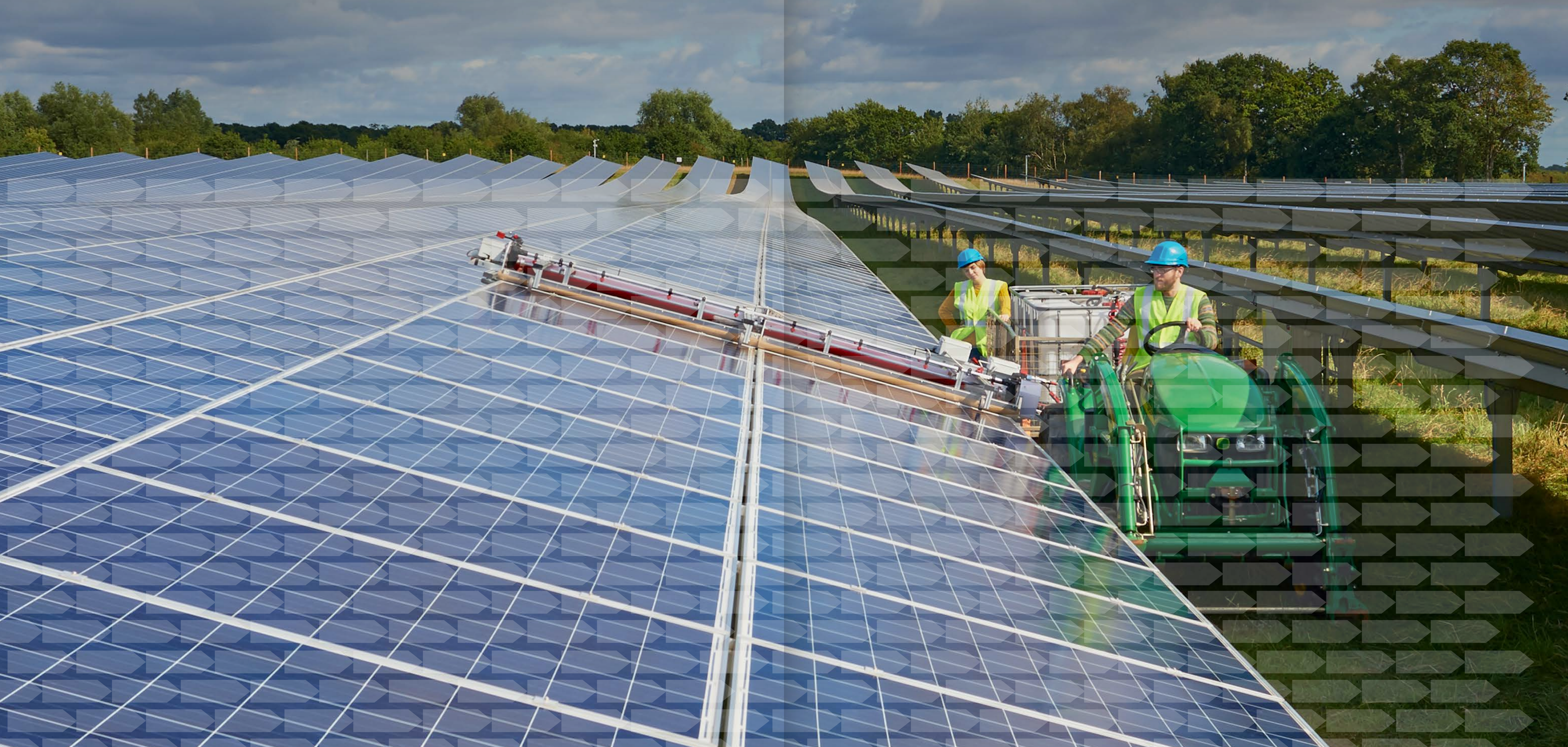
SW1W 9SP

Financial statements and notes to the accounts



Statement of comprehensive income
for the year ended 31 March

	Note	2023 £'000	2022 £'000
Other income	6	18,713	15,654
Supplier Obligation Levy	22	(13,490,767)	10,286,084
Fair value movement of CfDs	21	13,490,767	(10,286,084)
Staff costs	7	(10,245)	(7,402)
Depreciation	9, 10	(287)	(283)
Amortisation	11	(60)	(140)
Other operating costs	8	(8,121)	(7,829)
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 88 to 109 form part of these accounts.

Statement of financial position
for the year ended 31 March

	Note	2023 £'000	2022 £'000
Non-current assets			
Property, plant and equipment	9	195	162
Right-of-use assets	10	1,930	2,138
Intangible assets	11	619	188
Contracts for Difference	21	6,130,441	–
Supplier Obligation Levy	22	13,440,833	26,948,043
Total non-current assets		**19,574,018**	**26,950,531**
Current assets			
Operational costs levy receivable		1,957	1,967
Supplier Obligation Levy receivable	12	249,291	118,330
Trade and other receivables	13	2,269	503
Cash and cash equivalents	14	334,717	430,385
Total current assets		**588,233**	**551,185**
Total assets		**20,162,252**	**27,501,716**
Current liabilities			
Operational costs levy payable		(9,187)	(11,174)
Supplier Obligation Levy and generator payments payable	15	(527,231)	(523,051)
Trade and other payables	16	(51,754)	(16,910)
Loans and borrowings	17	(211)	(95)
Lease liabilities		(157)	(276)
Provisions		–	–
Total current liabilities		**(588,540)**	**(551,506)**
Non-current liabilities			
Contracts for Difference	21	(19,571,274)	(26,948,043)
Trade and other payables	16	–	–
Loans and borrowings	17	(573)	(165)
Lease liabilities		(1,740)	(1,878)
Provisions		(125)	(125)
Total non-current liabilities		**(19,573,712)**	**(26,950,210)**
Total liabilities		**(20,162,252)**	**(27,501,716)**
Net assets		–	–
Shareholders' equity and other reserves			
Share capital	18	–	–
Retained earnings		–	–
Total equity		–	–

The notes on pages 88 to 109 form part of these accounts.
The financial statements were approved by the Board of directors on 12 July 2023 and signed on its behalf on 12 July 2023 by:

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 2020	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2021	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2022	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2023	–	–	–

As at 31 March 2023 the company has one authorised ordinary share, issued and fully paid.

The notes on pages 88 to 109 form part of these accounts.

Statement of cash flows

for the year ended 31 March

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Profit for the year		–	–
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	9, 10	287	283
Loss on disposal of property, plant and equipment		65	31
Amortisation of intangible assets	11	60	140
Amortisation of government grant liability		–	–
Reversal of dilapidation provision		–	(67)
Working capital adjustments:			
Decrease/(increase) in operational costs levy receivable		10	(413)
Decrease/(increase) in Supplier Obligation Levy receivable	12	(130,961)	36,036
Increase in trade and other receivables		(1,766)	(95)
(Decrease)/increase in operational costs levy payable		(1,987)	9,674
Increase in Supplier Obligation Levy and generators payments payable	15	4,180	214,991
Increase in trade and other payables	16	34,843	(21,940)
Net cash inflow from operating activities		**(95,268)**	**238,640**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(176)	(143)
Purchase of intangible assets	10	(490)	(81)
Net cash outflow from investing activities		**(667)**	**(224)**
Cash flows from financing activities			
Proceeds from loans and borrowings	17	665	–
Repayment of loans and borrowings	17	(141)	(75,112)
Repayment of lease liabilities		(257)	(164)
Net cash inflow/(outflow) from financing activities		**267**	**(75,276)**
Net (decrease)/increase in cash and cash equivalents in the year		**(95,668)**	**163,140**
Cash and cash equivalents at the beginning of the year		430,385	267,245
Cash and cash equivalents at the end of the year	**14**	**334,717**	**430,385**

The notes on pages 88 to 109 form part of these accounts.

Notes to the financial statements

for the year ended 31 March 2023

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the "company'') for the year ended 31 March 2023 were approved and authorised for issue in accordance with a resolution of the Board on 12 July 2023.

The company is a company limited by shares, incorporated and domiciled in the UK. The company's registered office is at 10 South Colonnade, London, E14 4PU. 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. During the year there was a reorganisation of Government departments, with the Department of Energy Security and Net Zero (DESNZ) formed, among others. For this financial year accounting is being undertaken under the old structure, and thus BEIS is referred to below. Going forward the shareholder will be the Secretary of State for Energy Security and Net Zero.

1.1 Principal activities

The company has been established to act as the counterparty for Contracts for Difference (CfDs). In the financial year, the company has undertaken advisory and implementation work on Industrial Carbon Capture (ICC), Hydrogen, Direct Power Agreement (DPA) and Bioenergy with Carbon Capture and Storage (BECCS) and been confirmed as the revenue collection counterparty for the Government's nuclear Regulated Asset Base model (RAB).The company will also undertake such other activities that the Board considers to be consistent with the company's functions, duties, obligations and constitution.

