



LOW CARBON
CONTRACTS COMPANY

Annual Report and Accounts for Low Carbon Contracts Company Ltd

2018/19

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

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 scheme³;
- **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).

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

² BEIS Single Departmental Plan, updated May 2018: <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-may-2018>

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>.

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Highlights for 2018/19

CFD and Capacity Market scheme delivery

Delivering Excellence

Enabled a further 10 CFD projects⁴ to meet their Operational Conditions Precedent

increasing annual low carbon generation under the CFD scheme to 12.1TWh (2017/18: 6.6TWh from 8 projects)

Approved achievement of Milestone Requirements for over 97% of capacity awarded in the second CFD Allocation Round

adding 3.2GW of capacity to our future pipeline

Created an online portal for CFD Allocation Round 3

providing a one-stop-shop for applicants seeking information from BEIS and Delivery Partners

Developing as a Centre of Expertise

Delivered 14 significant changes to our settlement operations

to align with amended rules or regulations, and improve performance

Published CFD Generator Guide and masterclasses

providing concise and practical end-to-end information on the CFD

Published a Capacity Market Stress Event guide

consolidating key industry information from across Capacity Market Delivery Partners

Acting as a Trusted Advisor

Advised BEIS on drafting changes to the CFD

Standard Conditions for the third Allocation Round

Advised on Capacity Market rule changes

to improve our ability to detect fraud and error in Capacity Market settlement

Supported BEIS in its work on proposals for Capacity Market restoration

in the run up to its public consultation on 28 February 2019

Legend:

Green outline – Contract for Difference (CFD) activity

Blue outline – Capacity Market (CM) activity

Black outline – CFD and Capacity Market activity

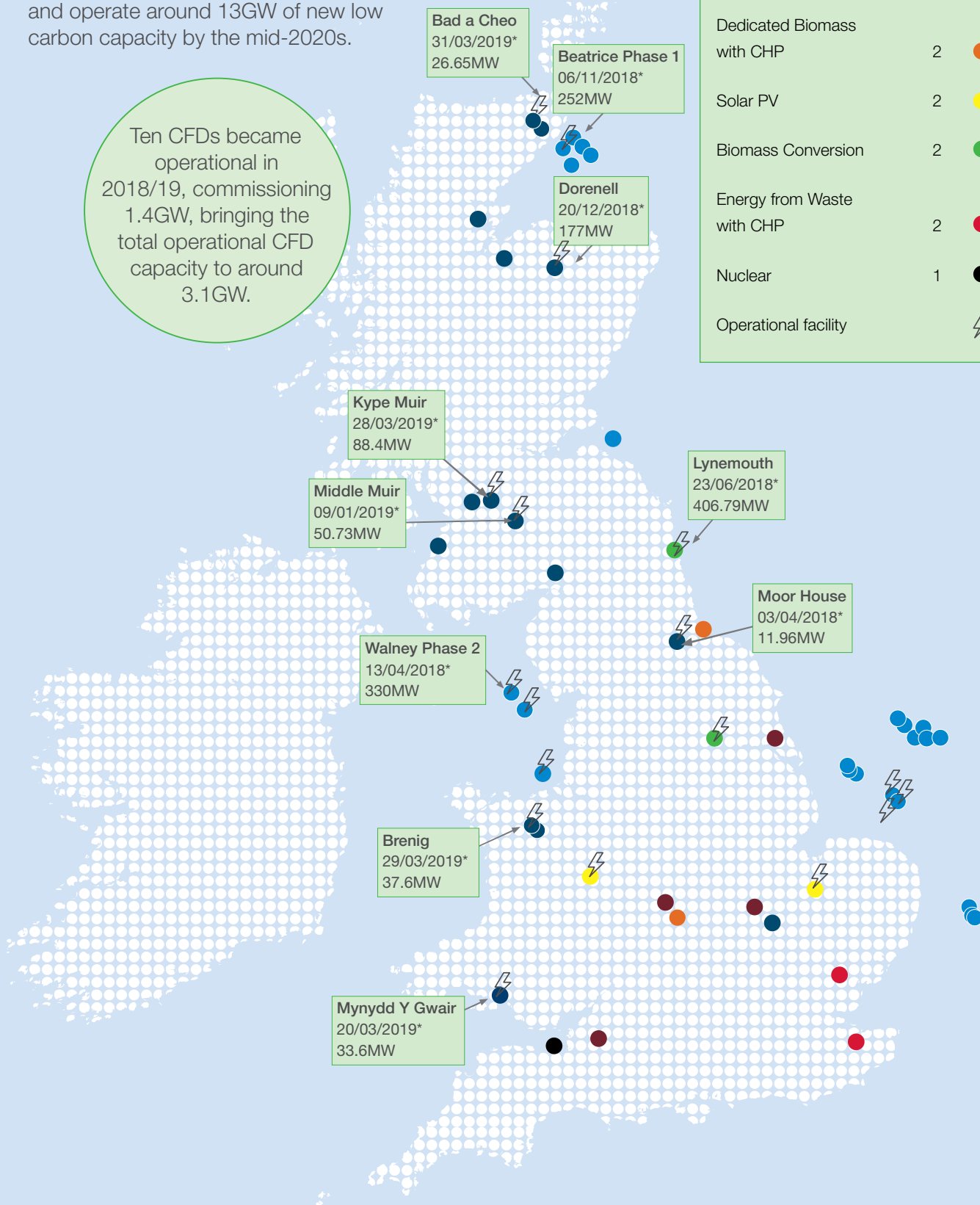
⁴where each phase of an offshore windfarm has a separate contract, each phase is referred to as a separate CFD project

Our Portfolio

LCCC is managing 52 CFDs with an estimated value of around £66bn⁵. Its counterparties are contracted to build and operate around 13GW of new low carbon capacity by the mid-2020s.

