LOW CARBON
CONTRACTS COMPANY
POWERING NET ZERO

Annual Report and Accounts for Low Carbon Contracts Company Ltd

2019/20

Company registration number: 08818711

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

LCCC's Guiding Principle is **to maintain investor confidence** in the CFD scheme and **minimise costs to consumers**.[1]

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

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**"[2]:

- **Counterparty to Contracts for Difference** (CFDs), responsible for managing agreements with low carbon electricity generators under the CFD scheme, forecasting and collecting the Supplier Obligation Levy that funds CFD payments, and settling and clearing the CFDs[3];

- **Capacity Market Settlement Body**, responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as - credit cover; meter assurance; penalties; and payments to Capacity Providers - which LCCC delivers on behalf of its sister company, the Electricity Settlements Company Ltd (ESC).

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[1] LCCC Framework Document, available at https://lowcarboncontracts.uk/corporate-governance

[2] BEIS Single Departmental Plan, updated 27 June 2019: https://www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan-june-2019

[3] Reference is made to the Energy Act 2013 and the CFD related regulations. The regulations are available at: http://www.legislation.gov.uk/all?title=Contracts%20for%20Difference%20regulations.

Contents

Highlights for 2019/20

CFD and Capacity Market scheme delivery

Delivering Excellence

Enabled a further eleven CFD projects[4] to meet their Operational Conditions Precedent

increasing annual low carbon generation under the CFD scheme to 18.8TWh (2018/19: 12.1TWh from 18 projects)

Signed 22 contracts with new low carbon projects successful in the third CFD Allocation Round,

adding 5.8GW of capacity to our future pipeline

Managed the successful restart of the Capacity Market

paying over £1bn to Capacity Providers in full in January 2020 for meeting their Standstill Period obligations[5]

Developing as a Centre of Expertise

Published new scheme dashboards

with downloadable data in support of the aims of the Energy Data Taskforce

Published scheme information pages

explaining how the CFD and Capacity Market work and how they are performing

Developed detailed guidance for Capacity Market restoration

published in August 2019

Acting as a Trusted Advisor

Advising BEIS on changes to the CFD that could be made to adapt it for CCUS

deployment on power and industrial sites

Engaging with Ofgem on the establishment of a Capacity Market Advisory Group

to improve how Rules changes are impact assessed

Advised successful CFD applicants on Force Majeure provisions

during uncertainty arising from the judicial review of Allocation Round 3

Legend:

Green outline – Contract for Difference (CFD) activity
Blue outline – Capacity Market (CM) activity
Black outline – CFD and Capacity Market activity

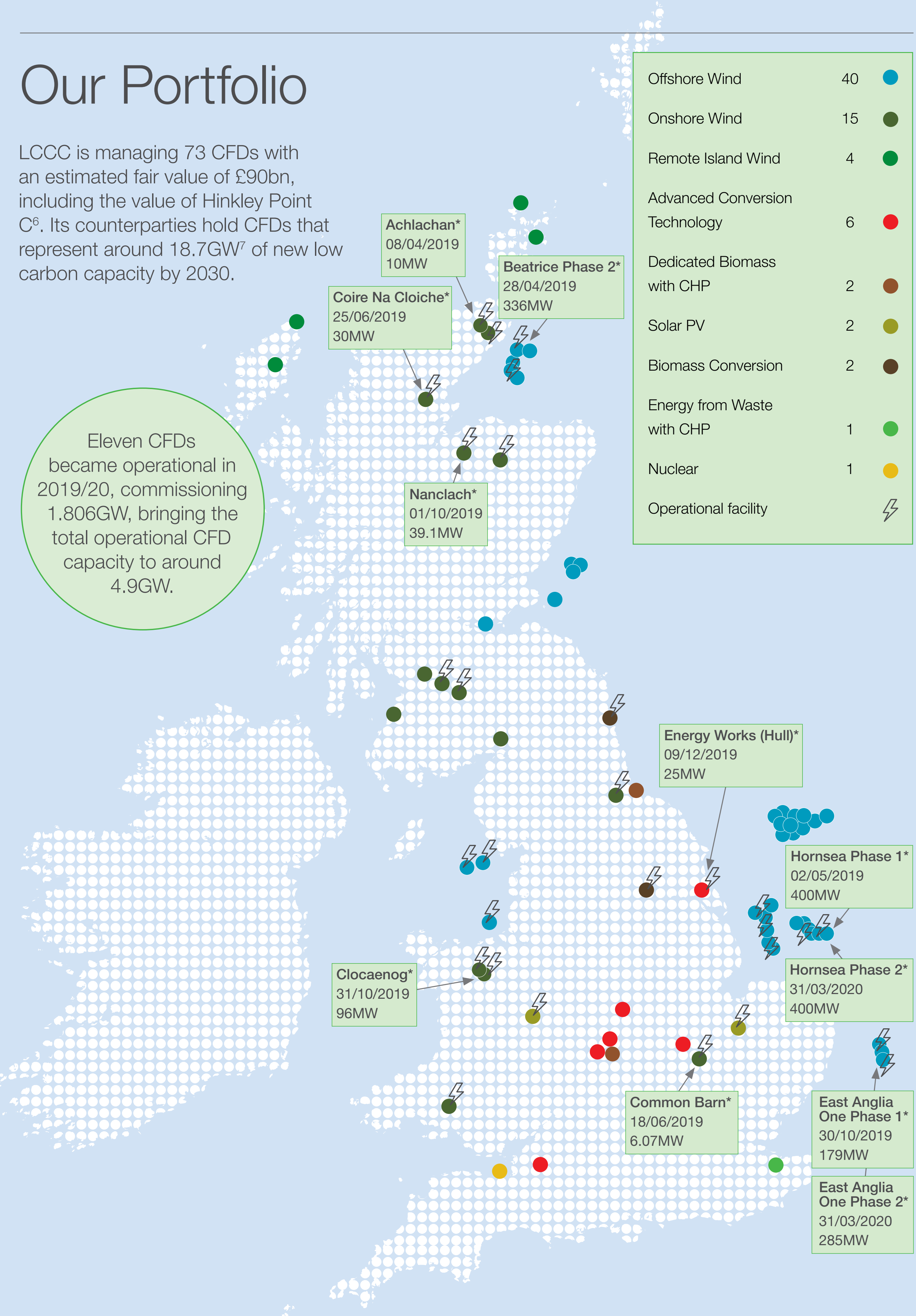
[4] where each phase of an offshore windfarm has a separate contract, each phase is referred to as a separate CFD project

[5] The Capacity Market Standstill Period ran from 15 November 2018 until 25 October 2019.

Our Portfolio

LCCC is managing 73 CFDs with an estimated fair value of £90bn, including the value of Hinkley Point C[6]. Its counterparties hold CFDs that represent around 18.7GW[7] of new low carbon capacity by 2030.

Eleven CFDs became operational in 2019/20, commissioning 1.806GW, bringing the total operational CFD capacity to around 4.9GW.



* Dates for projects that became operational in 2019/20

[6] Including 3.3GW for Hinkley Point C

[7] See Note 18 of the Financial Statements

Chair's foreword

Having recently taken on the role of Chair of LCCC in September 2019, I would like to thank my colleague Jim Keohane who acted as Interim Chair from 1 October 2018 to 1 September 2019 - to him, our other board colleagues and the LCCC team should go the credit of the achievements set out in this, our sixth annual report. Supported by a dedicated and committed board, the expert professional team at LCCC have played a critical role in the delivery of the UK's energy transition over the past five years. We are now ready for the step change that is needed to support the new ambitious target of Net Zero by 2050.

Experts in scheme delivery and development

This year we successfully helped to maintain the investor confidence that is vital to meet the infrastructure challenge that Net Zero presents, in the face of uncertainty coming in 2019 from legal challenges to our schemes. Despite a judicial review of Allocation Round 3, LCCC was able to sign 22 contracts with successful applicants in October, representing a potential 5.8GW of new low carbon capacity that will be built in Great Britain. Following a positive state aid decision on the Capacity Market in that same month, LCCC on behalf of ESC delivered a successful re-start of the Capacity Market and paid all Capacity Providers on time and in full by the end of January 2020.

At the same time the company provided independent expertise and insight to the government in the development and delivery of schemes. Our teams have shared their deep experience to support government, the regulator and industry to develop administrative, or in some cases, regulatory solutions to problems and challenges. The company has also been quick to embrace sectoral initiatives like the Energy Data Taskforce, launching scheme dashboards online in the latter half of the year and working with the Energy Systems Catapult on the publication of raw data.

As we entered 2020/21 everyone is having to deal with the impacts of the global Covid-19 outbreak. For LCCC this is a real test of our IT infrastructure, but it represents an even greater challenge for our stakeholders, especially electricity suppliers and generators. We are engaging closely with them and will continue to support them to understand and manage the impacts on their businesses as the situation unfolds.

Powering Net Zero

Looking to the future, we want to step up to the challenge of supporting Net Zero. As the UK looks ahead to hosting the next UN Climate Change Conference (CoP 26) in 2021, we have an opportunity to drive up ambition to address climate change globally and demonstrate leadership by showcasing our decarbonisation industries. Part of that is the significant strides we have made in the decarbonisation of the electricity sector over the last ten years – with CFDs playing a crucial role, but the scale of the challenge ahead is undiminished.

The current installed and committed offshore wind capacity would need to be increased by a further 20GW if the UK was to install 40GW of offshore wind by 2030, requiring around £50bn of investment[8]. A further 5.3GW of onshore wind and also solar capacity with planning consent will be looking to take advantage of future CFD Allocation Rounds[9], following the government's announcement of its intention to run a Pot 1 auction for those technologies in Allocation Round 4[10]. The Committee on Climate Change has highlighted the need for rapid investment in new technologies, such as Carbon Capture, Usage and Storage (CCUS) with initial deployment before 2030[11]. All of this presents both opportunities to deliver the UK's climate goals and challenges to our current system of planning and grid infrastructure.

[8] Sources: RenewableUK Wind Energy Database in May 2020 (https://www.renewableuk.com/page/UKWEDSearch) and Aurora Energy Research (https://www.auroraer.com/insight/reaching-40gw-offshore-wind/)

[9] According to the RenewableUK Wind Energy Database in May 2020: https://www.renewableuk.com/page/UKWEDSearch

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869778/cfd-ar4-proposed-amendments-consultation.pdf

[11] According to the Climate Change Committee's report "Net Zero – The UK's contribution to stopping global warming", available at: https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/

LCCC's part in this is to maintain investor confidence in our schemes and at the same time draw out the lessons of how the CFD has driven down prices and mobilised capital. Given the scale of investment required in the UK alone and the increasing appetite of global investors for climate secure investments, the opportunity is clear. What has worked for electricity could provide a starting point for incentivising and attracting investment into the decarbonisation of other sectors. LCCC will engage positively with policymakers, regulators, investors and industry during 2020/21 so we can play our part in finding solutions.

Regina Finn
Chair

Chief Executive's statement

I am very conscious of the crucial role LCCC is playing in the transition to a Net Zero economy by 2050 – the CFD scheme continues to attract much needed investment into new low carbon generation infrastructure. LCCC's independent delivery expertise is part of that success. It has been more important than ever this year, in the face of legal challenges and political uncertainty, that we have remained focused on our guiding principle – maintaining investor confidence in the scheme and minimising costs to consumers. Whilst most of our external engagement is focused on industry participants, our policy and regulatory stakeholders have told us that we are becoming increasingly important and trusted advisors – this is encouraging, given that we set ourselves a goal to achieve this by March 2021. One thing we can be certain of is that the next two years will see significantly more change than the last two years for the schemes we manage and the energy market as a whole. Our ability to evolve with the market and provide valuable insights to it will only become more important over time.

Delivering excellence

The first half of 2019/20 was heavily dominated by two events – the preparations for the restart of the Capacity Market and CFD Allocation Round 3. Our CFD implementation coordinator role requires us to proactively seek to ensure that applicants have all the necessary information to take part in an Allocation Round effectively. Feedback from previous Allocation Rounds suggested the process was disjointed for applicants, with each stage being managed by a different organisation. Consequently, the LCCC team developed a joint information portal, covering every stage of the process, which we maintained on behalf of CFD Delivery Partners, BEIS, Ofgem and the ESO. This enabled industry participants to access all relevant documents in a single location and receive jointly reviewed responses to queries posted via the portal. We also delivered a series of CFD Masterclasses to applicants to ensure they were familiar with the CFD Standard Conditions before the Allocation Round 3 auction.

Confidence in Allocation Round 3 was threatened by a third party announcing in August that they were seeking a judicial review of BEIS's decision to launch Allocation Round 3. LCCC was quick to provide reassurance to successful applicants around the application of force majeure relief under the CFD, and we were pleased to have been able to proceed to sign the 22 new contracts with low carbon generators in October. The judicial review process has now been withdrawn and the related force majeure event is at an end.

Allocation Round 3 increased our total portfolio capacity – operational and pipeline – to 15.4GW, increasing to 18.7GW when including Hinkley Point C. In the early years of a CFD, LCCC focuses on tracking delivery confidence and ensuring key contractual milestones are met, as well as playing our part in any re-financing or divestment of assets that occurs prior to the operational phase. In 2019/20 we signed three CFD Direct Agreements, at the request of generators, unlocking around £3.6bn of investment in offshore wind farms[12]. We also implemented 25 BEIS and Ofgem changes across the CFD and Capacity Market schemes, the latter on behalf of our sister company ESC.

The critical goal of the CFD is to deliver 85-95% generating capacity within the Target Commissioning Window. During 2019/20, a further eleven projects commenced generation, bringing total CFD output to 18.8TWh in the year to 31 March – enough generation to power Wales[13]. I was delighted to be able to join some of our contract managers in attending the commissioning ceremony of the EDF Dorenell Wind Farm in September. The start of operations under their CFDs is a great achievement for these projects – the culmination of many years of planning and implementation – and it was heartening to see the strong relationships that had developed between our respective teams through the process.

Similarly, our relationship with Hinkley Point C, one of the UK's largest infrastructure projects, has continued to evolve, with the monitoring

[12] https://ijglobal.com/articles/141319/beatrice-offshore-wind-refinancing and https://ijglobal.com/articles/144550/neart-na-gaoithe-offshore-wind-farm-scotland

[13] Based on 2018 Wales consumption of 14.8TWh: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853756/Sub-national_electricity_consumption_statistics_2018.csv

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 its second major milestone on time, the completion of the foundation of the Nuclear Island (the "common raft" or "J-zero" milestone) for Unit 1, while the equivalent milestone for Unit 2 is targeted for June 2020. Despite the positive progress, challenges related to the scale, complexity and nature of Hinkley Point C should not be underestimated. In September 2019 EdF SA announced that the previously disclosed risk (of a 15-month delay) to the Commercial Operation Date of Unit 1 (planned for December 2025) has increased.

A significant element of our work on the financial statements this year has been the recognition of the Hinkley Point C CFD as an accounting transaction. The Hinkley Point C CFD (35 years) is more than double the length of other CFDs (15 years) entered into by the company, making it more difficult to estimate its value. I am pleased that this year, working closely with BEIS, the company has been able to obtain a reliable fair value estimate of the contract that has facilitated its recognition in the financial statements. This is significant, as the fair value attributable to the Hinkley Point C CFD is £50.8bn, which is more than half of the total fair value of the CFD portfolio of £89.6bn (£35.2bn in 2018/19 without Hinkley Point C). Detailed disclosure on the underlying assumptions and volatility involved in valuing the Hinkley Point C CFD is part of note 18 of the financial statements. CFD liability is covered through Supplier Obligation Levy asset.

Our work with government at times can become very intensive – this was particularly the case during 2019/20 for the Capacity Market activity that we carry out on behalf of ESC. After spending most of the first half of the year preparing new processes and guidance for the end of the Standstill Period as well as changes to settlement systems, we successfully restarted Capacity Market collection and settlement in October, following a positive state aid decision from the European Commission. Our proactivity with suppliers enabled us to collect sufficient funds – over £1bn during the course of a few weeks and over 99% of the monies due from suppliers - to pay Capacity Providers' Standstill Period payments on time and in full in January this year. This work was a fantastic example of cross team working in LCCC and cross organisational working by the various parties involved. The restart of the Capacity Market accounts for the significant difference in the total Capacity Market supplier charge from £176m in 2018/19 to £1.5bn in 2019/20, which includes £987m of deferred payments relating to the 2018/19 Delivery Year.