The company and Electricity Settlements Company Ltd (ESC) currently share a number of common resources to minimise overall costs, but they remain legally separate entities. At present all administrative functions of ESC are provided by the company, with the cost of these functions being recovered by the company through a recharge to ESC (note 2.5).

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 Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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 operational costs levy and the Supplier Obligation Levy;

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

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

The day-to-day operational costs of the company are funded by electricity suppliers, as outlined below, under the operational costs levy which is set by the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended) and referred to hereafter as the "Regulations".

The operational costs levy is reset by new amending Regulations and has currently been set for the next two years (to March 2025). In the absence of new regulation, the levy would continue at the same amount as the most recent regulation enabling the company to continue operating.

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 operational costs levy against its requirements, request BEIS to support an in-year adjustment to the applicable operational costs levy rate. Such an adjustment would be subject to public consultation and the making of new regulations in accordance with the same process that applies to the setting of the operational costs levy. The company can also request a working capital loan from BEIS if there is a shortfall in its operating cash flow.

Payments to CfD generators are funded by suppliers under the Regulations. The terms of the CfD state that the company's obligation is to pay when paid (i.e., the company has no obligation to pay the generators until it receives adequate funds from suppliers to perform its obligation).

LCCC's responsibilities have extended into new schemes, with these operational and capital costs being funded by non-repayable grants from BEIS. These schemes are currently in advisory and implementation phase and with no settlements in the financial year.

2.3 Operational costs levy income

Under the Regulations, the company is entitled to recover its operational costs through the operational costs levy (for delivering CfD schemes) on suppliers referred to above. The levy rate charged is based on the company's budget and the total forecast electricity demand for the financial year. The rate set for the 2022/23 operational costs levy was £0.0879/MWh and was apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2022 to 31 March 2023. The operational cost levy has also been set for the following two years, for 2023/24 at £0.0994/MWh and for 2024/25 at £0.1089/MWh.

As the levy rate is based on estimates of the company's expenses for the financial year and on the estimated overall amount of electricity supplied over the levy year, the amount collected is unlikely to match actual expenditure. As set out in the Regulations, any surplus at the end of the financial year will be reimbursed to suppliers and is classified as an operational costs levy payable under current liabilities. The refund is made as soon as practicable in the following financial year.

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

LCCC continues to apply its accounting policy which follows the IFRS Conceptual Framework for Financial Reporting. The levy is recognised on an accrued basis and is driven by the recognition of operational expenditure. The levy is collected alongside the principal Supplier Obligation Levy (relating to payments to CfD generators) in the same daily invoice using the same settlement systems. The company's settlement service provider, EMR Settlement Limited (EMRS), administers the collection process.

2.4 Total Reserve Amount and Interim Levy Rate payment

As required by the Regulations, the company collects Supplier Obligation Levy payments from electricity suppliers which comprise two key elements:

a) an Interim Levy Rate, charged on a daily basis at a fixed £/MWh rate on electricity supplied each day across each levy quarter; and

b) a Total Reserve Amount which is a lump sum 'reserve' payment made in respect of each levy quarter at the start of the quarter.

The Total Reserve Amount is the amount the company determines is needed for there to be a 19 in 20 (i.e. 95%) probability of being able to make all the CfD generation payments required during that quarter, having regard to:

a) the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter;

b) the likelihood of any supplier failing to make payments during the quarter;

c) the estimated income to be received by the company from CfD generators in the quarter;

d) the estimated amount of electricity to be supplied by suppliers in the quarter; and

e) the estimated amount the company will need in the quarter to pay CfD generators.

At the end of every quarterly levy period, the company undertakes a reconciliation of suppliers' payments (i.e. Total Reserve Amount and Interim Levy Rate payment) against suppliers' CfD liabilities. The amount of the reconciliation payment to be paid to, or by, a supplier in respect of the quarter is:

a) the total amount payable to the generators, less

b) the Total Reserve Amount and Interim Levy Rate payment for that period.

Reconciliation payments become due five days after the reconciliation notice is issued, on the same day as the next quarter's Total Reserve Amount becomes due.

If electricity prices are such that there is an aggregate amount expected to be paid from generators such that LCCC will have sufficient funds during the quarter, then the Interim Levy Rate is set to zero and funds returned to suppliers during the quarterly reconciliation.

The Interim Levy Rate (£/MWh) is set quarterly and is based on the forecast of the amount expected to be paid to CfD parties in respect of the quarter under every CfD or connected agreement to which the company is, or is likely to become, a party to during the relevant quarter, having regard to the:

a) estimated payments that the company will need to make to CfD generators in respect to generation during the quarter.

b) estimated income expected to be received by the company from CfD generators in respect of the quarter; and

c) estimated amount of electricity to be supplied by suppliers during the quarter.

One of the key factors relating to the collection and recognition of levy payments from suppliers is the date of expected generation of low carbon electricity which will result in the company's payment to generators under the CfDs (see note 2.19 for the recognition of Total Reserve Amount and Interim Levy Rate).

As the levy payments made by suppliers to the company are in advance of the required payments by the company to generators, the company's liability is only to "pay when paid" and additionally 21 days of collateral cover is also required from suppliers, and therefore the credit and liquidity risks are minimal.

2.5 Recharges

ESC is a sister company, also owned by the Secretary of State for Business, Energy and Industrial Strategy, which is responsible for managing the Capacity Market settlement process. In order to maximise operational cost efficiency, the company provides certain services to ESC 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 includes costs incurred on those activities which allow ESC to perform its functions in relation to the Capacity Market. Shared overheads are allocated across all schemes for which the company is responsible for.

This recharge is based on an estimate of the time the company's employees will spend on ESC activities during the relevant financial year, together with an appropriate allocation of overhead costs (including rent, service charges, IT infrastructure support and telephony) 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. The company undertakes these activities on behalf of ESC and the ESC Board retains responsibility and accountability for the quality and cost of services provided by the company.

The company and ESC are part of the same VAT group, therefore no VAT is charged on recharge income. 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.

2.6 Government grants

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

2.7 Financial assets

2.7.1 Classification

Financial assets are classified and measured at amortised cost with the exception of financial assets arising from CfD financial instruments (see note 2.9.11).

2.7.2 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.

Notes to the financial statements

for the year ended 31 March 2023 (Continued)

2.7.3 Impairment of financial assets

2.7.3.1 Assets carried at amortised cost

Trade and other receivables at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months' expected credit losses.

2.7.4 Cash and cash equivalents

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

2.8 Determination of fair value of financial instruments

The fair values of financial instruments that are not traded in an active market are determined using appropriate valuation techniques. The company uses judgement to select a variety of methods and makes assumptions that are mainly based on market conditions at the end of each reporting period.

The company's policy is to recognise transfers into and out of fair value hierarchy levels at the end of each reporting period as follows:

Level 1 – quoted active market prices at the end of each reporting period;

Level 2 – inputs other than quoted market prices which maximise the use of observable market data;

Level 3 – if one or more of the significant inputs is not based upon observable market data.

2.9 Recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and 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.

Financial assets arising from financial instruments are classified, at initial recognition, as financial assets at fair value through profit or loss.

2.9.1 Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

2.9.1.1 Financial liabilities (and assets) at fair value through profit or loss (FVTPL)

Financial liabilities (and assets) at fair value through profit or loss include financial liabilities (and assets) designated upon initial recognition (i.e., when the company becomes party to the contract and the recognition criteria is met, or at a later date if the recognition criteria is subsequently met) as at fair value through profit or loss.

Financial liabilities (and assets) designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition and only if the criteria in IFRS 9 are satisfied. The company has designated CfDs at fair value through profit or loss.

Contracts for Difference (CfDs)

CfDs are a mechanism introduced to support new investment in low carbon generation. They have been established as private law contracts between the generator and the company.

CfDs have been designated as FVTPL and are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

The fair value of the CfDs has been calculated using the income approach based on level 3 inputs, which reflects the present value of future cash flows that are expected to occur over the contract term of the CfD. To calculate future cash flows, the company makes its best estimate of the payments which it will be committed to make, if and when the generators supply low carbon electricity in accordance with the contractual terms of the CfD. The company does this by selecting the discounted cash flow model, and also applying inputs and assumptions, to obtain a reliable estimate of future electricity prices which the company concludes results in the fair value measurement. The fair value measurement reflects what a market participant would take into account when establishing the price, and assumes an orderly transaction between market participants, at the measurement date.

The difference between the fair value of the CfD financial instrument at initial recognition (day one) and the transaction price, is deferred unless the calculation can be based on observable inputs which at this point in time is not the case for CfDs.

The deferred difference between the fair value of the CfD financial instrument on day one and the transaction price is amortised over the relevant payment period of the CfDs, which commences from the earlier of i) the actual start date of generation or ii) the end of the Target Commissioning Window (TCW) identified in the CfD, as this is the point at which the contractual liability will start to unwind (i.e. it is the point at which the potential payment period under the CfD commences).