Ten CFDs became operational in 2018/19, commissioning 1.4GW, bringing the total operational CFD capacity to around 3.1GW.

Offshore Wind	24	●
Onshore Wind	15	●
Advanced Conversion Technology	4	●
Dedicated Biomass with CHP	2	●
Solar PV	2	●
Biomass Conversion	2	●
Energy from Waste with CHP	2	●
Nuclear	1	●
Operational facility		⚡



* Dates for projects that became operational in 2018/19

⁵ including the value of Hinkley Point C – see notes 26 and 28 to the Financial Statements



This year Board members and staff from LCCC visited the Hinkley Point C construction site to observe progress on the project. The above picture shows the pouring of the first section of Unit 1's common raft. Due for completion in summer 2019, the 45,000 tonne platform will provide the stable foundations for both the reactor and safety systems. It is made from high quality, steel reinforced nuclear grade concrete.

© EDF Energy 2019, Hinkley Point C

Chair's foreword



It gives me great pleasure to present this year's annual report – an opportunity to reflect on what has been a transformative year for LCCC.

Our journey so far

This year, we said farewell to our first Chair, Martin Read, and as Senior Independent Director, I stepped into the role of Interim Chair. This has prompted me to reflect on how far we have come since early 2014, from a handful of people working hard to put in place the structures and systems that still serve us well today. Our current organisation of 58 people is working at the heart of the electricity sector, managing £66bn worth of low carbon contracts and playing a key role in delivering a secure, affordable and sustainable energy future. I am genuinely proud of how much has been achieved by our people, some of whom, like me, have been on this journey since the very beginning.

Growing our capability

In 2017 we recognised that we had an opportunity to build on our delivery excellence and growing expertise, with a view to becoming a trusted advisor on the implementation and development of electricity market schemes.

We are already seeing tangible results from our new strategy, in terms of our people being empowered to play an increasingly visible role in the development of the schemes. The value of this to government is evidenced by the letters I receive thanking us for our contributions.

Adding value through the transition

Looking at our industry, Ofgem's Forward Work Programme outlines an ambitious programme of change for the next two years, including reviews of supply models, charging models, and code governance. Along with many others, we eagerly await BEIS' forthcoming energy white paper.

We now have the opportunity to help shape these changes and to manage their impact on our operations and those of our key stakeholders. We stand ready to support the next phase, having already delivered a significant milestone in changing the way we collect CFD and Capacity Market levies from storage sites, in support of the government's Smart Systems and Flexibility Plan⁶. I am confident that our teams and systems are primed to play their part in the future development of the energy market.

Jim Keohane
Interim Chair

⁶ <https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan>

Chief Executive's statement



As I am looking back at another year of progress, I am passionate about helping the United Kingdom deliver its goal to provide a reliable, low cost and clean energy system. There is something about working for LCCC right now that is very motivating; including the enthusiasm and commitment of the LCCC team, new low carbon generation coming online almost every month and the satisfaction in assisting developers in preparing for the next CFD Allocation Round, expected in May this year. Based on our latest people survey, 71% of our people say they are proud to tell people they work at LCCC, and I am definitely one of them.

Delivering results

With two Allocation Rounds of CFDs under our management, we know that the early stages are the most resource intensive for us. It is therefore rewarding that projects representing over 97% of capacity awarded in the second Allocation Round successfully met their Milestone Requirements; this included all three offshore wind farms. Our total portfolio capacity – operational and pipeline – is now 9.7GW, increasing to 13GW when including Hinkley Point C.

During the year, we negotiated and signed 11 CFD Direct Agreements, at the request of generators. This included the equity close of three of the biggest investments in the UK offshore wind sector, collectively representing over £13bn of investment in the sector⁷. We also implemented 14 BEIS and Ofgem policy changes across the CFD and Capacity Market scheme, the latter on behalf of our sister company ESC.

As our focus has always been on outcomes, it is satisfying to see the number of operational CFD generators grow. Ten projects commenced generation this year, bringing total CFD output to 12.1TWh in the year to 31 March – taking us to 26% of our current portfolio's projected output in 2025/26.

On Hinkley Point C, one of the UK's largest infrastructure projects, our team worked closely with the project team to ensure reporting on

progress was as straightforward as possible and continued to manage first-of-a-kind contractual processes with the developing project.

During the latter half of the year, on behalf of ESC, we have been dealing with the impacts of the European Court of Justice's (ECJ) 15 November 2018 ruling, which annulled State aid approval of the Capacity Market. Although we immediately suspended the majority of our ESC settlement operations, this was one of our busiest periods yet, working with BEIS on arrangements for the Standstill Period to provide confidence that there is a clear plan for re-start if and when State aid approval is restored.