Towards the end of the financial year we found ourselves having to adapt to the repercussions of the global Covid-19 outbreak, moving our entire operations to home-working and increasing appropriate information sharing and engagement with BEIS and the regulator, Ofgem, to monitor impacts on generators and suppliers. Implementation of our Business Continuity Plan has been critical to maintaining our performance during this period. We have also recently seen an impact on the market as a result of changes in patterns of electricity demand and market prices. This has impacted the amount of supplier obligation levy we would have otherwise collected over the April to June 2020 levy period as well as the amount payable to CFD generators. We have agreed to take an interest free loan from BEIS, to be repaid with funds raised from suppliers at a later date, rather than, at this difficult time, raise the levy rate suppliers are paying in order to meet the projected shortfall. As the situation continues to develop, we can also expect further impacts on CFD management, where we will be addressing Force Majeure claims.

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 ESC recharge) was £12.1m (2018/19: £12.3m), compared to the pre-approved budget of £17.0m (2018/19: £16.5m).

Providing expert advice

Throughout this year we have been taking steps to become more agile in our delivery across the CFD and Capacity Market schemes and ensure that we have the right analytical and data processing skills to interpret scheme data and use insights to understand opportunities for improvement. We have also made significant progress in publishing more scheme information on our website for both the CFD and Capacity Market schemes, in formats that can be more easily interpreted. An area of ongoing dialogue with the Energy Systems Catapult and CFD generators is the definition of what is confidential information – clarifying this is key to the increased transparency that we are working towards in support of the goals of the Energy Data Taskforce. We face similar challenges around accessing and publishing applicants' data held by the ESO, even where this is required for the effective operation of the schemes.

Development of insights has enabled us to bring our expertise to the table to support the government's work on the CFD and Capacity Market five-year reviews and engage with thinking around future market design, including participating in the Re-costing Energy project. It also plays a key role in raising our sights beyond our immediate change programme, to ensure that, at the very least, the settlement system and processes do not stand in the way of the ongoing regulator and industry-driven reforms in the wider market, and at the best, we anticipate how they may need to evolve to support the future model as it emerges.

Building on strong foundations

In our latest people survey, 77% of our people say they are proud to tell people they work at LCCC. When I talk to teams about what it is they like about working at LCCC, it is the fact that we are making a difference in the transition to Net Zero that provides their motivation. Supporting this is the nature of our position at the heart of the market, working alongside both generators and suppliers, dealing with energy businesses day to day, combined with our ongoing collaboration with BEIS, Ofgem and other Delivery Partners, that makes the work interesting.

A case in point is our involvement in the development of the government's approach to a potential power CCUS CFD, where we have been able to contribute our knowledge of how the current CFD works and could be adapted to meet the government's objectives for this important technology. CCUS is a fantastic example of a technology which is applicable more widely than electricity and is set to have a role in enabling decarbonisation of other sectors. A holistic approach to looking at support models will be critical going forward. Hydrogen production by electrolysis using renewable sources and CCUS are widely recognised as game-changers for both the energy, industrial and transport sectors.

Looking back, it has been a challenging year, but we have proven we can respond effectively to unforeseen events. Relationships have been deepened and trust has been developed that will serve us well in the years ahead, as the pace for delivering the government's ambition ramps up and we engage in earnest on the change programme going forward. I remain committed to ensuring that we continue to provide reassurance to participants and investors in the electricity market that we can confidently manage the interface between generation, supply and market operation during the changes ahead.

N McDermott.

Neil McDermott
Chief Executive

Corporate report

Our role in delivering affordable, reliable and clean electricity

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

- Our primary responsibility as an operationally independent "CFD Counterparty" is to **manage the CFDs throughout their lifetime**, ensuring that low carbon generators comply with their CFD obligations under the private law contract.
- In order 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 also 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.

Key outcomes in 2019/20

Table 1: Key scheme outcomes 2019/20[14]

Scheme	Outcomes	Total payments made under scheme	Total annual cost (including operational cost levies)	Operational costs as a percentage of total annual cost
CFD	18.8TWh of low carbon power produced. Approximately 5.6m tonnes equivalent of avoided CO_2[15]	£1,803.0m	£1,815.1m	0.7%
Capacity Market	Availability payments made to 53.4GW of capacity for Delivery Year 2018/19 and 49.0GW for Delivery Year 2019/20	£987.3m (for Delivery Year 2018/19)[16] £496.0m for Delivery Year 2019/20 from October 2019 to March 2020	£1,490.3m	0.5%

[14] Figures may not reconcile due to rounding.

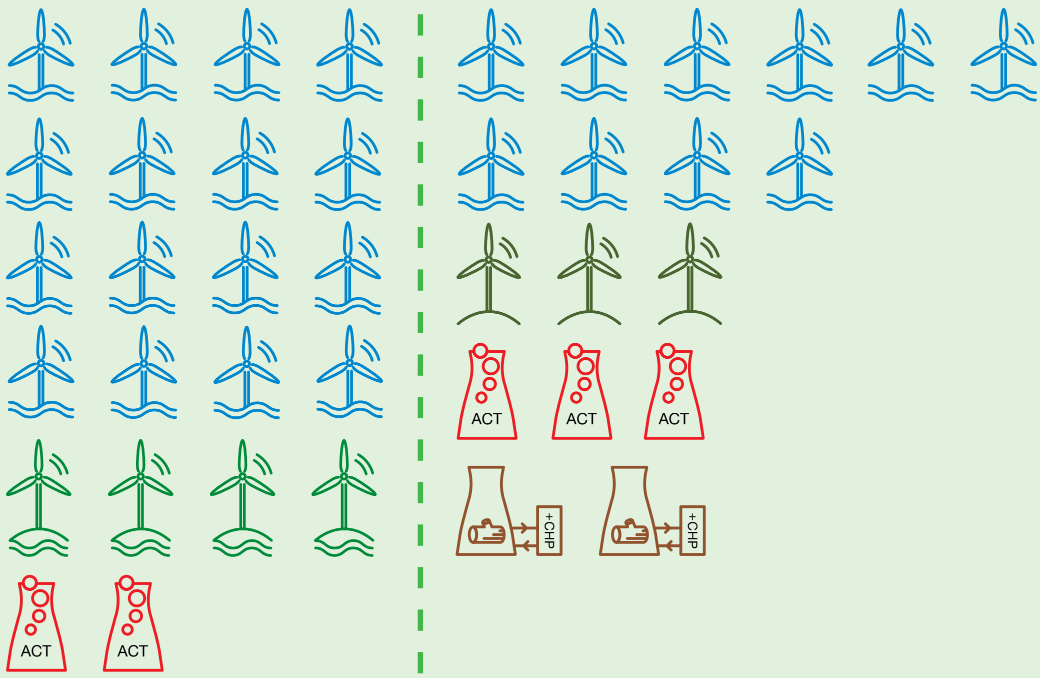
[15] GHG avoided from the CFD portfolio which are calculated using the actual CFD generation and BEIS annual generation based long-run marginal emissions factors. https://www.gov.uk/government/publications/valuation-of-energy-use-and-green house-gas-emissions-for-appraisal

[16] A Capacity Market Delivery Year runs from 1 October to 30 September the following year. Payments to available capacity were suspended on 15 November 2018 following the ECJ ruling annulling State aid approval for the Capacity Market, pending a further investigation by the European Commission. Deferred payments for the Standstill Period were made to Capacity Providers in January 2020, covering the Delivery Year 18/19 (for capacity available between October 2018 to September 2019).

Portfolio view:

Progress of CFD generators as of 31 March 2020[17]

CFD milestones	Pre-MDD	Pre-Start Date



Contract Signed | MDD

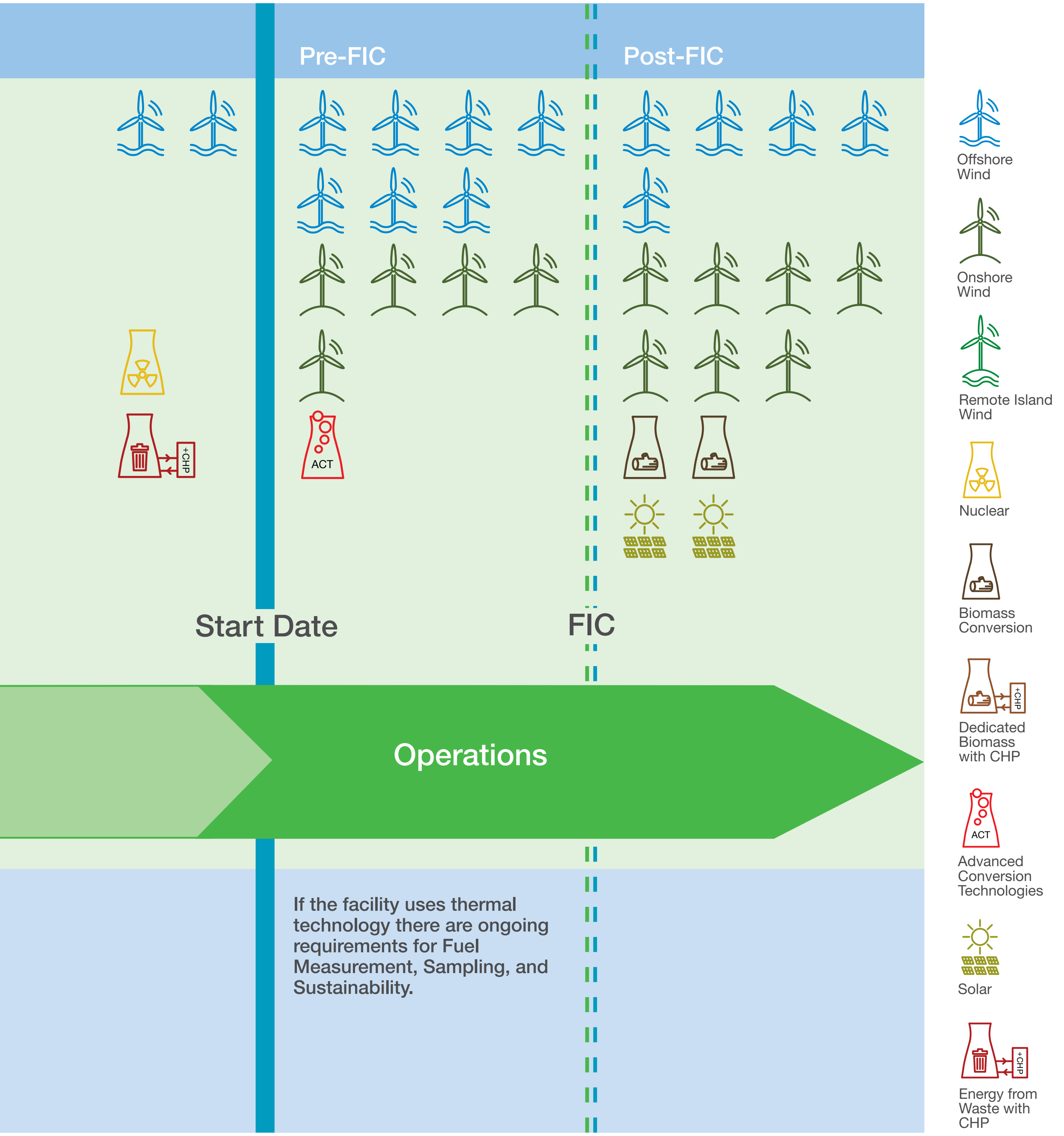
CFD Project Activity		Development	Construction

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.

[17] All positions shown as of 31 March 2020, except for two terminations that occurred after 31 March whose symbols have been removed.

Key Contractual Definitions

MDD - Milestone Delivery Date
FIC - Final Installed Capacity
OCP - Operational Conditions Precedent
TCW - Target Commissioning Window



Our key achievements in 2019/20

Delivery Excellence

CFD Management

During 2019/20, eleven CFD projects became operational, increasing the total installed capacity commissioned under the CFD scheme to 4.9GW. These new projects contributed to a combined low carbon electrical output over the year of 18.8TWh from the CFD portfolio.

Pages 10 to 11 depict the status of CFD projects as of 31 March 2020. In addition to projects commencing operations, progress in 2019/20 included:

- Eleven projects started generating electricity under the CFD, having successfully met their Operational Conditions Precedent:
- Eleven projects across biomass conversion and wind technologies completed their Final Installed Capacity tests.
- Three Direct Agreements being signed to assist CFD generators financing or re-financing their projects.

During 2019/20, three projects were terminated.[18]

[18] This includes two terminations that occurred in May 2019, that were also reported in the 2018/19 LCCC Annual Report and Accounts.

Providing decarbonisation on a large scale

LCCC's contract managers, along with its appointed auditors, visited Drax Unit 1 in 2019 to undertake an annual Fuel Measurement and Sampling and Sustainability Criteria audit. This involved a review of procedures, processes and documentation. Currently generating approximately 5% of the UK's electricity, Drax is the largest power station in the UK and its operations have seen a big transformation. Formerly fuelled entirely by coal, Drax is now a predominantly biomass-fuelled electricity generator. Drax has recently announced its intention to end coal-fired generation by 2021 and its plan to deploy bioenergy with carbon capture and storage (BECCS) to achieve its ambition of being carbon negative by 2030[19].

[19] https://www.drax.com/press_release/drax-to-stop-using-coal-well-ahead-of-uks-deadline

Managing the impacts of Covid-19

Following the restrictions put in place in March 2019 as a result of the Covid-19 outbreak, we successfully implemented our Business Continuity Plan and have managed to maintain performance in all areas of our business with 100% of our employees working remotely and able to continue to collaborate successfully using Sharepoint and online meeting applications, supported by the cloud environment.

Since the outset of the crisis, we have reached out to CFD generators to understand how projects are being impacted. We wrote to all generators explaining our view that Covid-19 could be a Force Majeure event (depending on how and if projects are affected), explaining how the Force Majeure provisions of the CFD work and speaking to every project director. We have also engaged with the media and issued public communications to provide reassurance regarding how we are managing the situation.

Alongside this, we have been continually re-evaluating our Supplier Obligation Levy forecast to ensure that we will continue to have sufficient funds to pay CFD generators as business electricity demand reduces due to the coronavirus lockdown. We have also worked closely with the ESO, Ofgem and BEIS, to understand the potential impacts on electricity suppliers. In April 2020 we agreed to take a interest free loan from BEIS (to be repaid at a later date from levy funds collected from suppliers) in order to help fund the projected April to June shortfall in supplier obligation levy receipts resulting from the significant drop in electricity demand and the impact on the amount required for CFD payments due to falling electricity prices.

We expect that many suppliers will be facing significant uncertainty regarding their future revenues during this time, as demand patterns shift, and will be working to ensure that BEIS and Ofgem have the appropriate information to feed into their wider assessment of all of the costs suppliers are facing over the coming months. We have also been working with BEIS, on behalf of ESC, to determine where Capacity Providers, in particular Demand Side Response, may need flexibility going forward.

Capacity Market Management

Following the State aid re-approval of the Capacity Market by the European Commission in October 2019, and in accordance with the Capacity Market rules and regulations, we delivered, on behalf of ESC, meter tests for 60 components during 2019/20 and, in the period from November 2019, made payments of £496m in exchange for 49.0GW of reliable capacity to be made available to National Grid as System Operator for the Delivery Year 2019/20. In addition, in January 2020, after months of continual engagement with suppliers to ensure we were able to collect the required funds, approximately £1bn of deferred capacity payments were paid for Delivery Year 2018/19 to Capacity Providers who were available during the Standstill Period.