The significance of these two dates is that they are the part of the contractual provisions which determine when the right to potential CfD payments starts. The contract payment period is typically for 15 years, although contracts relating to biomass conversion have an expiration date in 2027 and the bespoke Hinkley Point C contract has a contract payment period of 35 years. CfDs may be signed many years in advance of actual generation. The main benefit to generators is the fact that they can derive economic value from these contracts over the payment period life of the contract.

Typically, if generators start generating within their TCW (which is specified in the contract) then the generation period starts from the date of generation and, subject to all conditions being met, the generator can extract benefit for the full term of the contract. If generators miss the end of their TCW (and it is not extended under the terms of the contract) then the payment life period commences at the end of their TCW even if the generator is not in a position to generate. If the generator does not achieve the required minimum generation capacity by the contractual Longstop Date, the company has a right to terminate the CfD.

After initial recognition, the company recognises the deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Changes in fair value arising after day one are recognised in the reporting period that they occur and are accounted for in the statement of comprehensive income and in the statement of financial position as they arise.

CfDs which were initially signed by the Secretary of State and subsequently transferred to the company have been recognised at BEIS's CfD carrying value at the date of transfer. Any day one difference is calculated at the point the CfD was signed by the Secretary of State and is treated in line with company policy as stated above. Subsequent revaluations of these contracts will also be treated in line with company policy.

2.9.1.2 Other financial liabilities

After initial recognition, loans and borrowings 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.

2.9.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.10 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. The company's capitalisation threshold for property, plant and equipment is £2,000, except for laptops (which are all capitalised irrespective of value) or where an individual asset is part of a group of assets that in aggregate exceed £2,000.

Property, plant and equipment are depreciated at rates calculated to write them down to their estimated residual value on a straight line basis over their estimated useful lives. The depreciation expense is charged to the statement of comprehensive income.

Assets are depreciated over the following periods:

	Years
Leasehold improvements	5
IT equipment	3
Furniture and fittings	10

Right-of-use assets are depreciated or 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 depreciation or amortisation starts at the commencement date of the lease.

Right-of-use assets classified as property, plant and equipment are depreciated over the following periods:

	Months
Office building and related facilities	131

Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.11 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 impairment losses, if any.

Intangible assets have finite lives and are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are 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.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

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

2.12 Leases

2.12.1 Company as a lessee

At the 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.

2.12.2 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.

2.12.3 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.

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 2.13.

Notes to the financial statements

for the year ended 31 March 2023 (Continued)

2.13 Impairment of non-financial assets

Intangible assets are only subject to amortisation to the extent that they are available for use. Intangible 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 property, plant and equipment, right-of-use assets and 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.

2.14 Staff costs

Under IAS 19, 'Employee Benefits', all staff costs are recorded as an expense as the company is obligated to pay them; this includes the cost of any untaken leave as at the reporting date.

2.15 Pensions

The company operates a defined contribution personal pension scheme for eligible employees. Under the defined contribution scheme, the company pays fixed contributions into a fund separate from the company's assets. Contributions are charged in the statement of comprehensive income when they become payable.

2.16 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.

As of 31 March 2023, the company has only one provision, which is for dilapidation. The dilapidation provision relates to a future liability for dilapidation costs for its leased premises at 10 South Colonnade. The company is required, at the expiry of the lease term, to return the premises to their previous state and condition, including removing any furniture and fittings installed by the company. In accordance with IAS 37 a provision has been created for the relevant estimated future costs. However, due to the immaterial impact of discounting over the lease period, discounting has not been applied.

2.17 Segmental reporting

The company operates solely within the UK and within one business s egment; 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.

2.18 Loans and borrowings

Loans and borrowings represent a short-term unsecured loan and a grant in aid capital loan from BEIS. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs, if any) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the EIR method.

The grant in aid capital loan from BEIS is repayable in line with the depreciation/amortisation over the useful life of the relevant asset. The loans are interest free and recognised under borrowings. The benefit of a below market rate of interest on the loans, if material, is recognised in the statement of comprehensive income over the period of the loan.

2.19 Supplier Obligation Levy recognition

The statement of financial position reflects three separately reported elements of the Supplier Obligation Levy which are as follows:

(i) Supplier Obligation Levy (reported as a non-current asset i.e. receivable in more than one year);

(ii) Supplier Obligation Levy receivable (reported as a current asset i.e. receivable in less than one year); and

(iii) Supplier Obligation Levy payable (reported as a current liability i.e. payable within one year).

Supplier Obligation Levy balances are not treated as financial assets or liabilities as they arise from statutory provisions, rather than contractual. Each of the separately reported elements is described in more detail below.

2.19.1 Supplier Obligation Levy

The Supplier Obligation Levy, reported as a non-current asset, is recognised in the statement of financial position to reflect the company's right to benefit from the obligations of electricity suppliers under the Regulations to make payments to the company in order for the company to then settle the related CfDs. The other side of this asset entry is recognised as "other income" and is classified as Supplier Obligation Levy in the statement of comprehensive income. This receivable is measured as equal and opposite to the CfD fair value movement recognised in the statement of financial position as a noncurrent liability under the heading 'Contracts for Difference' (the corresponding entry to the CfD fair value movement also being to the statement of comprehensive income). Where CfDs are in a net asset position, the Supplier Obligation Levy is recognised as a non-current liability. This results in the company's statement of comprehensive income remaining neutral to the impact of the CfD valuation movements and remaining consistent with the company's role as defined by the Regulations.

2.19.2 Supplier Obligation Levy receivable

The Supplier Obligation Levy receivable reported as a current asset is recognised in the statement of financial position to reflect the actual amount of Interim Levy Rate and Total Reserve Amount payments owed by suppliers at the reporting date, in respect of the levies for those quarterly obligation periods which have been set up to the reporting date.

2.19.3 Supplier Obligation Levy payable

The Supplier Obligation Levy payable, reported as a current liability, is recognised in the statement of financial position to reflect the actual amounts owed to suppliers in respect of over-collection of the Interim Levy Rate and Total Reserve Amount at the reporting date. This situation occurs where the estimated payments to be made by suppliers under the Regulations in respect of the Interim Levy Rate and Total Reserve Amount are reconciled to the actual payments which should have been made by suppliers and a difference arises. The over-collection will be returned to suppliers through issuing a credit note after the reporting date which will then be used to offset any subsequent collection of the Total Reserve Amount for future quarterly obligation periods. To the extent that the subsequent quarterly payments owed by suppliers are below the level of the credit note issued, then a cash refund will be made by the company.

2.19.4 Generators payments payable

The generators payments payable is the amount owed to the electricity generators in response to the supply of low carbon electricity in accordance with CfDs and is classified under current liabilities in the statement of financial position.

3. Financial risk management

3.1 Financial risk management and financial risk factors

CfDs potentially expose the company to a variety of financial risks: market risk, credit risk and liquidity risk. However, in practice the financial risk is minimal given the Supplier Obligation Levy funding arrangements with licensed suppliers (described above and set out in more detail below) and short term financial support from BEIS if required.

3.1.1 Credit and liquidity risk

The company is not exposed to credit and liquidity risk due to the funding arrangements under the legislation i.e., the company has no obligation to pay the generators until it receives adequate funds from suppliers to perform its obligations.

3.1.2 Market risk

Market risk is the risk that the fair value of future cash flows of the CfDs will fluctuate because of changes in market prices. Market risk comprises three types of risk:

(a) price risk;

(b) inflation risk; and

(c) interest rate risk.

i. Price risk

Amounts payable under CfDs are exposed to price risk through the fluctuation in future wholesale electricity prices, specifically, on how such prices will differ in the future from the prices used to fair value the liability. However, the company is not financially exposed to this risk because the liability is funded through a levy on suppliers.

ii. Inflation risk

Amounts payable under CfDs are affected by the indexation of strike prices to reflect actual inflation. As such, inflation risk arises from the impact of change in indexation on the Interim Levy Rate determined by the Supplier Obligation Forecasting Model (SOFM) and in the actual contracts. Inflation rates are not continuing at the relatively low levels experienced in recent years. However, the company is not financially exposed to this risk because the liability is funded through a levy on suppliers.

iii. Interest rate risk

The company does not have any interest bearing borrowings that are subject to interest rate risk.

3.1.3 Maturity profiles

Maturities of finance liabilities are provided in the following table:

	<1 year £'000	2–5 years £'000	>5 years £'000	Total £'000
As at 31 March 2022				
Contracts for Difference	(3,904,008)	2,639,331	28,212,719	26,948,042
Trade and other payables	16,698	–	–	16,698
Loans and borrowings	95	165	–	260
Lease liabilities	276	1,878	–	2,154
Total	**(3,886,939)**	**2,641,374**	**28,212,719**	**26,967,154**
As at 31 March 2023				
Contracts for Difference	(178,429)	1,252,113	18,497,590	19,571,274
Trade and other payables	51	–	–	51
Loans and borrowings	211	428	145	784
Lease liabilities	157	536	1,204	1,897
Total	**(178,010)**	**1,253,077**	**18.498,939**	**19,574,006**

Contracts for Difference amounts are based on the carrying values of CfD financial liabilities. Note 21 provides disclosures relating to the fair value of the CfDs.