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 £12.3m (2017/18: £13.2m), compared to the pre-approved budget of £16.5m.

Developing as an organisation

It has been a challenging year, but with our recent restructure and refreshed mission, we are set up for the future and ready to focus on our role in developing and implementing electricity market schemes. Our new organisational structure brings together CFD and Capacity Market expertise, with our core capabilities centred in three new Scheme Delivery, Data & Analytics and Strategy & Development teams. I believe our new operating model is a timely development as we, alongside many other organisations, begin to bring our expertise into play in engaging with the government's work on the CFD and Capacity Market five-year reviews, alongside the regulator and industry work on the future shape of the market.

At a time of challenges around Capacity Market delivery, the new structure will enable us to be more agile in our delivery across the CFD and Capacity Market and ensure that we have the right analytical and data processing skills to interpret scheme data and use insights to understand opportunities for improvement.

⁷ Calculated by using information from; <https://news.innogy.com/triton-knoll-achieves-financial-close/>, <https://orsted.com/en/Company-Announcement-List/2018/09/1809936>, and <http://www.morayoffshore.com/2018/12/07/moray-east-off-shore-windfarm-confirms-financial-close/>

We have been working with BEIS and Delivery Partners to develop and launch a new, joint online portal to support generators considering applying for the third Allocation Round for CFDs. We have also worked closely with Ofgem and BEIS influencing and driving policy change, as well as responding to consultations.

Building on our strengths

I continue to be proud that we have put together such a talented, diverse and inclusive team. This year we are reporting on our gender pay gap (page 27), where I believe we are demonstrating strong performance, in line with the government's agenda.

Growing in our role as a trusted advisor, we have been providing advice and assisting with drafting amendments to the CFD template for the third CFD Allocation Round. This has been critical to delivery of BEIS' milestones for the Round. We also developed and shared our insights on opportunities for improving the contract for future Allocation Rounds.

It has been an interesting and challenging year, but as we have shown already, the company is assured in its ability to maintain investor confidence in the CFD scheme and minimise costs to consumers, whilst also competently managing a busy portfolio of future change, the volume of which is set to increase as the market undergoes reforms.

For myself, and many of the people at LCCC, this constant change is what we are all about and it's what makes our jobs so interesting. We sit at the interface between the generation, supply and market operation, providing certainty for investors – this is our unique role and we believe it will continue to be relevant during the changes ahead.



Neil McDermott
Chief Executive



Innogy onshore wind project, Bad a Cheo, commenced generation under the CFD on 31 March 2019. The project is located near Wick in the North of Scotland and has an installed capacity of 26.65MW, comprising 13 x 2.05MW Senvion MM92 wind turbine generators.
© Innogy Renewables UK



© Drax Group plc

Drax's biomass storage domes. Drax's biomass generating units supplied 12% of the UK's renewable electricity in 2018²³.

Corporate report

Our role in delivering affordable, reliable and clean electricity

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

- **An operationally independent CFD counterparty:** Our primary responsibility as “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, as well as settling and clearing the CFDs.
- **Maintaining investor confidence in CFDs:** 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.
- **Minimising costs to consumers:** To increase industry knowledge of CFDs, and therefore competition in Allocation Rounds, we coordinate with BEIS and National Grid to provide information about CFDs to the market.
- **Capacity Market settlement:** We also carry out some 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 2018/19

Table 1: Key scheme outcomes 2018/19⁸

Scheme	Outcomes	Total payments made under scheme	Total annual cost (including operational cost levies)	Operational costs as a percentage of total annual cost
CFD	12.1TWh of low carbon power produced. Approximately 3.5m tonnes equivalent of avoided CO ₂ ⁹	£980.2m	£992.5m	1.2%
Capacity Market	Availability payments made to 54.7GW of capacity	£175.6m (in the period April to November 2018 ¹⁰)	£182.8m	3.9%

