LOW CARBON
CONTRACTS COMPANY
POWERING NET ZERO

Annual Report and Accounts
for Low Carbon Contracts Company Ltd

2020/21

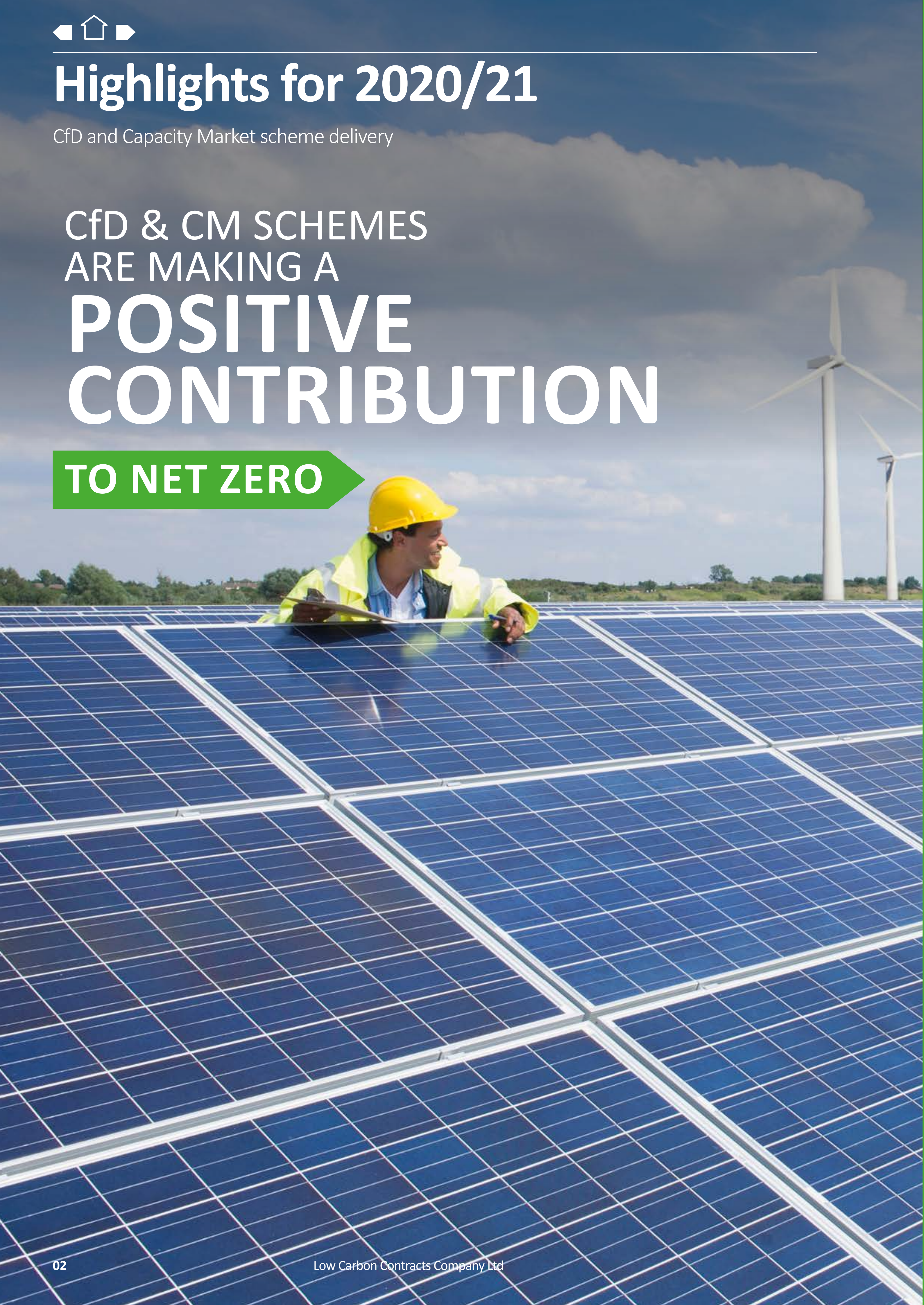
Company registration number: 08818711

Solwaybank
onshore wind farm

CONTENTS

Highlights for 2020/21

CfD and Capacity Market scheme delivery



CfD & CM SCHEMES
ARE MAKING A
POSITIVE CONTRIBUTION

TO NET ZERO

Delivering Excellence

742.5MW

742.5MW OF NEW LOW CARBON CAPACITY became operational in 2020/21 and started to receive CfD payments.

GUIDANCE

UPDATED OUR INSTALLED CAPACITY GUIDANCE in relation to merchant capacity ahead of CfD Allocation Round 4.

13 WEBINARS

13 STAKEHOLDER WEBINARS HELD TO KEEP SCHEME PARTICIPANTS INFORMED during COVID-19 restrictions.

Developing as a Centre of Expertise

DATA PORTAL

DEVELOPED OUR NEW DATA PORTAL TO ENABLE DIRECT DOWNLOADS OF CfD AND CAPACITY MARKET DATA, in response to requests from suppliers and in support of the Open Data initiative.

EXPERIENCE

PUBLISHED OUR FIRST INSIGHTS SERIES based on our experience of topics relevant to future market design.

PROJECTIONS

PRODUCED A NEW CAPACITY MARKET COST PROJECTIONS DASHBOARD in response to requests from suppliers.

Acting as a Trusted Advisor

DEVELOP

DEVELOPED AN INDICATIVE HEADS OF TERMS FOR INDUSTRIAL CARBON CAPTURE USE AND STORAGE published by BEIS in December 2020.

FUTURE

SUPPORTED BEIS IN THE DEVELOPMENT OF THE CALL FOR EVIDENCE ON THE FUTURE OF THE CfD as well as providing a detailed response using our internal insights.

DESIGN

PARTICIPATED IN MARKET DESIGN INITIATIVES including the Re-costing Energy project, the Energy Systems Catapult "Rethinking Electricity Markets" study and the Carbon Trust flexibility study.

Key

- **Contract for Difference** (CfD) activity
- **Capacity Market** (CM) activity
- **CfD and Capacity Market activity**

Our Portfolio

LCCC is managing **72 CfDs** with an estimated fair value of **£89bn**, including Hinkley Point C[a]. Its counterparties hold CfDs that represent around **18.8GW**[b] of new low carbon capacity by 2030.

Five CfDs became operational in 2020/21, commissioning

0.7GW

Bringing the total operational CfD capacity to around

5.6GW

Key to sites

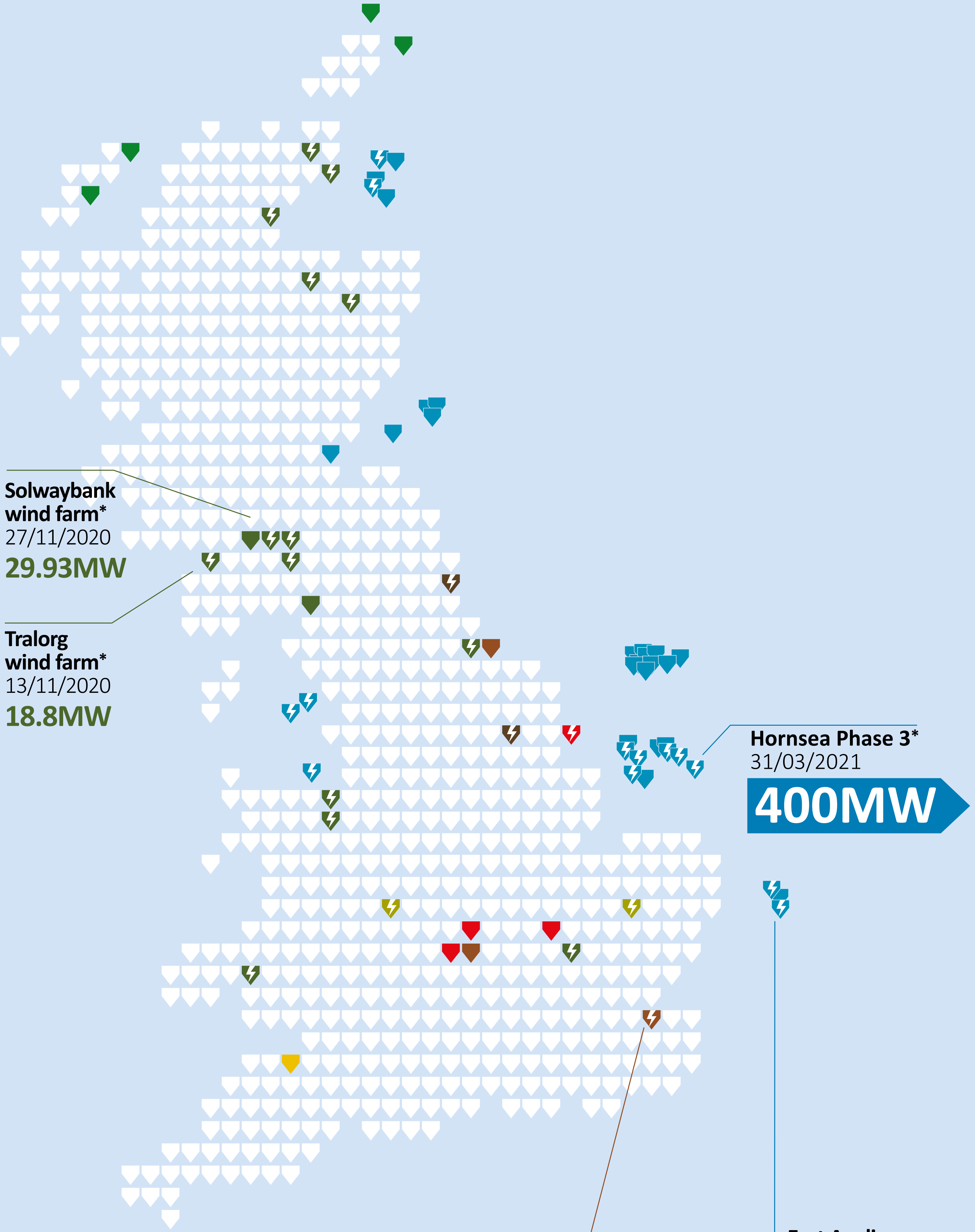
Offshore Wind	40
Onshore Wind	15
Remote Island Wind	4
Advanced Conversion Technology (ACT)	4
Dedicated Biomass with CHP	1
Solar PV	2
Biomass Conversion	2
Energy from Waste with CHP	1
Operational Facility	
Nuclear	1

1 Solwaybank onshore wind farm

2 Hornsea wind farm

3 Energy Works (Hull)

[a] See Note 19 of the Financial Statements
[b] Including 3.3GW for Hinkley Point C



All positions shown as of 31 March 2021, except for two terminations that occurred after 31 March whose symbols have been removed.

*Dates for projects that became operational in 2020/21

Chair's foreword

I joined LCCC in September 2019 to be part of the UK's Net Zero ambition. Since then the UK's ambition has only increased with the most recent commitment to a new target of cutting emissions by 78% by 2035 compared to 1990 levels[1]. The potential for LCCC to play an increasing role in supporting that accelerating ambition has also increased. I have been delighted to see the significant progress the business has made during 2020/21 towards realising that potential.

Advice built on experience

Our strategy for 2020/21 was to use the considerable skills and experience we have gained over the past six years to help inform the rapidly emerging policy framework that is being designed to deliver Net Zero. This includes supporting BEIS on how the Contract for Difference (CfD) and Capacity Market (CM) schemes can develop in order to continue, and improve, delivery in the context of the Net Zero ambition. It also includes advising on how we can apply the success of the CfD to other decarbonisation challenges, such as Carbon Capture Usage and Storage (CCUS) for both the power and industrial sectors. Examples of the results of this work include the indicative Heads of Terms for industrial CCUS that were developed by LCCC and published alongside BEIS' CCUS consultation response in December 2020, and the fact that LCCC was named in that publication as potential counterparty for both power and industrial CCUS.

We have seen increasing interest from policy-makers and market actors in other parts of the economy in the success that low carbon contracts backed by an independent counterparty have had in attracting low cost private investment into renewable generation. All sectors of the economy need to be decarbonised to meet the Government's Net Zero ambitions, and the investment challenge is daunting. We are actively engaged in sharing our experience with other sectors to explore how the lessons of the CfD in renewables can be effectively translated.

A strong delivery foundation

Policy makers, investors and other stakeholders are only willing to listen to our advice because of the solid foundation of excellence we have demonstrated in delivering our existing electricity schemes. Our insights publications showcase how the CfD has delivered on the objective of attracting private investment into low carbon generation at least cost to consumers. Our new data portal promotes greater understanding and transparency of the scheme by allowing our stakeholders to download granular detail on the CfD and set up an automated feed to import data into their own systems.

This approach, along with our sharing of our expertise, is aimed at ensuring that the CfD stays relevant in a fast-changing policy and market environment. This ranges from changes to the fourth CfD Allocation Round, to wider initiatives such as the Offshore Transmission Network Review, which aims to coordinate offshore electricity transmission. We will continue to work with BEIS and the industry to enable new business models for low carbon generation in future allocation rounds, and to ensure that the supplier obligation remains robust as it adapts to new policy requirements.

Partnerships for the future

The challenge of delivering Net Zero is too big for any one organisation or institution to deliver alone. Partnership working, collaboration, robust effective challenge, and above all, a clear alignment around a shared goal will all be essential in the coming years and decades.

Over this past year I have seen LCCC colleagues rise to this challenge and deepen and strengthen key relationships – with our shareholder BEIS, policy makers across government, regulators, delivery bodies, investors, and the industry. I would like to thank all colleagues in the business, and indeed in our stakeholder organisations, for how hard they have worked to deliver

these deepened partnerships and the significant achievements set out in this report. All of this during a year where face to face contact has been limited and we have all had to adapt to new ways of working because of the impact of COVID-19.

Finally, I would like to thank my colleagues on the LCCC Board for their support and commitment over the year. I would like to pay particular tribute to departing colleagues Tony Bickerstaff and Simon Orebi-Gann for all they have contributed to the business since its establishment.

Regina Finn
Chair

1. https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035?utm_medium=email&utm_campaign=govuk-notifications&utm_source=a465ce6e-1557-4b14-8850-04acae13c350&utm_content=daily

Chief Executive's statement

2020/21 has been an extraordinary year and I have been delighted with the performance of the business and the response of our employees to the challenges presented by COVID-19. The pandemic impacted on our people, our operations and our scheme participants. Despite the very challenging situation, our employees have reacted brilliantly to deliver some outstanding results for the company.

Business operations have continued uninterrupted while our continuous improvement and strategic initiatives have delivered as planned. Proactive and thoughtful support to our employees, generators, electricity suppliers, BEIS and other stakeholders has been a characteristic of our approach and this has resulted in some excellent feedback in our 2020/21 Stakeholder Survey. I am proud to have seen the resilience of the sector, how our scheme participants have worked to address the challenges and deliver their projects, and how the UK's commitment to Net Zero emissions by 2050 has driven so much change. I am proud that LCCC has been able to contribute our small part to that success.

Delivering excellently

With the onset of the COVID-19 pandemic, we quickly transitioned to full remote working. Our business continuity processes had been tested in early 2020, including our ability to work remotely. Our IT systems facilitated the transition, working as planned. Indeed, all our core business processes including settlements, financial management & control, information technology and our governance have operated well throughout the year.

We introduced a flexible approach to work patterns for employees. Noting that schools and workplaces were closed, we provided support and monitored their welfare. In delivering our role for our stakeholders, it has been interesting to see how productivity has been maintained and even increased during this year. Employee engagement in LCCC has seen a significant increase in our 2021 Engagement Survey.

Our business model was challenged at the start of the year by the country's move into the first lockdown. As parts of the economy shut down, there was a reduction in electricity demand combined with the drop in wholesale electricity prices. The fall in demand impacted our Supplier Obligations Levy receipts, the funds we use to pay CfD generators. The lower wholesale electricity prices increased the projected payments to CfD generators. Our Forecasting team stepped up to increase monitoring of demand and create scenarios of demand and market price that would inform our response.

A projected shortfall in funding would normally result in an increase in the Levy rate to ensure that CfD generators continue to receive the difference payments to which they are entitled. However, cognisant of the pressure on electricity suppliers, LCCC worked closely with colleagues at BEIS to formulate an alternative plan, whereby Government would provide LCCC with an interest-free loan to cover the shortfall. This was welcomed by the market and implemented smoothly.

All this vital work has been achieved whilst maintaining strong financial management and keeping within our agreed budget – LCCC's annual net operating expenditure (after applying the Electricity Settlements Company (ESC) recharge) was £15.1m (2019/20: £12.1m), compared to the pre-approved budget of £17.5m (2019/20: £17.0m).

Supporting resilience in the sector

COVID-19 has also impacted our CfD scheme participants. With no CfD Allocation Round this year, the CfD portfolio has remained at 15.4GW of 'generic' CfDs, increasing to 18.6GW when Hinkley Point C is included. However, generators continued their progress towards CfD contract milestones. Our support to them has been two-fold. We gave early guidance to the market that we considered COVID-19 was capable of being a Force Majeure event under the CfD contract, with relief available to those suffering delays as a result of the pandemic.

Our second response was to proactively offer support to generators, placing calls and offering our continued support at this difficult time. It was important that they had the reassurance that we were working closely with them in these difficult circumstances. I am delighted to have witnessed the resilience of our generator community and their ability to progress their projects, with most avoiding delay.

We have helped projects meet their contract milestones including the Milestone Requirement, Final Installed Capacity (FIC) and Operational Conditions Precedent (OCP). The process for generators achieving the OCP milestone and thus starting to receive CfD payments was an area where we had to change our approach. Rather than visit a project site to ensure all systems were running appropriately, we developed remote alternatives and through such innovation and flexibility, we enabled five projects to commence generation during the year, bringing total CfD output to 22.66TWh in 2020/21, enough generation to power Scotland in 2020.[2]

In the Capacity Market, we delivered a number of improvements to systems and processes. Feedback from capacity providers and suppliers suggested that they wanted clearer and simpler interactions with ESC/EMRS, with greater visibility of the data behind the system so they could understand and plan better. We have led four end-to-end reviews of the scheme with our delivery partners, each of which have resulted in improvements being identified and delivered.

2. Based on the sub-national total final energy consumption, and assuming a slight drop in 2020 due to COVID-19

Chief Executive's statement
(Continued)

Engaging with our stakeholders
During the year, we developed our stakeholder engagement plan with the ambition of developing LCCC & ESC's brand awareness and profile. We worked across several different groups including generators, investors, suppliers, delivery partners, regulators and with BEIS to increase our interactions, our understanding of stakeholder views and our influence over the future of our sector.

The move to remote working has served to increase accessibility to our events – our new Communications Team has established a programme of webinars which have allowed many more of our stakeholders to interact with us this year. I look forward to the benefits this increased level of engagement will bring, in terms of more feedback that we can act on to improve our service further.