Notes to the financial statements

for the year ended 31 March 2023 (Continued)

4. Critical 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 the 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 key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. 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 Valuation of CfD liabilities and assets

The fair value of the unquoted CfD contracts is calculated using the income approach (discounted cash flow model) and represents the company's best estimate of the payments which the company will be committed to make or payments receivable from generators, if and when the generators supply low carbon electricity in accordance with their contractual terms. Annual cash flow is estimated as strike price minus forecast reference price, multiplied by estimated eligible generation volume. The series of periodic net operating expense is then discounted using a real discount rate based on the HM Treasury nominal rate of 1.9% adjusted the latest OBR CPI inflation forecasts for each modelled year.

The valuation requires management to make certain assumptions about the model inputs, including cash flows, the discount rate, credit risk and volatility. Significant inputs are disclosed in note 21.

One of the key inputs into the cash flow model is the estimate of future electricity prices which is derived by applying certain inputs and assumptions such as overall electricity demand, commodity prices, carbon prices, government policy, technology, and deployment of new generating capacity. Most commercial and public sector modelling of the electricity system for long term forecasting takes a very similar approach, but the detailed assumptions and methodology may differ. Given the complexity, range of possible inputs, and long-term nature of the modelling, and also to some extent the iterative relationship between the expectations of overall system cost and long-term demand (especially industrial demand), long-term system forecasts are not generally seen as a single "most likely" outcome with degrees of uncertainty either side. In fact, there are multiple sets of inputs that are internally consistent, and credible. Often a set of these inputs will be used as a "scenario," and multiple deliberately different scenarios are used to illustrate different possible futures when undertaking long-term forecasting. The range of uncertainty can be significant when forecasting (as illustrated in note 21.5) but does not necessarily mean that an individual scenario is not reasonable. Previously, the company has used the DDM model for the CfD valuation, however, following review against current independent industry recognised price series, management determined that the available DDM series did not provide a fair representation of prices at 31 March 2023 to use in the CfD valuation. Accordingly, the company has used an independent industry recognised price series for the CfD valuation at 31 March 2023. The independent industry recognised price series applied was not an outlier of other industry recognised price series.

4.2 Significant judgement

4.2.1 Fair value measurement of Hinkley Point C CfD

The company entered into the Hinkley Point C CfD on 29 September 2016. This project has a maximum lifetime generation cap of 910,000,000MWh. The contract will expire at the earlier of 35 years after the start date of the second reactor or when the total CfD payments made have reached the generation cap.

The Hinkley Point C CfD duration is more than double (35 years) the length of other CfDs (15 years) entered into by the company. At the date the company entered into the Hinkley Point C CfD, commercial and public sector modelling of the electricity system did not extend out beyond 2040, and the company concluded that the CfD did not meet the IFRS recognition criteria on the grounds that it was not possible to provide a single reliable fair value estimate for Hinkley Point C CfD. By 2019-20, the availability of long term price forecasts had improved to the extent that it was then able to recognise the Hinkley Point C CfD in a similar manner to other CfDs.

4.2.2 Deferral of differences between fair value and transaction price for CfDs

The fair value of the CfDs, disclosed in note 21, is derived at initial recognition based on the valuation technique that uses data other than from observable sources. In accordance with IFRS 9, the measurement of CfDs in the statement of financial position therefore includes an adjustment to defer the difference between the fair value at initial recognition and the transaction price of nil.

Management believes it is reasonable to amortise the difference between the fair value at initial recognition and the transaction price over the same period as the actual contract life reflects the obligation under the contract to make payments and the right to receive monies from suppliers to make those payments. Financial instrument standards require the "deferred difference" to be recognised only to the extent that it arises from a change in factor (including time) that market participants would take into account.

4.2.3 Supplier Obligation Levy

The accounting treatment of CfDs as a financial instrument would result in a charge to/income in the statement of comprehensive income in subsequent periods due to the amortisation of the day one deferred difference, between the fair value of the liability/asset and the transaction price, and the movement in fair value of the CfDs.

In substance, the Supplier Obligation Levy and the CfD obligation to make payments to generators are linked transactions. The company's reason for existence is to facilitate the settlement of CfDs to generate low carbon electricity with funding raised via the Supplier Obligation Levy.

The company's right to receive payments is laid out in the statutory obligations on licensed electricity suppliers as outlined in the Regulations. The company can only make payments related to the CfDs once it has received sufficient funding through the Supplier Obligation Levy. Therefore, any payments related to the CfDs are covered through the Supplier Obligation Levy.

However, there is a timing difference between the point at which changes in the fair value of the CfDs liability are recognised in the financial statements and the point at which the related obligations give rise to mature levy obligations under the Regulations.

The timing difference is analogous to the timing differences discussed in IAS 12 (Income Taxes). It is highly probable that the company will receive future funding to pay for the CfDs through the Supplier Obligation Levy and management believe it is appropriate to recognise an asset for the timing difference. Therefore, a Supplier Obligation Levy non-current asset is recognised in the statement of financial position to match the timing difference with a corresponding entry in the statement of comprehensive income. For the purposes of fair presentation, this recognition is capped at the amount at which the CfDs are measured in the statement of financial position. This would result in the company's statement of comprehensive income remaining neutral to the impact of the CfD valuation movements and remaining consistent with the company's role as defined by the Regulations.

A different treatment is taken by BEIS in its accounts because it uses the adaptations in the Financial Reporting Manual which prevent the recognition of any assets related to taxes payable to the Consolidated Fund, generally taken to extend to taxes and levies more generally. The company applies IFRS in full so as to comply with the Companies Act 2006 so the directors have not applied this adaptation.

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 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 following amendments are effective for the period beginning 1 January 2024:

- Amendments to IFRS 17 Insurance contracts Requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds.

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.

Notes to the financial statements
for the year ended 31 March 2023 (Continued)

6. Other income
The following is an analysis of the company's other income from continuing operations:

	2023 £'000	2022 £'000
Operational costs levy income	23,153	21,018
Less: expected refund to suppliers	(9,187)	(11,174)
Net operational costs levy income	**13,966**	**9,844**
Grant income	2,988	–
Settlement of a dispute	–	2,800
Recharges to ESC (refer to note 19)	1,748	2,793
Recharges to BEIS (refer to note 19)	72	192
Amortisation of deferred government grant liability	–	–
Miscellaneous income	(61)	25
Other income	**18,713**	**15,654**

Grant income relates to Government Grant received to fund advisory and implementation work on Industrial Decarbonisation and Hydrogen Revenue Support Scheme (IDHRS) Business model (Industrial Carbon Capture and Storage and Blue/Green Hydrogen). The grant is non-repayable and recognised in the Statement of Changes in Income to match against costs incurred.

7. Staff costs

	2023 £'000	2022 £'000
Wages and salaries	8,342	6,215
Social security costs	964	683
Agency and contracted staff costs	321	37
Defined contribution pension plans	618	467
Staff costs	**10,245**	**7,402**

The average number of staff employed by the company (including executive directors):

	2023 Number	2022 Number
Permanent staff	107	82
Agency and contracted staff	10	10
Total	**117**	**92**

Special payments totaling £20k were made to two employees during the year.

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report on pages 69 to 72.

8. Other operating costs

	2023 £'000	2022 £'000
Operational settlement costs	3,018	3,453
Legal, professional and consultancy	2,075	2,386
IT support, telephony and maintenance	1,252	671
Insurance	556	464
Premises costs	362	292
Miscellaneous costs	668	430
Auditor's remuneration	190	133
Other operating costs	**8,121**	**7,829**

Auditor's remuneration represents audit fees of £159k (2022: £111k) excluding VAT. The fees shown in the table above are VAT inclusive.

Miscellaneous costs mainly include training costs, stationery and printing, repairs and maintenance and bank charges.

9. Property, plant and equipment

	Leasehold improvements £'000	IT equipment £'000	Furniture and fittings £'000	Total £'000
Cost				
As at 31 March 2021	**385**	**391**	**86**	**862**
Additions during the year	–	68	75	143
Disposals during the year	(385)	(213)	(86)	(684)
As at 31 March 2022	**–**	**246**	**75**	**321**
Additions during the year	–	176	–	176
Disposals during the year	–	(1)	(75)	(76)
As at 31 March 2023	**–**	**421**	**–**	**421**
Depreciation				
As at 31 March 2021	**376**	**305**	**54**	**735**
Charge for the year	2	62	9	74
Disposals during the year	(379)	(213)	(58)	(650)
As at 31 March 2022	**–**	**154**	**5**	**158**
Charge for the year	–	73	6	79
Disposals during the year	–	–	(11)	(11)
As at 31 March 2023	**–**	**226**	**–**	**226**
Net book value as at 31 March 2022	**–**	**92**	**70**	**162**
Net book value as at 31 March 2023	**–**	**195**	**–**	**195**

In accordance with IFRS 16 Office building and related facilities are deemed to be a right-of-use asset. Other expenditure recognised in the year in respect of leases (i.e. short term and leases of low value items) is deemed immaterial.