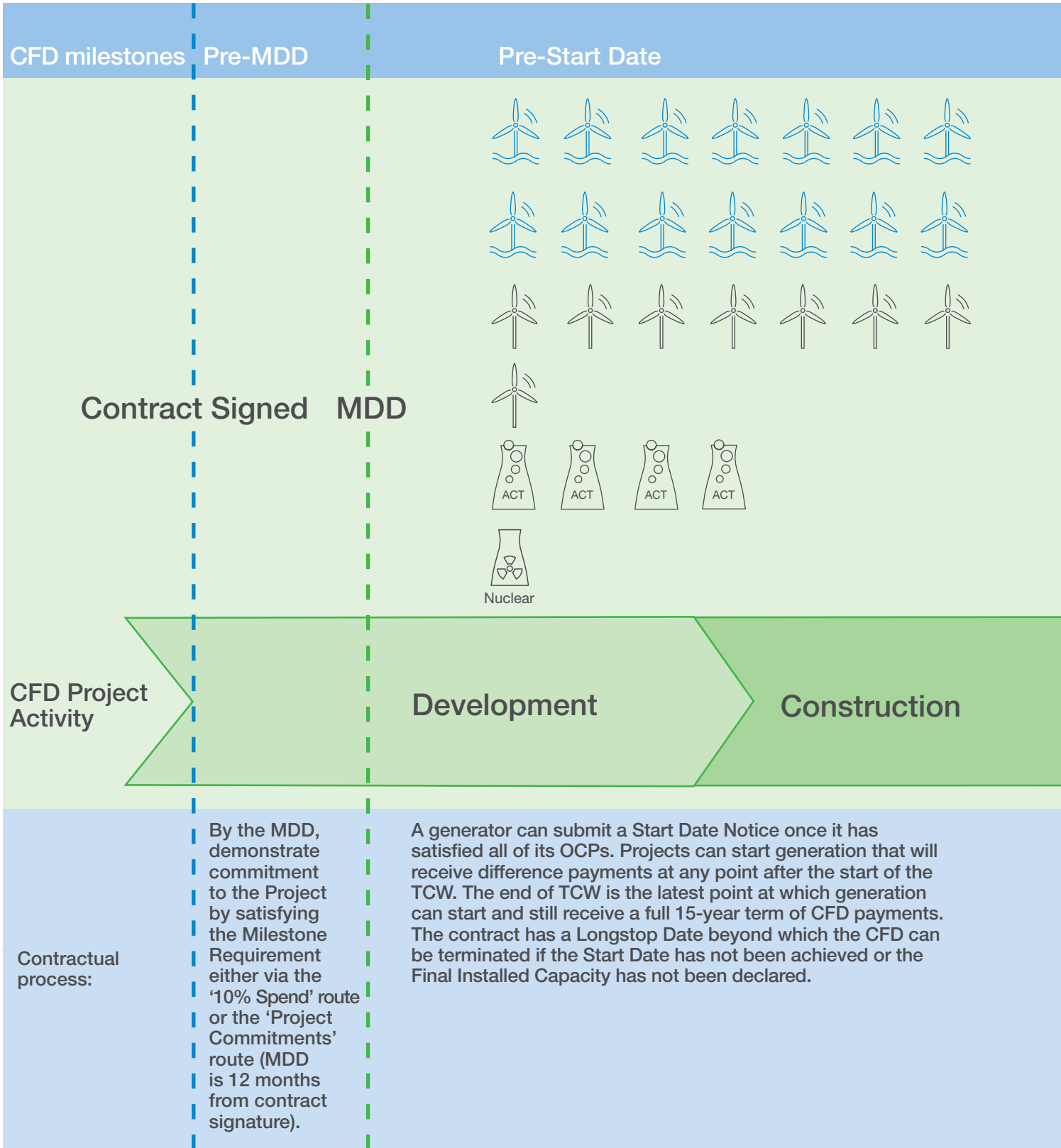
⁸ Figures may not reconcile due to rounding.

⁹ Calculated using BEIS' published generation based long-run marginal emissions factor for the electricity sector in 2018 of 0.291 kgCO₂e/kWh (see HMT Green Book Supplementary guidance: <https://www.gov.uk/government/publications/valuation-of-energy-use-and-greenhouse-gas-emissions-for-appraisal>)

¹⁰ 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.

Portfolio view:

Progress of CFD generators as of 31 March 2019¹¹



¹¹ All positions shown as of 31 March 2019, except for two terminations that occurred after 31 March whose symbols have been removed.