Meanwhile, we have found ways to improve our offering to stakeholders. We have improved the range and accessibility of our data through the introduction of an online data portal in response to requests for more transparency.

Ready for the next challenge
With the move to a comprehensive Net Zero strategy, there will be more challenges to face in the future. I believe that our performance during the pandemic shows our resilience and determination, enabled by our focus on support to our employees and stakeholders and facilitated by an agile and dynamic working culture. This will stand us in good stead for embracing new activity to support the Government's ten-point-plan.

As we start to think about returning to more normal working arrangements, we have considered the lessons learned during the year to formulate our new Flexible Working Policy. This will support our transition to a post pandemic environment, enable us to drive efficiencies and achieve a healthy work-life balance for our people. We are due to move our new offices to 10 South Colonnade in Canary Wharf in 2021 and have taken the opportunity to reduce the number of desks compared to our current set-up. Flexible working is an example of our drive to become a more agile and dynamic organisation as we work to deliver our strategy and contribute to the delivery of Net Zero 2050.

N. McDermott

Neil McDermott
Chief Executive Officer

OUR VISION

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

OUR MISSION

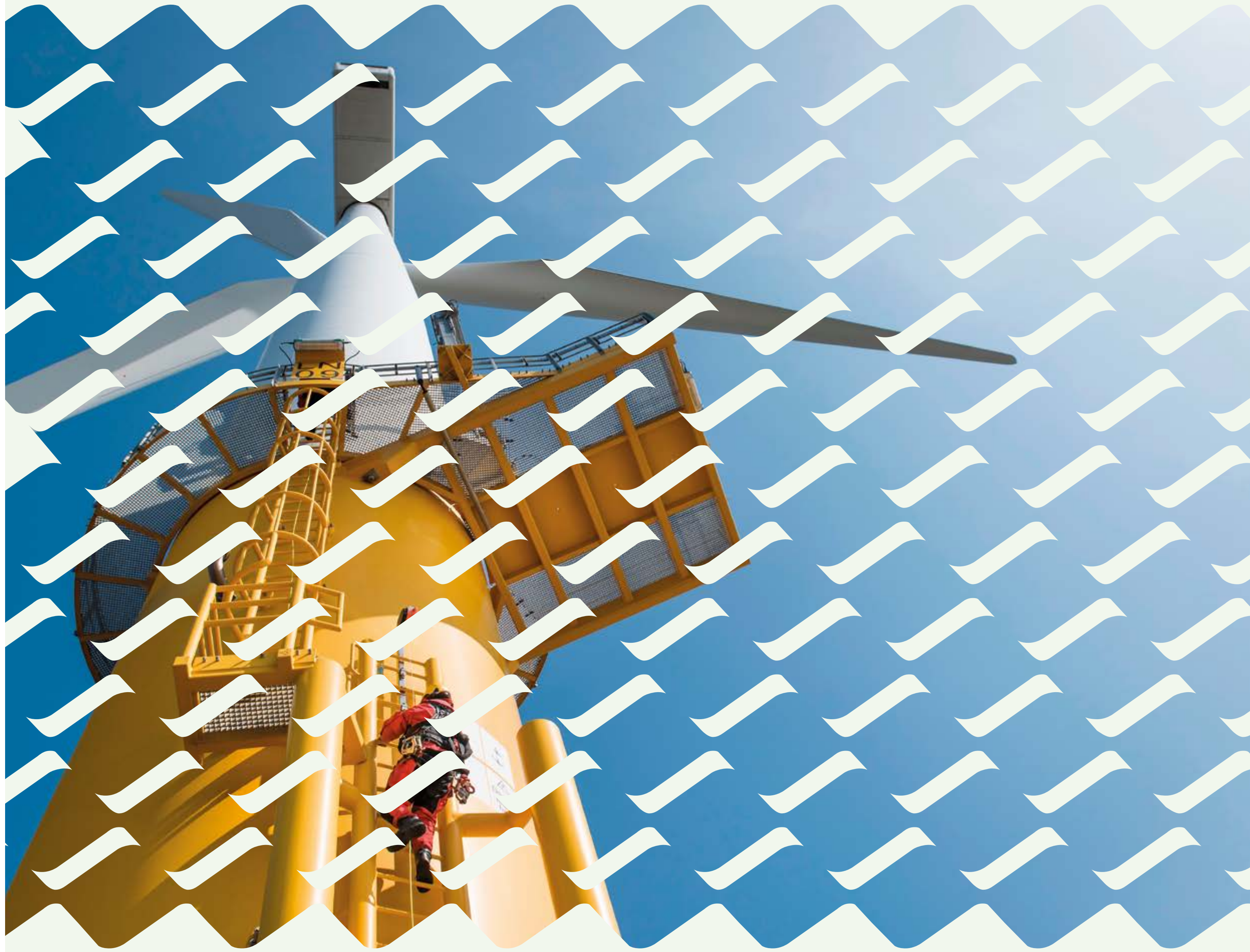
is to implement and develop electricity market schemes by providing independent expertise, insight and leadership.

LCCC'S GUIDING PRINCIPLE

is to maintain investor confidence in the CfD scheme and minimise costs to consumers.[3]

3. LCCC Framework Document, available at https://lowcarboncontracts.uk/corporate-governance

Strategic Report



Strategic Report

The Low Carbon Contracts Company (LCCC) is an operationally independent, not-for-profit private company wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). The company carries out 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"[4]:

- **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[5];
- **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 delivers these functions on behalf of its sister company, the Electricity Settlements Company Ltd (ESC).

Our role in delivering affordable, reliable and clean electricity

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

- Our primary responsibility as an operationally independent "CfD Counterparty" is to **manage CfDs throughout their lifetime**, ensuring that low carbon generators comply with their CfD obligations under the private law contract.
- To ensure that 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**.
- 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.

4. 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

5. 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 2020/21

Table 1: Key scheme outcomes 2020/21[6]

Scheme	Outcomes	Total payments made under scheme	Total annual cost (including operational cost levies)	Operational costs as a percentage of total annual cost
CfD	22.66TWh of low carbon power produced. Approximately 6.6m tonnes equivalent of avoided CO_2[7].	£2,277.4m	£2,292.5m	0.7%
Capacity Market	Availability payments made to 22.6GW of capacity for Delivery Year 2019/20 and 29.0GW for Delivery Year 2020/21.	£405.3m (for Delivery Year 2019/20)[8]. £689.0m (for Delivery Year 2020/21 from October 2020 to March 2021)[8]	£1,101.9m	0.6%

6. Figures may not reconcile due to rounding.

7. GHG 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

8. 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 2021[1]

Key contractual definitions

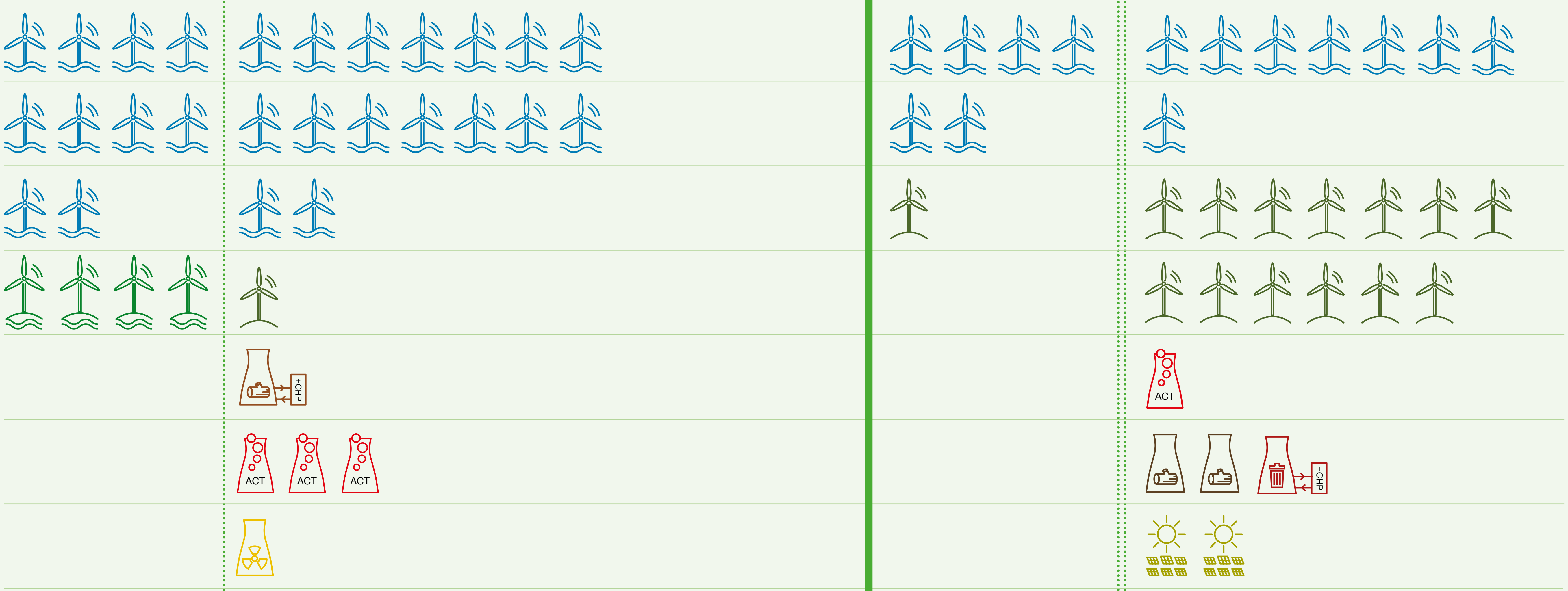
MDD Milestone Delivery Date

FIC Final Installed Capacity

OCP Operational Conditions Precedent

TCW Target Commissioning Window

CfD milestones: Pre-MDD | Pre-start date | Pre-FIC | Post-FIC



CONTRACT SIGNED → MDD → START DATE → FIC

CfD project activity: DEVELOPMENT → CONSTRUCTION → OPERATIONS

Contractual process:

By the MDD, demonstrate commitment to the project by satisfying the Milestone Requirement either via the '10% Spend' route or the 'Project Commitments' route (MDD is 12 months from contract signature).

A generator can submit a Start Date Notice once it has satisfied all of its OCPs. Projects can start generation that will receive difference payments at any point after the start of the 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 has not been declared.

If the facility uses thermal technology there are ongoing requirements for Fuel Measurement, Sampling, and Sustainability.

1. All positions shown as of 31 March 2021, except for two terminations that occurred after 31 March whose symbols have been removed.

Offshore Wind | Onshore Wind | Remote Island Wind | Nuclear | Biomass Conversion | Dedicated Biomass with CHP | Advanced Conversion Technologies | Solar | Energy from Waste with CHP

Performance against Strategy

LCCC's role in delivering the CfD and Capacity Market schemes has been critical in the last year as the world continues to be impacted by COVID-19. Despite these unprecedented times, we continued to deliver against our strategic objectives and worked closely with stakeholders to ensure minimal impact on projects.

We have seen 18 projects reach the critical milestones of Milestone Delivery Date (MDD), Operational Conditions Precedent (OCP) and Final Installed Capacity (FIC).

Performance against Strategy

Our key strategic objectives against which our progress is measured are highlighted in Figure 1.

Figure 1: Our four strategic objectives

Our key achievements in 2020/21 Delivery Excellence

Over the past year, the milestones, schedules and scope for flexibility built in to the CfD contract provided an important safety net for teams and projects across LCCC's portfolio. Despite the unprecedented impact of COVID-19 on business-as-usual operations, LCCC's teams were able to pivot to face the challenges of the pandemic and made significant strides to bring new low-carbon energy projects online and continue progress on transforming the UK's energy market.

CfD Management

Despite the challenges of operating under lockdown restrictions, LCCC's positive relationships with project teams and the use of remote working tools enabled projects to respond to robust challenges and virtually demonstrate their fulfilment of contractual requirements.

As of 31 March 2021, the total installed capacity commissioned under the CfD scheme has increased to 5.6GW – almost a third of the current total projected pipeline. New projects joining the operational category contributed to the combined low carbon electrical output growing over the year to 22.66TWh from the CfD portfolio, enough to power Scotland[9].

Pages 12 to 13 depict the status of CfD projects as of 31 March 2021. As well as projects commencing operations, progress in 2020/21 included:

- Five projects totalling 742.5MW started generating electricity under the CfD, having successfully met their Operational Conditions Precedent.
- Thirteen projects across biomass conversion and wind technologies completed their Final Installed Capacity tests.
- In 2021/22 we negotiated and signed nine CfD Direct Agreements, at the request of generators, unlocking around £8.5bn[10] of investment in the offshore wind sector.

Four AR3 projects (275MW) have been granted an extension to their MDD due to grid connection delays. Additionally, following the end of the financial year, six AR3 projects (representing 16 CfD contracts and 5.5GW, 95% of the allocated capacity) achieved their Milestone Requirement (MR) by the Milestone Delivery Date (MDD) in April 2021. During 2020/21, three projects (34 MW) were terminated, all of which were ACT projects.[11]

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 first big lift by the world's largest crane. The 250m tall "Big Carl" crane lifted a 170-tonne prefabricated part of the Unit 1 reactor's steel containment liner into place. Despite the positive progress, the challenges related to the scale, complexity and nature of Hinkley Point C should not be underestimated. In January 2021 EDF SA announced that the Commercial Operation Date of Unit 1 is now expected in June 2026 (formerly December 2025) and the previously disclosed risk of a 15-month delay to the Commercial Operation Date of Unit 1 still remains.

A year of firsts

With teams having successfully managed the move to fully remote working, the period covered in this report saw the achievement of several milestones for LCCC and the CfD portfolio, including:

- Enfinium Kemsley became the first energy-from-waste plant within the CfD portfolio to achieve its OCPs and start date, in July 2020.
- Energy Works Hull became the first advanced conversion technology (ACT) project within the CfD portfolio to complete its FIC, in July 2020.
- The third and final phase of East Anglia One achieved its scheduled start date in May 2020, and the project became the first apportioned CfD wind farm to complete its Final Installed Capacity (FIC) milestone, in February 2021.
- The third and final phase of Hornsea One, the world's largest offshore wind farm, achieved its scheduled start date, in March 2021.

Five projects started generating electricity under the CfD, having successfully met their Operational Conditions Precedent.

Thirteen projects across biomass conversion and wind technologies completed their Final Installed Capacity tests.

Nine CfD Direct Agreements being signed to assist CfD generators financing or re-financing their projects.

9. Based on the sub-national total final energy consumption, and assuming a slight drop in 2020 due to COVID-19.

10. Source: https://www.mufgemea.com/media/mufg-advises-sse-on-landmark-green-financing-in-offshore-wind/ https://www.equinor.com/en/news/20201126-doggerbank-financial.html

11. The terminated projects include Bulwell and Small Heath, which were unable to demonstrate a viable path toward meeting the contractual Milestone Requirement by the Milestone Delivery Date (MDD) in April 2021, and Rebellion which was formally terminated after the project failed to respond to our communications over a period of several months.

As of 31 March 2021, the total installed capacity commissioned under the CfD scheme has increased to 5.6GW.

The third and final phase of Hornsea One, the world's largest offshore wind farm, achieved its scheduled start date, in March 2021.

ENFINIUM KEMSLEY: CASE STUDY

A waste-to-energy facility in Kent

Delivery Excellence
(Continued)

During the COVID-19 pandemic, technology is playing a crucial role in keeping our society functional in a time of lockdowns and quarantines. Enfinium Kemsley, a waste-to-energy facility in Kent, demonstrated how video conferencing technology could be used successfully to hot commission its new 72MW (gross)/ 64MW (net) Siemens steam turbine generator, a process typically completed through multiple UK Power Networks (UKPN) on-site visits and required to be evidenced as part of LCCC's Operations Condition Precedent (OCP) process.

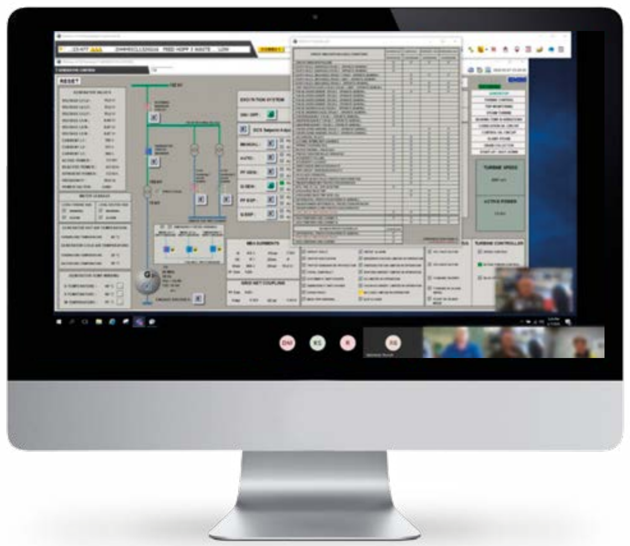
With no site visits taking place during the pandemic, Kemsley proposed a creative solution to the traditional process by using video conference technology to achieve grid synchronisation with UKPN.

The UKPN grid connection agreement usually requires on-site visits to witness and confirm project compliance. Instead, Enfinium Kemsley and EPC contractor CNIM used Microsoft Teams live video footage, together with USB cameras deployed around the facility to allow UKPN to visually inspect the required data to ensure hot commissioning tests were compliant and to be able to share the results with the LCCC and its technical advisors as part of demonstrating the 80% commissioning requirements in the CfD OCP process.

LCCC worked with its technical advisors and K3's site team (who had limited access to site) via various online platforms and Microsoft Teams to ensure all relevant commissioning test results and data required for demonstrating compliance with the CfD Operation Condition Precedents (OCPs) could be shared, examined and discussed, and not delayed by COVID-19 restrictions. As the project was already running behind schedule, satisfying the CfD OCPs was time sensitive and communication between all parties was key to achieving the Start Date as quickly as possible. K3 and LCCC's strength of relationship enabled an open and efficient sharing of information and documentation and ultimately to achieving the Start Date and Final Installed Capacity shortly thereafter.

K3CHP was also impacted by COVID-19 due to the very low energy prices experienced during 2020 which led to its off-taker choosing grid supply over K3's supply. This in turn caused K3's plant efficiency to decrease and its CHPQA multiplier to be affected, potentially impacting its generation for all of 2021. BEIS and the CHPQA administrator decided to consult on thermal plants potentially impacted by COVID-19 and the onward impact of the CHPQA multiplier. LCCC worked with BEIS to ensure that K3CHP's case was heard in the consultation process and flagged that as K3CHP was commissioned in 2020 and did not have any 2019 performance data to rely on, as with other thermal plants commissioned in 2020, alternative means of assessing performance for 2020/21 should be considered.

BEIS subsequently allowed design data to be used as a temporary solution for 2020 for thermal plants and K3 was able to use this relief option. With independence and impartiality, LCCC used evidence and its Trusted Advisor role to flag to BEIS how its eligibility criteria in the consultation needed to consider a different perspective to ensure that a CfD generator was not unduly impacted.