Notes to the financial statements
for the year ended 31 March 2023 (Continued)

10. Right-of-use assets

	Office building & related facilities £'000	Total £'000
Cost		
As at 31 March 2021	**625**	**625**
Additions during the year	2,277	2,277
Disposals during the year	(625)	(625)
As at 31 March 2022	**2,277**	**2,277**
Additions during the year	–	–
Disposals during the year	–	–
As at 31 March 2023	**2,277**	**2,277**
Depreciation		
As at 31 March 2021	**556**	**556**
Charge for the year	208	208
Disposals during the year	(625)	(625)
As at 31 March 2022	**139**	**139**
Charge for the year	208	208
Disposals during the year	–	–
As at 31 March 2023	**347**	**347**
Net book value as at 31 March 2022	**2,138**	**2,138**
Net book value as at 31 March 2023	**1,930**	**1,930**

	2023 £'000	2022 £'000
Interest expense on lease liabilities*	19	13
Depreciation expense on right-of-use assets	208	209
Total cash outflow relating to leases	**257**	**164**

*interest on right of use asset included in miscellaneous costs.

In accordance with IFRS 16 Office building and related facilities are deemed to be a right-of-use asset. Other expenditure recognised in the year in respect of leases (i.e. short term and leases of low value items) is deemed immaterial. None of LCCC's property leases include variable terms.

A separate note for right-of-use assets has been introduced this financial year in accordance with IFRS16 disclosure requirements. The corresponding comparatives have been presented with the aggregate of fixed assets and right-of-use assets equal to the prior year's PPE balance where ROU assets were previously included.

11. Intangible assets

	Settlement system £'000	Other IT software £'000	Total £'000
Cost			
As at 31 March 2021	**1,877**	**1,212**	**3,089**
Additions during the year	–	81	81
As at 31 March 2022	**1,877**	**1,293**	**3,170**
Additions during the year	490	–	490
As at 31 March 2023	**2,367**	**1,293**	**3,661**
Amortisation			
As at 31 March 2021	**1,792**	**1,050**	**2,842**
Charge for the year	85	55	140
As at 31 March 2022	**1,877**	**1,105**	**2,982**
Charge for the year	–	60	60
As at 31 March 2023	**1,877**	**1,165**	**3,042**
Net book value as at 31 March 2022	–	188	188
Net book value as at 31 March 2023	**490**	**128**	**619**

The original settlement systems are fully amortised, however they are still in use. LCCC has invested in the system to update for regulation changes and followed a continuous improvement mindset which has prolonged the life of the asset. Given the work undertaken and the scale of task to replace the settlement system, it is expected the settlement system will be used until at least 2026.

The additions in the current year relate to a settlement system for RAB and forecasting model.

12. Supplier Obligation Levy receivable

	2023 £'000	2022 £'000
Interim Levy Rate accruals	59,520	–
Interim Levy Rate receivable	189,771	5,344
Generator's payment receivable	–	77,514
Generator's payment accrued income	–	35,472
Total Supplier Obligation Levy receivable	**249,291**	**118,330**

The Interim Levy Rate receivable reflects the amounts owed by suppliers to fund the necessary payments to generators under the CfDs. This financial year we saw the market rate rise above the strike price resulting in generators paying LCCC and as a result the Interim Levy Rate was set to nil between October 2021 and 9 March 2023. The Interim Levy Rate receivables at 31 March 2023 are £189.8m (2021/22: £5.3m). Unutilised Total Reserve Amount due to be returned to suppliers, as disclosed in note 15, is £424.0m (2021/22: £303.4m).

Notes to the financial statements
for the year ended 31 March 2023 (Continued)

13. Trade and other receivables

	2023 £'000	2021 £'000
Due from BEIS	1,624	65
Prepayments	645	438
Total trade and other receivables	**2,269**	**503**

Receivable from BEIS relates to Grant in Aid and was received post year end in April and July 2023.

14. Cash and cash equivalents

	2023 £'000	2022 £'000
Cash at bank	286,271	415,681
Suppliers' credit cover	48,446	14,704
Total cash and cash equivalents	**334,717**	**430,385**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and suppliers' credit cover as stated above. Cash at bank includes cash of £238.6m relating to unutilised Total Reserve Amount received from suppliers to cover the shortfall in Supplier Obligation Levy. Total Reserve Amount and Supplier Obligation Levy included within cash at bank in prior year amounted to £15.4m. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

15. Supplier Obligation Levy and generators payments payable

	2023 £'000	2022 £'000
Generators payment payable	54,878	6,630
Total Reserve Amount payable	424,049	303,432
Generators payment accrual	48,304	2,783
Interim Levy Rate payable	–	210,206
Total Supplier Obligation Levy and generators payments payable	**527,231**	**523,051**

The Supplier Obligation Levy is made up of two components: the Interim Levy Rate and the Total Reserve Amount. The Interim Levy Rate payable reflects the excess levy and Total Reserve Amount is the unutilised reserve payable back to suppliers. Subsequent to the financial year, the unutilised Total Reserve Amount has been netted off against Supplier Obligation Levy receivable as part of quarterly reconciliation and Total Reserve Amount for the next quarter.

An in-period adjustment was made to the TRA (£150m) which was announced and invoiced in March 2023. At year end, this was receivable from suppliers as it is invoiced separately to the quarterly reconciliation.

The generators payment payable reflects the amount owed to the electricity generators in response to the supply of low carbon electricity in accordance with the CfDs.

16. Trade and other payables

	2023 £'000	2022 £'000
Current:		
Suppliers' credit cover	48,273	14,697
Accruals	1,713	1,884
Other taxation and social security	304	212
Trade payables	481	117
Due to ESC	983	–
Total trade and other payables	**51,754**	**16,910**

The carrying values of trade and other payables approximate to their fair values. The deferred Government grant liability which related to the settlement system asset received from BEIS is a non-cash transaction for the purposes of disclosure in the statement of cash flows.

17. Loans and borrowings

	2023 £'000	2022 £'000
Current:		
Grant in aid capital loan	211	95
Total loans and borrowings	**211**	**95**
Non-current:		
Grant in aid capital loan	573	165
Total loans and borrowings	**784**	**260**

BEIS provide LCCC with a grant in aid capital loan which provides LCCC cash for capital purchases whilst recognising the expense over the assets useful life. The grant in aid capital loan from BEIS is repayable in line with the depreciation over the useful life of the relevant asset.

18. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
Ordinary share capital issued and fully paid:	**£**
As at 31 March 2021 and 31 March 2022	1
Share capital issued during the year	–
As at 31 March 2023	**1**

Notes to the financial statements

for the year ended 31 March 2023 (Continued)

19. Related party transactions

The following table details the transactions that have been entered into with related parties for the relevant financial year:

	Services to related parties £'000	Services from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Entities with significant influence:				
2022				
BEIS	192	–	–	263
ESC	2,793	–	–	–
2023				
BEIS	3,060	–	1,611	846
ESC	1,748	–	–	983

Services to ESC comprise shared costs of premises, staff and directors' payroll costs, IT infrastructure and depreciation which are incurred in the first instance by the company but are then recharged at an agreed percentage to ESC based on an estimated usage of those services.

Services to BEIS includes costs for advisory work and implementation for ICC and Hydrogen business models totalling £2,988k (2022: £99k), £69k (2022: £23k) relating to the development of a Regulated Asset Base (RAB) model to fund the provision of new nuclear energy infrastructure projects and £10k (2022: £nil) in relation to the development of Greenhouse Gas Removal (GGR). Amounts owed to BEIS include the grant in aid capital loan £784k (2022: £260k) (refer to note 17), deferred income amounting to £30k (2022: £22k) and lease liability relating to the settlement system asset totalling nil (2022: £3k).

19.1 Compensation of key management personnel of the company

Key management personnel include executive directors, and their compensation is disclosed in the Remuneration Report on pages 69 to 72.