Engaging with our Capacity Market stakeholders

Our annual stakeholder event in November 2019 took place shortly after the State aid re-approval of the Capacity Market following a 12-month Standstill Period. Our people were on hand to reassure participants, explaining to Capacity Providers and electricity suppliers how the restart would work, including the timing and scale of invoices for the Standstill Period and when Capacity Providers would get paid. This was just one event in an extensive communications exercise that enabled ESC to successfully collect the necessary funds and issue all deferred capacity payments in January 2020.

LCCC people engaging with Capacity Market stakeholders

Change delivery

Over the course of the year we delivered 25 system, process and/or service improvement changes. Twelve of these implemented CFD and Capacity Market policy and regulatory or rule changes. In addition, we have supported National Grid software releases and delivered all changes consequent on Balancing & Settlement Code (BSC) changes which have impacted our settlement systems.

Regulatory system and process changes for CFDs and Capacity Market

The changes relating to the Capacity Market restart have been focused on functionality pertaining to the T-3 Capacity Auction, facilitating new data interactions with the ESO, and functionality required to calculate the Standstill Period supplier charges. We have also delivered the functionality needed to make the Standstill Period capacity payments, mutualisations and reconciliations.

Other Capacity Market changes included those required to enable 'Component Reallocation' and the introduction of 'Relevant Benefit' functionality. We have also implemented adjustments to data inputs due to the Trans European Replacement Reserves Exchange (TERRE) project (BSC Modification P344) and Applicable Balancing Services Volume Data (ABSVD) changes (BSC Modification P354) which affected both CFD and Capacity Market operations.

Focusing on CFDs we have implemented regulatory process changes for Energy Intensive Industry Exemptions and introduced new calculations and functionality to support Allocation Round 3 Strike Price Adjustments.

Service Improvements changes for Capacity Market

Our work has included looking at the Voluntary Supplier Arrangement to support the Capacity Market during the Standstill Period (including additional fraud checks) and adding confirmation/processing information to Capacity Market Volume Reallocation Notices (CMVRN) trade file submissions. We have also implemented transparency improvements to the Capacity Volume Register in response to stakeholder feedback.

Operational efficiency and risk mitigations via system enhancements

As part of our work we have been implementing enhancements to System User Interface management and system audit reporting as well as various updates to cross system password policies and a new and improved change process for more efficient change management. During the year our settlement agent, EMRS, made major headway in upgrading its software for both financial and Service Desk functions.

Centre of Expertise

Sharing our data

This year we have taken a considerable step forward in publishing new scheme dashboards[20], which contain live CFD and Capacity Market data. This has enabled our stakeholders to view the performance of the schemes via our website, for example how much low carbon generation CFDs are producing and how many capacity agreements we are settling. Our projections in Figure 1 show that by 2030, our current portfolio of CFD projects could be generating over 80TWh p.a., with the greenhouse gas (GHG) emissions avoided as result estimated to be about 20MtCO_2e p.a.

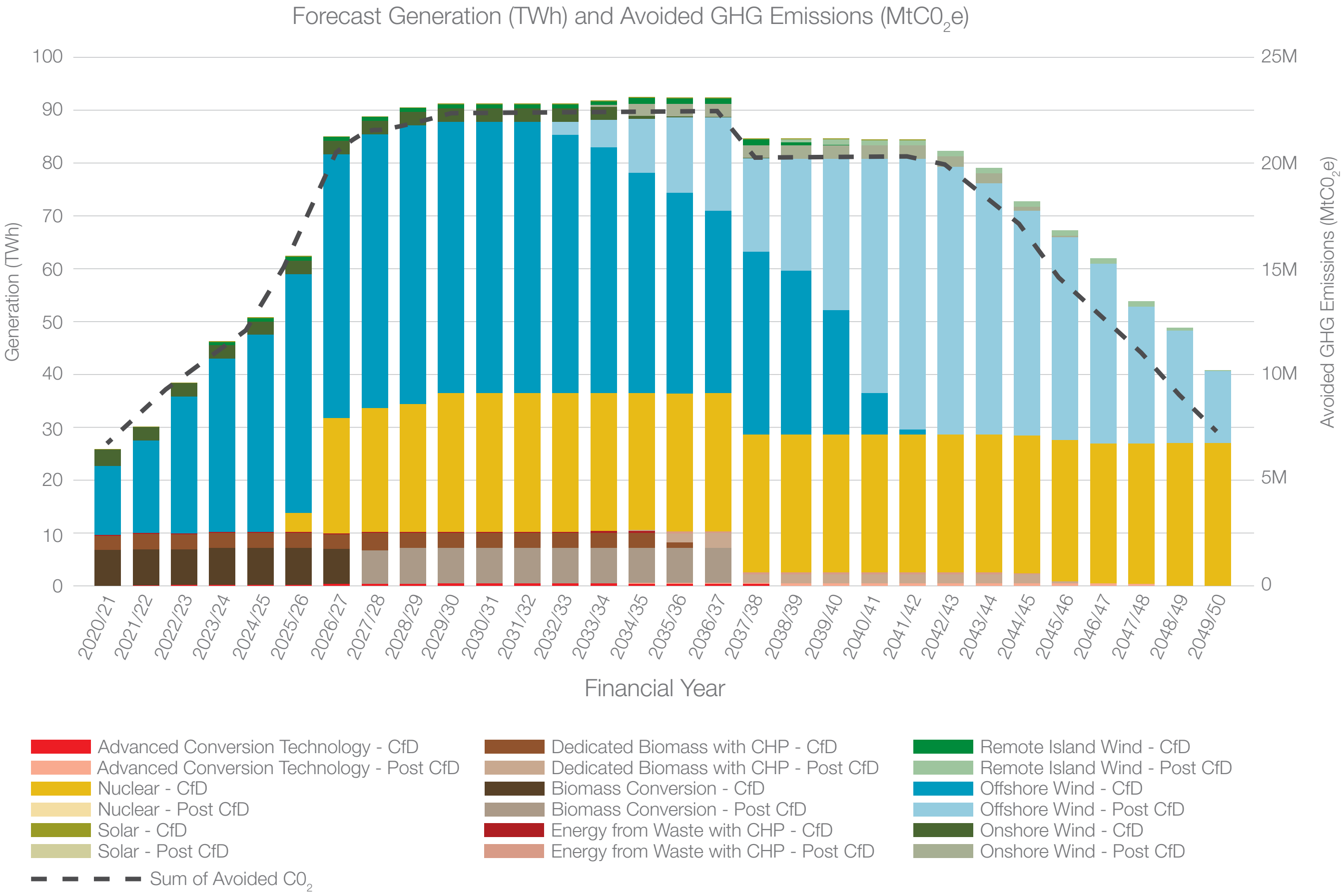


Figure 1: Snapshot of one of LCCC's CFD dashboards from www.lowcarboncontracts.uk/dashboards

Sharing our knowledge

During April and May 2019, we offered CFD Masterclasses to potential applicants to Allocation Round 3. Throughout the year we also trained new staff in BEIS and the ESO on the CFD and Capacity Market. We have continued to develop our online guidance, including publishing comprehensive guidance for electricity suppliers to help them prepare for the restart of the Capacity Market, as well as CFD generator guidance, and updated Capacity Market Stress Event guidance.

[20] https://www.lowcarboncontracts.uk/dashboards

Trusted Advisor

Supporting scheme development

This year we have shared our knowledge of CFDs and the Capacity Market with BEIS policy teams working on changes to the schemes, and also those working on other developments such as new nuclear and CCUS for decarbonisation of both power and industrial sectors.

We have worked closely with Ofgem to improve the annual Capacity Market process for determining which industry change proposals to progress, in particular co-chairing the Capacity Market Regulatory Change Advisory Board focused on the implementation of proposals and advocating for industry expert involvement alongside Delivery Partners in the sifting and impact assessment of proposals.

"We value the input from ESC on CM rules and system development and expect them to play a key role as a Delivery Partner in the CM Advisory Group"

Chris Thackeray
Head of GB Wholesale Markets Systems and Networks, Ofgem

Figure 2:
Brenig Wind passed its Final Installed Capacity milestone at the end of March 2020

People Centric

Embedding a people centric culture

During 2019/20, we have sought to redefine our culture, encouraging all our people to play their role in bringing our values to life, whatever job they do. This has been achieved by introducing a 'monthly focus' on values through staff and team meetings and establishing a sustainability project group to further develop our personal and workplace contribution to our vision. We also continued to embed values and foster our company culture through our performance management framework.

Rewarding our people

We want our culture to reflect our values and we encourage our employees to live our values in everything they do. Throughout 2019/20 we have recognised and celebrated those employees who have effectively demonstrated our values, by way of annual values recognition awards as well as every month encouraging staff to nominate their colleagues to gain that little extra recognition.

Learning and development

As part of our people centric culture we have worked hard to ensure that all staff receive the training and development they need. In 2019/20 we have invested significantly in areas of leadership and management development including coaching for heads of teams, line manager 'Bootcamps' and strategic alignment workshops. This is to reinforce the importance of a coherent approach at all levels towards people management and to enable a consistent employee experience across the business.

As a learning organisation, we support staff in developing their skills. In 2019/20, in total, LCCC staff attended 295 days of learning. In addition, we introduced LinkedIn Learning to allow colleagues to access learning at any time from their laptop, phone or tablet. Since its launch in November, a total of 358 courses and 1,840 videos have been viewed.

In Focus: Hornsea One

Hornsea One, the world's largest offshore windfarm was commissioned in December 2019. Now commercially operational, Hornsea One is the first ever offshore windfarm to reach a capacity of over 1GW.

At full capacity, Hornsea One generates 1.2GW of clean electricity, and for the coming decades will continue to provide renewable energy that meets the needs of well over one million homes in the UK.

The turbine array is located 120km from its landfall in Lincolnshire, making Hornsea One currently the furthest offshore windfarm to be built from shore. Each of the 174 7MW Siemens Gamesa wind turbines stand over 190m above the North Sea and are distributed across an area of 407km^2.

The three project phases of Hornsea One, each with a capacity of 400MW, were awarded Investment Contracts in 2014, enabling Ørsted to take its Final Investment Decision. The first phase of the project achieved its Start Date on 2 May 2019. The windfarm is a joint venture between Ørsted, the global leader in offshore wind, and Global Infrastructure Partners, who purchased a 50% share in the site in 2018.

Works first started in 2016 with groundworks for the onshore substation and followed by the cabling works. Offshore, monopile foundation installation commenced in January 2018 with the first export cable section laid three months later.

Another milestone was achieved in June of the same year when the world's first offshore Reactive Compensation Station, weighing a total of 4,000 tonnes, was installed. Located half way between the site and the shore, this enables High Voltage Alternating Current to be carried by longer cables than would otherwise be possible. Clean electricity from the wind turbines steps up in voltage at three offshore substations for transmission via these cables to the National Grid onshore.

First power was generated at the site in February 2019, with the installation of turbines then continuing for just over eight months – a remarkably fast process. Overall, with the dedication and hard work of over 8,000 people, the project was delivered in just under four years.

Each of the 75m long blades for Hornsea One were manufactured by skilled workers at Siemens Gamesa Renewable Energy's purpose-built facility in Hull. The factory is located just over 30 miles away from Ørsted's East Coast Hub in Grimsby, the world's largest operations and maintenance facility for offshore wind.

Operationally, Hornsea One is run from the East Coast Hub and supported by the Service Operations Vessel (SOV) Edda Mistral. As well as transporting technicians offshore, the vessel works as accommodation and warehousing for the site, located in the field for four weeks at a time.

Far left:
© Ørsted
The blades for Hornsea One are 75m long

Left:
© Ørsted
The Bold Tern installing wind turbine blades

Hornsea One timeline

9 May 2014	Investment Contracts signature
January 2016	Onshore substation site construction began
September 2016	Onshore cable construction began
April 2017	Landfill cable construction works began
January 2018	Offshore construction began
May 2019	Hornsea One Phase 1 began commercial operation under the CFD
31 March 2020	Hornsea One Phase 2 began commercial operation under the CFD

"This record-breaking project has managed to pave the way for the next generation of offshore wind construction. At the time of taking on the project, its size and scale seemed a Herculean challenge, but a truly extraordinary effort from all those involved have managed to make this impressive feat of engineering the new norm. The Contract for Difference scheme has been central to enabling the delivery of such large scale renewable projects to deliver on decarbonisation and net-zero ambitions. It is a fantastic example of a supportive Government framework that brings confidence to investors and the benefits of certainty to the supply chain."

Duncan Clark,
Ørsted Head of Region UK

©Ørsted
Hornsea One offshore wind farm now hosts an array of 174 wind turbines.

Environment report

LCCC is in its fifth year of capturing and reporting carbon emissions from its activities and operations. We remain committed to minimising the environmental impact of our own operations through the adoption of sustainable practices and continuous environmental performance. Data continues to be monitored and recorded, via our carbon reporting tool, which includes electricity, gas, water and waste. LCCC has continued to capture the impacts of staff travel, which at present is limited to travel during business and not commuting. Reporting of LCCC's greenhouse gas emissions continues to be in line with the mandatory carbon reporting format which measures scopes 1, 2 and 3 GHG emissions.

Table 2: Emissions from LCCC operations

Greenhouse gas emissions (Total tCO_2e)	2015/16 Apr – Mar[21]	2016/17 Apr – Mar[22]	2017/18 Apr – Mar[23]	2018/19 Apr – Mar[24]	2019/20 Apr – Mar[25]
Scope 1: direct emissions	33.57	19.23	35.78	28.33	19.09
Scope 2: indirect emissions	127.62	124.51	89.45	70.41	25.49[26]
Total Scope 1 & 2 emissions	161.20	143.74	125.23	98.74	44.58
Scope 3: other indirect emissions Water & Waste Water	0.76	0.74	1.32	1.96	0.76
Scope 3: other indirect emissions - Waste	0.119	0.147	0.242	0.242	0.25
Scope 3: other indirect emissions - Travel	Data not recorded	Data not recorded	Data not recorded	0.042	0.04
Total Scope 3 emissions	0.879	0.887	1.562	2.244	1.04
Total Scope 1, 2 & 3 emissions	161.96	144.48	126.55	100.98	45.62

[21] Estimated data – Scope 1 March, Scope 2 March, Scope 3 July & October - March
[22] Estimated data – Scope 1 October - March, Scope 2 October - March, Scope 3 March
[23] Estimated data – Scope 3 February - March
[24] Estimated data – Scope 1 March, Scope 2 March, Scope 3 February - March (excluding travel)
[25] Estimated data – Scope 1 March, Scope 2 March, Scope 3 January – March (excluding travel)
[26] Estimated data – Scope 2 electricity based of CIBSE 'Typical building' performance (kWh/m2/yr.) (DECs)

As previously reported, data from preceding years has been revisited where data has become available in a bid to improve the forecast estimates where data is missing. This may have resulted in changes to the original published data. We anticipate further changes as missing data is located, the forecasting methodology improves, improvement in data capture of all data but particularly of our scope 3 emissions.

This improvement in our processes has allowed us to report staff travel on business for the first time and this will assist us in making improvements to reduce our carbon footprint.

For the 2019/20 year our scope 1 emissions (natural gas consumed on site) decreased by -33% to similarly low levels recorded in 2016/17. Natural gas consumption is heavily influenced by seasonal variations and extremes in temperature. Scope 2 emissions (purchased electricity) significantly decreased (-64%) against the previous year. As a result of tenants leaving and general low occupancy in the building and subsequent discrepancies in actual data an estimation was made to determine tCO2e for LCCCs occupied floor space.

As above, LCCC is a tenant within a multi-tenanted 9 floor building that makes identifying causes for increases and decreases in consumption challenging. The decrease in scope 1 and 2 emissions for 2019/20 appears to be the result of improvement in the buildings operating efficiency and a reduction of tenant headcount however, external variations in temperature and change in the hours of office operation may have also been factors in this reduction.

Scope 3 emissions have also reduced by a considerable amount. This is mainly because of emissions from water and waste returning to a 2015/16 and 2016/17 low. Emissions from waste and travel remained relatively similar to previous years data where these were available.