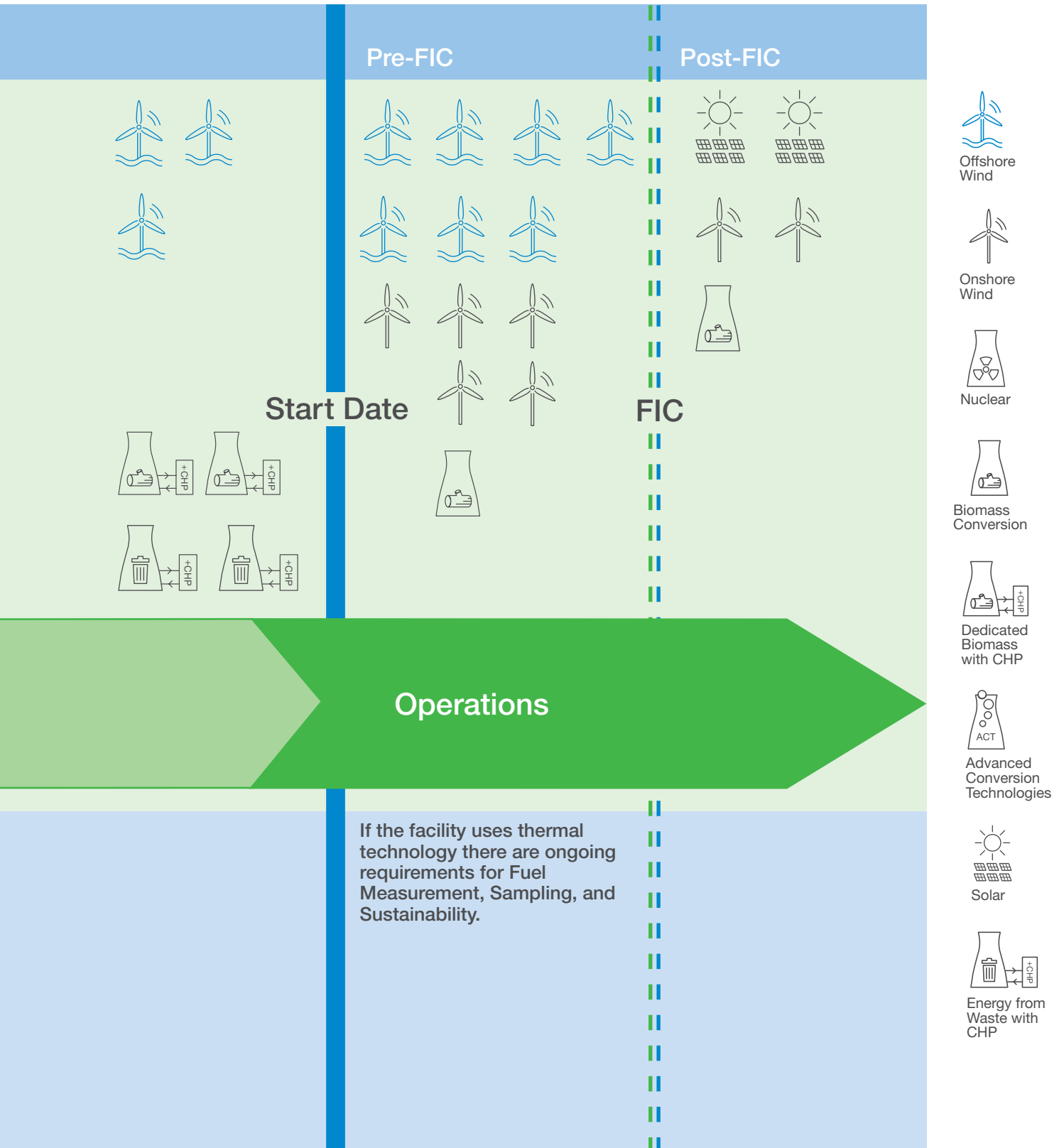
Key Contractual Definitions

MDD - Milestone Delivery Date

OCP - Operational Conditions Precedent

FIC - Final Installed Capacity

TCW - Target Commissioning Window



Generation from CFDs accounted, on average, for **over 4%** of gross UK electricity demand during 2018/19.

Around **two thirds** of LCCC's commissioned capacity comprises intermittent technologies, including solar photovoltaics and onshore and offshore wind.

The offshore wind portion of the CFD portfolio achieved an average load factor over 2018/19 of around **45%**, with some maximum monthly load factors as high as **60%**.

Our key achievements in 2018/19

Embedding our strategy

During 2017/18 we refreshed our strategy and adopted a new mission:

"Implement and develop electricity market schemes, providing operational independence, expertise, insight and leadership."

Our focus in 2018/19 has been on embedding our **four strategic objectives** as shown in Figure 1, to drive our activities in support of this mission. Our key achievements against each of these objectives are set out in the following sections.

Figure 1: Our four strategic objectives



People Centric achievements

Implementing our new Operating Model

During 2018/19 we concluded our Organisational Development Programme, rebalancing our organisational capabilities across the CFD and Capacity Market to improve business performance. This has been achieved by bringing together, in new teams, our expertise on policy and change management, data and analytics, and scheme delivery, enabling effective pursuit of our mission.

Embedding a people centric culture

We have also sought to redefine our culture, encouraging all our people to play their role in bringing our values to life, whatever job they do. To further embed our strategy and values, we have developed a new competency framework, which will be used to set objectives and manage performance in the next reporting year (2019/20).

Rewarding our people

We want our culture to reflect our values and we encourage our employees to live our values in everything they do. We recognise and celebrate our employees who effectively demonstrate our values by way of annual values recognition awards. We have some amazing people and every month we encourage staff to nominate their colleagues to gain that little extra recognition.