20. Financial assets and liabilities

Financial assets	Note	2023 £'000	2022 £'000
Contracts for Difference	21	6,130,441	675,980
Trade receivables		1,623	65
Cash and cash equivalents	14	334,717	430,385
Total financial assets		**6,466,781**	**1,106,430**
Total current		336,340	430,450
Total non-current		6,130,441	675,980
Total financial assets		**6,466,781**	**1,106,430**

Financial liabilities	Note	2023 £'000	2022 £'000
Contracts for Difference	21	19,571,274	27,624,023
Trade and other payables	16	51,450	16,698
Loans and borrowings	17	784	260
Lease liabilities		1,897	2,154
Total financial liabilities		**19,625,405**	**27,643,135**
Total current		51,818	17,069
Total non-current		19,573,587	27,626,066
Total financial liabilities		**19,625,405**	**27,643,135**

The following table reconciles the CfD position between the 2022 and 2023 Statement of Financial Position presentation.

	2023 £'000	2022 £'000
CfD asset	6,130,441	675,980
CfD liability payment receivable	(19,571,274)	(27,624,023)
Net position liability	**(13,440,833)**	**(26,948,043)**

21. CfDs

Under the legislation there is an obligation placed on licensed electricity suppliers to fund the CfD liabilities as they crystallise through the Supplier Obligation Levy. The future levy amounts which will be received from the licensed suppliers will be accounted for within the company and will be triggered by the generation and supply of low carbon electricity.

As at 31 March 2023 the company was counterparty to 165 contracts, including Hinkley Point C.

Historically, CfDs have been presented in aggregate as a liability. In the current financial year, the high market prices have caused a number of CfDs to move to an asset position. This is reflected in the presentation on the primary statements and through note 21 where the CfD portfolio is split between assets and liabilities. The presentation of the prior year comparatives mirror the new presentation however, the aggregate position between assets and liabilities is unchanged so the change is presentational and not considered a fundamental change.

21.1 Measurement differences relating to day one recognition

All CfDs (including Hinkley Point C) are issued for £nil consideration through the CfD auction process, this being deemed the transaction price. As explained in note 2.9.1.1 the difference between the fair value of the instrument at initial recognition (day one) and the transaction price is deferred unless the fair value at initial recognition is based on observable inputs (which is not currently the case).

The following table presents the carrying amount of accumulated gains/losses since initial recognition on the SOFP. The balance is calculated using fair value movement, amortisation of deferred initial values and payments. CfDs excluding HPC are split between assets and liabilities based on the on the accumulated gain/loss position of the CfD at year end. If a CfD has transferred from liability to asset (or vice versa), a reclassification line is included in the table below.

	CfDs exc. HPC (Liabilities) £'000	CfDs exc. HPC (Assets) £'000	HPC CfD £'000	Total £'000
CfD liability as at 31 March 2021 recognised in the statement of financial position	**15,731,287**	**(306)**	**1,201,738**	**16,932,718**
Liability/Asset reclassification	(1,469,119)	1,469,119	–	–
Remeasurement of the CfD liability	1,751,889	(2,201,273)	9,396,587	8,947,203
Payments to the CfD generators	(39,470)	(231,290)	–	(270,760)
Deferred difference recognised during the year	1,051,110	287,771	–	1,338,881
CfD liability as at 31 March 2022 recognised in the statement of financial position	**17,025,698**	**(675,980)**	**10,598,325**	**26,948,043**
Liability/Asset reclassification	(3,965,043)	3,965,043	–	–
Remeasurement of the CfD liability	(3,101,163)	(9,908,039)	(1,860,821)	(14,870,023)
Payments to the CfD generators	(170,369)	153,926	–	(16,443)
Deferred difference recognised during the year	1,044,647	334,609	–	1,379,257
CfD liability as at 31 March 2023 recognised in the statement of financial position	**10,833,770**	**(6,130,441)**	**8,737,504**	**13,440,833**

During the year, the net movement of -£13,491m (2021/22: £10,286m) in the fair value of CfDs is recognised in the statement of comprehensive income.

Notes to the financial statements
for the year ended 31 March 2023 (Continued)

21.2 Movement in deferred measurement differences

The table below shows the movement in deferred measurement differences. The CfDs (excluding HPC) are split between losses and gains based on the amount deferred at initial recognition.

	CfDs exc. HPC (Losses) £'000	CfDs exc. HPC (Gains) £'000	HPC CfD £'000	Total £'000
Deferred measurement differences as at 31 March 2021	**21,180,588**	**(9,560)**	**50,826,301**	**71,997,329**
Measurement differences recognised relating to terminated CfDs	(15,084)	–	–	(15,084)
Deferred measurement differences recognised during the year	(1,323,797)	–	–	(1,323,797)
Deferred measurement differences as at 31 March 2022	**19,841,707**	**(9,560)**	**50,826,301**	**70,658,448**
Measurement differences deferred during the year (AR4)	2,048,329	(262,411)	–	1,785,918
Deferred measurement differences recognised during the year	(1,370,920)	–	–	(1,370,920)
Measurement differences recognised relating to terminated CfDs	(8,337)	–	–	(8,337)
Deferred measurement differences as at 31 March 2023	**20,510,779**	**(271,972)**	**50,826,301**	**71,065,109**

21.3 Fair value measurement of CfDs

The fair values of CfDs represent the company's best estimate of the payments which the company will be committed to make, if and when the generators supply low carbon electricity in accordance with their contractual terms. They are based upon the estimates of future electricity prices using an independent price series.

Should no low carbon electricity be supplied in accordance with the contractual terms, then the company is not under any obligation to make these payments.

The timing difference is analogous to the timing differences discussed in IAS 12 (Income Taxes). It is highly probable that the company will receive future funding to pay for the CfDs through the Supplier Obligation Levy and management believe it is appropriate to recognise an asset for the timing difference. Therefore, a Supplier Obligation Levy non-current asset is recognised in the statement of financial position to match the timing difference with a corresponding entry in the statement of comprehensive income. For the purposes of fair presentation, this recognition is capped at the amount at which the CfDs are measured in the statement of financial position. This would result in the company's statement of comprehensive income remaining neutral to the impact of the CfD valuation movements and remaining consistent with the company's role as defined by the Regulations.

21.3.1 Fair value of CfDs (fair value through profit and loss)

The following table provides an analysis of financial instruments which are measured subsequent to initial recognition at fair value. The split is based on the current, valuation over the full remaining life of the contract. They are grouped into input levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Contractual fair value – liabilities	–	–	97,591,559	97,591,559
Contractual fair value – assets	–	–	(153)	(153)
As at 31 March 2022	**–**	**–**	**97,591,406**	**97,591,406**
Contractual fair value – liabilities	–	–	87,103,654	87,103,654
Contractual fair value – assets	–	–	(2,597,714)	(2,597,714)
As at 31 March 2023	**–**	**–**	**84,505,940**	**84,505,940**

21.3.2 Reconciliation of CfDs

The following table shows the impact on the fair values of CfDs, classified under level 3, by using the assumptions described below. The split for CfDs exc. HPC is based on the current valuation over the full remaining life of the contracts.

	CfDs exc. HPC (contractual fair value – liabilities) £'000	CfDs exc. HPC (contractual fair value – assets) £'000	HPC CfD £'000	Total £'000
As at 31 March 2021	**36,902,656**	**(648)**	**52,028,039**	**88,930,047**
Change in fair value during the year	(449,879)	495	9,396,587	8,947,203
CfDs terminated during the year	(15,084)	–	–	(15,084)
Payments to the CfD generators	(270,760)	–	–	(270,760)
As at 31 March 2022	**36,166,932**	**(153)**	**61,424,626**	**97,591,406**
Gain / Loss reclassification	(2,143,833)	2,143,833	–	–
Change in fair value during the year	(7,506,933)	(5,502,269)	(1,860,821)	(14,870,023)
Measurement differences deferred during the year (AR4)	1,025,042	760,876	–	1,785,918
Payments to the CfD generators	(16,443)	–	–	(16,443)
CfDs terminated in prior year	15,084	–	–	15,084
As at 31 March 2023	**27,539,849**	**(2,597,714)**	**59,563,805**	**84,505,940**

21.3.3 CfD (excluding HPC) summary

The table below summarises the CfD portfolio and illustrates the movement in the contractual fair value of CfDs. The table excludes terminated CfDs and HPC.

	Number of CfDs	Fair value at initial recognition	Fair value at 31 March 2023	CfD Asset/ Liability in the statement of financial position	Unamortised deferred difference at reporting date
Contractual fair value – assets at 31 March 2023	**32**	**–**	**–**	**–**	**–**
CfDs with a deferred gain at initial recognition	14	(224,166)	(594,119)	(369,953)	(224,166)
CfDs with a deferred loss at initial recognition	18	1,454,616	(2,003,595)	(3,458,211)	1,454,616
Contractual fair value – liabilities at 31 March 2023	**132**	**–**	**–**	**–**	**–**
CfDs with a deferred gain at initial recognition	9	(42,245)	26,627	68,872	(42,245)
CfDs with a deferred loss at initial recognition	123	24,757,743	27,513,222	8,462,621	19,050,601
Total	**164**	**25,945,949**	**24,942,135**	**4,703,329**	**20,238,806**

21.4 Key inputs and underlying assumptions for CfDs

21.4.1 Estimated future forecast wholesale electricity prices

Forecast wholesale electricity prices used to estimate the fair value of CfDs are derived from an independent price series (In 2022 the DDM price series was used). Energy price series estimates the wholesale price by:

- calculating the short run marginal cost (SRMC) of each plant (including a representation of plants in interconnected markets), taking account of start-up and shut-down costs;
- calculating the available output of intermittent renewables;
- calculating the half hourly demand for electricity by taking into account demand side response; and
- determining the marginal plant required to meet demand.