Managing the impacts of COVID-19

Business continuity

Following the restrictions put in place in March 2020 as a result of the COVID-19 outbreak, we successfully implemented our Business Continuity Plan and maintained performance in all areas of our business. Staff have continued o work remotely, with Sharepoint and online meeting applications supported by the cloud environment being vital tools to maintain successful collaboration across the business. Regular online all-staff and team meetings, as well as virtual away days, have played a crucial role in engaging and supporting staff.

Supporting CfD generators

At the outset of the crisis, LCCC's Contract Management team reached out to CfD generators to understand how projects were being impacted. LCCC also published guidance explaining our view that COVID-19 could be a Force Majeure event (depending on whether and how projects were affected).

During the year, LCCC has received a number of claims relating to COVID-19 and delayed grid connection works; the majority of these claims have now been resolved.

Forecasting the CfD levy

As well as considering the impacts on projects under construction, during the course of the year we continually re-evaluated our Supplier Obligation Levy forecast to ensure that we would have sufficient funds to pay CfD generators as business electricity demand reduced due to the coronavirus lockdown. We also worked closely with the Delivery Body (ESO), Ofgem and BEIS, to understand the potential impacts on electricity suppliers. In April 2020 we agreed to take an interest-free loan from BEIS to help fund the projected April to June shortfall in Supplier Obligation Levy receipts. This shortfall resulted from the significant drop in electricity demand and the impact on the amount required for CfD payments due to falling electricity prices.

In such unprecedented times, it has been challenging to forecast with certainty, particularly for electricity demand. LCCC's Forecasting Team worked with the information available to forecast successfully the impact of COVID-19 on demand and provide a robust evidence base for discussions on the BEIS loan to bridge the projected shortfall in levy collection for the CfD scheme. The BEIS loan of £75m is due to be repaid in July 2021 from levy funds collected from suppliers, following the CfD reconciliation exercise to be carried out relating to April to June 2021

Capacity Market Management

In 2019/20, the main activity in managing the CM was preparing the systems and participants to be ready for restarting the mechanism. As reported in last year's Annual Report, this happened smoothly and obligations to capacity providers were fulfilled. For this to happen, much work on making the Capacity Market more efficient and resilient had to be delayed. The focus in 2020/21 turned to this continuous improvement activity, and steady enhancements have been made on many fronts.

A key focus has been on improving the systems and processes for Stress Events, where a change of approach has been used to drive improvements. Rather than test the whole system through a Mock Stress Event, individual elements have been isolated and subjected to more frequent checks of the underlying processes in partnership with National Grid ESO Delivery Body where we rely on timely and accurate data. This allows a swifter feedback loop for continuous improvement. It also allows the impact of system and policy changes to be tested as they are implemented. This approach is being continued into 2021/22 and should improve the robustness of the Stress Event infrastructure markedly.

This method of breaking down processes and driving operational improvement has also been applied to simplification of the Capacity Market from end to end, across all delivery partners. Four specific end-to-end reviews were held in the past year, all of which resulted in operational improvements.

Change delivery

Over the course of the year, we delivered 25 system, process and/or service improvement changes. Of these changes, 22 were targeted at improving the overall service delivered through our settlement system, with a mixture of front-end and back-end improvements. The remaining three changes implemented Capacity Market policy, regulatory and rule changes, and system functionality relating to the CfD contract. In addition, we have supported National Grid software releases.

Regulatory system and process changes

CfD changes implemented during the year related to the systemisation and more robust calculation for the Hinkley Point C unique Strike Price Adjustment calculation.

Capacity Market changes included those required to enable full 12-month visibility of payment schedules for both Provisional and Revised Supplier Schedules. The aim of this change relates to providing enhanced visibility for suppliers relating to their payments, including retrospectively, once actual market shares are determined. The final system calculations of the annual reconciliation relating to the CM Standstill Period were also introduced.

CAPACITY MARKET

A key focus has been on improving the systems and processes for Stress Events, where a change of approach has been used to drive improvements.

Delivery Excellence
(Continued)

Service improvements changes
Our CfD service improvements incorporated the inclusion of the Total Reserve Amount (TRA) Notices on the EMRS Portal to make them more accessible to electricity suppliers. The CfD apportioned meter daily data flow has been automated to include auditability and traceability by LCCC. The CfD decoupling from the old IMRP methodology to the new one, required because of EU Exit, was delivered in early January.

The main **Capacity Market service improvement** during the year related to Stress Events. The improvement was to include Capacity Market Volume Reallocation Trading via the EMRS Portal, substituting the old email and Secure File Transfer Protocol (SFTP) process to make the user experience much smoother.

Additionally, a key **improvement for electricity suppliers** this year has been the redesign of the annual Capacity Market Supplier peak demand forecast process, which is now fully systemised and introduces basic forecasting to help suppliers' estimations on a rolling basis.

Settlement system enhancements
EMRS has been implementing enhancements to our systems by reducing the processing time of some calculations. As a result, our settlement system now allows re-runs within the same day, rather than having to run them a day ahead, reducing a number of operational risks. User Interface management and system audit reporting have been improved. A more efficient change process has been agreed with the Delivery Body (ESO) to allow to improve of joint operational improvements. Finally, one of the biggest risk mitigations relating to human error this year has been to automate the defaulting of Depute Final (DF) data from the BSC in the D0357 files.

Engaging with our stakeholders

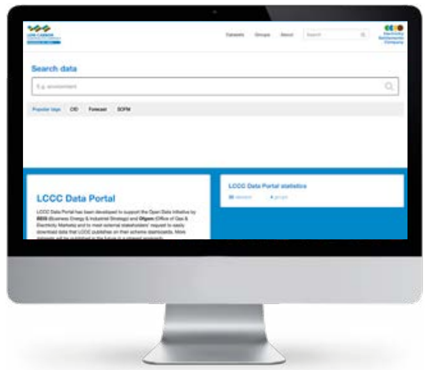
In response to the constraints imposed on physical events, LCCC moved to deliver a full event programme online in 2020/2021. Quarterly updates on the upcoming ILR/TRA have attracted an audience of primarily supplier representatives keen to understand the latest figures and forecasts, and their impacts. New for 2020/21 was a quarterly webinar series focused on the specific needs and issues of CfD generators. This formed part of a broader plan to incorporate stakeholder engagement into the regular activities of the Contract Management team. Both these event programmes are set to continue throughout 2021/22.

We also engaged with stakeholders across the CfD and CM programmes through one-to-one meetings, round tables and focus groups which enabled us to discuss issues in greater depth; of particular note were our round tables for small suppliers and the focus group discussing AR4 Supply Chain issues.

We worked closely with partner organisations to deliver events throughout the year, with stakeholders from EMRS, BEIS, Ofgem and National Grid presenting segments during LCCC's events. LCCC colleagues have also spoken at external events including Energy UK and RUK annual conferences, the Westminster Energy, Environment & Transport Forum, CCSA's 2020 Annual Conference, the UK Sustainable Infrastructure Policy & Investment Summit and the East of England Energy Group's Skills For Energy event, as well as Utility Week's Countdown to COP26 webinar.

While we look forward to reinstating in-person events, the use of virtual platforms and events has increased engagement with, and access to, LCCC's expertise in delivering the CfD and CM schemes. The past year has seen higher attendance levels at LCCC's events as our stakeholders are able to join remotely, meaning geographical distance from London has ceased to be a barrier to attending – indeed, many virtual events have attracted international attendance. Moving forward we aim to launch a virtual and in-person event calendar when permitted.

Centre of Expertise



Open data
As part of the LCCC's responsibility for managing CfD and Capacity Market schemes, we handle a huge amount of data. As an Arm's Length Body (ALB) of the Government and a strong supporter of the Presumed Open recommendations of the Energy Data Taskforce, we aim to share as much data as we can, and in as useful a format as possible.

Building on our initial Transparency Tool, we developed a set of dashboards with some of the data available as downloadable spreadsheets. Separately, our stakeholders, particularly suppliers, have asked for more data to be provided, and in a wider range of formats. To respond to this, during 2020 our Data & Analytics team expanded their internal capability and developed in-house a robust data portal using open-source software to provision all backing data for our dashboards in both downloadable and Application Programming Interface (API) formats.

The Data Portal also provides a good platform to continue expanding our data provision, both to meet (and ideally exceed) stakeholder expectations and to drive forward the general "Open Data" agenda by role-modelling best-in-class data management, including provision. The Data Portal[12] provides downloadable data on 18 datasets in four groups:

- Capacity Market
- CfD Actuals
- CfD Forecasts
- Levy

The Data & Analytics team has also introduced the Capacity Market dashboard[13] which allows capacity providers to identify upcoming Capacity Market activities and display high level information, such as the relevant CM Delivery Partner(s) and links to useful guidance, working practices and materials.

In the last year, we had several requests for a 24-month forecast for the ILR/TRA, which has been implemented and is available on the LCCC website.

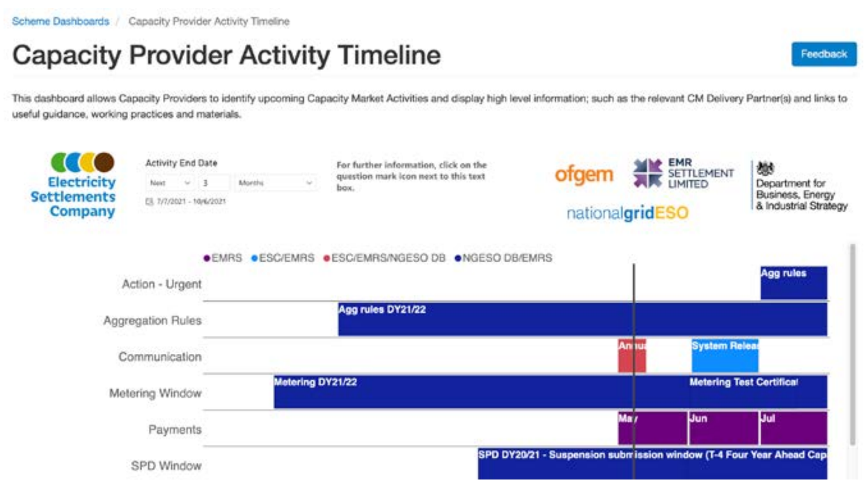
Insights into the CfD and Capacity Market schemes
In Q3, we launched our Insights programme of publications written by our experts on key topics including Why is the CfD "Value for Money"?, Investor Insights and Stepping Stones to Allocation Round 4. Our Insights aim to inform stakeholders on key topics we know are of interest from conversations we have had with industry and stakeholders. Our intention is to continue engaging and providing insights through our website and events.

The results from our 2020 Stakeholder Survey highlighted an appetite for more events, which resulted in LCCC colleagues hosting a range of webinars, including quarterly webinars for generators and a new quarterly supplier update which was attended by over 140 suppliers. It's been a busy year with industry events too, with our experts speaking at many events (see box on page 20).

During 2020/21, our website was updated with the following guidance documents:

- Strike Price Adjustment (SPA) Guidance – July 2020
- Installed Capacity and Final Installed Capacity Guidance – August 2020
- Milestone Requirement (MR) Guidance – September 2020
- Forecast Data Guidance – November 2020
- Capacity Market Stress Event Guide – December 2020.

Figure 3: Snapshot of one of LCCC's Capacity Market timeline dashboards



12. https://www.lowcarboncontracts.uk/data-portal/
13. https://www.lowcarboncontracts.uk/dashboards/capacity-provider-activity-timeline

Trusted Advisor

Our role in advising Government

This year we have continued to support policy development work by sharing our knowledge and experience with BEIS. We have actively engaged with BEIS on changes required ahead of Allocation Round 4 as well as on the Call for Evidence on 'Enabling a high renewable, net zero electricity system', which explored options to evolve the current CfD mechanism for future allocation rounds. We have also continued to engage with the Capacity Market policy development process, supporting the annual consultation on changes and beginning to prepare for the 10-year review.

Our expanded role in Net Zero

Momentum has been building around new initiatives to deliver Net Zero carbon emissions across all sectors of the economy. LCCC's aim is to educate and inform policy-makers about the experience of the CfD, so that they can see whether our low carbon contract instrument is appropriate for these new areas. This activity has resulted in LCCC being asked to contribute to policy development in some key sectors.

Over the last year, our Policy and Insights Team have been working closely with BEIS on Carbon Capture Usage and Storage (CCUS). CCUS is a key element highlighted in the *Ten Point Plan* and the *Energy White Paper* published in December 2020. In December 2020, BEIS also published an *Update on potential business models for CCUS technologies*, in which LCCC was named as the *potential* counterparty to take this forward. BEIS also published LCCC's "Industrial Carbon Capture – Indicative Heads of Terms", a piece of work commissioned by BEIS, as an annex to its Update.

In response to Government announcements and our work with BEIS, the LCCC Board has provided clear direction to continue developing our role in new technologies such as CCUS in the coming years. We have also been working with BEIS to amend our Articles of Association and Framework Document to enable potential new activities in these areas.

Supporting investor confidence and protecting consumers

LCCC believes it is essential that the CfD and CM schemes evolve in line with the rapidly evolving market and an acceleration of the speed of decarbonisation if we are to maintain investor confidence and continue to protect consumers. We are therefore actively seeking to keep abreast of developments and understand their possible impacts to anticipate the need for changes to the schemes.

> **"LCCC's work for BEIS on the indicative heads of terms for BEIS' proposed Industrial Carbon Capture Contract has been instrumental in moving forward discussions with industry. LCCC have brought their expertise from the electricity sector to help support the BEIS team leading the development of the new business model as well as presenting at industry expert groups."**
>
> **Will Lochhead**
> BEIS Deputy Director, Industrial Decarbonisation

This year, LCCC was involved in the *Recosting Energy Report* by Challenging Ideas, a wide-reaching piece of research that called for a change in energy system objectives from consumption to optimisation, amongst other proposals. LCCC was also a stakeholder in the *Rethinking Electricity Markets* project, an Energy Systems Catapult initiative to develop proposals to reform electricity markets to enable decarbonisation.

Additionally, LCCC was a partner in the Carbon Trust/Imperial College *Flexibility in Great Britain report*. This publication and its underlying analysis is an update of their 2016 report on '*An analysis of electricity system flexibility for Great Britain*'. The new analysis is aligned with the Net Zero agenda and has been extended to include the heat sector and innovative technologies such as carbon capture and storage, hydrogen and negative emissions technologies. Of specific interest to LCCC was the use of the Imperial College Integrated Whole Energy System (IWES) model, a system optimisation model that helps inform the performance and compatibility of existing mechanisms with future system requirements and therefore our understanding of how these might need to evolve.

LCCC is pleased to have contributed insight to these independent reports[14], sharing the knowledge we have built up in the course of delivering the CfD and CM.

> **"There's definitely been a visible shift this year in our involvement in policy development. On the future of the CfD and Capacity Market, LCCC is advising BEIS earlier in the process, helping identify and develop robust implementation solutions. We are also providing advice on the development of new schemes."**
>
> **Ruth Herbert**
> Director of Strategy & Development

14. LCCC's involvement in these studies does not constitute an endorsement of their findings or recommendations.

People Centric

Our people

LCCC's People objective 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

People are critical to our business' success and therefore employee attraction and retention is material to LCCC. 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 and, in 2020/21, 43% of 37 role vacancies were filled internally.

Apprenticeship Scheme

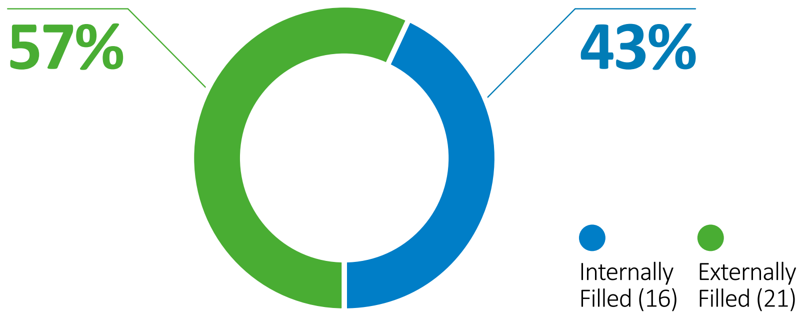
This year we have introduced our first Apprenticeship Scheme and have employed three apprentices working in our Data & Analytics, IT and People and Organisation Development Teams respectively, demonstrating our commitment to developing young people and growing the skills we need for the future.

Rewarding our people

Innovation runs through the DNA of LCCC and we encourage our people to contribute new ideas and solutions for enhancing our Trusted Advisor status both internally and externally. In 2020/21, we introduced a number of strategic initiatives which showcased staff innovation, including the *Smart and robust use of Data & Analytics Strategic Initiative* which has underpinned our external insights series as well as driving the efficiency of internal business operations.

As a company we celebrate employee successes and innovation, and throughout 2020/21 we have recognised

Figure 4: LCCC vacancies filled internally – 2020/2021



and celebrated those employees who have innovated across the company and effectively demonstrated our values, by way of our *All-Staff meetings*, annual values recognition and in-year recognition awards.

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

Our workforce

Our highly skilled workforce is one of our key strengths and we want LCCC to be a place where people feel engaged and inspired to be the best they can be. Our values sit at the heart of this to enable a culture that will deliver against our strategic objectives. During 2020/21, we employed an average of 69 permanent employees, five fixed term employees and two contractors. With continued expansion of our business operations, we recruited 21 people during the pandemic, all of whom were on-boarded and continue to work and be managed remotely.

Employee engagement

This year, following employee feedback, and to enhance the employee experience, we developed and implemented the 'Moments that Matter' Initiative to develop consistency across the most important employee touch points during their tenure at LCCC. We also undertook a number of smaller initiatives including building awareness of what our different teams do, and provided training on giving and receiving feedback as a way of encouraging cohesion and collaboration among our people.

Our most recent staff engagement survey, 'Your Views, Your Voice, Our Journey', was conducted in February 2021. The survey had an extremely high response rate of 99% and resulted in an 81% overall engagement score, an increase of 11% on last year's survey. The survey results show that we have made meaningful gains in key areas employees said were important in the previous survey.

Most importantly, 95% of our employees approved of our COVID-19 response and felt supported by LCCC during the pandemic, with 89% of employees feeling their line manager takes an interest in their wellbeing. 95% of our employees care about the future of our organisation, 87% of our people are proud to work for LCCC and 84% of employees agree that working here makes them want to do the best work they can. These results and corresponding feedback suggest that engagement levels are largely driven by LCCC's ethos and its role in supporting the UK Government in achieving Net Zero by 2050.

The survey results have provided useful insights to help LCCC to both build on its areas of strength and be responsive to suggestions for improvement. Actions will be implemented throughout 2021 by senior leadership and our engagement champions and we will continue to monitor progress throughout this year.