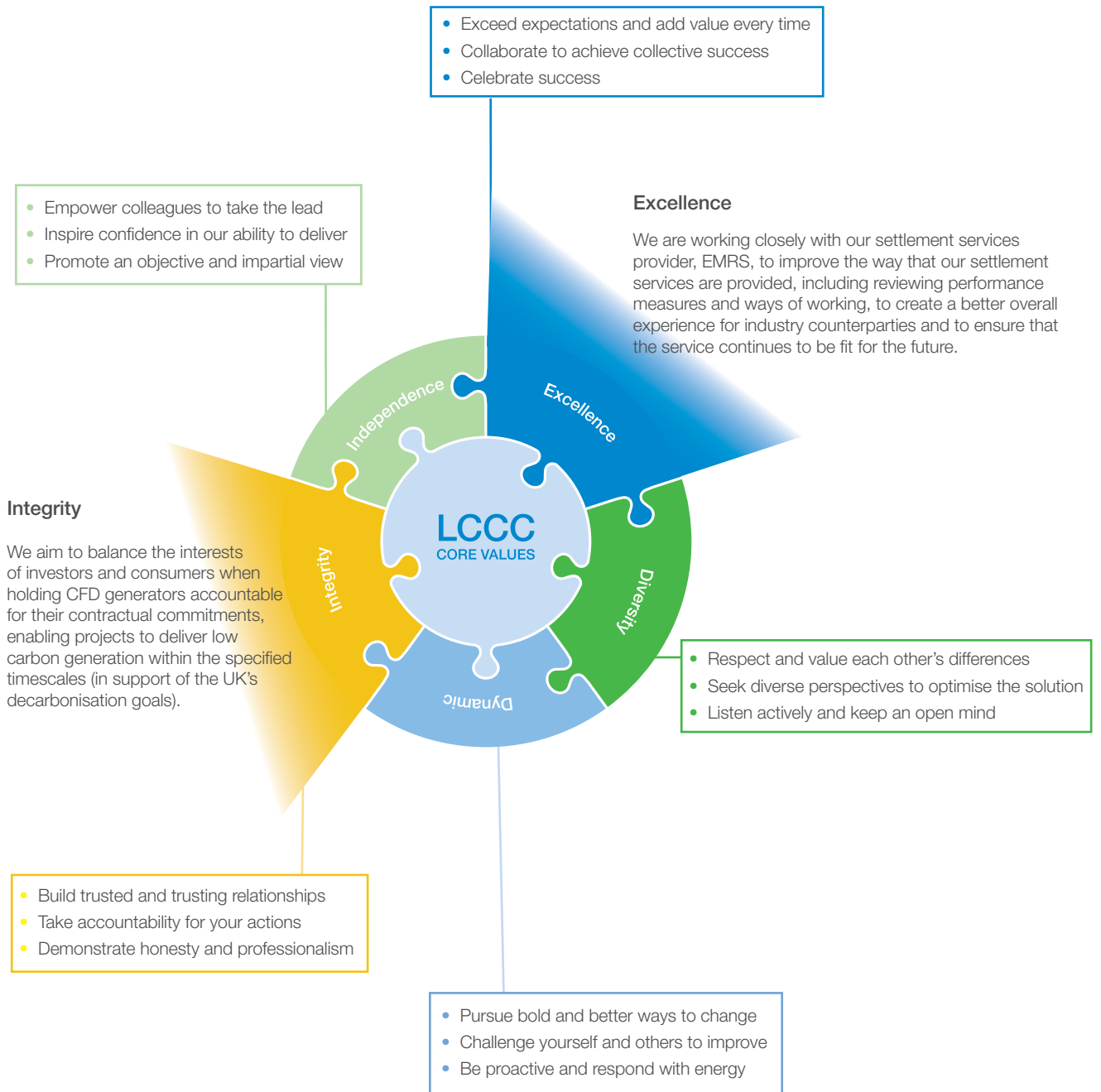
People in focus: Robin Woolnough

Robin's role as a Legal Advisor at LCCC requires him to demonstrate all LCCC's values, but particularly independence and integrity. Recently, Robin has advised the Board and other colleagues on the Capacity Market restoration project and worked with BEIS on the development of emergency regulations relating to the current Standstill Period.

Robin managed the project transparently, keeping people informed of progress at every step, including regular engagement with BEIS and industry stakeholders. He is always happy to help and known for being diligent and committed in his approach.

"I thoroughly enjoy my role at LCCC. Being embedded within the organisation gives me insight into the wider financial, regulatory or other issues and challenges facing the teams and means that I can ensure any legal advice addresses all issues including those relating to our wider policy or strategic objectives. I have learnt a lot from this collaborative and cross-functional approach to working."

Our Values



Delivery Excellence achievements

CFD Management

During 2018/19, ten CFD projects became operational, increasing the total installed capacity commissioned under the CFD scheme to over 3.1GW. These new projects contributed to a combined low carbon electrical output over the year of 12.1TWh from the CFD portfolio.

Pages 10-11 depict the status of CFD projects as of 31 March 2019. In addition to projects commencing operations, progress in 2018/19 included:

- Three projects across solar, biomass conversion and wind technologies completed their Final Installed Capacity tests.
- Eleven Direct Agreements being signed to assist CFD generators with financing or re-financing their projects.
- 13 Allocation Round 2 projects met their Milestone Requirements, confirming 3.2GW to our pipeline of future low carbon capacity.

By the end of 2018, three projects from Allocation Round 2 had been terminated as a result of failing to satisfy their Milestone Requirement within 12 months of contract signing. At the time of reporting, a further two projects have been terminated by mutual agreement.



People in focus: Federica Maranca

Federica has worked on preparing and finalising 7 of the 11 Direct Agreements signed this financial year by LCCC. This involved liaising with the generators on their planned financial close, reviewing their CFD security assignments,

finance documents, and, in some cases, escrow arrangements. Federica was also involved in engaging with generators to ensure they could finalise their financial arrangements in time whilst complying with their contractual obligations.

"The work was all-consuming but I am proud of what we managed to achieve in a very short space of time, particularly given the variety of financial arrangements we have enabled and the scale of some of the investment we are enabling into the UK offshore wind sector"

Capacity Market Management

In accordance with the Capacity Market rules and regulations, we delivered, on behalf of ESC, meter tests for 100 components during 2018/19 and, in the period up to November 2018, made payments of £175.6m in exchange for 54.7GW of reliable capacity to be made available to National Grid as System Operator.