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Economic, climate, policy, generation, and demand assumptions are external inputs to the model including demand load curves for both business and non-business days and seasonal impacts. Specific assumptions can also be modelled for domestic and non-domestic sectors and smart meter usage.

The forecast trajectory of electricity prices is uncertain. In the valuation, management has used an industry recognised independent price series which is not an outlier. The internal model used to calculate the fair value has been updated for short-term prices, installed capacities, TLM, and load factors.

In the valuation, the wholesale price has been reduced to reflect the price the wind generator is likely to receive. Additionally, wholesale electricity forward prices have been used for the liquid trading horizon (covering the nearest 2 years period).

21.4.2 Estimated future wholesale electricity generation

21.4.2.1 Transmission Loss Multiplier (TLM)

TLM reflects the fact that electricity is lost as it passes through the transmission system from generators to suppliers. If the TLM is incorrect, this will have implications for the volume of electricity subject to CfD payments. Any change in TLM will be corrected through adjustments in strike prices although the change in TLM is expected to be immaterial.

21.4.2.2 Start date

Generators nominate a Target Commissioning Date (TCD) in their binding application form for a CfD, and this date is specified in their CfD, following contract award. However, the generator is free to commission at any time within their Target Commissioning Window (TCW), a period of one year from the start of the TCW for most technologies, with no penalty, or after the end of the TCW and up to their "Longstop Date" (one to two years after the end of the TCW depending on technology) with a penalty in the form of reduction of contract length for each day they are late in commissioning after the end of the TCW. The contract can be terminated if the generator has not commissioned 95% (or 85% for Investment Contracts and offshore wind) of their revised installed capacity estimate by the Longstop Date. The valuation uses the latest estimate from generators on the start date.

The estimated start dates for reactor one and reactor two of the Hinkley Point C project are June 2027 and June 2028, respectively. The TCW for reactor one is 1 May 2025 to 30 April 2029. The TCW for reactor two is 1 November 2025 to 31 October 2029.
Any change to the start date will change the timing of future cash flows and impact on the discounted fair value.

21.4.2.3 Installed capacity

The figure for the maximum installed capacity was provided by the generator in its application for a CfD and specified in its CfD contract following allocation. Thereafter the installed capacity figure can only be reduced by the generator for a permitted contractual construction event (which is a narrowly defined concept) or by the difference by which the relevant project has an installed capacity of 95% (or 85% in the case of Investment Contracts and offshore wind) of its current contractual installed capacity figure and 100%. The actual output of the generator will depend on the load factor.

The Hinkley Point C CfD does not have an installed capacity cap and is only entitled to CfD payment support up to a generation cap of 910,000,000 MWh.

21.4.2.4 Load Factor

Load Factor is defined as the actual power output of a project as a proportion of its rated installed capacity. It is a percentage figure which is used to transform installed capacity into actual power output (generation). Load factor assumptions are based on reference factors published by BEIS for given technology types; however, actual power outputs are sensitive to technological and environmental factors which may impact actual cash flows. Plant specific load factors (where a minimum of 6 months' generation data is available) is also available for consideration when valuing the CfDs.

For Hinkley Point C CfD the generator (NNB Generation Company (HPC) Limited) provides the company with a generation profile, which forecasts the generation over the life of the contract.

21.4.3 Strike price

The strike price is an agreed price which determines the payments made to the generator under the contract with reference to its low carbon output and the market reference price.

The relevant strike price is specified in each CfD and is not intended to change for the duration of the project, other than through indexation to CPI and certain network charges, or in the event of certain qualifying changes in law. The strike price used in the valuation of the CfDs is the 2020/21 strike price and reflects the CPI rate for January 2021, in line with the requirements of the CfD contract.

The announcement made by Ofgem in April 2022 stating that from 1 April 2023 generators will no longer pay BSUoS charges has been incorporated into the strike price forecast as at 31 March 2023.

If a CfD in relation to Sizewell C is entered into before the reactor one start date, then the applicable strike price shall be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh. There have been legal developments around RAB and Government investment during the year and management recognise that the likelihood of Sizewell C entering in to a CfD is greater than the prior year. Management have taken a view that the Sizewell C is as likely or not likely to occur and have recognised 50% of the strike price adjustment, using £91.00/MWh (2022 - £92.50/MWh) in the valuation. The impact of the strike price adjustment crystalising either way is included in the sensitivity analysis in note 21.5

21.4.4 Equity gain share for Hinkley Point C

The equity gain share mechanism consists of two separate components: (i) a mechanism to capture gains above specified levels where the Hinkley Point C project outperforms relative to the original base case assumptions; and (ii) a mechanism to capture gains above specified levels arising from the sale of equity and economic interests (direct or indirect) in the Hinkley Point C project.

In each case, as and when the Internal Rate of Return (IRR) thresholds are reached:

- If the relevant IRR is more than 11.4%, the company will receive 30% of any gain above this level.
- If the relevant IRR is more than 13.5%, the company will receive 60% of any gain above this level.

No adjustment to the valuation has been made for equity gain share on the grounds that none of the conditions outlined above have been met.

21.4.5 Construction gain share for Hinkley Point C

If the construction costs of Hinkley Point C come in under budget, the strike price will be adjusted downwards so that the gain (or saving) is shared with the company. The gain share is 50/50 for the first billion pounds, with savings in excess of this figure being shared 75% to the company and 25% to NNBG.

Reducing the strike price will reduce the amounts paid out to NNBG under the CfD will reduce and hence the benefit of the lower construction costs is shared between NNBG and ultimately consumers. There is, however, no similar upward adjustment if the construction cost of Hinkley Point C is over budget.

No adjustment to the valuation has been made for construction gain share on the grounds that there has not been any construction gain share during the year.

21.4.6 OPEX reopener for Hinkley Point C

The strike price may be adjusted upwards if the operational expenditure costs are more than assumed and downwards if they are less. There are two operational expenditure reopener dates, at 15 years and 25 years after the first reactor start date. The rationale behind the reopener is that the strike price is based on long-term assumptions on operational expenditure costs. The reopener provides a way of mitigating long-term cost risks for both parties.

No adjustment to the valuation has been made for OPEX reopener on the grounds that the opex reopener dates have not been reached yet and there is no evidence that original assumptions are invalid.

21.5 Sensitivity analysis

As explained in note 4.1.1 long term system forecasts are not generally seen as a single most likely outcome with degrees of uncertainty either side. Rather there are multiple sets of inputs that are internally consistent and credible. A set of these inputs is usually used as a 'scenario' and multiple deliberately different scenarios are used to illustrate different possible futures when undertaking long term forecasting. Therefore, individual forecasts may use a very different set of assumptions such as generation mix, carbon and fuel costs, electricity demand and interconnector capacity, but still be within what we would describe as the 'universe of reasonableness'. Management has decided to use the reference case scenario of an industry recognised independent forecast that is not an outlier.

An additional element in the calculation of the CfD liability is the discount rate that is applied. Uncertainty increases with time and so the choice of discount rate plays a significant part in determining how much uncertainty is weighted into a present value calculation, a higher discount rate places less weight on increasingly more uncertain years of a present value calculation.

In line with 2021/22, LCCC has this year derived a real discount rate from the HM Treasury nominal discount rate of 1.9% adjusted by the latest CPI inflation forecasts for each modelled year, given that the strike price is indexed to CPI, resulting in the following real discount rates:

2023/24:	-2.19%
2024/25:	1.28%
2025/26:	1.92%
2026/27:	1.05 %
2027/28 and thereafter:	-0.10%

For future year-on-year comparability we include an undiscounted valuation of the CfDs to compare with table 19.3.2:

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
As at 31 March 2021	**38,864,510**	**61,221,251**	**100,085,761**
As at 31 March 2022	**34,843,617**	**58,381,214**	**93,224,831**
As at 31 March 2023	**25,626,931**	**60,424,228**	**86,051,159**

The following table shows the impact on the fair value of CfDs, classified under level 3, by applying reasonably possible alternative assumptions to the valuation obtained using DDM. Due to the significance and uniqueness of Hinkley Point C CfD the impact (and certain assumptions) has been shown separately.