People Centric

(Continued)

Investing in our people – LCCC, a learning organisation

We empower our people to develop themselves and their teams, providing tools to drive career development and growth. As a learning organisation, we support staff in developing their skills and capabilities. In our recent engagement survey, 83% of employees agreed they have the opportunity to take part in the training and development they need to do their job.

In 2020-21, to build upon our role as a Trusted Advisor and Centre of Expertise, we launched a new learning and development curriculum that continues to upskill our people and give them the business and industry sector skills they need. We have sponsored 18 professional qualifications in 2020-21,we have continued to use LinkedIn Learning and have seen a significant increase in this mode of learning, circa 70% increase over the last year. In total, in 2020/21, LCCC staff attended 352 days of learning.

Health, safety and wellbeing, our COVID-19 Response

2020/21 has been a challenging year for the business, with the onset of the COVID-19 outbreak and the subsequent restrictions and lockdowns. Since COVID-19 was first reported, LCCC closely monitored the ongoing wellness of our employees. The health, safety and wellbeing of all our employees and their families is a primary concern. LCCC seamlessly transitioned to remote working on 17 March 2020, and we have continued to work in this way throughout the year.

In February 2020 we developed a dedicated Coronavirus page on our intranet for our employees, providing up-to-date UK Government information and guidance on the pandemic including frequently asked questions (FAQs) and useful resources such as access to our staff wellbeing hub and employee assistance programme (EAP). We trained selected employees to be mental health first-aiders to help the business spot signs of stress and anxiety, mental health strain and burnout. Our mental health first-aiders are able to provide colleagues with initial support and signpost them to relevant resources and/or assistance. The business also conducts quarterly one-to-one check-in calls with every employee to safeguard their wellbeing and to ensure they have the right equipment and resources to effectively work remotely.

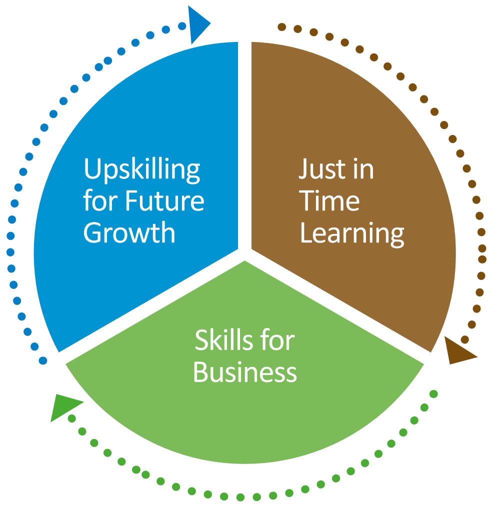
We have monitored morale and wellbeing through a number of very popular endeavours to maintain our employee engagement levels throughout the pandemic. This includes 'Tea with a TeamMate', an LCCC innovation which matches employees at random for a 30-minute optional chat over coffee. Other popular activities have been online yoga and pilates classes, and our Thursday evening 'Helen's Pub', an optional weekly virtual social gathering with regular team quizzes.

"Looking after our employees' wellbeing is our top priority, with an emphasis on support and building resilience in our people"

Cynthia Duodu
Director of People and Organisation Development

We implemented a return-to-work protocol in line with UK Government guidance, ensuring our existing office at Fleetbank House is COVID-19 secure. When lockdown restrictions eased at the end of 2020, we implemented voluntary Touchdown days for employees who could not work from home or preferred an office environment to work from. This enabled a limited number of staff to return to the office for two days per month on a voluntary basis.

Figure 5: Our L&D strategy



COVID-19, and the pandemic more generally, accelerated our plans for introducing additional flexibility in the way we work. As a consequence, we developed and implemented our new Smarter Working Policy following the successful transition of the organisation to remote working due to the pandemic, and in readiness for when we return to normal office working.

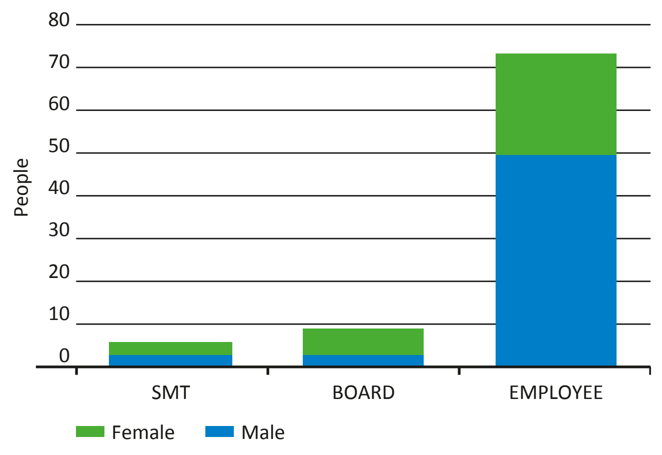
Diversity and Inclusion

LCCC's vision is to foster a diverse, inclusive and engaging work environment where divergent views and opinions are valued. We are at our best when people with different backgrounds and experiences come together to collaborate and innovate to produce exceptional business outcomes.

We have 16 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 in. Approximately 35% of staff are from a Black or Minority Ethnic Group (BME); approximately 34% of our staff are female and 50% of our senior leadership team are female. Currently, six out of nine Board members are women (over 65%). We are not complacent, however, and we are using this analysis to ensure we keep the gender and ethnicity make-up and balance of the organisation in check. We are still working hard to attract and maintain diversity and inclusion in our business.

Figure 6: LCCC gender split – 2021

Figure 7: LCCC gender split – all levels (Board, senior leadership and employees)



Gender and Ethnicity Pay Reporting

We continue to report on our gender and ethnicity pay practice in support of and in line with 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 employee population of 80, while the requirement for compulsory reporting starts at 250 employees. This year, while the absolute numbers of female and BME staff are the same, the numbers of male and white staff have increased slightly, which has impacted on the male/female and BME/white ratios. Overall employee diversity is good, with 28% of staff (22 employees) representing 15 non-British nationalities.

Gender pay gap 2020/21

The company gender split is 66% men (53) and 34% women (27). Overall, 19 or 70% of the female employees are in the lower two quartiles and only 8 or 30% are in the top two quartiles. The table below shows that using the average or mean of hourly pay, women are paid 14.8% less than men (down from 8.6% in 2019/20). The median of hourly pay for women is slightly higher than in 2019/20 at 16.8% less than the median for men (the difference was 18.8% last year). Given LCCC's size, small variations in staff make-up have a big impact on the data.

People Centric
(Continued)

Table 2: Overall gender gap – hourly pay

Overall gender gap	Female	Male	% difference female vs male	Last year % difference
Mean (Average)	£30.40	£35.68	14.8	8.6
Median	£27.63	£33.22	16.8	18.8

Ethnicity pay gap 2020/21
The company's Black Minority Ethnic (BME) split is 65% white staff (52) and 35% BME staff (28). This proportion is not reflected at the top quartile, and broadly reflected in the 2nd and 3rd quartiles, with more BME staff at the lower quartile and fewer at the lower middle than the 65/35 ratio overall. The average or mean of hourly pay gap for BME staff is 14.5% less than white staff (17.4% less last year). The median hourly pay for BME staff has narrowed slightly and is now 7.6% less than for white staff (it was 13.4% less last year).

Table 3: Overall ethnicity gap – hourly pay

Overall ethnicity gap	BME	White	% difference BME vs white	Last year % difference
Mean (Average)	£30.54	£35.71	14.5	17.4
Median	£28.15	£30.45	7.6	13.4

We recognise there is more work to be done to improve diversity within the business and this is being addressed through succession planning and company-wide diversity and inclusion programmes.

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 continue to encourage staff to use their volunteering time to support a charity or community group of their own choice, or to take up an opportunity to support our charity partner, Renewable World.

Even though the global pandemic and national restrictions largely prevent in-person volunteering, we have successfully leveraged our remote working situation to strengthen our partnership with Renewable World. Aside from promoting opportunities for staff to provide remote pro bono work for the charity and hosting a Lunch & Learn with their Nepal team, we have reached new fundraising heights by raising over £3,000 to support the charity's work as part of our corporate 2.6 challenge, launched at our away day in October. In total, over the years, we have raised over £8,000 in support of Renewable World. We are proud of our collective achievement and support for Renewable World, which works tirelessly to tackle energy poverty, promote sustainable development, and protect the environment.

Performance Overview

Key Performance Indicators
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, adjusted CfD cost variance to forecast, and audit performance.
- **Stakeholders:** query management, and LCCC seen as a proactive and innovative Trusted Advisor, as evidenced by annual independent survey.
- **Operations:** delivery of LCCC's contract management obligations (including management of non-standard requests), accuracy and timeliness of CfD and Capacity Market settlement invoices and notifications, management of internal change projects, and LCCC seen as experts in scheme delivery, as evidenced by annual independent survey.
- **People:** staff engagement, as evidenced by annual survey, and staff retention rate.

We have delivered on our **strategic initiatives** over the last three years, which has been part of our performance assessment. In 2020/21 we achieved:

- delivery of a programme of published insights on the LCCC website including topics such as 'Why is the CfD Value for Money?', 'Stepping stones to Allocation Round 4' and 'CfD investor analysis';
- launch of the LCCC Data Portal in December 2020, following requests from stakeholders for more downloadable data, which now includes 18 datasets;
- implementation of a stakeholder engagement plan with an enhanced programme of webinars informing and supporting stakeholders;
- increased 1-2-1 engagement with generators, and focus groups conducted with suppliers, to better understand how we can support them through the schemes;
- increased brand profile online on LinkedIn and Glassdoor with industry and potential and past employees respectively; and
- increased engagement among our people, this year's engagement survey delivered a response rate of 99% and an overall engagement score of 81%, an increase of 11% on last year's survey.

NET ZERO

"LCCC is at the centre of Net Zero – the work is very interesting, with new challenges every day and with opportunities to have a positive impact in the UK renewables landscape."

Glassdoor comment

Performance Overview

(Continued)

Performance against KPIs

The performance of LCCC against the metrics described above is summarised in the table below.

Strategy Dimension	Performance Measures	Score against target	Strategic Initiatives	Progress against SI outcome
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). • Average of quarterly net cash position over forecast CfD costs. • Number of material audit issues in 2019/20 audit.		**Simplified/streamlined internal operations** *Outcome: Improved operational efficiency*	
Stakeholders	• % of policy and regulation stakeholders viewing LCCC/ESC as a Trusted Advisor in electricity policy implementation. • % of queries responded to within 7 working days (excl. CfD/CM participants and FOI requests).		**Improved brand positioning** *Outcome: Enhanced brand awareness* **Powering Net Zero** *Outcome: Applied our knowledge to future market design and new technologies/sector*	
Operations	• Number of significant failures in core services as a result of COVID-19. • % of CfD and CM participants viewing LCCC/ESC as experts in scheme delivery. • % of LCCC's (response) notices for standard contractual processes delivered within the contractual timescales. • % of issued invoices, payments and meter checks delivered on time to CfD & CM participants. • % 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 change projects/initiatives delivered within 10% of planned completion date and external spend against PID baseline.		**Smart and robust use of Data & Analytics** *Outcome: Increased in-house capability to deliver analysis, automation and data*	
People	• % of staff that felt supported through the COVID-19 outbreak. • % employees engaged as per annual staff survey. • % retention rate for staff with <=2 years service (excl. Fixed Term Contracts).		**Dynamic and agile culture** *Outcome: Able to innovate inside the business and respond to stakeholder needs in a timely and expert manner*	

Financial Overview

The company is the counterparty to, and is responsible for managing, a large number of long-term CfDs. It funds the payments it makes to CfD generators by the collection of levies from electricity suppliers. The company's own operational costs are funded by a separate levy on suppliers.

Generator payments

The company pays CfD generators when the market reference price for electricity is lower than the contractual strike price applicable to the relevant generator. Should the reference price be higher than the strike price, the CfD generator pays the difference to the company. The total amount of payments made by the company to CfD generators for electricity generated in the 2020/21 financial year was £2,277.4m (2019/20: £1,803.0m).

The company obtains the funds it needs to make CfD generator payments from a levy it collects from suppliers. The company forecasts how much money it will need to make these payments and then levies 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" and is set on a quarterly basis, three months in advance of the quarter. Suppliers are obliged to pay LCCC a daily amount equal to their eligible demand multiplied by the Interim Levy Rate. This amount is invoiced each working day and must be paid by the suppliers within five working days of receipt of an invoice.

The company, on the other hand, has 28 calendar days to make the payments due to generators (thereby providing a positive cashflow due to timing). The company can also issue an "in-period adjustment" notice requiring additional funding if it becomes clear that the amount to be collected under the Interim Levy Rate is likely to be insufficient (or to reduce the amount of the Interim Levy Rate if it is clear that there will be an over-collection).

In addition to the Interim Levy Rate, the company collects a quarterly reserve (the "Total Reserve Amount"). This reserve amount helps to provide reassurance that the company will have enough money to make CfD generator payments on time to generators. The Total Reserve Amount is the amount which the company calculates is required in order for there to be a 19 in 20 probability of it being able to make all the payments it is required to make to CfD generators during the relevant quarter, taking into account forecasting uncertainties such as electricity prices.

At the end of each quarter the company calculates the difference between the total net payment to generators and the total amount collected from suppliers under each of the Interim Levy Rate and the Total Reserve Amount. It then returns any 'excess' collected to suppliers or, in the case of the Interim Levy Rate, requests additional funds if the payment made to the generators in the quarter is higher than the Interim Levy Rate collected. As at 31 March 2021, £2.0m was receivable from suppliers (2019/20: £101.2m) as part of the quarterly reconciliation. Unutilised Total Reserve Amount due to be returned to suppliers is £127.3m (2019/20: £90.3m). Subsequent to the financial year ended 31 March 2021, 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.

During the year BEIS provided the company with a loan totalling £75.1m to provide short-term deferral of additional Supplier Obligation Levy costs to electricity suppliers which arose as a result of COVID-19. Under the agreement the company is only obliged to make repayments to the extent that it is confident that it holds sufficient funds from electricity suppliers (following the first reconciliation exercise carried out relating to 2021/22).

The company collects credit cover from suppliers for 21 days of Interim Levy Rate payments to protect against supplier default. As at 31 March 2021, the company held £36.7m (2019/20: £36.1m) of credit cover.

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

Financial Overview

(Continued)

Operational costs

The day-to-day operational costs of the company 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 2020/21 was set in the Supplier Obligation Regulations at £0.0614/MWh (which represented an expected budget for operational costs of £17.5m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2021/22 has been set at £0.0760/MWh (which represents an expected budget for operational costs of £20.7m). The operational costs levy rates within the Supplier Obligation Regulations for subsequent years are expected to be the subject of public consultation in autumn 2021, with the parliamentary process taking place after this. The new operational costs levy figures for the subsequent year(s) are expected, as in the usual course, to be in place by the commencement of 2022/23.

The total operational cost levy collected depends on the actual volume of gross electricity demand. The amount collected for 2020/21 was £16.6m (2019/20: £17.0m). This compares with a net operating cost of £15.1m (2019/20: £12.1m). As a result of operational costs being lower than budget and a lower operational cost levy collected, £1.5m of the total operational costs levy is being refunded to suppliers (2019/20: £4.9m).

The company applies robust financial management to ensure that its commitments are managed within both its budgeted levels of spend and the timing of the collection of its operational costs levy.

At the same time, there has also been a contribution to the company's lower cost base from the company not needing to utilise its budgeted MWh electricity volume contingency of £0.8m. This contingency protects the company against a potential 'shortfall' should the volume of electricity demand (i.e. the electricity actually supplied in the year) be less than that estimated at the time when the operational costs levy was set.

Table 4: Delivery Years, budgets, and levy rates

Year	Budget	Forecast of eligible electricity demand (TWh)	Levy rate (£/MWh)
2020/21	£17.485m	284.59	**0.0614**
2021/22	£20.736m	271.84	**0.0760**

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.

The company shares resources with ESC, such as office accommodation, which are paid for by the company, 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 the company's 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 discounted value of payments which the company may be required to pay out over the life of the standard (normally 15 year) CfDs is £36.9bn. The figure for 2019/20 was £38.8bn. The decrease is due to the updated forecast of the wholesale electricity prices that are expected to be achieved by generators, combined with payments made during the year 2020/21. 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 19 of the financial statements.

Valuation 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 910TWh. The CfD had not been recognised prior to the 2019/20 financial statements, as reliable wholesale price forecasts had not been available which covered the unusually long period of the project. The duration of Hinkley Point C's CfD is, at 35 years, more than double the length of other CfDs (15 years) entered into by the company.

During 2019/20, BEIS were able to estimate wholesale electricity prices out to 2060 by effectively 'freezing' the updated 2050 model for all subsequent years. The main driver facilitating BEIS's ability to do this was the Government's commitment to bring all greenhouse gas emissions to Net Zero by 2050, therefore giving more certainty over potential generation mixes into the future. The reasonableness of the DDM price series was assessed against an independent third party forecast for the power market in Great Britain to 2065. As a result, management considered the criteria for recognition had been met and accordingly recognised Hinkley Point C CfD in the 2019/20 financial statements.

Management used the 2019/20 wholesale electricity forecast to value the CfD portfolio as at 31 March 2021. Third party forecasts have been used as reference to support the reasonableness of the internally generated price series derived from the DDM forecast. As a result of the reasonableness of the underlying assumptions of the forecast, management deem the valuation of the Hinkley Point C CfD as a reliable estimate.

The estimated discounted value of payments which the company may be required to pay out over the life of the contract is £52.0bn. The figure for 2019/20 was £50.8bn.

Viability Statement

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

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

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

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

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

Risk Management

Risk management – risks affecting the delivery of our objectives
The Board formally reviews the material risks facing LCCC and ensures that they are appropriately managed by the Management Committee, with a focus on ensuring that management is alert to and takes account of any new or emerging risks. The Board retains ultimate responsibility for the company's risk management framework, with oversight of the overall effectiveness of the risk management programme being delegated to the Audit, Risk & Assurance Committee.