On 15 November 2018, the General Court of the Court of Justice of the European Union (ECJ) upheld a challenge to the European Commission's 2014 approval of State aid for the Capacity Market in 2014. As a consequence of this, the Capacity Market is in a period of standstill while the European Commission undertakes a full investigation on whether the Capacity Market is compatible with State aid rules and;

- No capacity payments are being made to capacity providers during the Standstill Period.

- The Capacity Market supplier charge is not being collected during the Standstill Period.
- Capacity Market supplier charges already paid to ESC by suppliers towards the capacity payments for the 2018/19 Delivery Year, have been returned to all active suppliers.
- Supplier credit cover provided to ESC is being returned upon request.
- Suppliers are continuing to be invoiced for the settlement costs levy, covering ESC's operational costs, and this levy is being collected on a monthly basis throughout the year.

In anticipation of new Capacity Market regulations, which came into force on 10 April 2019, ESC undertook preparations to receive voluntary payments from suppliers and hold them in an interest-bearing account. This is to enable suppliers to prepare to meet their potential post-standstill liabilities for any payments that would have paid out to capacity providers were it not for the Standstill Period. Such payments will be due in the event that a new State aid approval is obtained allowing the award of deferred capacity payments.

Change Delivery

Over the course of the year we delivered 14 significant changes through four major (CFD and Capacity Market) software and process change releases. In addition, we have supported three further National Grid software releases and delivered all BSC changes impacting EMR settlement systems.

Regulatory system and process changes:

- Capacity Market Storage Facility Delivered Volume calculation (Of13)
- P350 zonal transmission losses for CFD Strike Price Adjustments
- Final Consumption Levy exemptions from CFD and Capacity Market
- Readiness for CFD Apportioned Metering
- Application of CFD compensatory interest calculations

Process-only changes from Summer 2018 Capacity Market rules:

- Demand Side Response Tests
- Metering requirements
- Metering Tests
- Site visits

Operational efficiency and risk mitigations via system enhancements:

- Reference price feeds;
- Capacity Market recovery payments;
- Termination Fee Invoicing;
- Credit Cover handling; and
- Energy Intensive Industry User Interfaces.



People in focus: Ross Haigh

Ross is part of the Settlement team, which has delivered a variety of complex system and business process changes this year. This included CFD apportioned metering calculations, Automation of Termination invoicing in the Capacity Market, and developing the Capacity

Market Voluntary Supplier Arrangements. In addition to delivering CFD and Capacity Market change releases, Ross worked closely with National Grid and Elexon teams to ensure software releases were coordinated across delivery partners.

"The last year has been very busy, with changes to the Capacity Market and our work processing four CFD releases. Some of this work was challenging, making the role an excellent development opportunity. The diversity in the work makes LCCC an exciting place to work, and I am supported by excellent colleagues."

Centre of Expertise achievements

Sharing our CFD knowledge

During the year we led the collaborative effort between the CFD Delivery Partners and BEIS to provide a central resource for applicants interested in the third CFD Allocation Round by creating an online dedicated resource portal. The portal provides a one-stop-shop with information of what the CFD is and how it works, who the Delivery Partners are and their roles, a step-by-step guide to the CFD framework, a frequently updated timeline and relevant news items including links to partner websites and key documents.

Together with other CFD Delivery Partners and BEIS we organised the launch event for the third Allocation Round in central London where generators, developers and their advisors had an opportunity to meet our teams in an informal setting.

We also developed and published a CFD Generator Guide to provide a concise and practical end-to-end overview of the key stages and features of the CFD scheme.



People in focus: Ben Wood

Ben joined LCCC in summer 2018, as early work on the third Allocation Round of CFDs was starting. Building on his previous experience managing projects and working with developers, he started to develop a first-of-its-kind joint resource portal for the CFD Allocation Round.

Ben managed requirement specifications as well as the actual IT development, working closely with colleagues at LCCC as well as staff at BEIS and National Grid. At the same time, he was also managing almost a dozen of our offshore and onshore wind CFDs.

"It was a valuable experience developing the Allocation Round 3 portal and a useful introduction to our colleagues at BEIS and National Grid", said Ben. "I feel it has helped bring the application process to life and hopefully it can continue to serve future Allocation Rounds".

Improving industry understanding of the Capacity Market

Following the Mock Stress Event held in Spring 2018, LCCC (on behalf of ESC) chaired a number of workshops with National Grid ESO and industry to get capacity provider feedback about the processes for Stress Events and future Mock Stress Events.

As a result, LCCC (on behalf of ESC) produced a Stress Event guide for Capacity Market participants, which aims to be a single source of information about Capacity Market Stress Events. The guide is intended to be a living document, which will be regularly updated by LCCC on behalf of the Delivery Partners to reflect the most up-to-date rules and regulations that govern the Capacity Market scheme, and to ensure that it remains a useful resource for capacity providers.

Trusted Advisor achievements

Supporting scheme development

As part of preparations for the third Allocation Round, we supported BEIS in drafting changes to the CFD Standard Conditions. This included advising BEIS on technical changes that would improve the operation of the contract and on the implementation of its policy aims for remote island wind and advanced conversion technologies.

In July 2018, Ofgem decided to make rule changes for five of ESC's rule change proposals to the Capacity Market to improve technical standards and our ability to detect metering fraud and error in settlement.