	Favourable/ (unfavourable) HPC CfD £'000	Favourable/ (unfavourable) Other CfDs £'000	Favourable/ (unfavourable) Total impact £'000
Change in fair value of CfDs if:			
Highest price third party series	31,810,000	52,605,000	84,415,000
Lowest price third party price series	(16,964,000)	(29,169,000)	(46,133,000)
Discount rate of 3.5%	30,202,770	5,874,276	36,077,046
Discount rate of 0.7%	7,905,028	834,505	8,739,533
Undiscounted	(860,423)	(684,795)	(1,545,218)
Specific to other CfDs:			
10% more load factor	–	(2,490,000)	(2,490,000)
10% less load factor	–	2,490,000	2,490,000
Estimated Commissioning Date moves backward by one year	–	(2,839,206)	(2,839,206)
Generation starts at the earliest possible date	–	2,956,586	2,956,586
Specific to HPC CfD:			
10% less load factor	5,956,381	–	5,956,381
Generation brought forward one year	840,142	–	840,142
Generation start date delayed 15 months from estimated start date	(772,627)	–	(772,627)
Sizewell C strike price adjustment (-50% £1.5)	1,793,431	–	1,793,431
Sizewell C strike price adjustment (+50% £1.5)	(1,793,431)	–	(1,793,431)

The fair value is highly dependent upon the actual capacity generated once the plant is built and the electricity prices which will prevail at the time of generation. The favourable and unfavourable changes show how the impact of changes in capacity and prevailing electricity prices will affect the fair value of CfDs due to the change in the level of cash flows.

21.6 Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for CfDs recognised at fair value and classified as level 3 along with the range of actual values used in the preparation of the financial statements.

	Fair value of CfDs (£'000)	Valuation technique	Significant unobservable input	Range min-max	Units
2021	88,930,047	DCF	Electricity prices	24.62-77.77	£/MWh
2022	97,951,406	DCF	Electricity prices	37.84-244.00	£/MWh
2023	84,505,940	DCF	Electricity prices	39.07-141.35	£/M/Wh

22. Supplier Obligation Levy

	£'000
As at 31 March 2021	**16,932,718**
Levy receivable recognised against remeasurement of CfD liability	8,947,203
Supplier Obligation Levy received during the year, net of repayable	(270,760)
Amortisation charge during the year	1,338,882
As at 31 March 2022	**26,948,043**
Levy receivable recognised against remeasurement of CfD liability	(14,870,023)
Supplier Obligation Levy received during the year, net of repayable	(16,443)
Amortisation charge during the year	1,379,257
As at 31 March 2023	**13,440,833**

A non-current Supplier Obligation Levy asset is recognised in the statement of financial position to match the timing difference between the point at which changes in the fair value of the CfDs liability are recognised in the financial statements and the point at which the related obligations give rise to mature levy obligations under the Regulations. A corresponding entry is made in the statement of comprehensive income.

23. Events after the reporting period

With effect from 7 February 2023, the name of the parent entity was changed from Department for Business, Energy and Industrial Strategy (BEIS) to Department for Energy Security and Net Zero (DESNZ), HM Treasury has specified for simple arrangements to still refer to BEIS in the 2022-23 financial statements instead of DESNZ.

Glossary

Acronym	Description
ACT	Advanced Conversion Technologies.
Allocation round	The process by which potential generators apply to National Grid (as "Delivery Body") for a CfD and the successful applicants are selected. Allocation rounds are announced by BEIS, which sets the available CfD "budget" for the relevant allocation round and specifies the generation technologies which are eligible. The first allocation round ("allocation round 1") concluded in March 2015. Allocation round 2 concluded in October 2017.
Apportioned CfD	The Apportioned Metering CfD variant amends the same standard terms and conditions used by single metered CfDs. In the Apportioned Metering option net Metered Volume is recorded for the whole project (i.e. all phases). This is achieved via one central metering point. The total Metered Volume from that central point is then apportioned to each individual phase based on the overall functionality of that phase.
ARAC	Audit and Risk Committee
BEIS	Department for Business, Energy and Industrial Strategy.
BMU	Balancing Market Unit.
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 will require 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 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.
CCUS	Carbon Capture, Usage and Storage.
CfD counterparty or counterparty	CfD counterparty is responsible for managing CfDs throughout their contractual life.
CfD project	This refers to a project as defined within a CfD agreement in relation to a particular facility. Each phase of an offshore wind farm has a separate contract, and therefore each phase is referred to as a separate CfD project.
CfD Standard Conditions	The relevant standard CfD template contract used in each allocation round, also referred to as the CfD Standard Terms and Conditions. The Standard Terms and Conditions offered under allocation rounds 1, 2 and 3 are available at: https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference
Contracts for Difference or CfD	A Contract for Difference (CfD) is a long term agreement between a low carbon electricity generator and LCCC. It is designed to provide the generator with a stable pre-agreed price (the "strike price") for the lifetime of the contract. This is done by paying the difference where electricity price (the "market reference price") is less than the strike price and receiving the difference when the market reference price is higher than the strike price.
DDM (or Dynamic Despatch Model)	The long term forecast of wholesale electricity prices is derived from the Dynamic Dispatch Model. The DDM was developed by BEIS to inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment (the figures for Great Britain are modelled out to 2050).

Acronym	Description
Delivery Partners	CfD Delivery Partners are organisations involved in delivering the CfD. The CfD Delivery Partners are LCCC, Ofgem and the EMR Delivery Body of National Grid ESO.
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 to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.
DESNZ	Department for Energy Security and Net Zero.
ECJ	Means the General Court of the Court of Justice of the European Union. The ECJ on 15 November 2018 (Case T–793 14) annulled the main state aid approval granted by the European Commission for the Capacity Market scheme.
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/).
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 which performs the functions of the 'EMR Delivery Body', in relation to CfD and Capacity Market Auctions.
FiDeR	See Investment Contracts.
FIC	Final installed capacity.
Interim Levy Rate	Under the Supplier Obligation Levy, electricity suppliers make pre-payments consisting of a unit cost fixed Interim Levy Rate, charged at a daily £/MWh rate to fund the cost of CfD generation payments. The Interim Levy Rate is set by LCCC every quarter, one quarter in advance, based on an estimate of the payments that will need to be made in respect of CfD generation in that quarter.
Investment Contracts	Investment Contracts are an earlier (April 2014) version of CfDs entered into by the Secretary of State in mid 2014 pending the full establishment of the CfD scheme and of LCCC. The Secretary of State has transferred these contracts to LCCC. The contracts are also known as the Financial Investment Decision enabling Renewables (or FiDeR).
Market reference price	The market reference price is a proxy for the average market price relating to the electricity sold by the generator.
Milestone Requirement	The CfD requires generators to demonstrate that, by the "Milestone Delivery Date" set out in their CfD, they have made a significant financial commitment to and are progressing the construction of their project (i.e. new generation plant). This date is 12 months from the date of entry into the CfD agreement. Generators demonstrate this requirement by providing LCCC with evidence that they either have spent 10% of the project cost or have entered into contracts committing to expenditure and development of the project.
Operational conditions precedent	Operational conditions precedent is a significant milestone under the CfD. Generators are required to satisfy certain commissioning and other requirements in order to achieve their CfD start date and be eligible for CfD payments (i.e. they must achieve their operational conditions precedent). In particular, as part of their requirements, projects are required to be able to achieve a minimum 80% of their installed capacity (or expected Facility generation) referred to in the relevant generator's application for a CfD.

Glossary
(Continued)

Acronym	Description
REMA	Review of Electricity Market Arrangements, a programme of policy development by DESNZ to fully align market arrangements with the need to decarbonise the power sector.
Secretary of State (SoS)	Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder.
Standstill Period	Means the period beginning on 24 October 2019 and ending on the date on which the deferred capacity payment trigger event or the agreement termination trigger event occurs (as further described in the relevant Capacity Market Regulations).
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 Obligation Levy	Electricity suppliers are required under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended) to fund the CfD payments made by LCCC to generators.
Supplier Obligation Regulations	The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 and related amending regulations which govern the rules for the management of the Supplier Obligation Levy.
System Operator	Organisation licenced by Ofgem to operate the GB electricity system, a role currently held by National Grid Plc. The electricity SO'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.
Total Reserve Amount	The amount the company determines is needed for there to be a 19 in 20 probability of it being able to make all the CfD generation payments required during that quarter, having regard to: • the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter; • the likelihood of any supplier failing to make payments during the quarter; and the estimated income to be received by the company from CfD generators in the quarter; and • the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CfD generators.

Senior Leadership Team

LCCC provides:

- assured delivery of CfD management and Capacity Market settlement responsibilities
- strong independent governance
- commercial skills and industry knowledge
- a close working relationship with Government, focused on adding value.

This was the Management Committee as at 12 July 2023.

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Sarah Taylor
Interim Director of People & Organisational Development

Andrew Deeley
Director of Strategy & Development

Allison Sandle
General Counsel & Company Secretary

James King
Director of Scheme Delivery

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