LCCC remains committed to working with and encouraging our landlord to implement sub-metering to all floors in the building in order to obtain more accurate consumption data. We will also be undertaking an exercise to identify the tenant occupancy values by area (m^2) and full time equivalent (FTE) headcount to be able to calculate with a greater level of accuracy, the proportion of energy, water and waste consumed and produced across the entire building. This will enable LCCC to create key metrics to baseline our performance to continually monitor and report performance with a greater level of accuracy and confidence.

We continue to monitor staff travel and encourage sustainable forms of transport as well as embracing technologies such as videoconferencing. We have continued to offer our cycle to work scheme as part of our employee benefits package to encourage consideration for our environment. Capturing of our waste and travel data requires improvement and is a focus area for the year ahead.

Strategic report

LCCC plays an integral role in the delivery of the CFD and Capacity Market schemes. Our operations include signing and managing CFDs over their lifetime, managing CFD difference payments and CFD Supplier Obligation Levy forecasting, collection, and settlement operations.

We also, on behalf of ESC, deliver ESC's metering assurance, collection of credit cover and supplier charges and settlement functions in relation to the Capacity Market. The principal activities of the company are described further in the Corporate Report.

Performance against Strategy

Our vision and mission are set out in the Corporate Report, alongside our key achievements during 2019/20. Figure 3 depicts our four strategic objectives, against which our performance is measured.

Figure 3: Our four strategic objectives

Key Performance Indicators

The KPIs used to assess company performance consist 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, perceptions evidenced by annual independent survey, and increase in overall website visits.
- **Operations:** LCCC seen as a proactive and innovative Trusted Advisor, delivery of LCCC's contract management obligations, delivery of CFD Allocation Round 3, accuracy and timeliness of CFD and Capacity Market settlement invoices, notifications, meter tests and payments and deadlines met for Capacity Market restart.
- **People:** engagement evidenced by annual staff engagement survey and staff retention rate.

Progress on **strategic initiatives** is also used to assess performance. In 2019/20 our strategic initiatives included:

- implementing improvements identified in LCCC's settlement services review, realising the benefits of our organisational development programme by embedding our new target operating model;
- delivering a programme of published insights;
- implementing a stakeholder engagement strategy with a communications plan to raise brand awareness; developing a cyber and information security programme;
- consolidating the CFD Master Data in auditable and well-maintained repositories;
- developing a Data Charter; reviewing our response to non-standard CFD contract change requests;
- implementing actions from our staff engagement survey; and
- initiating a career development project.

Performance Overview

Value for Money

The year has seen LCCC continue to deliver our core CFD and Capacity Market business activities, including the successful restart of settlement activity under the Capacity Market and managing the initial impacts of the Covid-19 outbreak, as well as progress on our Trusted Advisor strategy implementation. We have funded our settlement agent EMRS to develop a continuous improvement programme to be implemented in 2020, which will drive further value for money from this activity going forward. LCCC has remained within operating cost budgets.

Operations

LCCC concluded 100% of its 104 contractual obligations which arose in 2019/20 within the relevant deadlines. Working with our settlement agent, EMRS, we delivered all 2019/20 system releases on time, including four significant releases required to implement the restart of the Capacity Market on behalf of ESC. We subsequently delivered operational excellence in our settlements, with 99.9% of issued invoices, notifications and payments accurate and on time, and 100% of Requested Meter Tests completed on time since Capacity Market restart in October 2019.

On behalf of ESC we also managed the impact of the ECJ's annulment in November 2018 of the European Commission's 2014 State aid approval of the Capacity Market and prepared for the expected Capacity Market restart. The European Commission gave its "re-approval" for the Capacity Market scheme, and ESC recommenced its collection and settlement functions under the relevant regulations, in late October 2019.

Stakeholders

The 2019/20 stakeholder survey feedback tells us that a high proportion (over 90%) of our stakeholders view us as professional, knowledgeable and informative. Although we have seen an increase in those viewing us as a trusted advisor and an expert in scheme delivery, we have further work to do to raise the profile of LCCC and ESC to achieve our targets in those two areas. Following our brand awareness campaign, we noted a 340% increase in overall visits to our website in Q4 2019/20 compared to Q4 2018/19. We continue to meet our target of responding to more than 95% of general queries within seven working days.

People

This year, we implemented all actions arising from last year's staff engagement survey, including launching new career development plans available to all employees. Our most recent staff engagement survey was completed in Q1 2020. The survey had an extremely high response rate of 96% and resulted in a 70% overall engagement score, 7% up on last year. Most importantly, 89% of our employees care about the future of our organisation, which feedback suggests is largely driven by their motivation to support the UK Government in achieving Net Zero by 2050. The survey results have provided useful insights that will allow LCCC to both build on its areas of strength and be responsive to suggestions for improvement.

Our workforce

Our highly skilled workforce is one of our main 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. Our ambition continues to reflect our people centric approach to be a great place to work.

During 2019/2020, we employed an average of 62 permanent employees and 8 contractors. We continue to develop our employer brand to attract the right talent into the organisation. We are also providing greater emphasis on development with a focus on skills for the future. All employees have equal access to training, development and promotional opportunities.

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.

Diversity and Inclusion

We have 13 different nationalities represented by our employees, and an even wider range of backgrounds, skills and experience, all of which provide a lively and diverse environment for our staff to work within. Approximately 46% of staff are from a Black, Asian or Minority Ethnic Group (BAME); approximately 35% of our staff are female and 50% of our senior leadership team are female. Currently, four out of nine board members are women (over 40%). 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 and are still working hard to attract and maintain diversity and inclusion in our business.

Ethnicity pay gap report for 2019/20

This year, we have reported our first ethnicity pay gap under new government guidelines. The table below shows that using the average or mean of hourly pay, white staff are paid 17.4% more than BAME staff. The median hourly pay for white staff is 13.4% more than median for BAME staff.

Table 3: Overall Ethnicity gap - Hourly Pay

Overall Ethnicity gap	**BAME**	**White**	**% Difference BAME vs White**
Mean (Average)	£31.31	£37.89	17.4%
Median	£29.64	£34.40	13.8%

Gender pay gap report for 2019/20

The company gender split is 65% male and 35% female, and this proportion is broadly reflected through the quartile pay distribution. The chart below highlights that using the average or mean of hourly pay, men are paid 8.6% (up from 1.8%) more than women. The median of hourly pay for women is 18.5% less than median for men, a slight change from last year when the median for women was 1.1% higher than for men. This is because, given LCCC's size, small variations in staff make up have a big impact on the data.

Table 4: Overall Gender gap - Hourly Pay

Overall Gender gap	**Female**	**Male**	**% Difference Female vs Male**
Mean (Average)	£32.84	£35.91	8.6%
Median	£28.11	£34.50	18.5%

Investing in our people

We provide learning and development opportunities to our staff and actively encourage personal development, growth and the building of skills and expertise. We continue to invest in our leaders to ensure they set the direction and reinforce standards and expectations. We have built a learning and development programme to help equip our employees with the skills and capabilities to deliver on our Trusted Advisor status and we continue to invest in new career development initiatives as a way of engaging and retaining valued employees.

Health, safety and wellbeing

Improving our employees wellbeing is our top priority with an emphasis on support and building resilience in our people. Prevention is key, we therefore provide our employees with an employee assistance programme and have trained selected employees to be mental health first aiders to help the business spot the first signs of stress and anxiety amongst our people.

Corporate Social Responsibility

We are committed to having a positive impact on our community where we work and live. This year we introduced an employer supported volunteering scheme allowing staff three volunteering days a year to volunteer for good causes. We 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.

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 2019/20 financial year was £1,803.0m (2018/19: £980.2m).

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 2020, £101.2m was receivable from suppliers (2018/19: £11.3m) as part of the quarterly reconciliation. Unutilised Total Reserve Amount due to be returned to suppliers is £90.3m (2018/19: £73.2m). Subsequent to the financial year ended 31 March 2020, 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 company collects credit cover from suppliers for 21 days of Interim Levy Rate payments to protect against supplier default. As at 31 March 2020, the company held £36.1m (2018/19: £14.7m) 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.

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 2019/20 was set in the Supplier Obligation Regulations at £0.0592/MWh (which represented an expected budget for operational costs of £17.0m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2020/21 has been set at £0.0614/MWh (which represents an expected budget for operational costs of £17.5m). The operational costs levy rate within the Supplier Obligation Regulations for subsequent years are expected to be the subject of public consultation in Autumn 2020, 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 2021/22.

Table 5: Delivery years, budgets, and levy rate

Year	Budget	Forecast of eligible electricity demand TWh	Levy rate (£/megawatt hour)
2019/20	£17.020m	287.69	0.0592
2020/21	£17.485m	284.59	0.0614

The total operational cost levy collected depends on the actual volume of gross electricity demand. The amount collected for 2019/20 was £17.0m (2018/19: £16.5m). This compares with a net operating cost of £12.1m (2018/19: £12.3m). As a result of operational costs being lower than budget and higher operational cost levy collected, £4.9m of the total operational costs levy is being refunded to suppliers (2018/19: £4.2m).

The company applies robust financial management in order 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 £0.5m. 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. 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 £38.8bn. The figure for 2018/19 was £35.2bn. The increase is mainly due to the award of 22 further CFDs in October 2019 as a result of Allocation Round 3 and the updated forecast of the wholesale electricity prices that are expected to be achieved by generators offset by payments made during the year 2019/20. The actual cash payments made to generators over the life of the contracts will vary, depending on a number of 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 18 of the financial statements.

Valuation of Hinkley Point C CFD

The CFD for Hinkley Point C was signed on 29 September 2016. Historically the company did not have reliable wholesale price forecasts available which covered the unusually long period (35 years) of the Hinkley Point C CFD. Therefore, the contract has not in previous years been recognised in the financial statements. During the current year BEIS updated the underlying assumptions of its Dynamic Dispatch Model to estimate wholesale electricity prices out to 2060. As a result, management consider the criteria for recognition has been met and have accordingly recognised the Hinkley Point C CFD in the financial statements. See note 4.2.1 for further information. The estimated discounted value of payments which the company may be required to pay out over the life of the contract is £50.8bn.

Viability statement

The directors have assessed the viability and prospects of the company over the next two 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 two years up to March 2022, this being the time period over which the company has reasonable visibility of the budgetary process and regulations regarding the coverage of its operational costs.

The financial arrangements relating to the company minimise the risk of the company being unable to meet its liabilities. As set out in the preceding Financial Overview, the company is not obliged to make payments to 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 two 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 the directors have considered when making their assessment of the company's viability is the impact of the Covid-19 outbreak. Since the outbreak, as described earlier in this report, the company has successfully implemented its Business Continuity Plan and has managed to maintain performance in all areas of the business. Regarding the company's operational cost funding (which is recovered through the operational costs levy on suppliers) there is increased risk as many suppliers will now be facing significant uncertainty regarding the level of electricity demand. Although it is extremely difficult to forecast the extent of the impact (and duration) of the pandemic, the directors believe that 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, mean that the company will be 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 – principal risks and uncertainties

The board formally reviews the material risks facing the company and ensures that they are appropriately managed by the executive team, including 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 and assurance committee. The company also has a risk and assurance function to provide assurance over controls, including those to mitigate key risks.

The company has continued to embed the risk management framework which was approved by the audit, risk and assurance committee in 2018. The risk management framework has been designed to provide the executive and board with a clear line of sight over risk and enable informed decision making. It focusses on the identification, management, monitoring and reporting of risk and reviews completion of the primary actions being undertaken to manage and mitigate risk. Risk management is embedded within the company's operational activities. An area of focus this year has been the development of the company's approach to articulating risk appetite through a series of workshops with the board and management team.

The company's approach to risk management is designed to provide reasonable, but not absolute, assurance that its business is safeguarded, the risks facing the business are being assessed and mitigated and all information that is required to be disclosed to the executive, the board and the audit, risk and assurance committee is disclosed. The company's approach to risk management is further detailed in the Corporate Governance Report on page 46.

The assessment of the company's most significant principal risks considered by the board and the corresponding mitigating controls are set out below in no order of priority.

Risk Heat Map

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

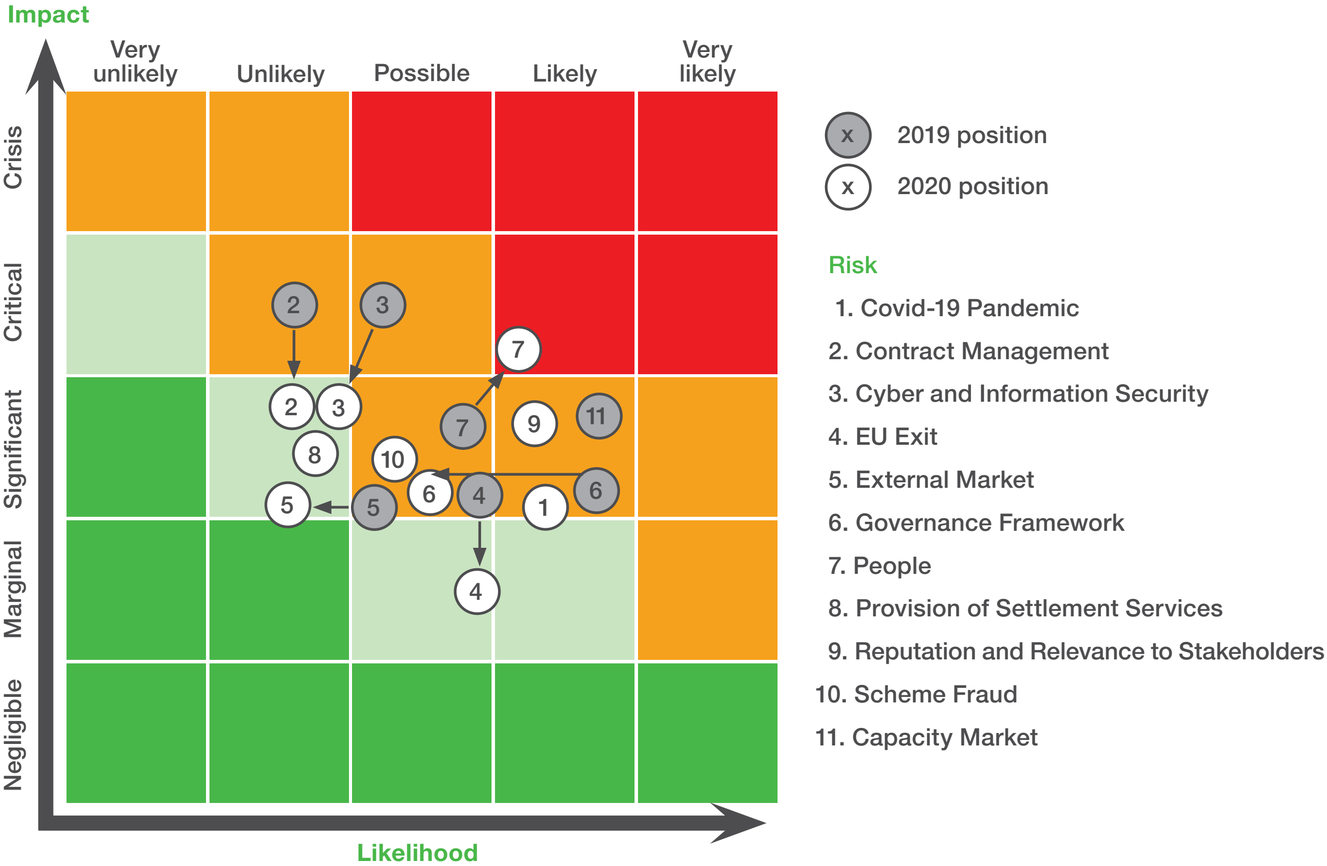


Table 6: LCCC principal risks

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2019)
Covid-19 Pandemic There is a risk that the effects of the Covid-19 pandemic impact our people, stakeholders and operations which may result in business disruption and delayed or missed strategic objectives.	• We invoked our business continuity plan which included all staff working from home. The management team monitors events and regularly reviews arrangements related to Covid-19. • An employee communications plan has been developed and a dedicated intranet hub for staff has been launched containing information and guidance materials, including signposting to mental health support such as our mental health first aiders. • We have introduced a temporary Covid-19 policy for staff setting out the company's position on matters such as absence and travel. • We have delivered distance training to staff to help them maximise the use of remote working technology. We also refreshed homeworking risk assessments and provided equipment to staff where necessary to ensure they can work from home safely.	New risk in 2019/20

	• We continue to monitor our cashflow position and adjust our levy where necessary based on the latest data available to us. • We continue to work closely with BEIS and Delivery Partners to minimise any potential disruption to operations. • We continue to engage with generators to understand the impact upon their operations and obligations. • We have developed stakeholder communications.	
Contract Management There is a risk of litigation related to our management of CFDs which may result in reputational damage and financial loss.	• We continue to invest in our Scheme Delivery function in terms of recruitment and training. • We have a delegated authority framework to support decision-making internally. • We hold internal and external stakeholder events to provide training around key contract areas. We have also developed guidance documents. • We have an internal legal team and access to external legal and technical advice. • We have performed lessons learnt exercises to identify strengths and development areas in our handling of contracts.	**Mitigating activities have helped to reduce this risk.**
Cyber and Information Security There is a risk that our data may be lost, stolen or compromised resulting in disruption to business operations, financial loss and reputational damage.	• IT security policies and controls are in place. • We have provided mandatory training to all staff and continue to raise awareness on cyber and information security. • A cyber and information security risk register is in place. • An information security dashboard has been developed and is reported to management regularly. • We have a company wide information asset register. • GDPR controls have been implemented and a Data Protection Officer and associated processes are in place. • Information security incident response, business continuity and disaster recovery plans are in place. `	**Mitigating activities have helped to reduce this risk but we remain vigilant to the evolving nature of information security risks.**
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.	• Cross-functional EU Exit workstreams are in place. • LCCC has worked closely with the shareholder to identify and manage risks. • LCCC has engaged with key stakeholders through working groups and participation in other forums to understand their preparations for the exit from the EU. • An assessment of our supply chain and associated contracts has been performed to identify risks that require mitigation.	**The UK left the EU during the year and the position of our key stakeholders became clearer however, some risks remain during the transition period.**

External Market

There is a risk that we may be unable to anticipate and respond to competition and the complexity and volume of change in the market (including changes in regulations, rules and participants).