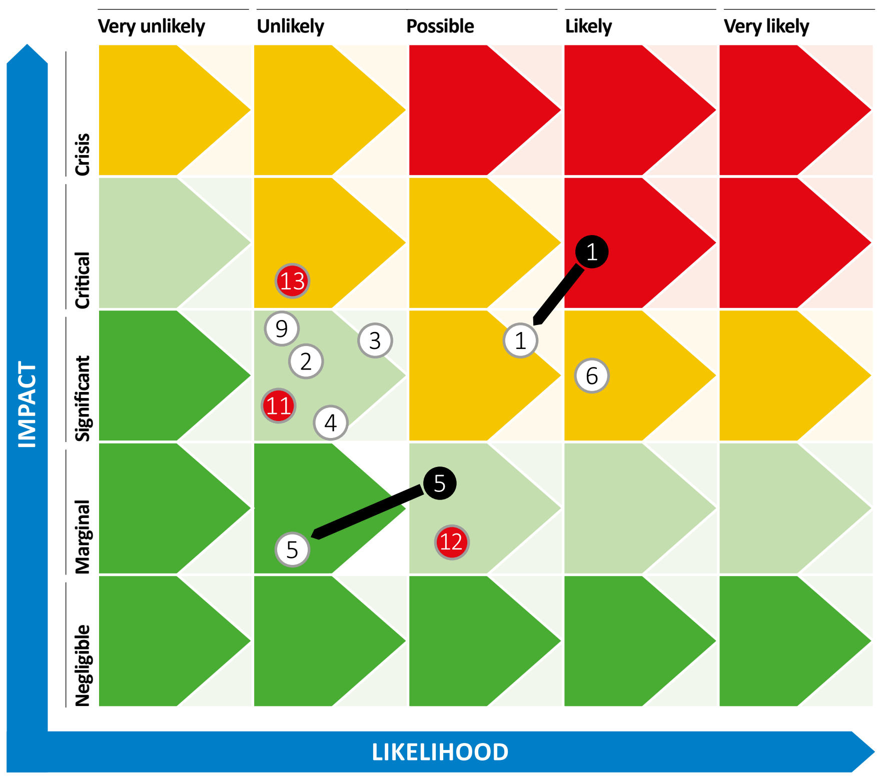
The company has an Assurance & Risk function to provide assurance over controls, including those to mitigate key risks. Assurance & Risk co-ordinates risk management activity across LCCC, with regular sessions held at Management Committee to review, scrutinise, and update strategic risk. During the year, a new Head of Assurance & Risk was appointed.

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

The company's approach to risk management is further detailed in the Corporate Governance Report on page 54. The assessment of the company's most significant principal risks considered by the Board and the corresponding mitigating controls are set out below.

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

Table 5: LCCC principal risks



Key

- 2020 position
- 2021 position
- New risk

Risk

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

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

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
People Inability to maintain/improve employee engagement and retain or recruit sufficiently skilled staff, resulting in adverse business performance and missed strategic objectives. This also encompasses the impact of the COVID-19 pandemic on people, including physical and mental wellbeing.	• There had been an initial upwards movement in this risk area due to the impact of COVID-19, with a focus on the health and wellbeing of our staff. We reverted quickly to a homeworking model, with employee support as a key priority, including regular people check-ins, pulse surveys, communications, and wellbeing month. • We continued to develop relationships with recruitment partners and explored secondment opportunities for staff. • We progressed actions from our previous employee engagement survey with the development of people-focussed action plans, as well as development of succession planning.	
Cyber and Information Security Data is lost, stolen or compromised (by LCCC or within our supply chain) resulting in disruption to business operations, financial loss and reputational damage.	• Movement to this risk in-year reflected the potential increased risk from remote working and awareness of cyber-attacks in the sector. We actively reviewed key lessons learned from wider cyber-attacks to apply within LCCC, as we moved our wider IT infrastructure to the cloud. • We have also sought external expertise to assist us in the longer term for assurance in IT matters, including cyber security. A review is currently underway to benchmark our new operations to best practice, with a roadmap to be produced of potential improvement actions.	

Risk Management
(Continued)

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Provision of Settlement Services • System Change – Business model, systems and processes may not be fit for future resulting in inefficiencies and late/missed delivery of change. • Operational Controls – System and controls may not be robust resulting in errors and reputational damage.	• During the year, the risk was reviewed to differentiate between system change and operational controls to provide better operational join-up. The risk likelihood increased due to wider external risk in the settlements process, although this has since reduced with further mitigations. • Continuous improvement actions have been ongoing, with further assurance provided through an Internal Audit review providing a roadmap for improvements. ARAC also conducted a deep dive of this risk, from which further mitigation actions were taken forward.	
External Market There is a risk we have limited ability to anticipate and respond to competition and the complexity and volume of change in the market, and wider structural market change. We may also have limited ability to proactively influence and prioritise change and scale up activity quickly.	• With the challenges of COVID-19 on the sector, we have worked closely with stakeholders to manage potential impacts. • We have also continued to engage 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. • We have further developed our insights, with a focus on using in-house analytical capability where possible, as well as joining up with other proactive organisations, such as Energy Systems Catapult and Carbon Trust.	
EU Exit There is a risk that we may suffer business disruption and associated reputational damage if we are unable to appropriately manage the effects of the UK exiting the EU. This could impact LCCC in areas such as our people, CfDs, and our supply chain.	• Significant preparation had been in place for exiting the European Union, with an internal committee established to measure impact and provide updates to the Board. • Following the end of the transition period, immediate impacts were assessed. Medium to long-term impacts will continue to be monitored, although this is likely to be subsumed into business-as-usual.	

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Reputation and Relevance to Stakeholders There is a risk that LCCC has limited ability to balance reputation with generators and industry of being independent, with the role of being Trusted Advisor to Government and providing insight.	• As with the risk on External Markets, we have continued to engage with stakeholders, promoting our role of Centre of Expertise. • We have also undertaken significant work to build and develop our external communications function. • Taking on new workstreams represents both a risk and opportunity, which we are managing in line with our risk appetite in this area. We have been successful in working with stakeholders to develop new CCUS schemes.	
Knowledge We may fail to optimise knowledge as an operational/reputational asset due to lack of sufficiently robust data and capability to develop insight. There is also a risk of the loss of institutional knowledge/corporate memory, if key employees are unavailable or leave the business.	• Identified as a new risk for 2020/21 in light of work to better share insights and our recognition of how we should effectively manage in-house knowledge and expertise. • We have developed a Knowledge Management Strategy to promote better knowledge management and information sharing within the business. This also includes a Process Architecture project to map and understand our existing business processes. • We continue to develop our internal succession planning and tailor this to opportunities internally, including secondments and training to improve overall knowledge management.	**NEW RISK IN 2020/21**
Scheme Fraud and Error Scheme fraud/error could lead to financial losses and reputational damage, which could undermine confidence in schemes and the existence of LCCC/ESC. From an external perspective, this could be participants and others trying to defraud the schemes or resulting from error due to different manual inputs. There is also an internal risk due to the potential for collusion, overriding of controls, or misappropriation.	• We have worked to develop the key roles and responsibilities on fraud and error detection with wider stakeholders, given the external involvement. This has helped us to improve overall visibility of this risk. • We have improved Know Your Customer checks and worked to improve visibility of wider scheme risk, including the assurances we receive relating to the fraud and error risk. This will provide us with more opportunity to develop joint assurance arrangements in the future.	

Risk Management

(Continued)

RISK	SUMMARY	RISK TREND (SINCE MARCH 2020)
Contracts for Difference (CfD) Failure to effectively discharge role as the counterparty to CfDs, due to ineffective management of CfD agreements, poor forecasting and/or collection of Supplier Obligation Levy, or settlement of CfDs. Potential for significant reputational damage and/or financial losses and litigation, including judicial review, force majeure, Qualifying Change in Law, metering disputes.	• We have updated guidance relating to this area ahead of Allocation Round 4 and continue to engage and seek feedback from generators. • Lessons learned activities have been undertaken from Allocation Round 3 and applied ahead of the new Allocation Round. • Internal Audit review completed of the area, with a positive assurance. Recommendations have been accepted and implemented to improve overall risk management.	
Governance Changes arising from the Framework Document refresh and associated classification review present opportunities to clarify roles, responsibilities, and reporting. There may also be inefficiencies and delays in shareholder approval processes that might hinder effectiveness. There is also a risk that our internal systems of governance, policies, and risk management are not fit for purpose, resulting in a failure to achieve strategic goals, the potential for litigation against LCCC and/or poor decision-making.	• This risk was reviewed in 2020/21 to include both internal and external elements of governance. These represent risk and opportunity to the company. • We have continued to work with BEIS on new company activity, with consideration on the overall governance arrangements. • We have made several appointments in-year, including a new Chief Financial Officer, General Counsel and several Non-Executive Directors. Knowledge management and continuity have been key factors in terms of how this has been managed.	
Working Arrangements and Office Move Our existing office may not remain fit for purpose until LCCC moves to a new location. This may adversely impact employee engagement, reputation with visitors and health and safety. There is also a risk our office move may also be delayed or may not be fit for purpose, resulting in extra financial cost and disengagement with staff.	• We have continued to work remotely since March 2020, although we introduced 'touchdown days' during periods of reduced restrictions. This risk has been added in recognition of remote working, issues with our existing estate, and our planned move in the summer of 2021. • We have established projects to manage the potential return to our existing estate and our planned office move to Canary Wharf. Risks are kept under close review, with regular communications to staff during periods of lockdown. • We have reviewed our Flexible Working Policy in light of changes to traditional work arrangements. We are also exploring how we develop a more agile and dynamic approach to ways of working in the future.	**NEW RISK IN 2020/21**
Ability to Adapt Opportunities may be missed if the organisation is not dynamic or efficient enough in terms of people, processes, systems, governance – including organisational independence – and controls to adapt to change and competition. There is also the potential for adverse reputational impact to LCCC if the organisation is not seen as relevant long term due to missed business development opportunities.	• This is also a new risk in 2020/21, recognising the potential for organisational change in light of new schemes. We also actively reviewed our internal processes to assess how these could be improved, with a view to making the organisation more adaptable. • We have undertaken business initiatives including simplifying and streamlining existing processes, as well as promoting different ways of working and engaging. This has also extended to external engagement to strengthen our overall brand and image.	**NEW RISK IN 2020/21**
Organisational Resilience LCCC – or wider stakeholders – is adversely impacted by a 'crisis event', resulting in significant business disruption, failure to achieve strategic objectives, and/or a negative impact on people. This also considers the longer-term impact of COVID-19 and the potential for any future lockdowns and business impact.	• This was adapted from our COVID-19 response, as we moved from a business continuity event to establishing new business-as-usual activities. It considered both our long-term resilience as an organisation, as well as our more immediate responses to ensuring business continuity. • We have re-prioritised existing work to ensure we can deliver on essential activities, given external pressures. We have closely monitored emerging risks and issues from COVID-19, as well as commenced activity to reconfigure our business continuity planning in a new working environment. This has also coincided with our move to a cloud-based infrastructure, with assurance activity underway on how this is being managed.	**NEW RISK IN 2020/21**

Risk Management
(Continued)

Effectiveness of our risk management and internal controls

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

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

- Contracts for Difference
- Settlements Key Controls
- HR Key Controls
- Delegated Authority Framework
- Cyber and Information Security
- Scorecard Review.

Alongside the core assurance reviews, there was also significant advisory input during the year. This reflected the changes to the work environment alongside a programme of internal change.

Areas of advisory work included the upcoming office move, managing COVID-19-related impacts, exiting the European Union, and procurement of new systems. Improvement actions were highlighted within individual reviews and positive assurances were provided across key business activities. Follow up of previous actions raised also noted a positive trend towards improving timeliness of responses and the consideration of risk exposure by the business, indicating an improvement in risk maturity. While several high rated findings were raised on particular issues, these were recognised and accepted by LCCC and prioritised for improvement.

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

Signed on behalf of the Board

Neil McDermott
Chief Executive Officer
11 June 2021

COVID

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

Environment Report

LCCC is in the sixth year of capturing and reporting the carbon emissions from its activities and operations. It remains committed to minimising the environmental impact and increasing the climate change resilience of its own operations through continuous sustainability performance improvement.

Data continues to be monitored and recorded, via our carbon reporting tool, which includes electricity, gas, water and waste. LCCC is undertaking exercises to understand Scope 3 emissions related to homeworking as it becomes a vital working model to adapt to increasingly turbulent external factors.

LCCC has continued to capture the impact of staff travel, which at present is limited because of our response to COVID-19. Reporting of the LCCC's greenhouse gas (GHG) emissions continues to be in line with the mandatory carbon reporting format which measures Scope 1, 2 and 3 GHG emissions.

Table 6: LCCC's greenhouse gas (GHG) emissions

Greenhouse gas emissions (Total tCO_2e)	2017/18 Apr – Mar[15]	2018/19 Apr – Mar[15]	2019/20 Apr – Mar[16]	2020/21 Apr – Mar	% change (against 2017/18)
Scope 1: direct emissions	35.78	28.33	40.08	22.30	
Scope 2: indirect emissions	89.45	70.41	62.67	27.41	
Total Scope 1 & 2: emissions	**125.23**	**98.74**	**102.75**	**49.71**	**-60%**
Scope 3: other indirect emissions – Water & Waste Water	1.32	1.96	0.76	0.21	
Scope 3: other indirect emissions – Waste	0.24	0.24	0.25	0.06	
Scope 3: other indirect emissions – Travel	Data not recorded	0.04	0.04	Nil data	
Scope 3: Homeworking emissions	Data not recorded	Data not recorded	Data not recorded	62.38	
Scope 3: Videoconferencing emissions	Data not recorded	Data not recorded	Data not recorded	16.00	
Total Scope 3: building[17]: emissions	**1.56**	**2.20**	**1.00**	**0.26**	**-83%**
Total Scope 3: other[18]: emissions	**Data not recorded**	**0.04**	**0.04**	**78.38**	
Total Scope 1, 2 & 3: emissions	**126.79**	**100.98**	**103.79**	**128.35**	**1%[19]**

The above table displays a breakdown of emissions, by scope and activity, for the 2020/21 reporting year. The table uses the 2017/18 reporting year as a baseline to benchmark sustainability performance and the impact of COVID-19 on the release of emissions across each Scope. As reported in our former annual reports, data from previous years has been revisited where data has become available and also to improve the forecast estimates where data is missing. This may have resulted in changes to the original published data.

15. Estimated data – Scope 1 March, Scope 2 March, Scope 3 February–March (excluding travel).
16. Corrected data – Scope 1: gas and Scope 2: electricity – capture of legacy automated and actuals data.
17. New category – Scope 3 water and waste data.
18. New category – Scope 3 homeworking and videoconferencing.
19. Benchmarking exercise – removed total 'Scope 3: other'.

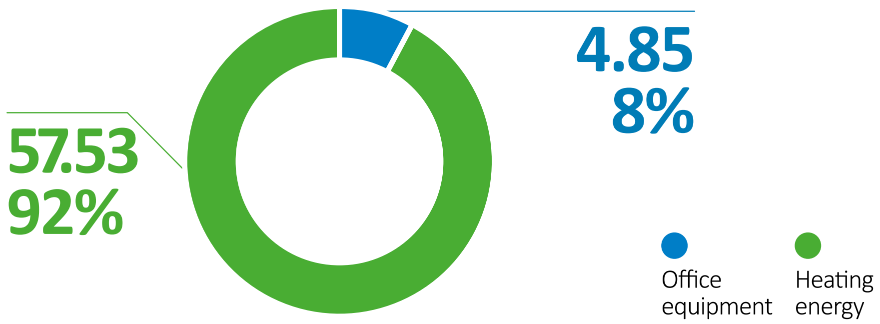
Against the 2017/18 base year, reductions were recorded across Scopes 1 & 2, with a significant 69% reduction in Scope 2 electricity consumption at the site. Impacted by COVID-19 circumstances, LCCC migrated employees to homeworking at the start of the 2020/21 financial year. Limited tenant occupation of the Fleetbank House building has resulted in the reductions of Scope 1 & 2 energy consumption and Scope 3 waste and water. Some building tenants maintained operations within the building causing a slight degree of variation in energy consumption throughout the 2020/21 reporting period. LCCC is impacted by tenant occupation in Fleetbank House because of limited sub-metering in the building. LCCC energy consumption relies on an apportionment calculation from landlord managed total building consumption.

Over the last 12 months the LCCC IT environment has undergone a major change, which has both reduced its overall environmental impact and positioned it to work more efficiently in the future. The previous configuration had 26 servers hosted in two external data centres as well as using a small server room at Fleetbank House, with associated emissions from heating and cooling directly affecting Scope 1 & 2 emissions. A reduced number (18) of LCCC servers/services are now hosted in the public cloud which could be as much as 93% more energy efficient and 98% more carbon efficient.

In preparation for the LCCC move to new offices, workstations are being rationalised from two screens and a docking station to a single screen with built-in docking station functionality and embracing the 'paperless office' model to reduce printing by introducing digital signatures for documents.

To support homeworking, LCCC changed its security stance to one which works on a direct internet connection, removing the need for a separate secure network and the associated infrastructure allowing us to utilise public shared connectivity.

Figure 8: Homeworking emissions (tCO_2e p.a.)



Emissions from Scope 3 waste and water reduced again against the 2018/19 and 2019/20 reporting periods. A decrease in waste resulted from the site achieving zero landfill and from a general reduced volume of waste from the lower occupancy levels in the building.

Scope 3 travel has been reported as nil this year. COVID-19 restrictions and subsequent LCCC policy have stopped Scope 3 travel over the 2020/21 reporting period.

This year COVID-19 has forced organisations to adapt to new ways of working. LCCC took the decision to migrate to homeworking from 17 March 2020. This has enabled the company to evaluate a full year of homeworking and related emissions outside of the usual office scope. Using the EcoAct[20] base case methodology and internal FTE and working hours data, LCCC has calculated homeworking emissions from office electrical equipment and winter heating. Summer cooling has not been included because it is not possible to understand if any employees have air conditioning in their households prior to a survey.

Videoconferencing played a crucial role in creating operational resilience by enabling LCCC's migration to homeworking. Despite the importance of the use of videoconferencing to combat climate change, LCCC recognises that its use of online platforms and data has an impact on the indirect emissions associated with its operation. The internet's carbon footprint had already been increasing before COVID-19 lockdowns, accounting for about 3.7%[21] of global greenhouse gas emissions. Similar to that of the airline industry. This is expected to rise as more organisations migrate to a hybrid working model.

Using Microsoft Teams data[22] and an independent 2020 study[23] LCCC has calculated videoconferencing activity totals and associated indirect emissions for the 2020/21 reporting period. During this time, LCCC estimates that a total of 16 tonnes of carbon emissions were indirectly released from videoconferencing. In contrast, the average UK car[24] emits 1.2 tonnes of carbon emissions over a 10,000 kilometre distance. LCCC recognises the importance of continuing to investigate what impact this may have to the release of Scope 3 emissions from its operations.

20. Source methodology and assumptions: EcoAct Homeworking emissions whitepaper.
21. Lean ICT – Towards Digital Society, The Shift Project, the Carbon Transition Think Tank (2019).
22. Estimation methodology: Monthly averages determined by available MS Teams data – from August 2020 to date (February 2021).
23. Carbon emissions factor – $150gCO_2e/hr$ Zoom use: Researchers from Purdue University, Yale University and the Massachusetts Institute of Technology (2020).
24. SMMT industry report (2019) – 124.5/km average UK car in 2018.