There is a risk that in the longer-term, structural market change such as market consolidation, may lead to an inability to collect levies.

- We continue to maintain relationships with key policy makers via regular meetings and forums.
- We are in strategic dialogue with Ofgem, BEIS and Delivery Partners regarding the volume and complexity of change.
- We actively participate in joint forums with key Delivery Partners to assess the pipeline of changes to schemes.
- We maintain awareness of market change through liaison with external stakeholders at events and forums, research papers and review of trade press.
- We update and review our market analysis as part of our annual strategy update.
- We have obtained and developed insights in-house and from our annual stakeholder survey.
- We have a policy committee to track forthcoming policy changes and co-ordinate the company's position and response.
- We have implemented a change committee to track the pipeline of change and assure delivery.

Mitigating activities have helped to reduce this risk.

We recognise that the pace of change may slow due to the Covid-19 pandemic.

Governance Framework

The review of the Framework Document and associated company classification (following a public body review by the Cabinet Office) presents opportunities to clarify roles, responsibilities and reporting. There is, however, a need to ensure that there are no changes that could impact on our independence.

Delays in government approval processes for director and similar or related approvals may adversely impact operations and employee engagement.

- We have continued to support the Framework Document review as an opportunity to bring the Framework Document up to date, whilst ensuring that the company can continue to operate effectively and independently.
- The company is also undergoing its first company review, conducted by BEIS in line with Cabinet Office guidelines on form and function; efficiency and effectiveness; and governance.
- LCCC is likely to be rebadged as a Non-Departmental Public Body as part of a wider Cabinet Office initiative to simplify Arms Length Body classification. (Currently LCCC and ESC are classified as "Central government - other").
- We are working with BEIS to try to improve the process for obtaining approvals.

The Framework Document and company reviews have continued to progress positively

People

There is a risk that we are unable to maintain employee engagement and retain staff resulting in adverse business performance and missed strategic objectives.

- We have an employee value proposition setting out the benefits our employees receive in return for the skills, capabilities and experience they bring to our organisation.
- We have sought insights from employee engagement surveys, on-boarding and exit interviews, and have developed action plans accordingly.
- We have reviewed and updated our flexible working policy.
- We maintain a central training and development budget and have strengthened our offering in this area.
- We have a competency framework and have enhanced personal development planning tools for employees.
- We perform annual salary benchmarking.
- Succession planning is regularly reviewed.
- We have a talent development manager.
- Please also see mitigations for risk #1 (Covid-19 Pandemic).

Whilst our 2019/20 employee survey showed that engagement has increased, there is a risk that Covid-19 impacts upon the engagement and well-being of our employees.

Provision of Settlement Services

There is a risk that systems and controls may not be robust in preventing errors and associated reputational damage.

There is also a risk that our business model, systems and processes may not be fit for future which could result in inefficiencies and late or missed delivery of changes.

- Documented governance arrangements are in place regarding management of settlement services.
- We regularly receive and review performance reports on settlement services provision.
- We have documented end-to-end settlement controls.
- Controls assurance performance reporting is in place.
- We are in strategic dialogue with Ofgem, BEIS and Delivery Partners regarding the volume and complexity of change.
- We actively participate in joint forums with key Delivery Partners to understand and assess the pipeline of changes to schemes.
- We have worked with EMRS to develop a continuous improvement programme which will start to be implemented in 2020.

Whilst mitigation activities continued, a significant focus for the year was on Capacity Market restoration.

Reputation and Relevance to Stakeholders

There is a risk that we are, or are perceived to be, unable to balance our reputation with generators and industry of being independent, with the role of being a trusted advisor to government and supporting economic growth.

There is also a risk that we are unable to proactively influence and prioritise change and scale up activity quickly. Our costs may increase with increased change and complexity of policy delivery, which could in turn lead to greater scrutiny by stakeholders and a greater need to demonstrate value for money.

- We have increased information and insights available on our website to add further value to our stakeholders.
- We take a regular pulse of stakeholder views via surveys and use the results to further develop our engagement plans.
- We have regular dialogue with stakeholders on changes that matter to them, via workshops or events.
- We engage stakeholders early and provide training on the schemes for new entrants.

Mitigation activities continue however this remains an inherent risk.

Scheme Fraud

There is a risk that fraud occurs within our schemes resulting in financial loss and reputational damage which could undermine confidence in the schemes and the existence of LCCC and ESC.

- Key finance controls and fraud controls are in place and monitored.
- We maintain scheme risk registers.
- We actively participate in fraud and error forums.
- We have a whistleblowing hotline and associated processes in place for the reporting of concerns.
- We have an Assurance and Risk function and Scheme Operations team.

Mitigation activities continue however fraud risks continue to evolve.

In 2018/19 we recognised a principal risk (in relation to our work on behalf of ESC) around the suspension of the Capacity Market. As the Capacity Market was successfully restored in 2019, the related risk is deemed to have been mitigated.

Signed on behalf of the board

N McDermott.

Neil McDermott
Chief Executive Officer

4 June 2020

Board of Directors

This was the board as at 04.06.2020, with the changes during the year shown on page 44.

Regina Finn
Board Chair
Nomination Committee (chair)
Remuneration Committee (member)

Neil McDermott
Chief Executive Officer

Anne Baldock
Non-Executive Director
Remuneration Committee (chair)
Nomination Committee (member)

Simon Orebi Gann
Non-Executive Director
Nomination Committee (member)
Audit, Risk & Assurance Committee (member)

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

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

Tony Bickerstaff
Non-Executive Director
Audit, Risk & Assurance Committee (chair)

Declan Burke
Non-Executive Director
Remuneration Committee (member)

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

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

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 March 2020. 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 38 to 39 and 44.

Directors and corporate governance

Full details of the directors and corporate governance matters are set out on pages 37 to 52.

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 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 2020 were 64.

Environment

Details are set out in the Environment Report on pages 22 to 23.

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 obligations.

Charitable and political contributions

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

Results and dividends

The company has prepared its 2019/20 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2020 are set out on pages 61 to 87.

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 cost levy referred to on pages 27 to 28. 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 61 to 87 of the financial statements, and the Strategic Report on pages 24 to 33.

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 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 IFRS as adopted by the European Union, give a true and fair view of the assets and liabilities, financial position and the profit or loss of the company; and
- the Directors' Report and the Strategic Report include a review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

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

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

Auditors

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

The company's auditor, the Comptroller & Auditor General (on whose behalf the NAO acts) have 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

Claire Williams
Company Secretary

4 June 2020

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 our 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.

I would like to thank all board members for their support to me as Chair since I joined the company in September 2019, and for their dedication and commitment over the year. My particular thanks go to Jim Keohane, the former Senior Independent Director, who not only helped to establish the company in 2014 and contributed as an integral and valued member of the board until his retirement in February 2020, but also led the board as Interim Chair during much of 2019. My thanks also to David Long, a long serving non-executive director who retired from the board in December 2019, and to Kate Collyer who retired from the board in October 2019. In addition, I am delighted to welcome Declan Burke and Steph Hurst who joined the board in January 2020, and Amanda Aldridge who joined in April 2020.

Regina Finn

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.

The company accordingly, 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 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 and 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 was appointed as Chair (effective on 2 September 2019), taking over from the Interim Chair, Jim Keohane. Jim Keohane had temporarily (on 1 October 2018) stepped aside from his role as Senior Independent Director in order to take up the post of Interim Chair. Anne Baldock, a non-executive director, was appointed (effective on 1 October 2018) as interim Senior Independent Director pending the return of Jim Keohane to this role after the appointment of the new Chair.

Jim Keohane retired from his position as Senior Independent Director on 29 February 2020 at the expiration of his term of appointment. The position is currently vacant, pending the appointment of a new Senior Independent Director. The expectation is that the new Senior Independent Director is likely to be appointed during July/August 2020.

In addition to the Chair, the board comprises eight other directors, being currently two shareholder nominated directors, five independent non-executive directors and the Chief Executive.

The shareholder nominated directors at year end (and currently) are Declan Burke and Steph Hurst, both appointed 29 January 2020 and both civil servants employed by BEIS. The shareholder nominated directors are appointed for the period required by the shareholder. The previous shareholder nominated directors during the financial year were Kate Collyer (resigned 5 October 2019) and David Long (resigned 12 December 2019).

Four of the independent non-executive directors were present at year end (and remain currently in place). These directors are Tony Bickerstaff, Anne Baldock and Simon Orebi Gann (all appointed 11 November 2014 and re-appointed on 11 November 2017) and Chris Murray (appointed 26 June 2018). Amanda Aldridge joined the board after year end (appointed on 2 April 2020). 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).

Neil McDermott, the Chief Executive, was appointed as a director on 22 July 2014. Catherine Gan, the former Chief Finance Officer, became a director on 24 April 2017 and ceased being a director on 15 November 2019[27].

An external recruitment consultancy was used in the appointments or original appointments of the Chair, former Senior Independent Director, independent non-executive directors, Chief Executive and former Chief Finance 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 44 to 45. 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 former 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.

Board changes

Reference is made to the table on page 44.

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 five times in 2019/20 and also held a separate strategy meeting.

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

- Business performance and oversight – including receiving during the year regular updates on how the business is performing against its business plan, budget, strategic priorities and KPIs.

- Strategy and progress – participated in the annual strategic workshop attended also by senior management and reviewed the refreshed strategy and objectives of the company, including with input from third party advisors to obtain better visibility of the market landscape. 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.

[27] The company has an interim Chief Finance Officer in place and expects to appoint a new Chief Finance Officer during the course of June/July 2020.

- 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 page 41. The board also considered reports from the committees and matters such as the annual data protection report, insurance, health & safety and the Framework Document.

- Organisation structure and staff – reviewed the annual staff evaluation 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 CFDs issues. The board also reviewed performance in relation to the setting of the Supplier Obligation Levy.

- Capacity Market – oversight of and considering issues relating to the Capacity Market and the re-start of the Capacity Market.

- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.

- Visits – site visit to Hinkley Point C.

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

Details of the directors' interests are recorded in a register maintained by the company and reviewed at least annually by the board. 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.

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

Board members have access to the Company Secretary and also to independent legal advice if appropriately required.

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

- setting and approving the company's strategy

- responsibility for the leadership of the company

- approving the financial statements

- approving (subject to shareholder consent) the annual business plan and budget

- monitoring and overseeing risk management, financial reporting and the system of internal control

- oversight of the company's operations

- approving financial commitments over specified monetary thresholds

- 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
- 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[28]
- 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
- facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- ensures the values of the company are embedded within its operations and staff culture.

The Senior Independent Director:

- works alongside the Chair and provides a sounding board for the Chair
- is available as an intermediary to other directors when necessary
- leads the meeting(s) with the other non-executive directors without the Chair being present, including to appraise the performance of the Chair.

Non-executive directors:

- Non-executive directors (including via their activities in relevant committees) ensure that the board fulfils its responsibilities, including in relation to strategy, monitoring the performance of management and satisfying themselves as to the integrity of financial information and that there is 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 2019/20 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 Chair has, with input and assistance from the other directors and relevant members of executive management, undertaken an objective and thorough evaluation of the performance of the former Senior Independent Director. As the Chair was only appointed in September 2019 and there were subsequent other changes in the board membership, with two board members leaving part way through the year (October and December 2019), two new board members being appointed at the end of January 2020 and the expectation that a third new board member would be appointed at around the same time, the evaluation of the Chair was not undertaken this year. There was also an expectation that a new Senior Independent Director would have been appointed before year end to replace the former Senior Independent Director, who retired at the end of February 2020. There have, however, as mentioned previously in this report, been delays in the process for the shareholder's recruitment of a new Senior Independent Director. The relevant evaluation will take place in the 2020/21 year.

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.

The Chair also reviews and discusses with each director their training and development needs, including as part of the evaluation process. 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.

[28] 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.

Audit, Risk & Assurance Committee

At year end, the membership of this committee comprised four non-executive directors, namely Tony Bickerstaff (chair), Simon Orebi Gann, Chris Murray and Steph Hurst. All were members for the whole year, other than Steph Hurst who was appointed on 29 January 2020. Kate Collyer was a member of the committee until her resignation on 5 October 2019. Jim Keohane was a member of the committee from his appointment on 4 October 2019 until his resignation on 29 February 2020.

The chair of the committee is a qualified 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 2019/20, with meetings in May 2019, October 2019 and February 2020.

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

The main responsibilities of the committee include:

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

The committee has reviewed arrangements by which 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:

- Risk Management Reviews and Risk Register Updates
- Internal Audit Activity Updates and Internal Audit Plan
- Status of Significant Accounting Estimates, Judgements and Special Issues
- Annual Report Update: Governance, Going Concern & Viability Statement
- External Auditors Report for 2018/19
- Letters of Representation for 2018/19
- Recommendation of Annual Report and Accounts for 2018/19
- Committee Annual Report to the Board
- Revised Delegated Financial Authorities
- Internal Audit Evaluation Questionnaire
- Accounting Officer Letters
- Whistleblowing Update
- Internal Audit Charter
- Hinkley Point C Valuation Update

- Deep Dive Risk Discussion on People and Knowledge Management

- Re-Appointment of External Auditors and Audit Fee for 2019/20

- External Auditor Letter of Engagement for 2019/20

- Annual Evaluation of Committee for 2018/19 (including Terms of Reference)

- Annual Report Process for 2019/20

- External Audit Plan for 2019/20

- Information Security Audit Update

The minutes of the meeting are circulated to the board.

The significant issues considered by the committee in relation to the financial statements relates to the valuation of the CFDs (including the valuation and accounting treatment for the Hinkley Point C CFD), the position of the CFDs relating to Allocation Round 3 and any contingent liabilities of the company. These matters are further referred to in note 4.1.1, 4.2.1 -4.2.2, 18 and 21 of the financial statements.

The company's main risks and related mitigating actions are set out on pages 30 to 33 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There have been a small number of whistleblowing concerns raised in year. All have been investigated in accordance with the company's whistleblowing process and reviewed appropriately by the audit, risk and assurance committee. There are no common themes nor specific risks identified across the cases.

The re-appointment of the external auditor was approved by the board in December 2019 upon the recommendation of the committee. The committee in recommending the re-appointment, and the board in approving the re-appointment, took into account the fact that the Framework Document stated the strong presumption that the company would appoint the National Audit Office (NAO) as its auditor and also that shareholder consent was required for the appointment of any external auditor. It also noted the significant benefits of appointing the NAO based on value for money, the potential synergies with BEIS's audit requirements and the NAO's understanding of both the complex environment within which the company operates and the wider government and public sector context.

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

Nomination Committee

At year end, the committee comprised Regina Finn (chair), Anne Baldock and Simon Orebi Gann. All were members of the committee throughout the year, other than Regina Finn (appointed 4 October 2019). Jim Keohane (former chair) resigned from the committee on 29 February 2020.

All members of the nomination committee (other than the chair) are independent non-executive directors.

The committee met four times during the year, in April 2019, May 2019, September 2019 and February 2020. 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 process for the identification and appointment of new chair and new directors to replace retiring directors.

The minutes of committee meetings are circulated to the board.

Remuneration Committee

The membership and responsibilities of this committee are described in the Remuneration Report at pages 48 to 52.

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)		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)	App. 16/12/2014		
Declan Burke	Non-executive director	App. 29/01/2020			App. 29/01/2020
Kate Collyer	Non-executive director	App. 13/09/2018 Res. 05/10/2019	App. 13/09/2018 Res. 05/10/2019		
Regina Finn	Chair	App. 02/09/2019		App. 04/10/2019	App. 04/10/2019
Catherine Gan	Chief Finance Officer	App. 24/04/2017 Res. 15/11/2019			
Steph Hurst	Non-executive director	App. 29/01/2020	App. 29/01/2020		
Jim Keohane	Senior Independent Director to 30/09/2018, Interim Chair 01/10/2018 to 01/09/2019 and Senior Independent Director from 02/09/2019 to 29/02/2020	App. 22/07/2014 (re-appointed until 29/02/2020)	App. 04/10/2019 Res. 29/02/2020	App. 24/10/2017 Res. 29/02/2020	App. 16/12/2014 Res. 03/10/2019
David Long	Non-executive director	App. 27/10/2015 Res. 12/12/2019			App. 27/10/2015 Res. 12/12/2019
Neil McDermott	Chief Executive	App. 22/07/2014			
Chris Murray	Non-executive director	App. 26/06/2018	App. 18/07/2018		App. 18/07/2018
Simon Orebi Gann	Non-executive director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017)	App. 16/12/2014	App. 16/12/2014	

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 2019/20

	Board	Audit, Risk & Assurance Committee	Nomination Committee	Remuneration Committee
Number of meetings	**5**	**3**	**4**	**3**
Anne Baldock	5		4	3
Tony Bickerstaff	5	3		
Declan Burke	1**			1**
Kate Collyer	2*	0*		
Regina Finn	3**		1**	2**
Steph Hurst	1**	1**		
Catherine Gan	3*			
Jim Keohane	5	2*	4	0*
David Long	3*			2*
Neil McDermott	5			
Chris Murray	5	3		3
Simon Orebi Gann	5	3	4	

*Resigned part way through the year
**Appointed part way through the year
***Amanda Aldridge – not listed as she was appointed after year end.

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 and 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 and assurance committee assists the board in discharging its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 42 to 43).

- The board, with the assistance of the audit, risk and assurance committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control.

- There have been no significant lapses in protective security.

- There is an appropriate quality assurance framework in place and applied to all business critical models.[29]

Risk management framework

- The identification, mitigation and continual monitoring of significant business risks and emerging risks is the responsibility of senior management. Each functional department of the company maintains a risk register identifying the business risks and emerging risks and allocating responsibility for appropriate monitoring and the implementation of mitigating controls. Departmental risk registers and the company's strategic risk register are kept under regular review by the senior management team and reported to the board and audit, risk and assurance committee, with the top strategic risks and emerging risks receiving particular attention. A risk workshop attended by senior employees was held during the year. 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 and assurance committee formally reviews the risk position at each scheduled meeting (in 2019/20, in May 2019, October 2019 and February 2020) 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 discussed risk appetite matters at a dedicated session in early April 2020.

- The board reviews the strategic risk register twice per year (in 2019/20, in July 2019 and February 2020). The reports to the audit, risk and assurance committee and the board include a report from management on the status of the risk management and internal control, (if any) significant failings or weaknesses identified during the period and (if relevant) any actions taken to remedy any significant weaknesses.

- The board has reviewed, with the assistance of the audit, risk and assurance committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed risk report on pages 30 to 33.

Internal audit

- The company has an internal audit function that provides the audit, risk and 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 and assurance committee agrees a programme of internal audit work annually and reviews progress at each of its meetings. The annual audit plan takes into account current business risks. The committee is considering the methodology for the future provision of the internal audit function, including its potential outsourcing.

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 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.

[29] The company takes into account the MacPherson Review, HM Treasury Review of Quality Assurance of government analytical models: Final Report, March 2013. https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models. It is also compliant with the AQuA Book relating to quality assurance processes in place. https://www.gov.uk/government/publications/the-aqua-book-guidance-on-producing-quality-analysis-for-government

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 Finance Officer (or, as relevant, interim CFO) 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*"[30].

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 raised 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.[31]

Treasury management

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

Insurance

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

Neil McDermott
Chief Executive and Accounting Officer
4 June 2020

[30] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf
[31] 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 Anne Baldock (chair), Regina Finn, Chris Murray and Declan Burke. During the course of the year, Regina Finn (4 October 2019) and Declan Burke (29 January 2020) were appointed and Jim Keohane (3 October 2019) and David Long (12 December 2019) resigned.

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.

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

- 2018/19 – Company Performance Report Overview
- 2018/19 - Staff Incentive Scheme Award
- 2019/20 - Proposal for Senior Team Staff Incentive Scheme Award
- 2019/20 - CEO Award and Objectives
- Proposal for 2019/20 Company Scorecard
- Staff Turnover & Costs Update
- Matters Post Mortem Review
- LCCC Benefits Review
- Succession Planning – General Staff Overview
- Compressed Hours Flexible Working Review Report
- Competency Framework – Update Report
- Gender/Ethnicity Pay Report
- Staff Salary Benchmarking Overview for 2020
- Company Annual Pay Review for 2020/21
- Whistleblowing Review
- Flexible Working – Working from Home Policy
- In Year Recognition Award Review (Overall Cap)
- Draft Company Scorecard Proposal for 2020/21
- Committee Annual Evaluation including Terms of Reference

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 January 2019 and again in early 2020 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 £286,078 (2018/19: £278,309).[32] In 2019/20 this is 4.9 times the median remuneration of the company's workforce (2018/19: 4.0) which is £58,284 (2018/19: £69,482)[33]. No employees receive salary in excess of the highest paid director.

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 2.5% effective from 1 April 2019, 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 three members of staff including the Chief Executive and former Chief Finance Officer.

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 former Chief Finance 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 (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 2018/19 (paid in mid 2019/20) for the Chief Executive and the former Chief Finance Officer and a bonus for the Chief Executive for 2019/20 (paid in 2020/21). The details of these bonuses are set out below.

Neil McDermott (Chief Executive) and Catherine Gan (former Chief Finance 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.

[32] 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.

[33] Salary increases took effect on 1 April 2019. It should be noted that while the median calculation for 2019/20 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.

Executive Directors' Remuneration (audited)

Name	2019/20 Salary	2019/20 Performance Related Pay (Bonus)	2019/20 Taxable Benefits	2019/20 Pension Payments	2019/20 Total
Neil McDermott	2019/20: £231,840 (2018/19: £227,294)	2019/20: £44,550 (2018/19: £43,252)	2019/20: £9,688 (2018/19: £7,763)	2019/20: £23,184 (2018/19: £22,729)	2019/20: £309,262 (2018/19: £301,038)
Catherine Gan	2019/20: £96,294 (2018/19: £150,895)	2019/20: £24,143 (2018/19: £23,468)	2019/20: £2,921 (2018/19: £3,716)	2019/20: £9,629 (2018/19: £15,089)	2019/20: £132,987* (2018/19: £193,168)

* An amount of £887.96 was deducted from Catherine Gan's salary for unpaid annual leave during her qualifying service as a director.

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 2019/20 is not paid until mid 2020/21. The remuneration committee has decided to give further consideration to the situation of company bonuses this year, pending a review of the wider economic situation and guidance. It has therefore decided that the bonus for Neil McDermott for the 2019/20 year (which was otherwise approved at £43,702 and would otherwise have been paid in 2020/21) should be treated as conditional upon this review and final decision. No bonus was payable to Catherine Gan as she left the company part way through the 2019/20 financial year.

The executive director payments for 2019/20 reflect that Neil McDermott and Catherine Gan received a 2% pay increase.

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 in 2014, at the time of the original appointments of the majority of such directors, by Odgers Berndtson (an independent recruitment consultancy). Advice on remuneration and benchmarking was refreshed with GatenbySanderson for the appointment of the Chair 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.

Non-Executive Directors' Remuneration (audited)

Name	2019/20 Fees[34,35]	Principal positions held elsewhere at 31 March 2020
Amanda Aldridge	£nil (appointed after year end)	• ESC – non-executive director • Headlam Group plc – non-executive director • Impact Healthcare REIT plc – non-executive director • Places for People Group plc – non-executive director on the regulated board • Places for People Homes Limited – non-executive director • Places for People Living + Limited – non-executive director • The Brunner Investment Trust plc – non-executive director • St Francis College Trust – director and trustee • The Knebworth Scout and Guide Group – trustee
Anne Baldock	£31,250 (including £6,250 for ESC)[36] 2018/19: £32,500 (including £6,500 for ESC)[37]	• ESC – non-executive director • East West Railway Company Limited – non-executive director • Electricity North West Limited – non-executive director • Submarine Delivery Agency – non-executive director
Tony Bickerstaff	£31,000 2018/19: £31,000	• Costain Group Plc – Group Finance Director • CBI Economic Growth Board – member • ESC – non-executive director
Declan Burke	£nil (shareholder nominated director – civil servant)	• BEIS – Director, Clean Power Strategy and Deployment • ESC – non-executive director
Kate Collyer	£nil (shareholder nominated director)	• Financial Conduct Authority – Chief Economist
Regina Finn	£58,333 (including £14,583 relating to ESC)[38] plus £83 in relation to expenses 2018/19: £nil	• ESC – chair • Lucerna Partners Ltd – director • Places for People – non-executive director
Catherine Gan	N/A	• Reactive Technologies – Chief Finance Officer
Steph Hurst	£nil (shareholder nominated director – civil servant)	• Deputy Director, International Science and Innovation Directorate • ESC – non-executive director
Jim Keohane	£60,000 (including £14,000 relating to ESC)[39] plus £4,468 in relation to expenses 2018/19: £68,000 (including £16,000 relating to ESC)[40] plus £1,141 in relation to expenses	• Harwich Haven Authority – Chair • Market Operator Services Ltd – Chair
David Long	£nil (shareholder nominated director – public servant)	• Cambridge University, Head of Investment Appraisal
Neil McDermott	N/A	• ESC – Chief Executive and director

34 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 re-charge arrangements with ESC (other than in respect of Regina Finn, Jim Keohane and Anne Baldock where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

35 The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC. In addition to the expenses disclosed for financial year ended 31 March 2019, the company also paid £5,230 amount of tax. This includes amounts relating to expenses of Directors not included in the table.

36 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.

37 6 months pro rata (1 April – 30 September 2018) at £25,000 and 6 months pro rata (1 October 2018 -31 March 2019) at £40,000.

38 7 months pro rata (2 September 2019 – 31 March 2020) at £100,000.

39 5 months pro rata (1 April 2019 – 2 September 2019) at £96,000 and 6 months pro rata (3 September 2019 – 29 February 2020) at £40,000.

40 6 months pro rata (1 April – 30 September 2018) at £40,000 and 6 months pro rata (1 October 2018 – 31 March 2019) at £96,000.

Non-Executive Directors' Remuneration (audited) continued

Name	2019/20 Fees[41,42]	Principal positions held elsewhere at 31 March 2020
Chris Murray	£25,000 plus £3,591 in relation to expenses 2018/19: £19,135[43] plus £1,856 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 – trustee and director (Leicestershire hospice)
Simon Orebi Gann	£25,000 plus £1,929 in relation to expenses 2018/19: £25,000 plus £765 in relation to expenses	• ESC – non-executive director • Aspen Technology Inc (NASDAQ: AZPN) –USA – non-executive director • Market Operator Services Ltd – non-executive director • Treasury/Cabinet Office Major Programmes Review Group – independent panel member

[41] 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 re-charge arrangements with ESC (other than in respect of Regina Finn, Jim Keohane and Anne Baldock where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.
[42] The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC. In addition to the expenses disclosed for financial year ended 31 March 2019, the company also paid £5,230 amount of tax. This includes amounts relating to expenses of Directors not included in the table.
[43] 9 months 4 days pro rata (26 June 2018 – 31 March 2019) 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 2020 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 International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described 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 2020 and of the profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the International Standards on Auditing (ISAs) (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with ISAs (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the company in accordance with the ethical requirements that are relevant to my audit and 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 regularity framework described in the table below has been applied:

Regularity Framework

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

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my 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) that I identified.

I consider the following areas of particular audit focus to be those areas 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. These matters were 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 these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under International Standard on Auditing (UK) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit, Risk and Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 42 to 43.

In this year's report there are no changes to the risks identified compared to the prior year report.

Fair Value of Contracts for Difference (CFDs) (excluding Hinkley Point C CFD)

Description of risk

The company accounts for CFDs as a financial liability measured at fair value through profit or loss. As disclosed in note 18 to the financial statements, management has estimated the fair value of financial liabilities arising from CFDs (excluding the Hinkley Point C CFD) to be £38,757 million at 31 March 2020, of which £16,464 million has been recognised in the statement of financial position and the remainder has been deferred.

As disclosed in the notes to the financial statements:

- the company determines the fair value of CFDs using an income (discounted cash flow) approach that relies on significant unobservable inputs;
- key unobservable inputs include forecast electricity generation volumes and forecast wholesale electricity prices;
- the forecasting of wholesale electricity prices into the late 2030s 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; and
- (as in previous years) the company has applied wholesale electricity price forecasts generated by the Department for Business, Energy and Industrial Strategy using their in-house Dynamic Dispatch Model (DDM).

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; 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 18 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 estimate, I constructed my own range as a point of comparison. In constructing the auditor's range, I assessed the reasonableness of the inputs used by the company underpinning assumptions of both future electricity volumes and future market prices 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).

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 span of my constructed range (£33,387 million – £54,262 million) reflects the degree of uncertainty inherent in estimating fair value for these instruments. I have considered whether the positioning of management's point valuation slightly towards the lower end of my constructed 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.

Accounting for the Hinkley Point C (HPC) CFD

Description of risk	How the scope of my audit responded to the risk

The company entered into the HPC CFD on 29 September 2016. In the preparation of the company's financial statements for the years ended 31 March 2017, 2018 and 2019 management concluded that it was not possible to produce a fair value estimate of the financial liability arising from the HPC CFD that would meet the reliability criteria for recognition within the financial statements. Specifically, management concluded that there was insufficient information available to produce a sufficiently reliable estimate of the wholesale electricity price that would be generated by the HPC CFD in the later years of the 35-year contract. The audit work carried out for those financial years concluded that management's judgement on non-recognition was reasonable.

As explained in Note 4, since issuing my report on the financial statements prepared for the year ended 31 March 2019, new information has become available which has led management to conclude that the liability arising from the HPC CFD is now capable of reliable fair value measurement. Accordingly, the company recognised the HPC CFD transaction during the year and now accounts for the financial liability in the same way as it accounts for all other CFDs.