Environment Report
(Continued)

Table 7: LCCC's emissions from videoconferencing

MS Teams meeting activity	Total hours	Emissions (tCO_2e)
Video & screenshare	53,333	8
Audio only	53,316	8

Both investigations into homeworking-related Scope 3 emissions provide a tangible figure for the associated impacts of homeworking. By increasing awareness and understanding of homeworking-associated emissions amongst employees, coupled with the targeted homeworking campaign for Earth Hour 2021, the LCCC continues to integrate sustainability performance and climate change adaption into its operations.

We have commenced the use of floor area (square metres) as a performance indicator to increase reporting accuracy and apportion and benchmark performance across LCCC's utility consumption. LCCC remains 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.

LCCC continues to monitor staff travel and encourage sustainable forms of transport as well as embracing technologies such as videoconferencing.

LCCC has committed to increasing the scope of data capture and monitoring across operations. We have recorded a significant overall reduction in Scope 1, 2 & 3 emissions related to estate operations, as expected with the closure of the office for the 2020/21 financial year. Led by LCCC IT, the transition to the energy- and carbon-efficient cloud has further reduced building emissions and embedded a sustainable IT services platform for future operations. This year Scope 3 emissions associated with videoconferencing and homeworking were established through an innovative exercise to better understand the company's changing impacts, enabling proactive monitoring and communications initiatives to more sustainably adapt to a new working model.

Board of Directors

This was the Board as at 10 June 2021, with the changes during the year shown on page 52.

Regina Finn
Board Chair

Nomination Committee (Chair)
Remuneration Committee (member)

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Anne Baldock
Non-Executive Director

Remuneration Committee (member)
Nomination Committee (member)

Maxine Mayhew
Senior Independent Director

Nomination Committee (member)

Chris Murray
Non-Executive Director

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

Steph Hurst
Non-Executive Director

Audit, Risk & Assurance Committee (member)

Gerard McIlroy
Non-Executive Director

Audit, Risk & Assurance Committee (member)

Helen Lamprell
Non-Executive Director

Declan Burke
Non-Executive Director

Remuneration Committee (member)

Amanda Aldridge
Non-Executive Director

Audit, Risk & Assurance Committee (Chair)

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

Directors' Report

The Directors present their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 March 2021. The company's registered number is 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 47 and 52.

Directors and corporate governance

Full details of the Directors and corporate governance matters are set out on pages 46 to 60.

Position of the company

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

Employees

The company recognises that the commitment of its highly skilled and experienced workforce is key to the efficient and effective delivery of the company's functions and the achievement of its strategic objectives. Further information is set out in the Strategic Report. The company's employee numbers (including Executive Directors but excluding Non-Executive Directors and secondees) as at 31 March 2021 were 80.

Environment

Details are set out in the Environment Report on pages 40 to 42.

Payment to suppliers

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

Charitable and political contributions

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

Results and dividends

The company has prepared its 2020/21 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2021 are set out on pages 69 to 94.

The company is a not-for-profit company, with the payments it makes to CfD generators being matched or 'counterbalanced' by the supplier Obligation Levy it collects from suppliers. The company's other costs (being its operational costs) are funded by the operational costs levy referred to on page 30. Any operational costs levy collected that exceeds the company's requirement is refunded to suppliers. This refund is recognised through the financial statements and matched with the income collected. On this basis the financial results for the year reflect a neutral profit position, i.e. nil profit-nil loss. Consequently, the company does not pay a dividend.

For a more detailed review of the results for the year and a more detailed explanation of the accounting profit, see pages 69 to 94 of the financial statements, and the Strategic Report on pages 9 to 38.

Directors' third party indemnity provisions

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

Going concern

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

Directors' responsibilities statement

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

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

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

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

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

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

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

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

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

Auditors

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

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

By order of the Board

Allison Sandle
Company Secretary
11 June 2021

Corporate Governance Report

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

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

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

Regina Finn
Chair

Background to the company

The company was established by the Secretary of State for Business, Energy and Industrial Strategy as an independent private law company. It is also a governmental arm's length body which is funded by and manages compulsory levies, with the Secretary of State being its sole shareholder. Compulsory levies are normally classified as taxation, which effectively means that the company is managing public monies.

Accordingly, the company, both as an independent private company and as an entity having responsibilities for the administration of public monies, adopts the highest standards of governance and works to the highest standards of probity. The company recognises the importance of operating with regularity and propriety, the need for effectiveness and prudence in the administration of public resources and the need to secure value for public money.

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

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

Framework Document

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

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

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

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

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

UK Corporate Governance Code

The company is required by the Framework Document to comply with the UK Corporate Governance Code as it applies to small, quoted companies (other than Section E relating to relations with shareholders) or specify and explain any non-compliance in its Annual Report.

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

Role of the Board

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

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

The Board establishes the values, culture, ethics and standards of the company and sets the framework for prudent and effective controls which enables risk to be assessed and managed. The Board 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 the committees' terms of reference. There are three committees, being:

(i) the Audit, Risk & Assurance Committee;

(ii) the Remuneration Committee; and

(iii) the Nomination Committee.

The written terms of reference of each committee are available on the company's website.

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

Composition of the Board

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

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

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

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

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

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

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

The details of all Board members, any changes in the year and attendance at Board meetings are listed on pages 52 to 53. All Directors, with the exception of the Shareholder-Nominated Directors, have written terms of appointment. These terms of appointment are available for inspection at the company's registered office during normal business hours.

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

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

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

Corporate Governance Report
(Continued)

Board changes
Reference is made to the table on page 52.

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

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

- Business performance and oversight – including receiving regular updates during the year on how the business is performing against its business plan, budget, strategic priorities and KPIs
- Strategy and progress – participated in the annual strategic workshop, also attended by senior management, to set a new long-term strategy. This meeting was preceded by a series of strategic workshops with external speakers that aimed to identify key risks and opportunities. The Board also reviewed the results of the annual industry Stakeholder Survey and the learnings from that survey, and received strategy updates during the course of the year
- Risk and opportunity – reviewed the principal risks faced by the company and the actions being undertaken to mitigate against these risks, including in relation to cyber and information security
- Audit and Annual Report – reviewed the Annual Report and considered matters such as the valuation of CfD(s) and the re-appointment of the external auditors
- Governance and compliance – reviewed the results of the annual Board and committee evaluation. Further information about the evaluation process can be found on pages 49 to 50
- Organisation structure and staff – reviewed the annual staff engagement survey and the actions planned by the company to address matters highlighted in the survey
- CfDs – oversight of the progress of CfD generators towards completion of their contractual milestones and other CfD issues. The Board also reviewed performance in relation to the setting of the Supplier Obligation Levy
- Capacity Market – oversight and consideration of issues relating to the Capacity Market
- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period

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

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

The Board is supplied in a timely manner with the appropriate information of the required quality to enable it to discharge its duties effectively and properly. The Chair, Chief Executive and Company Secretary have review processes in place to ensure that 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. Board members have access to the Company Secretary and also to independent legal advice if appropriately required.

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

- Setting and approving the company's long-term strategic aims and objectives
- Responsibility for the leadership of the company, values and standards
- Approving the financial statements
- Approval of proposed annual operating costs levy budget
- Approving (subject to shareholder consent) the annual business plan and budget
- Monitoring and overseeing risk management, financial reporting and the system of internal control
- Oversight of the company's operations
- Approving financial commitments over specified monetary thresholds
- Decisions on extension of the company's activities into new business or geographic areas. Deciding 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.

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

The Chief Executive
- Fulfils his responsibilities as Accounting Officer[25]
- Leads the Executive Team in the day-to-day running of the company
- Makes and executes operational decisions
- Implements the strategy agreed by the Board
- Ensures delivery within the annual budget
- Ensures appropriate internal controls and risk management processes are in place
- Maintains the appropriate dialogue with the Chair and the Board

25. 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.

- Facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- Ensures the values of the company are embedded within its operations and staff culture

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

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

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

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

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

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

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

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

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

Corporate Governance Report
(Continued)

The main responsibilities of the committee include:

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

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

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

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

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

The minutes of the meeting are circulated to the Board.

The company's main risks and related mitigating actions are set out on pages 32 to 38 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There was one whistleblowing concern raised in the last year. This has been investigated in accordance with the company's whistleblowing process and reported directly to the Chair of the Audit, Risk & Assurance Committee.

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

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

Nomination Committee

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

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

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

The committee's responsibilities include:

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

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

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

The minutes of committee meetings are circulated to the Board of LCCC/ESC.

Remuneration Committee

The membership and responsibilities of this committee are described in the Remuneration Report at pages 56 to 60.

Corporate Governance Report
(Continued)

Board and Committee Membership

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

Director	Role	Board	Audit, Risk & Assurance Committee	Nomination Committee	Remuneration Committee
Amanda Aldridge	Non-Executive Director	App. 02/04/2020	App. 02/04/2020		
Anne Baldock	Non-Executive Director to 30/09/2018, interim Senior Independent Director from 01/10/2018 to 01/09/2019 & Non-Executive Director from 02/09/2019	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017 and extended on 27 October 2020 for a further six months effective from 12 November 2020)		App. 16/12/2014	App. 16/12/2014
Tony Bickerstaff	Non-Executive Director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017) Res. 02/10/2020	App. 16/12/2014 Res. 02/10/2020		
Declan Burke	Non-Executive Director	App. 29/01/2020			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			
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
Simon Orebi Gann	Non-Executive Director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017) Res. 11/11/2020	App. 16/12/2014 Res. 11/11/2020	App. 16/12/2014 Res. 11/11/2020	
George Pitt	Chief Financial Officer	App. 13/08/2020			

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

Member attendance record during 2020/21

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

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

Corporate Governance Report

(Continued)

Relations with shareholder and stakeholders

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. There are two Shareholder-Nominated Directors.

The company has also engaged in regular communication with industry and other stakeholders, including by stakeholder engagement events, annual Stakeholder Survey, regular newsletters and via its website.

As a non-traded entity, the company does not propose to have an annual general meeting.

Maintenance of a sound system of internal control

The Board has overall responsibility for the company's risk management and system of internal controls, and for reviewing their effectiveness. While retaining overall responsibility, the Board has established a clear organisational structure and well-defined delegated accountabilities for more regular and granular review of the effectiveness of the company's risk management framework to the Audit, Assurance & Risk Committee and executive.

The key elements and procedures established to provide effective risk management and internal controls have been established. The systems in place are monitored and embedded and are as set out below.

Control and assurance environment

- The Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and, where possible, to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The Audit, Risk & Assurance Committee assists the Board in discharging its responsibilities (as further described below and in the section headed Audit, Risk & Assurance Committee on pages 49 to 50).
- The Board, with the assistance of the Audit, Risk & Assurance Committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control.
- There have been no significant lapses in protective security.

Risk management framework

- The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. The company's strategic risk register is kept under regular review by the Senior Management Team and reported to the Board and Audit, Risk & Assurance Committee, with the top strategic risks and emerging risks receiving particular attention. Strategic risk is also discussed and monitored by the relevant Heads of Teams to ensure there is alignment and escalation of operational risk where appropriate. Operational risk registers are also maintained to identify local and emerging risks, allocating responsibility for appropriate monitoring and the implementation of mitigating controls. A risk workshop was held at the start of the year to review risk appetite against key risk themes; this has since been applied to strategic risk, with risk tolerance levels established. Risk management processes are incorporated into the company's management and governance systems at all levels and form a part of the company's day-to-day operations.
- The Audit, Risk & Assurance Committee formally reviews the risk position at each scheduled meeting (in 2020/21, in May 2020, October 2020 and February 2021) and is updated on any significant risk matter which falls outside its formal review cycle. The committee considers the risk appetite of the company in relation to the principal risks and receives a completion report relating to the actions being undertaken to minimise and mitigate risk items.
- The Board reviews the strategic risk register twice per year (in 2020/21, in April 2020 and December 2020). The reports to the Audit, Risk & Assurance Committee and the Board include a report from management on the status of the risk management and internal control, significant failings or weaknesses identified during the period (if any) and any actions taken to remedy any significant weaknesses (if relevant).
- The Board has reviewed the risk framework, with the assistance of the Audit, Risk & Assurance Committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed risk report on pages 32 to 38.

Internal audit

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

Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the Board.
- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability, to ensure that a robust and prudent annual budget is prepared, which also ensures cost control and value for money for consumers. The draft budget, which can be for a single year or multi-year, is reviewed by the Board, subsequent to which it is submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently the operational costs levy which funds the company's budget is laid before Parliament in the form of regulations.
- The company operates robust financial management processes to ensure that it manages within its budget so as not to exceed the operational costs levy.
- An update on the company's progress, financial performance, budget forecasts and results is reported in the management information report submitted to each Board meeting.
- Senior management meet regularly with the Chief Executive and Chief Financial Officer to discuss business progress. Management accounts are reviewed regularly.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "*Managing Public Money*"[26].

Operational

- The Senior Management Team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the senior Executive Team.
- The Chief Executive and the Executive Team meet with appropriate regularity with the shareholder and other stakeholders.
- The 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.
- The company reports on its significant matters relating to its operational activities at each Board meeting, including CfD management matters.
- The Board decides on matters falling within the schedule of reserved matters (e.g. financial commitments over the specified threshold) or otherwise raises to it for decision.

Procurement

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

Legal and compliance

- There is a system for monitoring and embedding compliance, including by company policies and procedures as well as training and guidance to support compliance (e.g. relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.

- The company expects the highest standards from all employees and supply chain.
- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants[27].

Treasury management

The Finance department:

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

Insurance

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

Neil McDermott
Chief Executive and Accounting Officer
11 June 2021

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

27. 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

The company's registered number is 08818711

Remuneration Committee

At year end, this committee comprised Chris Murray (Chair), Regina Finn, Anne Baldock and Declan Burke.

The Framework Document requires that one Shareholder-Nominated Director should be a member of the committee. The committee consists of a majority of independent Non-Executive Directors.

The responsibilities of the committee 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 the 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 in respect of senior pay;
- recommending the level of remuneration of the Non-Executive Directors to the Board, but subject to the shareholder's consent being necessary to the remuneration or material variation to the remuneration of any Director;
- ensuring that the remuneration package for employees and salary levels are appropriately benchmarked;
- undertaking an evaluation of its own performance;
- setting approach in respect of Executive Directors and other appropriate senior employees accepting non-executive appointments outside the company.

During the period the committee met three times and discussed the following matters:

- Proposal for in-year Recognition Awards.
- 2019/20 – Company Performance Report Overview.
- 2019/20 – Staff Incentive Scheme Award.
- 2020/21 – Proposal for Senior Team Staff Incentive Scheme Award.
- 2020/21 – CEO Award and Objectives.
- Proposal for 2020/21 Company Scorecard.
- Interim Company Performance 2020-21.
- LCCC Benefits Review.
- Succession Planning – General Staff Overview.
- Changes to the Finance, IT and People Team structures.
- Smarter Working Policy.
- Updated Remuneration Policy.
- SMT Grading Proposal.
- Gender/Ethnicity Pay Report.
- Staff Salary Benchmarking (2021) and Staff Promotions Overview.
- In-year Recognition Award Review (Overall Cap), Proposed Awards and Delegation of Awards.
- Board Directors' Approvals Process Overview.
- Director's Expense Policy Overview.
- Draft Company Scorecard Proposal for 2021/22.
- Principles for Executive Directors and Appropriate Senior Employees Acceptance of Non-Executive Director (NED) Appointments Outside LCCC.
- Committee Annual Evaluation including Terms of Reference.
- Remuneration Committee Programme 2021.

The minutes of each meeting are circulated to the Board.

Directors and senior management remuneration

Advice on remuneration for the Executive Directors and Senior Management Team was obtained in early 2021 from Korn Ferry. Korn Ferry is currently retained (as one of the company's panel of recruitment consultants) to provide assistance to the company in the recruitment of Non-Executive Directors and senior executive staff. Korn Ferry has no other connection with the company.

No Executive Director is involved in deciding his or her 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. An annualised figure has been used to better reflect contractual salary. The annual remuneration of the highest paid Director is £291,009 (2019/20: £286,078)[28]. In 2020/21 this is 4.8 times the median remuneration of the company's workforce (2019/20: 4.9) which is £60,202 (2019/20: £58,284)[29]. No employees receive salary in excess of the highest paid Director.

28. 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.

29. Salary increases took effect on 1 April 2020. It should be noted that while the median calculation for 2020/21 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 prior to year end.

Procedures for developing policy and determining remuneration

The committee has responsibility 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 requires and has the authority to obtain the advice of external advisors.

The committee assesses where to position the company in respect of remuneration matters relative to other companies and the requirements of the company's 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. The shareholder's consent is required to any increase in excess of the level specified in these rules.

Statement of remuneration policy

The remuneration policy is to:

- provide a compensation package to attract, motivate and retain high quality employees in furtherance of 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, the committee approved a general pay review increase of 2% effective from 1 April 2020, with the specific amount to be awarded dependent on the company's remuneration policy and/or other approvals. Following the pay approvals process, the shareholder approved a 2% pay increase for all staff including the Chief Executive. The Chief Financial Officer did not receive a pay increase as he was appointed on 1 April 2020 (i.e. at the start of the financial year) as Chief Financial Officer at the salary applicable to that role. The company obtains the consent of the shareholder prior to the implementation of any increase which 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 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 against key objectives, agreed a bonus for 2019/20 (paid in mid-2020/21) for the Chief Executive. George Pitt was promoted to the position of Chief Financial Officer on 1 April 2020 and was appointed to the Board on 13 August 2020. His bonus in respect of 2019/20 was in relation to his original role as Head of Finance, Operations and IT and subsequent role of Interim 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.

Remuneration Report

(Continued)

Executive Directors' Remuneration (audited)

Name	2020/21 Salary	2020/21 Performance Related Pay (Bonus)	2020/21 Taxable Benefits	2020/21 Pension Payments	2020/21 total
Neil McDermott	2020/21: £236,477 2019/20: £231,840	2020/21: £44,166[30] 2019/20: £44,550	2020/21: £10,366 2019/20: £9,688	2020/21: £23,647 2019/20: £23,184	2020/21: £314,656 2019/20: £309,262
George Pitt[31]	2020-21: £150,000 2019/20: £124,103	2020-21: £13,680 2019/20: £nil	2020-21: £868 2019/20: £731	2020-21: £15,000 2019/20: £9,928	2020-21: £179,548 2019/20: £134,762

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 2020/21 is not paid until mid-2021/22. Such bonuses are £46,349 for Neil McDermott and £27,930 for George Pitt.

The Executive Director payments for 2020/21 reflect that Neil McDermott received a 2% pay increase. No pay rise was applicable to George Pitt as he was appointed on 1 April 2020 (i.e. at the start of the financial year) as Chief Financial Officer at the salary applicable to that role.

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 and reflect the advice on remuneration for Directors and benchmarking information provided by GatenbySanderson for the appointment of the Chair and Senior Independent Director, and Korn Ferry for purposes of recruitment of Directors over the past several months.

The shareholder nominated (or "governmental") Directors are not paid by the company.

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

30. The annual report for the 2019/20 financial year explained that the Remuneration Committee planned to undertake a further review of the company's bonus awards, and as a result the Chief Executive Officer's bonus referred to in the report was marginally increased by £536 to £44,166.

31. As explained above, George Pitt, was appointed to the role of Chief Financial Officer on 1 April 2020 and was appointed to the Board on 13 August 2020. His remuneration in respect of 2019/20 was in relation to his original role as Head of Finance, Operations and IT and subsequent role as Interim Chief Financial Officer.

Non-Executive Directors' Remuneration (audited)

Name	2020/21 Fees[32, 32a]	Principal positions held elsewhere at 31 March 2021
Amanda Aldridge	£27,436[33] 2019:20: £nil (appointed after year end)	• ESC – Non-Executive Director • Headlam Group plc – Non-Executive Director • Impact Healthcare REIT plc – Non-Executive Director • The Brunner Investment Trust plc – Non-Executive Director • St Francis College Trust – Director and trustee
Anne Baldock	£31,417[34] 2019/20: £31,250 (including £6,250 for ESC[35])	• ESC – Non-Executive Director • East West Railway Company Limited – Non-Executive Director • Electricity North West Limited – Non-Executive Director • Restoration and Renewal Delivery Authority Ltd – Director • 175 Greyhound Road Residents Ltd – Director • Submarine Delivery Agency
Tony Bickerstaff	£15,738[36] 2019/20: £31,000	• Costain Group Plc – Group Finance Director until 30/11/2020 • ESC – Non-Executive Director • Wincanton Plc – Director • Renown Investments (Holdings) Limited – Director • County and District Properties Limited – Director
Declan Burke	£nil (Shareholder-Nominated Director – civil servant)	• BEIS – Director, Nuclear Projects & Development • ESC – Non-Executive Director
Regina Finn	£100,000 (including £25,000 relating to ESC) 2019/20: £58,333 (including £14,583 relating to ESC) plus £83 in relation to expenses[37]	• ESC – Chair • Places for People Group Ltd • Places for People Homes Ltd • Places for People Living + Ltd • Places for People Ventures Ltd • Places for People Ventures Operations Ltd • Lucerna Partners Ltd
George Pitt	N/A	• ESC – Chief Financial Officer and Director
Steph Hurst	£nil (Shareholder-Nominated Director – civil servant)	• Deputy Director, Energy Efficiency and Local Directorate • ESC – Non-Executive Director
Neil McDermott	N/A	• ESC – Chief Executive and Director

32. This column shows the only form of remuneration that each Non-Executive Director receives from LCCC. LCCC receives 20% of the Directors' fees from ESC under its recharge arrangements with ESC (other than in respect of Regina Finn, and Anne Baldock where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

32a The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC.

33. 6 months pro rata (2 April – 30 September 2020) at £25,000 and 6 months pro rata (1 October – 31 March 2021) at £31,000.

34. 8 months pro rata (1 April – 30 November 2020) at £30,000 and 4 months pro rata (1 December – 31 March 2021) at £25,000. Includes £5k per annum supplemental addition to Director's fee, back dated to 1 September 2019 for Chair of the Remuneration Committee.

35. 5 months pro rata (1 April 2019 – 2 September 2019) at £40,000 and 7 months pro rata (3 September 2019 – 31 March 2020) at £25,000.

36. 6 months pro rata (1 April – 2 October 2020) at £31,000.

37. 7 months pro rata (2 September 2019 – 31 March 2020) at £100,000.

Remuneration Report

(Continued)

Name	2020/21 Fees[32, 32a]	Principal positions held elsewhere at 31 March 2021
Chris Murray	£26,628 plus £409 in relation to expenses (which includes relevant tax)[38] 2019/20: £25,000 plus £3,591 in relation to expenses	• APX3 Limited – Director • West Transmission Limited – Director • Belfast Gas Transmission Limited – Director • Mutual Energy Limited – Director • Premier Transmission Limited – Director • Moyle Interconnector Limited – Director • Energy & Utility Skills Limited – special advisor to the Board • ESC – Non-Executive Director • LOROS Commercial Innovations Limited – Director
Simon Orebi Gann	£15,353[39] 2019/20: £25,000 plus £1,929 in relation to expenses	• ESC – Non-Executive Director • Aspen Technology Inc – Non-Executive Director • Market Operator Services Ltd – Non-Executive Director • Treasury/Cabinet Office Major Programmes Review Group – independent panel member
Maxine Mayhew	£22,167[40] 2019/20: £nil	• Costain Group Plc – Director • ESC – Non-Executive Director • Calvert & Russell Limited – Director • Construction Study Centre Limited – Director • Brunswick Infrastructure Services Limited – Director • Hopkinsons of Lymm Limited – Director • Cranfield University – Independent Council Member
Gerard McIlroy	£10,801[41] 2019/20: £nil	• ESC – Non-Executive Director • WTL Holdings Ltd – Director • West Transmission Financing Plc – Director • Moyle Energy Investments Ltd – Director • West Transmission Ltd – Director • Moyle Interconnector Limited – Director • Mutual Energy Limited – Director • Premier Transmission Limited – Director • Interconnector Services (NI) Limited – Director • Belfast Gas Transmission Limited – Director • Northern Ireland Gas Transmission Holdings Limited
Helen Lamprell	£5,032[42] 2019/20: £nil	• ESC – Non-Executive Director • Employers Initiative on Domestic Abuse – Director • Vodaphone Limited – Director

32. This column shows the only form of remuneration that each Non-Executive Director receives from LCCC. LCCC receives 20% of the Directors' fees from ESC under its recharge arrangements with ESC (other than in respect of Regina Finn, and Anne Baldock where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

32a The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC.

38. 8 months pro rata (1 April–30 November 2020) at £25,000 and 4 months pro rata (1 December 2020–31 March 2021) at £30,000

39. 8 months pro rata (1 April–11 November 2020) at £25,000

40. 8 months pro rata (13 August–31 March 2021) at £35,000

41. 6 months pro rata (27 October–31 March 2021) at £25,000

42. 3 months pro rata (19 January–31 March 2021) at £25,000

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 the Low Carbon Contracts Company Limited ("the company") for the year ended 31 March 2021 which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described in that report as having been audited.

In my opinion the financial statements:

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

Opinion on regularity

In my opinion, in all material respects, 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.

Basis for opinions

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

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

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

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

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

Independent Auditor's Report

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

Conclusions relating to going concern

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

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

- reviewing the provisions of the legislation under which the company collects the 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 Business, Energy and Industrial Strategy.

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

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

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

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional 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 are addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon.

I do not provide a separate opinion on these matters.

I consider the valuation of the company's liability for CfD to be the matter that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the Audit Team in the current year. This matter was addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on this matter.

In the previous year I identified the recognition and measurement of the contract for difference for Hinkley Point C (HPC) to be an area of significant audit risk. Following recognition of this financial instrument in the company's 2019-20 financial statements, I identified the significant audit risk for the current period as relating to measurement only.

I have determined that there are no other key audit matters to communicate in my report.

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

The areas of focus were discussed with the Audit, Risk & Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 49 to 50.

Fair value of CfDs

Description of risk

The company accounts for CfDs as a financial liability measured at fair value through profit or loss. As disclosed in note 19 to the financial statements:

- management has estimated the fair value of financial liabilities arising from CfDs (excluding the Hinkley Point C CfD) to be £36,902 million at 31 March 2021, of which £16,932 million has been recognised in the statement of financial position and the remainder has been deferred; and
- management has estimated the fair value of financial liabilities arising from the HPC CfD to be £52,361 million at 31 March 2021, of which £50,826 million has been deferred.

Fair value of CfDs

Description of risk continued

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. This makes it considerably more challenging for management to provide a reliable single point fair value estimate for the HPC CfD; and
- (as in previous years) the company has applied wholesale electricity price forecasts generated by the Department for Business, Energy and Industrial Strategy (BEIS) using their in-house Dynamic Dispatch Model (DDM). The latest DDM price forecast available to the company remained the 2020 forecast (which had been finalised in February 2020). This was assessed by LCCC management as a suitable proxy for the 2021 equivalent.

I have assessed the fair value measurement of the company's financial liability for 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 uncertainties inherent in determining the fair value of CfDs are further discussed in the disclosures made in notes 4 and 19 to the financial statements.

How the scope of my audit responded to the risk

I assessed the company's controls over the valuation of the CfD liability.

To gain substantive assurance over management's point estimates for the HPC CfD and for other CfDs I constructed my own ranges as a point of comparison. In constructing the auditor's ranges, I:

- 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 includes 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.

As required by auditing standards, I narrowed the auditor's range to the point where I considered all outcomes within it to represent reasonable estimates of fair value.

Key observations

The range of reasonable valuation outcomes I constructed were:

- £34,482 million – £52,495 million for CfDs excluding the HPC CfD; and
- £39,739 million – £68,940 million for the HPC CfD.

The span of my constructed ranges reflects the degree of uncertainty inherent in estimating fair value for these instruments. I have considered whether the positioning of management's point valuations within each range is indicative of management bias; I am satisfied that this is not the case. On the basis that management's point valuation falls within my constructed range, I judge it to be a reasonable estimate.

In addition, I engaged my own industry expert to provide independent advice and evaluate the reasonableness of using the 2020 DDM as a proxy for the 2021 equivalent. Their conclusion was that whilst they would not anticipate the 2020 DDM being commonly used to price energy market transactions, it is reasonable for the company to do so. This was consistent with my own view that the 2020 DDM reflected all major policy decisions which had been announced since its publication by BEIS.

Independent Auditor's Report

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

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 connect to the valuation of Contract for Difference and to support my opinion on regularity
Materiality	£1 billion	£48.5 million
Basis for determining materiality	I have set materiality at £1bn. This is equivalent to approximately 1.1% of the total estimated value of CfDs at the reporting date. Whilst I consider that a 2% threshold would be appropriate in the context of the inherent estimation uncertainty associated with the valuation of CfDs, I have applied a lower threshold 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 +/- £1bn on the balances recorded in the primary statements.	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.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2020-21 audit (2019-20 65%). In determining performance materiality, I have also considered the level of uncorrected misstatements identified in the previous period.

Other Materiality Considerations

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

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

Error Reporting Threshold

I agreed with the Audit, Risk & Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit, Risk & Assurance Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Audit scope

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

Other Information

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

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which I report by exception

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

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

I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in 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
- the financial statements and the parts of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or certain disclosures of Directors' remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company;
- I have not received all of the information and explanations I require for my audit.

Independent Auditor's Report

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

Corporate governance statement

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

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

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified [set out on page 44].
- Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate [set out on page 31].
- Directors' statement on fair, balanced and understandable [set out on page 45].
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out on page 54].
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems [set out on page 54].
- The section describing the work of the Audit, Risk & Assurance Committee [set out on pages 49 to 50].

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

My procedures included the following:

- Inquiring of management, the audited entity's Head of Assurance and Risk and those charged with governance, including obtaining and reviewing supporting documentation relating to the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; 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 Contract for Difference (Electricity Supplier Obligations) Regulations 2014;
- discussing among the Engagement Team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I considered the potential for fraud in the following areas: posting of unusual journal and levy income;
- obtaining an understanding of the company's framework of authority as well as other legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, employment legislation and regulation; and
- evaluating significant estimates made by management in the production of the financial statements, in particular in relation to the fair value of CfD liabilities.

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

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

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

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

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

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

Susan Clark
Senior Statutory Auditor
11 June 2021

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

Financial statements and notes to the accounts

Statement of comprehensive income for the year ended 31 March

	Note	2021 £'000	2020 £'000
Other income	6	18,054	15,005
Supplier Obligation Levy	20	2,745,890	5,346,422
Fair value movement of CfDs	19	(2,745,890)	(5,346,422)
Staff costs	7	(7,164)	(6,694)
Depreciation	9	(350)	(347)
Amortisation	10	(386)	(576)
Other operating costs	8	(10,154)	(7,388)
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 74 to 94 form part of these accounts.

Statement of financial position as at 31 March

	Note	2021 £'000	2020 £'000
Non-current assets			
Property, plant and equipment	9	196	486
Intangible assets	10	247	584
Supplier Obligation Levy	20	16,932,718	16,464,240
Total non-current assets		**16,933,161**	**16,465,310**
Current assets			
Operational costs levy receivable		1,554	1,619
Supplier Obligation Levy receivable	11	154,366	173,935
Trade and other receivables		408	225
Cash and cash equivalents	12	267,245	131,632
Total current assets		**423,573**	**307,411**
Total assets		**17,356,734**	**16,772,721**
Current liabilities			
Operational costs levy payable		(1,500)	(4,866)
Supplier Obligation Levy and generators payments payable	13	(308,060)	(264,122)
Trade and other payables	14	(38,850)	(38,228)
Loans and borrowings	15	(75,237)	(183)
Lease liabilities		(167)	(490)
Provisions		(67)	–
Total current liabilities		**(423,881)**	**(307,889)**
Non-current liabilities			
Contracts for Difference	19	(16,932,718)	(16,464,240)
Trade and other payables	14	-	(130)
Loans and borrowings	15	(135)	(228)
Lease liabilities		-	(167)
Provisions		-	(67)
Total non-current liabilities		**(16,932,853)**	**(16,464,832)**
Total liabilities		**(17,356,734)**	**(16,772,721)**
Net assets		**–**	**–**
Shareholders' equity and other reserves			
Share capital	16	–	–
Retained earnings		–	–
Total equity		**–**	**–**

The notes on pages 74 to 94 form part of these accounts.

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

Neil McDermott
Chief Executive Officer

George Pitt
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March

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

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

The notes on pages 74 to 94 form part of these accounts.

Statement of cash flows

for the year ended 31 March

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit for the year		–	–
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	9	350	347
Loss on disposal of property, plant and equipment		–	4
Amortisation of intangible assets	10	386	576
Amortisation of government grant liability		(130)	(155)
Working capital adjustments:			
Decrease/(increase) in operational costs levy receivable		65	(34)
Decrease/(increase) in Supplier Obligation Levy receivable	11	19,569	(111,833)
Increase in trade and other receivables		(183)	(10)
(Decrease)/increase in operational costs levy payable		(3,366)	677
Increase in Supplier Obligation Levy and generators payments payable	13	43,938	99,042
Increase in trade and other payables	14	622	21,638
Net cash inflow from operating activities		**61,251**	**10,252**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(60)	(31)
Purchase of intangible assets	10	(49)	–
Net cash outflow from investing activities		**(109)**	**(31)**
Cash flows from financing activities			
Proceeds from loans and borrowings	15	75,110	72
Repayment of loans and borrowings	15	(149)	(300)
Repayment of lease liabilities		(490)	(483)
Net cash inflow/(outflow) from financing activities		**74,471**	**(711)**
Net increase in cash and cash equivalents in the year		**135,613**	**9,510**
Cash and cash equivalents at the beginning of the year		131,632	122,122
Cash and cash equivalents at the end of the year	12	**267,245**	**131,632**

The notes on pages 74 to 94 form part of these accounts.

Notes to the financial statements

for the year ended 31 March 2021

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the "company'') for the year ended 31 March 2021 were approved and authorised for issue in accordance with a resolution of the Board on 10 June 2021.

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

1.1 Principal activities

The company has been established to act as the counterparty for Contracts for Difference (CfDs). 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 accounting standards in conformity with the requirements of the Companies Act 2006.

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

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 year (to March 2022).

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).

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

As a result of the impact of COVID-19 on electricity suppliers, BEIS provided the company with a loan in the year (refer to note 17). The loan was given to provide short-term deferral of the increased levy payments that were due by electricity suppliers. Under the loan agreement the company is only obliged to make repayments to the extent that it is confident that it holds sufficient funds from electricity suppliers.

2.3 Operational costs levy income

Under the Regulations, the company is entitled to recover its operational costs through the operational costs levy 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 2020/21 after public consultation was £0.0614/MWh (2019/20: £0.0592/MWh), which is apportioned to suppliers based on the amount of electricity they supply in a levy year (which runs from 1 April to 31 March). For 2021/22 the operational costs levy has been set at £0.0760/MWh and will be apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2021 to 31 March 2022.

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

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.

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 where there is a reasonable assurance that the grant will be received and the company will comply with all the attached conditions.

The government grant received from BEIS related to the company's settlement system asset and was amortised over the useful life of the settlement system.

2.7 Financial assets

2.7.1 Classification

Financial assets are classified and measured at amortised cost.

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.

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.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

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 the 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.

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

2.9.1.1 Financial liabilities at fair value through profit or loss (FVTPL)
Financial liabilities at fair value through profit or loss include financial liabilities 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 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 liability 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 liability 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. An individual CfD is only recognised as an asset if the decrease in fair value is significant as compared to the CfD portfolio.

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
Buildings	27

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

In accordance with IFRS 16, the settlement system asset was deemed to be a right-of-use asset in the prior year.

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.

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.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

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 2021, 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 Fleetbank House. 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 these future costs based on a dilapidation liability report issued by an independent surveyor. 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 segment; hence no segmental reporting is required. This is consistent with the internal reporting provided to the Directors of the company, who are considered the company's chief operating decision makers.

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.

In respect of the short-term unsecured loan, the company is only obliged to make repayments to the extent that it is confident that it holds sufficient funds from electricity suppliers (following the first reconciliation exercise carried out relating to 2021/22). The grant in aid capital loan from BEIS is repayable in line with the depreciation 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 non-current liability under the heading 'Contracts for Difference' (the corresponding entry to the CfD fair value movement also being to the statement of comprehensive income). 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 Interim Levy Rate and 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 the terms of the short-term loan from BEIS (the company is only obliged to make repayment if it is confident that it holds sufficient funds from electricity suppliers, refer to note 17).

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:

(i) price risk;

(ii) inflation risk; and

(iii) 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 may not continue 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 2020				
Contracts for Difference	1,519,538	4,337,514	10,607,188	16,464,240
Trade and other payables	38,228	130	–	38,358
Loans and borrowings	183	228	–	411
Lease liabilities	490	167	–	657
Total	**1,558,439**	**4,338,039**	**10,607,188**	**16,503,666**
As at 31 March 2021				
Contracts for Difference	1,021,667	3,961,754	11,950,297	16,933,718
Trade and other payables	38,646	–	–	38,646
Loans and borrowings	75,237	135	–	75,372
Lease liabilities	167	–	–	167
Total	**1,135,717**	**3,961,889**	**11,950,297**	**17,047,903**

Contracts for Difference amounts are based on the carrying values of CfD financial liabilities. Note 19 provides disclosures relating to the fair value of the CfDs.

Notes to the financial statements

for the year ended 31 March 2021 (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

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, 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 the HM Treasury discount rate of 0.7% (2019/20: 0.7%).

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 19.

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 19.5) but does not necessarily mean that an individual scenario is not reasonable. The company continues to use the Dynamic Dispatch Model (DDM), unless there is evidence that it is not a reliable proxy for the price series that a third party might use to estimate the payments they would need to make under the terms of the CfD contracts.