As disclosed in note 4, the company has used the fair value of the financial liability at 31 March 2020 as a proxy for the fair value of the instrument at the date that the new information became available which made it capable of reliable measurement. As disclosed in note 18 to the financial statements, management has estimated the fair value of the financial liability at 31 March 2020 (using the extended DDM price series) to be £50,826 million. In accordance with its policy on the deferral of 'day one' losses, the full estimated fair value was been deferred at the reporting date.

I assessed the recognition and measurement of the HPC CFD as areas of significant risk for my audit.

I assessed the company's controls over the recognition and measurement of the HPC CFD liability.

I reviewed the company's assessment of the new information that had become available since the date of my last report on the company's financial statements and evaluated its conclusion that this new information made the HPC CFD capable of sufficiently reliable measurement for financial statement recognition. In doing so I considered the principles of fair value and the fundamental qualitative characteristics of useful financial information described in the *Conceptual Framework for Financial Reporting* and engaged my own industry expert to provide independent advice on:

- the concept of a 'universe of reasonable' long term forecasting scenarios;
- the breadth of this universe;
- industry accepted forecasting methods;
- the reliability of the forecast to 2065 commissioned by the company;
- the 'freezing' of 2050 DDM model forecasts for all subsequent years out to 2060; and
- the positioning of key inputs and assumptions within the DDM reference case scenario and the commissioned 2065 scenarios relative to known industry views.

I subsequently gained substantive assurance over management's point estimate using the same auditor's range method that I use for my audit of other CFDs. In constructing my range, I considered available data sources and the advice received from my expert.

Key observations

The span of my constructed range (£34,968 million – £68,844 million) for the fair value of the HPC CFD at 31 March 2020 reflects the degree of uncertainty inherent in estimating the fair value of the HPC CFD. Management has concluded that, whilst significant, the uncertainty inherent in the instrument's fair value measurement does not prevent its financial statement recognition. I consider this judgement to be reasonable.

On the basis that management's point valuation at 31 March 2020 falls centrally within my constructed range, I judge it to be a reasonable estimate.

The company has used the fair value of the financial liability at 31 March 2020 as a proxy for the fair value of the instrument at the date that the new information became available which made it capable of reliable measurement. I also consider this judgement to be reasonable.

Application of 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.

	Overall financial statement materiality	Lower materiality threshold for account balances and transaction streams not connect to the valuation of Contracts for Difference and to support my opinion on regularity
Materiality	£1 billion	£36.3 million
How I determined it	In previous years I have set my overall materiality equal to 2% of the disclosed fair value of CFDs which had met the criteria for financial statement recognition. I applied a lower percentage to my current year audit due to the first-time recognition of the HPC CFD. This is akin to the application of prudence in the determination of performance materiality for a first-year audit.	2% of the combined value of gross operating expenditure and payments to CFD generators.
Why I chose this benchmark	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.

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 Directors' Remuneration 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.

I agreed with the Audit, Risk and Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

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 and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

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 at the entity level.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and 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, 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.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

- Audit, Risk and Assurance Committee reporting: the section describing the work of the Company Audit, Risk and Assurance Committee does not appropriately address matters communicated by me to the Audit, Risk and Assurance Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration

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

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

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.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

The corporate governance statement

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

- the information given in the Corporate Governance Report, 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), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I 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;

- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made;

- I have not received all of the information and explanations I require for my audit; or

- a corporate governance statement has not been prepared by the company.

I have nothing to report arising from this duty.

Susan Clark (Senior Statutory Auditor)

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

8 June 2020

Financial statements and notes to the accounts

Contents

Statement of comprehensive income for the year ended 31 March

	Note	2020 £'000	2019 £'000
Other income	6	15,005	15,084
Supplier Obligation Levy	19	5,346,422	(1,991,096)
Fair value movement of CFDs	18	(5,346,422)	1,991,096
Staff costs	7	(6,694)	(5,763)
Depreciation	9	(347)	(131)
Amortisation	10	(576)	(606)
Other operating costs	8	(7,388)	(8,584)
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 67 to 87 form part of these accounts.

Statement of financial position as at 31 March

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	9	486	181
Intangible assets	10	584	1,160
Supplier Obligation Levy	19	16,464,240	12,920,812
Total non-current assets		**16,465,310**	**12,922,153**
Current assets			
Operational costs levy receivable		1,619	1,585
Supplier Obligation Levy receivable	11	173,935	62,102
Trade and other receivables		225	215
Cash and cash equivalents	12	131,632	122,122
Total current assets		**307,411**	**186,024**
Total assets		**16,772,721**	**13,108,177**
Current liabilities			
Operational costs levy payable		(4,866)	(4,189)
Supplier Obligation Levy and generators payments payable	13	(264,122)	(165,080)
Trade and other payables	14	(38,228)	(16,590)
Borrowings		(183)	(402)
Lease liabilities		(490)	(220)
Total current liabilities		**(307,889)**	**(186,481)**
Non-current liabilities			
Contracts for Difference	18	(16,464,240)	(12,920,812)
Trade and other payables	14	(130)	(285)
Borrowings		(228)	(237)
Lease liabilities		(167)	(295)
Provisions		(67)	(67)
Total non-current liabilities		**(16,464,832)**	**(12,921,696)**
Total liabilities		**(16,772,721)**	**(13,108,177)**
Net assets		**–**	**–**
Shareholders' equity and other reserves			
Share capital	15	–	–
Retained earnings		–	–
Total equity		**–**	**–**

The notes on pages 67 to 87 form part of these accounts.

The financial statements were approved by the board of directors on 4 June 2020 and signed on its behalf on 4 June 2020 by:

N McDermott.

Neil McDermott
Chief Executive Officer

George Pitt
Interim Chief Finance 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 2018	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2019	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2020	**–**	**–**	**–**

As at 31 March 2020 the company has one authorised ordinary share, issued and fully paid.
The notes on pages 67 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March

	Note	2020 £'000	2019 £'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	347	131
Loss on disposal of property, plant and equipment		4	–
Amortisation of intangible assets	10	576	606
Amortisation of government grant liability		(155)	(155)
Working capital adjustments:			
(Increase)/decrease in operational costs levy receivable		(34)	168
Increase in Supplier Obligation Levy and generators payments receivable	11	(111,833)	(25,180)
(Increase)/decrease in trade and other receivables		(10)	6
Increase in operational costs levy payable		677	1,401
Increase in Supplier Obligation Levy and generators payments payable	13	99,042	64,299
Increase in trade and other payables	14	21,638	3,443
Net cash inflow from operating activities		**10,252**	**44,719**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(31)	(42)
Purchase of intangible assets	10	–	(170)
Net cash outflow from investing activities		**(31)**	**(212)**
Cash flows from financing activities			
Decrease in borrowings		(228)	(229)
Repayment of lease liabilities		(483)	(204)
Net cash outflow from financing activities		**(711)**	**(433)**
Net increase in cash and cash equivalents in the year		**9,510**	**44,074**
Cash and cash equivalents at the beginning of the year		122,122	78,048
Cash and cash equivalents at the end of the year	12	**131,632**	**122,122**

The notes on pages 67 to 87 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2020

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the "company'') for the year ended 31 March 2020 were approved and authorised for issue in accordance with a resolution of the board on 4 June 2020.

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

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

2.2 Going concern

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

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

i. applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its operational costs levy and the Supplier Obligation Levy;

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

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

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

The operational costs levy is reset by new amending Regulations and has currently been set for the next year (to March 2021).

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).

As part of the directors going concern assessment a significant risk that has been considered is the impact of the Covid-19 outbreak. As the company's operational costs are funded by electricity suppliers through the operational costs levy there is an increased risk as many suppliers will now be facing significant uncertainty regarding the level of electricity demand. Although extremely difficult to forecast the extent of the impact (and duration) of the pandemic, the directors believe that 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 will mitigate the risk in respect of insufficient operational cost funding.

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 2019/20 after public consultation was £0.0592/MWh (2018/19: £0.0570/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 2020/21 the operational costs levy has been set at £0.0614/MWh and will be apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2020 to 31 March 2021.

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.

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 company has received a capital loan from BEIS, which is repayable in line with the depreciation over the useful life of the relevant asset. The loan is interest free and is recognised under borrowings. The benefit of a below market rate of interest on the capital loan for capital expenditure, if material, is recognised in the statement of comprehensive income over the period of the loan.

The government grant received from BEIS, relating to the company's settlement system asset, is deferred and being 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.

2.7.4 Cash and cash equivalents

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

2.8 Determination of fair value of financial instruments

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

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

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

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

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

2.9 Recognition and measurement

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

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

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 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, 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 is deemed to be a right-of-use asset.

2.12 Leases

2.12.1 Application of IFRS 16 Leases

In the current year the company, for the first time, has applied IFRS 16 *Leases*. The date of initial application of IFRS 16 for the company is 1 April 2019.

The company has applied IFRS 16 using the modified retrospective approach and accordingly the information presented for 2019 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

2.12.2 New definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, on transition, the company applied IFRS 16 only to contracts that were previously identified as leases.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019.

2.12.3 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 previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company.

Under IFRS 16 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.

2.12.4 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.

2.12.5 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.

2.12.6 Leases classified as operating leases under IAS 17
Previously, the company classified its property lease as an operating lease under IAS 17. On transition there was no lease liability in respect of this lease as the lease expired on 31 March 2019.

As disclosed in the previous financial statements the company had no operating lease obligations at 31 March 2019.

The company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment).

With the exception of the company's property lease the company had no other significant operating leases during the year.

2.12.7 Leases classified as finance leases under IAS 17
Lease of the settlement system asset was previously classified as a finance lease under IAS 17. For finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The settlement system asset remains classified under intangible assets, but is appropriately disclosed as a right-of-use asset.

2.13 Impairment of non-financial assets
Intangible assets are only subject to amortisation to the extent that they are available for use. Intangible assets which are not available for use are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, the company reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

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

2.14 Staff Costs

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

2.15 Pensions

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

2.16 Provisions

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

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

As of 31 March 2020, 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 Borrowings

Borrowings represent a grant in aid capital loan from BEIS. Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

2.19 Supplier Obligation Levy recognition

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

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

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

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

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

2.19.1 Supplier Obligation Levy

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

2.19.2 Supplier Obligation Levy receivable

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

2.19.3 Supplier Obligation Levy payable

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

2.19.4 Generators payments payable

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

3. Financial risk management

3.1 Financial risk management and financial risk factors

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

3.1.1 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.

3.1.2 Maturity profiles

Maturities of finance liabilities are provided in the following table:

CFDs	<1 year £'000	2-5 years £'000	>5 years £'000	Total £'000
As at 31 March 2019	871,341	4,438,680	7,609,791	12,920,812
As at 31 March 2020	**1,519,538**	**4,337,514**	**10,607,188**	**16,464,240**

These amounts are based on the carrying values of CFD financial liabilities. As Hinkley Point C CFD was recognised in the current year, the 2019 values shown above exclude this liability. Note 18 provides disclosures relating to the fair value of the CFDs.

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% (2018/19: 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 18.

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 18.5) but does not necessarily mean that an individual scenario is not reasonable. The Dynamic Despatch Model (DDM) will be used 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 Recognition 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.

Under IFRS, the Conceptual Framework sets out the concepts which underlie the preparation and presentation of financial statements. The Conceptual Framework deals with, amongst other things, the definition, recognition and measurement of the elements from which financial statements are constructed. Paragraph 4.38 of the Conceptual Framework states that an element should be recognised in the accounts if:

a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

b) the item has a cost or value that can be measured with reliability (defined as using information that is complete, neutral and free from error).

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. In order to perform a reliable estimate of the valuation, one of the required key inputs is wholesale electricity prices in each year out to 2060. Historically, the company had not been able to obtain wholesale electricity price forecasts which cover the unusually long period of the contract, thereby preventing a reliable estimate being made. As a result of this, the company has previously been unable to recognise Hinkley Point C CFD in the financial statements.

4.2.1.1 Update during 2019/20

During the year BEIS, using the DDM, has been able to reliably estimate wholesale electricity prices out to 2060. BEIS's DDM model forecasts wholesale electricity prices out to 2050. However, in the current year, BEIS has been 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 has been 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. Legislation now commits the UK to an economy wide target of Net Zero carbon emissions. BEIS's modelling strategy is designed to optimise the costs of decarbonisation across the economy, which determines the power sector demand and the maximum level of emissions. BEIS have then picked generation mixes which optimise the cost of the power sector. In the absence of any exogenous change, BEIS anticipate that UK would maintain an optimised system ad-infinitum. As a result of this, BEIS has been effectively able to 'freeze' the 2050 model for all subsequent years. Therefore, the generation mix and associated system costs and wholesale price of electricity that BEIS project for 2050, remains constant for the remaining period of the forecast.

In addition to the availability of the DDM forecast, the company was able to commission an independent third party to provide a forecast for the power market in Great Britain to 2065. The forecast received from the third party has been used as reference to support the reasonableness of the internally generated price series.

As a result of the reasonableness of the underlying assumptions of the forecast to 2060, management deem the valuation of the Hinkley Point C CFD as a reliable estimate that is complete, neutral and free from error. Therefore, in line with the recognition criteria for the other CFDs, the recognition criteria for Hinkley Point C CFD is considered to have been met. As Hinkley Point C CFD's fair value calculation is based on the data from the same model, the same valuation technique is used across the whole portfolio.

4.2.1.2 Accounting treatment of Hinkley Point C CFD

The date of initial recognition of the Hinkley Point C CFD is the date it became capable of reliable measurement in accordance with the requirements of IFRS 13 and the Conceptual Framework. The company has determined that the estimated fair value of the instrument at the reporting date is a reasonable proxy for its fair value at the date of initial recognition. This judgement is not sensitive to the specific date of initial recognition during the financial year, which is a matter of professional judgement.

On recognition the Hinkley Point C CFD has followed the same accounting treatment as that adopted for the other CFDs recognised in the financial statements. The accounting of the fair value of the Hinkley Point C CFD, the impact of its recognition within the portfolio, and relevant sensitivity analysis are shown in note 18 of the financial statements.

As there were no wholesale price forecasts available prior to the authorisation of the prior year financial statements to reliably estimate the value of Hinkley Point C CFD and considering the reliable estimate of the wholesale price forecast to 2060 has only become available in the current financial year therefore, management believes no prior period adjustment is required.

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

The fair value of the CFDs, disclosed in note 18, 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 noncurrent asset is recognised in the statement of financial position to match the timing difference with a corresponding entry in the statement of comprehensive income. For the purposes of fair presentation, this recognition is capped at the amount at which the CFDs are measured in the statement of financial position. This would result in the company's statement of comprehensive income remaining neutral to the impact of the CFD valuation movements and remaining consistent with the company's role as defined by the Regulations.

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

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

New standards and interpretations effective for periods commencing on or after 1 January 2020 and therefore applicable to the company for the year ending 31 March 2020 are listed below:

– Amendments to IAS 1 *Presentation of financial statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors*, definition of material

– Amendments to the *Conceptual Framework for Financial Reporting*

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

6. Other income

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

	2020 £'000	2019 £'000
Operational costs levy income	16,960	16,451
Less: expected refund to suppliers	(4,866)	(4,189)
Net operational costs levy income	**12,094**	**12,262**
Recharges to related parties	2,756	2,667
Amortisation of deferred government grant liability	155	155
Other income	**15,005**	**15,084**

Recharges to related parties represent £2.8m (2018/19: £2.7m) charged to ESC.

7. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	5,321	4,585
Social security costs	602	513
Agency and contracted staff costs	403	370
Defined contribution pension plans	368	295
Staff costs	**6,694**	**5,763**

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

	2020 Number	2019 Number
Permanent staff	62	54
Agency and contracted staff	8	4
Total	**70**	**58**

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report on pages 48 to 52.