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. This has made it considerably more challenging for management to provide a reliable single point fair value estimate for Hinkley Point C CfD.

Prior to 2019/20 the company had not been able to obtain wholesale electricity price forecasts covering the unusually long period of the contract, thereby preventing a reliable estimate being made. As a result of this, the company had been unable to recognise Hinkley Point C CfD in the financial statements. During the 2019/20 BEIS, using the DDM, was able to reliably estimate wholesale electricity prices out to 2060. BEIS's DDM model forecasts wholesale electricity prices out to 2050. BEIS was able to estimate wholesale electricity prices out to 2060 by effectively 'freezing' the updated 2050 model for all subsequent years. The main driver facilitating BEIS's ability to do this was the government's commitment in the year to bring all greenhouse gas emissions to Net Zero by 2050, therefore giving more certainty over potential generation mixes into the future. Therefore, in line with the recognition criteria for the other CfDs, the recognition criteria for Hinkley Point C CfD was deemed to have been met and the CfD recognised in the 2019/20 financial statements.

As in the previous year third party forecasts have been used as reference to support the reasonableness of the internally generated price series derived from the DDM forecast. As a result of the reasonableness of the underlying assumptions of the forecast management deem the valuation of the Hinkley Point C CfD as a reliable estimate that is complete, neutral and free from error.

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

The fair value of the CfDs, disclosed in note 19, 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 liability would result in a charge to 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 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.

During the year the Regulations were amended to facilitate BEIS being able to provide a loan to the company (refer to note 17). The loan was given by BEIS to provide short-term deferral of additional Supplier Obligation Levy costs to electricity suppliers which arose as a result of COVID-19. The amendment enabled the company, in accordance with the loan agreement, to defer the cost to electricity suppliers by the amount of the loan (the 'requirement'), by allowing for the 'requirement' when calculating the Supplier Obligation Levy payments due from electricity suppliers (in respect of the first quarter of the year). This deferred amount, included within Interim Levy Rate accruals (see note 11), will be recovered by the company by adjusting for the 'requirement' amount recoverable when calculating the Supplier Obligation Levy payments in respect of the first quarter of 2021/22 (in accordance with the amendment and the terms of the loan agreement).

5. New standards, amendments and interpretations applicable to the company but not yet adopted

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

The following amendments are effective for the period beginning 1 January 2022:

- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, onerous contracts – cost of fulfilling a contract
- Amendments to IAS 16 *Property, Plant and Equipment*, proceeds before intended use
- Annual improvements to IFRS standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

The following amendments are effective for the period beginning 1 January 2023:

- Amendments to IAS 1 *Presentation of financial statements*, classification of liabilities as current or non-current and disclosure of accounting policies
- Amendments IAS 8 *Accounting policies, changes in accounting estimates and errors*, definition of accounting estimates.

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

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

6. Other income

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

	2021 £'000	2020 £'000
Operational costs levy income	16,585	16,960
Less: expected refund to suppliers	(1,500)	(4,866)
Net operational costs levy income	**15,085**	**12,094**
Recharges to related parties	2,793	2,756
Amortisation of deferred government grant liability	130	155
Miscellaneous income	46	–
Other income	**18,054**	**15,005**

Recharges to related parties represent £2.8m (2019/20: £2.8m) charged to ESC.

7. Staff costs

	2021 £'000	2020 £'000
Wages and salaries	5,703	5,321
Social security costs	644	602
Agency and contracted staff costs	421	403
Defined contribution pension plans	396	368
Staff costs	**7,164**	**6,694**

The average number of staff employed by the company (including Executive Directors):

	2021 Number	2020 Number
Permanent staff	69	62
Agency and contracted staff	7	8
Total	**76**	**70**

The remuneration of Directors and the disclosure of the highest paid Director are included in the Remuneration Report on pages 56 to 60.

8. Other operating costs

	2021 £'000	2020 £'000
Operational settlement costs	3,316	2,960
Legal, professional and consultancy	5,048	2,744
IT support, telephony and maintenance	725	609
Insurance	376	285
Premises costs	296	205
Miscellaneous costs	263	448
Auditor's remuneration	130	137
Other operating costs	**10,154**	**7,388**

Auditor's remuneration represents audit fees of £109K (2020: £115K) 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	Right-of-use Buildings £'000	IT equipment £'000	Furniture and Fittings £'000	Total £'000
Cost					
As at 31 March 2019	452	–	393	86	931
Additions during the year	–	625	31	–	656
Disposals during the year	(67)	–	(60)	–	(127)
As at 31 March 2020	385	625	364	86	1,460
Additions during the year	–	–	60	–	60
Disposals during the year	–	–	(33)	–	(33)
As at 31 March 2021	**385**	**625**	**391**	**86**	**1,487**
Depreciation					
As at 31 March 2019	429	–	287	34	750
Charge for the year	7	278	52	10	347
Disposals during the year	(67)	–	(56)	–	(123)
As at 31 March 2020	369	278	283	44	974
Charge for the year	7	278	55	10	350
Disposals during the year	–	–	(33)	–	(33)
As at 31 March 2021	**376**	**556**	**305**	**54**	**1,291**
Net book value as at 31 March 2020	16	347	81	42	486
Net book value as at 31 March 2021	**9**	**69**	**86**	**32**	**196**

In accordance with IFRS 16 buildings 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. No adjustment is made for interest on the relevant lease liability for right-of-use assets as it is also deemed to be immaterial.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

10. Intangible assets

	Settlement System £'000	Other IT Software £'000	Total £'000
Cost			
As at 31 March 2019	1,877	1,163	3,040
Additions during the year	–	–	–
As at 31 March 2020	1,877	1,163	3,040
Additions during the year	–	49	49
As at 31 March 2021	**1,877**	**1,212**	**3,089**
Amortisation			
As at 31 March 2019	1,085	795	1,880
Charge for the year	375	201	576
As at 31 March 2020	1,460	996	2,456
Charge for the year	332	54	386
As at 31 March 2021	**1,792**	**1,050**	**2,842**
Net book value as at 31 March 2020	417	167	584
Net book value as at 31 March 2021	**85**	**162**	**247**

11. Supplier Obligation Levy receivable

	2021 £'000	2020 £'000
Interim Levy Rate accruals	120,174	140,362
Interim Levy Rate receivable	34,192	33,087
Generators' payment receivable	–	486
Total Supplier Obligation Levy receivable	**154,366**	**173,935**

The Interim Levy Rate receivable reflects the amounts owed by suppliers to fund the necessary payments to generators under the CfDs. As at 31 March 2021, Interim Levy Rate accruals of £120.2m (2019/20: £140.4m) comprise £43.1m (2019/20: £39.2m) relating to the Interim Levy Rate invoices, £2m (2019/20: £101.2m) receivable from suppliers as part of the quarterly reconciliation, and £75.1m (2019/20: £nil) to deferred Supplier Obligation Levy receivable (as a result of COVID-19, refer to note 17). Unutilised Total Reserve Amount due to be returned to suppliers, as disclosed in note 13, is £127.3m (2019/20: £90.3m).

12. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank	230,579	95,552
Suppliers' credit cover	36,666	36,080
Total cash and cash equivalents	**267,245**	**131,632**

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 £127.3m 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 £90.3m. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

13. Supplier Obligation Levy and generators' payment payable

	2021 £'000	2020 £'000
Generators' payment payable	112,647	123,074
Total Reserve Amount payable	127,253	90,301
Generators' payment accrual	67,355	50,176
Interim Levy Rate payable	805	571
Total Supplier Obligation Levy and generators' payment payable	**308,060**	**264,122**

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.

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.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

14. Trade and other payables

	2021 £'000	2020 £'000
Current		
Suppliers' credit cover	36,660	36,077
Accruals	1,986	1,996
Other taxation and social security	204	155
	38,850	**38,228**
Non-current		
Deferred government grant liability	–	130
Total trade and other payables	**38,850**	**38,358**

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.

15. Loans and borrowings

	2021 £'000	2020 £'000
Current		
Loan from BEIS (refer to note 17)	75,110	–
Grant in aid capital loan	127	183
	75,237	**183**
Non-current		
Grant in aid capital loan	135	228
Total loans and borrowings	**75,372**	**411**

16. Share capital

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

17. 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				
2020				
BEIS	–	13	–	762
ESC	2,756	–	–	–
2021				
BEIS	84	1	–	75,502
ESC	2,793	–	–	–

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 work carried out relating to the development of industrial carbon capture and storage capability in the UK, included in 'miscellaneous income', amounting to £43k, and secondment of staff, included in 'wages and salaries', amounting to £41k. Services from BEIS relate to sundry property related service costs.

Amounts owed to BEIS include an unsecured short-term loan. During the year BEIS provided the company with a loan totalling £75,110k which was outstanding at the year end. The loan was to provide short-term deferral of the increased levy payment due by electricity suppliers, which arose as a result of COVID-19. Under the agreement the company is only obliged to make repayments to the extent that it is confident that it holds sufficient funds from electricity suppliers (following the first reconciliation exercise carried out relating to 2021/22). No interest or fees are payable in respect of the loan.

Amounts owed to BEIS also include the grant in aid capital loan (refer to note 15), deferred income amounting to £34k and lease liability relating to the settlement system asset totalling £96k.

17.1 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 56 to 58.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

18. Financial assets and liabilities

	Note	2021 £'000	2020 £'000
Financial assets			
Staff receivables		–	17
Cash and cash equivalents	12	267,245	131,632
Total financial assets		**267,245**	**131,649**
Total current		267,245	131,649
Total non-current		–	–
Total financial assets		**267,245**	**131,649**

	Note	2021 £'000	2020 £'000
Financial liabilities			
Contracts for Difference	19	16,932,718	16,464,240
Trade and other payables	14	38,646	38,073
Loans and borrowings	15	75,372	411
Lease liabilities		167	657
Total financial liabilities		**17,046,903**	**16,503,381**
Total current		114,050	38,746
Total non-current		16,932,853	16,464,635
Total financial liabilities		**17,046,903**	**16,503,381**

19. 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 2021 the company was counterparty to 72 contracts, including Hinkley Point C.

19.1 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 represents the difference between the CfD liability at initial recognition and at the reporting date:

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
CfD liability as at 31 March 2019 recognised in the statement of financial position	12,920,812	–	12,920,812
Remeasurement of the CfD liability	4,406,742	–	4,406,742
Payments to the CfD generators	(1,802,994)	–	(1,802,994)
Deferred difference recognised during the year	939,680	–	939,680
CfD liability as at 31 March 2020 recognised in the statement of financial position	16,464,240	–	16,464,240
Remeasurement of the CfD liability	416,675	1,201,738	1,618,413
Payments to the CfD generators	(2,277,412)	–	(2,277,412)
Deferred difference recognised during the year	1,127,477	–	1,127,477
CfD liability as at 31 March 2021 recognised in the statement of financial position	**15,730,980**	**1,201,738**	**16,932,718**

During the year, the net movement of £2,746m (2019/20: £5,346m) in the fair value of CfDs is recognised in the statement of comprehensive income.

19.2 Movement in deferred measurement differences

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
Deferred measurement differences as at 31 March 2019	22,328,282	–	22,328,282
Deferred measurement differences recognised during the year	(939,680)	–	(939,680)
Measurement differences deferred during the year	904,342	50,826,301	51,730,643
Deferred measurement differences as at 31 March 2020	22,292,944	50,826,301	73,119,245
Measurement differences recognised relating to terminated CfDs	5,561	–	5,561
Deferred measurement differences recognised during the year	(1,127,477)	–	(1,127,477)
Deferred measurement differences as at 31 March 2021	**21,171,028**	**50,826,301**	**71,997,329**

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

19.3 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 the DDM owned by BEIS.

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.

19.3.1 Fair value of CfDs (financial liabilities at 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 and 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
As at 31 March 2020	–	–	89,583,485	89,583,485
As at 31 March 2021	**–**	**–**	**88,930,047**	**88,930,047**

19.3.2 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:

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
As at 31 March 2019	35,249,094	–	35,249,094
Change in fair value during the year	4,406,742	–	4,406,742
Payments to the CfD generators	(1,802,994)	–	(1,802,994)
Additions during the year	904,342	–	904,342
Recognition of Hinkley Point C CfD	–	50,826,301	50,826,301
As at 31 March 2020	38,757,184	50,826,301	89,583,485
Change in fair value during the year	416,675	1,201,738	1,618,413
CfDs terminated during the year	5,561	–	5,561
Payments to the CfD generators	(2,277,412)	–	(2,277,412)
As at 31 March 2021	**36,902,008**	**52,028,039**	**88,930,047**

19.4 Key inputs and underlying assumptions for CfDs

For the key inputs into the model, the underlying assumptions are set out below.

19.4.1 Estimated future forecast wholesale electricity prices

Forecast wholesale electricity prices used to estimate the fair value of CfDs are derived from the DDM which has been developed by BEIS to facilitate/inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment. The DDM 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;
- determining the marginal plant required to meet demand.

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 the 2020 DDM reference case to calculate the fair value of the CfD portfolio, due to the unavailability of the 2021 DDM. Low and high cases were also published by BEIS, which presented low and high assumptions for the wholesale prices of oil, gas and coal. The impact of the high and low cases is illustrated in note 19.5. 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). On windy days, the price that wind generators receive is likely to be reduced. The effect of reduced prices for wind generation adds approximately £2.4bn to the valuation.

19.4.2 Estimated future wholesale electricity generation

19.4.2.1 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.

19.4.2.2 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 2026 and June 2027 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.

19.4.2.3 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.

19.4.2.4 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.

19.4.3 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.

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

The relevant strike price for the Hinkley Point C CfD is specified at £92.50/MWh in real 2012 terms and is not intended to change for the 35 year contract duration, other than through indexation to CPI and certain network and balancing charges, the event of certain qualifying changes in law, or the additional factors discussed below. 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. Management's assumption with regards to Sizewell C has not changed since last year hence the use of £92.50/MWh in calculating the fair value of Hinkley Point C CfD.

19.4.4 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.

19.4.5 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.

If the outturn cost of construction is less than assumed then by reducing the strike price, 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 hasn't been any construction gain share during the year.

19.4.6 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.

19.5 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'.

In order to value the CfD liabilities, management has used future wholesale electricity prices derived from the selected DDM reference case scenario. The two reference case scenarios provided (with alternative levels of demand) represents BEIS's view of the optimal generation mix (from the perspective of whole system costs) to achieve Net Zero by 2050. The reference case scenario that was deemed the most reasonable estimate of the two by management and used for the valuation produces a forecast price of £40.10 per MWh in 2040 and £37.82 per MWh in 2050 (and 2060). BEIS also included high and low cases for this reference case scenario. These high and low cases represent BEIS's view of the optimal generation mix from the perspective of whole system cost to achieve Net Zero by 2050 based on low and high assumptions for future wholesale prices of oil, gas and coal. Under these BEIS high/low fossil fuel price scenarios the forecast price is £42.72/£33.78 per MWh in 2040 and £42.35/£33.59 per MWh in 2050 (and 2060). The impact on the CfD valuation of using these alternative scenarios is shown in the table below.

It should be noted that independent third-party forecasters may use a very different set of assumptions for their scenarios (e.g. different generation mix, commodity prices, carbon prices, electricity demand and/or interconnector capacity) and that these different assumptions may produce a future electricity price outside of the bounds of the range implied by the DDM high and low demand cases. Having undertaken appropriate due diligence, management is satisfied that, whilst significant, the estimation uncertainty associated with future wholesale electricity prices is not fundamental.

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. As in the previous year the company has used the HM Treasury real discount rate of 0.7% for valuing financial instruments such as CfDs. In the table below we have illustrated the sensitivity of the discount rate by applying a rate of 3.5% as an example.

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) have 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:			
DDM high case	3,971,180	7,425,117	11,396,297
DDM low case	(4,493,991)	(6,651,507)	(11,145,498)
Discount rate of 3.5%	23,305,693	6,531,344	29,837,037
Specific to other CfDs:			
10% more load factor	–	(3,690,201)	(3,690,201)
10% less load factor	–	3,690,201	3,690,201
Estimated Commissioning Date moves backward by one year	–	(348,350)	(348,350)
Generation starts at the earliest possible date	–	137,271	137,271
Specific to HPC CfD:			
10% less load factor	5,202,804	–	5,202,804
Generation starts at the earliest possible date	80,160	–	80,160
Generation start date delayed one year from estimated start date	(31,680)	–	(31,680)
Sizewell C strike price adjustment	2,760,518	–	2,760,518

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.

19.6 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
2020	89,583,485	DCF	Electricity prices	32.69-60.46	£/MWh
2021	88,930,047	DCF	Electricity prices	24.62-77.77	£/MWh

Notes to the financial statements

for the year ended 31 March 2021 (Continued)

20. Supplier Obligation Levy

	£'000
As at 31 March 2019	12,920,812
Levy receivable recognised against remeasurement of CfD liability	4,406,742
Supplier Obligation Levy received during the year, net of repayable	(1,802,994)
Amortisation charge during the year	939,680
As at 31 March 2020	16,464,240
Levy receivable recognised against remeasurement of CfD liability	1,618,413
Supplier Obligation Levy received during the year, net of repayable	(2,277,412)
Amortisation charge during the year	1,127,477
As at 31 March 2021	**16,932,718**

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.

21. Events after the reporting period

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

Glossary

Acronym	Description
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.
BEIS	Department for Business, Energy and Industrial Strategy.
Capacity Agreement	A Capacity Agreement is a regulatory and rule based arrangement between National Grid, as System Operator, and a successful applicant in a Capacity Market auction. The Capacity Agreement provides a regular retainer payment to the successful applicant or "capacity provider".
Capacity Auction	At a Capacity Auction, applicants who offer the lowest bid can win a Capacity Agreement. A Capacity Auction relates to delivery of capacity approximately four years ahead (T-4). For instance, the Capacity Agreements resulting from the 2014 T-4 Capacity Auction required capacity to be delivered in the Delivery Year commencing 2018/19.
Capacity Market	The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded Capacity Agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions.
Capacity 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.

Acronym	Description
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 Dispatch 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).
Delivery Partners	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.
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/)

Glossary
(Continued)

Acronym	Description
Energy Data Taskforce	The Energy Data Taskforce was established by the 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.

Acronym	Description
Secretary of State (SoS)	Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder.
Standstill Period	Means the period beginning on 15 November 2018 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 CfD (Electricity Supplier Obligations) Regulations 2014 (as amended) to fund the CfD payments made by LCCC to generators.
Supplier Obligation Regulations	The CfD (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.

Management Committee

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, focussed on adding value.

This was the Management Committee as at 10 June 2021.

Neil McDermott
Chief Executive Officer

Ruth Herbert
Director of Strategy & Development

James Rushton
Director of Scheme Delivery

Allison Sandle
General Counsel & Company Secretary

Cynthia Duodu
Director of People & Organisational Development

George Pitt
Chief Financial Officer

London Array
Aerial view

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