8. Other operating costs

	2020	2019
	£'000	£'000
Operational settlement costs	2,960	3,038
Legal, professional and consultancy	2,744	3,599
IT support, telephony and maintenance	609	828
Insurance	285	230
Premises costs	205	397
Miscellaneous costs	448	398
Auditor's remuneration	137	94
Other operating costs	**7,388**	**8,584**

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

Premises costs in the previous year included operating lease rental expenses of £0.212m. In the current year, in accordance with IFRS 16, the lease rental expense has been capitalised and depreciated as a right-of-use asset.

9. Property, plant and equipment

	Leasehold improvements	Right-of-use Buildings	IT equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 31 March 2018	452	–	316	78	846
Additions during the year	–	–	77	8	85
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**
Depreciation					
As at 31 March 2018	339	–	255	25	619
Charge for the year	90	–	32	9	131
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**
Net book value as at 31 March 2019	23	–	106	52	181
Net book value as at 31 March 2020	**16**	**347**	**81**	**42**	**486**

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.

10. Intangible assets

	Settlement System £'000	Other IT Software £'000	Total £'000
Cost			
As at 31 March 2018	1,877	1,241	3,118
Additions during the year	–	170	170
Disposals during the year	–	(248)	(248)
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**
Amortisation			
As at 31 March 2018	710	812	1,522
Charge for the year	375	231	606
Disposals during the year	–	(248)	(248)
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**
Net book value as at 31 March 2019	792	368	1,160
Net book value as at 31 March 2020	**417**	**167**	**584**

The carrying value of the settlement system includes £0.3m which is owned and which was funded by government grant and £0.1m which meets the definition of a right of use asset under a lease arrangement.

11. Supplier Obligation Levy receivable

	2020 £'000	2019 £'000
Interim Levy Rate accruals	140,362	41,877
Interim Levy Rate receivable	33,087	20,225
Generators payment receivable	486	–
Total Supplier Obligation Levy receivable	**173,935**	**62,102**

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 2020, Interim Levy Rate accruals of £140.4m (2018/19: £41.9m) comprise £39.2m relating to the Interim Levy Rate invoices (2018/19: £30.6m) and £101.2m receivable from suppliers (2018/19: £11.3m payable) as part of the quarterly reconciliation. Unutilised Total Reserve Amount due to be returned to suppliers, as disclosed in note 13, is £90.3m (2018/19: £73.2m).

12. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank	95,552	107,412
Suppliers' credit cover	36,080	14,710
Total cash and cash equivalents	**131,632**	**122,122**

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 £90.3m 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 £103.1m. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

13. Supplier Obligation Levy and generators payments payable

	2020	2019
	£'000	£'000
Generators payment payable	123,074	63,816
Total Reserve Amount payable	90,301	73,179
Generators payment accrual	50,176	27,606
Interim Levy Rate payable	571	479
Total Supplier Obligation Levy and generators payments payable	**264,122**	**165,080**

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.

14. Trade and other payables

	2020	2019
	£'000	£'000
Current:		
Suppliers' credit cover	36,077	14,706
Accruals	1,996	1,445
Other taxation and social security	155	142
Trade payables	–	254
Capital creditors	–	43
	38,228	**16,590**
Non-current:		
Deferred government grant liability	130	285
Total trade and other payables	**38,358**	**16,875**

The carrying values of trade and other payables approximate to their fair values. The deferred government grant liability which relates 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. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
Ordinary share capital issued and fully paid:	**£**
As at 31 March 2018 and 31 March 2019	1
Share capital issued during the year	–
As at 31 March 2020	**1**

16. 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	Services from related parties	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Entities with significant influence:				
2019				
BEIS	–	154	–	1,205
ESC	2,667	–	–	–
2020				
BEIS	–	13	–	762
ESC	2,756	–	–	–

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.

The services from BEIS in the previous year relate primarily to the rental of premises and associated service costs of the 6th Floor, Fleetbank House. Amounts owed to BEIS include the grant in aid capital loan and relevant lease liability relating to the settlement system asset.

16.1 Compensation of key management personnel of the company

Key management personnel include executive directors and their compensation is disclosed in the Remuneration Report on page 50.

17. Financial assets and liabilities

Financial assets

	Note	2020	2019
		£'000	£'000
Staff receivables		17	16
Cash and cash equivalents	12	131,632	122,122
Total financial assets		**131,649**	**122,138**
Total current		131,649	122,138
Total non-current		–	–
Total financial assets		**131,649**	**122,138**

Financial liabilities

	Note	2020	2019
		£'000	£'000
Contracts for Difference	18	16,464,240	12,920,812
Trade and other payables	14	38,073	16,448
Borrowings		411	639
Lease liabilities		657	515
Total financial liabilities		**16,503,381**	**12,938,414**
Total current		38,746	17,070
Total non-current		16,464,635	12,921,344
Total financial liabilities		**16,503,381**	**12,938,414**

18. 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 2020 the company was counterparty to 73 contracts, including Hinkley Point C and the 22 CFD contracts signed by the company relating to Allocation Round 3.

During the year the company recognised Hinkley Point C CFD in the financial statements, as historically it was not recognised in the statement of financial position. Further information regarding the recognition of Hinkley Point C CFD can be found in note 4.2.1.

18.1 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).

A single point valuation has been used for the recognition of Hinkley Point C CFD and Allocation Round 3 CFDs, as the valuation as at 31 March 2020 is considered a reasonable proxy for the day one recognition. Therefore, in line with other CFDs, the measurement difference, being the difference between transaction price and fair value of Hinkley Point C CFD and Allocation Round 3 CFDs as at 31 March 2020, has been deferred.

The following table represents the difference between the CFD liability at initial recognition and at the reporting date:

	CFDs exc. HPC	HPC CFD	Total
	£'000	£'000	£'000
CFD liability as at 31 March 2018 recognised in the statement of financial position	15,892,096	–	15,892,096
Remeasurement of the CFD liability	(2,743,426)	–	(2,743,426)
Payments to the CFD generators	(980,188)	–	(980,188)
Deferred difference recognised during the year	712,934	–	712,934
CFD liability released relating to terminated contracts	39,396	–	39,396
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**

During the year, the net movement of £5,346m (2018/19: £(1,991m)) in the fair value of CFDs is recognised in the statement of comprehensive income.

18.2 Movement in deferred measurement differences

	CFDs exc. HPC	HPC CFD	Total
	£'000	£'000	£'000
Deferred measurement differences as at 31 March 2018	23,308,883	–	23,308,883
Deferred measurement differences recognised during the year	(712,934)	–	(712,934)
Measurement differences recognised in respect of terminated CFDs	(267,667)	–	(267,667)
Deferred measurement differences as at 31 March 2019	22,328,282	–	22,328,282
Measurement differences deferred during the year	904,342	50,826,301	51,730,643
Deferred measurement differences recognised during the year	(939,680)	–	(939,680)
Deferred measurement differences as at 31 March 2020	**22,292,944**	**50,826,301**	**73,119,245**

18.3 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.

18.3.1 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	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
As at 31 March 2019	–	–	35,249,094	35,249,094
As at 31 March 2020	**–**	**–**	**89,583,485**	**89,583,485**

Comparative values in the table above exclude the liability for the Hinkley Point C CFD as this CFD was recognised in the current year. In the current year the fair value attributable to Hinkley Point C CFD is £50.8bn.

18.3.2 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	HPC CFD	Total
	£'000	£'000	£'000
As at 31 March 2018	39,200,979	–	39,200,979
Change in fair value during the year	(2,743,426)	–	(2,743,426)
Payments to the CFD generators	(980,188)	–	(980,188)
CFDs terminated during the year	(228,271)	–	(228,271)
As at 31 March 2019	35,249,094	–	35,249,094
Recognition of Hinkley Point C CFD during the year	–	50,826,301	50,826,301
Additions during the year	904,342	–	904,342
Change in fair value during the year	4,406,742	–	4,406,742
Payments to the CFD generators	(1,802,994)	–	(1,802,994)
As at 31 March 2020	**38,757,184**	**50,826,301**	**89,583,485**

18.4 Key inputs and underlying assumptions for CFDs

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

18.4.1 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 DDM reference case to calculate the fair value and the impact of low and high cases have been disclosed within sensitivities. Low and high cases have also been published by BEIS and are based on BEIS's fossil fuel price assumptions for 2019, which presents low and high assumptions for the wholesale prices of oil, gas and coal.

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 £2.3bn to the valuation.

18.4.2 Estimated future wholesale electricity generation

18.4.2.1 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.

18.4.2.2 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 Target Commissioning Dates for reactor one and reactor two of the Hinkley Point C project are 1 December 2025 and 1 June 2026 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.

18.4.2.3 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.

18.4.2.4 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.

18.4.3 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 2020, in line with the requirements of the CFD contract.

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.

18.4.4 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.

18.4.5 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 the generator, NNB Generation Company (HPC) Limited (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.

18.4.6 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.

18.5 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. As explained in note 4.1.1 BEIS has been able to estimate wholesale electricity prices out to 2060 by effectively 'freezing' the 2050 model for all subsequent years. The main driver facilitating BEIS's ability to do this has been the government's commitment in the year to bring all greenhouse gas emissions to Net Zero by 2050 (this giving more certainty over potential generation mixes into the future).

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 £39.81 per MWh in 2040 and £37.55 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 prices scenarios the forecast price is £42.41/£33.53 per MWh in 2040 and £42.04/£33.35 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 Net Zero by 2050 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. Independent third-party forecasters with a more pessimistic view on decarbonisation may also use scenarios under which Net Zero is achieved at a later date. These scenarios will also use different generation mix, commodity price and electricity demand assumptions and may produce electricity prices further outside the bounds of the range implied by the DDM high and low cases.

Having undertaken appropriate due diligence management is satisfied that, whilst significant, the estimation uncertainty associated with future wholesale electricity prices is not fundamental. Available independent third party price forecasts that management have reviewed indicate a forecasting range of £16.20-£64.87 per MWh at 2040 and £14.72-£64.82 per MWh at 2050. It should be noted however that this range may not represent the full range of market views.

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 discount rate of 0.7% for valuing financial instruments such as CFDs. In the table below we have illustrated the impact of using a different rate (the social discount rate of 3.5%, as published in the HM Treasury Green Book).

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	Favourable / (unfavourable) Other CFDs	Favourable / (unfavourable) Total impact
	£'000	£'000	£'000
Change in fair value of CFDs if:			
DDM High Case	4,083,337	8,815,207	12,898,544
DDM Low Case	(4,552,408)	(5,866,000)	(10,418,408)
Discount rate of 3.5%	23,108,971	7,080,885	30,189,856
Specific to Other CFDs:			
10% more load factor	–	(3,875,718)	(3,875,718)
10% less load factor	–	3,875,718	3,875,718
Estimated Commissioning Date moves backward by one year	–	(413,965)	(413,965)
Generation starts at the earliest possible date	–	90,174	90,174
Specific to HPC CFD:			
At generation cap	(28,464)	–	(28,464)
10% less load factor	5,082,631	–	5,082,631
Generation starts at the earliest possible date	55,071	–	55,071
Generation start date delayed 15 months	(64,756)	–	(64,756)
Sizewell C strike price adjustment	2,708,975	–	2,708,975

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.

18.6 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. Comparative values in the table below exclude the liability for Hinkley Point C CFD as this CFD was recognised in the current year.

	Fair value of CFDs (£'000)	Valuation technique	Significant unobservable input	Range Min-Max	Units
2019	35,249,094	DCF	Electricity prices	44.55-67.73	£/MWh
2020	**89,583,485**	**DCF**	**Electricity prices**	**32.69-60.46**	**£/MWh**

19. Supplier Obligation Levy

	£'000
As at 31 March 2018	15,892,096
Levy receivable recognised against remeasurement of CFD liability	(2,743,426)
Levy receivable derecognised relating to terminated contracts	39,396
Supplier Obligation Levy received during the year, net of repayable	(980,188)
Amortisation charge during the year	712,934
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**

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.

20. Contingent liabilities

There is an ongoing dispute between the company and another entity. The company has confidence in a favourable outcome. If the outcome is not as anticipated, the company will be required to make an annual payment from the interim levy of less than £10m for the next several years.

21. Events after the reporting period

Due to the significant drop in electricity demand resulting from the actions to combat Covid-19, there is a risk that the company may not have sufficient funds to settle CFD liabilities in June towards the end of Q2 of the 2020 calendar year. While the company could raise additional levy funds from suppliers, following discussion with BEIS on how to mitigate the impact of this likely shortfall on electricity suppliers, BEIS and the company have agreed that BEIS will extend an interest-free loan that the company will be able to use to cover any shortfall in funds to make payments to CFD generators (up to a designated amount). Although the loan will be treated as a loan to the company, it will only be payable back to BEIS once the loan amount is able to be and is recovered from the electricity suppliers. BEIS also intends, subject to consultation and Parliamentary approval, to amend the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 in order to avoid the additional amounts being recovered from suppliers in the July reconciliation (thereby reducing suppliers' liability for CFD payments in this 2020 April-June quarter by the amount of the loan provided), and giving the company the ability to recover this amount from suppliers in Q1 of the 2021 calendar year.

Glossary

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.
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 will require capacity to be delivered in the Delivery Year commencing 2018/19.
Capacity Market	The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded capacity agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions.
Capacity Provider	A capacity provider is the holder of a capacity agreement with National Grid (as System Operator). Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand side reductions (Demand Side Response). Capacity providers provide capacity under either a capacity agreement resulting from a Capacity Market auction or from a Transitional Arrangement Auction.
CCUS	Carbon Capture, Usage and Storage
CFD Counterparty or counterparty	CFD counterparty is responsible for managing CFDs throughout their contractual life.
CFD project	This refers to a project as defined within a CFD agreement in relation to a particular facility. Each phase of an offshore wind farm has a separate contract, and therefore each phase is referred to as a separate CFD project.
CFD Standard Conditions	The relevant standard CFD template contract used in each Allocation Round, also referred to as the CFD Standard Terms and Conditions. The Standard Terms and Conditions offered under Allocation Rounds 1, 2 and 3 are available at: https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference

Contracts for Difference or CFD	A Contract for Difference (CFD) is a long term agreement between a low carbon electricity generator and LCCC. It is designed to provide the generator with a stable pre-agreed price (the “strike price”) for the lifetime of the contract. This is done by paying the difference where electricity price (the “market reference price”) is less than the strike price and receiving the difference when the market reference price is higher than the strike price.
DDM (or Dynamic Despatch Model)	The long term forecast of wholesale electricity prices is derived from the Dynamic Dispatch Model. The DDM was developed by BEIS to inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment (the figures for Great Britain are modelled out to 2050).
Delivery Partners	CFD Delivery Partners are organisations involved in delivering the CFD. The CFD Delivery Partners are LCCC Ofgem and 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/)
Energy Data Taskforce	The Energy Data Taskforce was established by government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency.
ESC	Electricity Settlements Company Ltd.
ESO	The Electricity System Operator (ESO), a ring-fenced part of National Grid which performs the functions of the ‘EMR Delivery Body’, in relation to CFD and Capacity Market auctions.
FiDeR	See Investment Contracts.
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.
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 Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended) to fund the CFD payments made by LCCC to generators.
Supplier Obligation Regulations	The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 and related amending regulations which govern the rules for the management of the Supplier Obligation Levy.
System Operator	Organisation licenced by Ofgem to operate the GB electricity system, a role currently held by National Grid Plc. The electricity SO's current responsibilities include balancing the electricity system, running electricity Capacity Auctions, coordinating and administering aspects of industry rules and codes and supporting efficient transmission network development.
Total Reserve Amount	The amount the company determines is needed for there to be a 19 in 20 probability of it being able to make all the CFD generation payments required during that quarter, having regard to: • the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter; • the likelihood of any supplier failing to make payments during the quarter; and the estimated income to be received by the company from CFD generators in the quarter; and • the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CFD generators.

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 04.06.2020.

Neil McDermott
Chief Executive Officer

George Pitt
Interim Chief Finance Officer

Ruth Herbert
Director of Strategy & Development

Management Committee

Claire Williams
Director of Legal & Company Secretary

James Rushton
Director of Scheme Delivery

Cynthia Duodu
Director of People & Organisational Development

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