During the Capacity Market Standstill Period from 15 November 2018 onwards, we have been supporting BEIS in developing arrangements to continue to maintain investor confidence in the Capacity Market while the European Commission proceeds with its investigation. This included reviewing the draft Capacity Market Standstill Period regulations and advising BEIS on the implementation of standstill measures. As contemplated by the new Capacity Market regulations that came into force on 10 April¹², we have also prepared for the Voluntary Arrangement which enables suppliers to lodge funds with ESC in order to prepare for potential end-of-standstill liabilities in respect of deferred capacity payments.

"I find the staff at LCCC knowledgeable, helpful and collaborative on the Capacity Market – this has been particularly valuable in recent months"

Julian Frost, Capacity Market Operations Team, BEIS, April 2019



People in focus: Omer Ahmad

Omer's role as a Policy & Regulation Manager at LCCC requires him to work closely with BEIS CFD and Capacity Market teams, as well as supporting cross-cutting regulatory workstreams such as Final Consumption Levies (FCL) and Ofgem's standard variable tariff (SVT) price cap.

Recently, Omer has worked with BEIS and Ofgem on the policy, regulations and rules to manage the Capacity Market in the Standstill

Period. This has led to new regulations for a voluntary scheme into which suppliers can make payments in readiness for the potential reinstatement of the Capacity Market scheme.

As a subject matter expert with over 12 years of practical policy, regulatory and commercial experience, Omer frequently works with BEIS, other Delivery Partners and industry stakeholders.

"I enjoy working with internal stakeholders, our Delivery Partners and industry to develop policy and regulatory solutions that help to advance the electricity market. Each policy and regulatory issue is unique – this is why I find my work stimulating and rewarding."

¹² The Electricity Capacity (No.1) Regulations 2019 SI 2019/862 <http://www.legislation.gov.uk/uksi/2019/862/made>

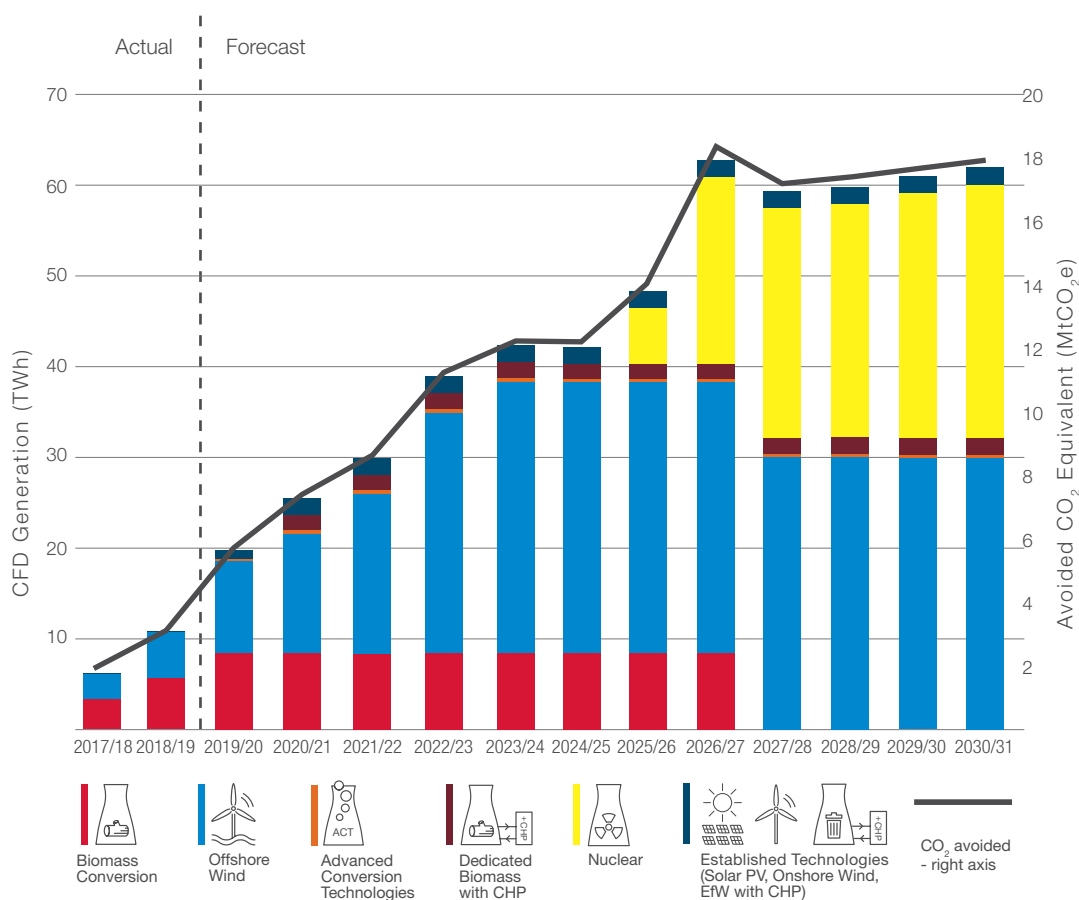
Communicating Scheme Benefits

We estimate that by 2030, our current portfolio of CFD projects could be generating over 60TWh p.a. (see Figure 2), with the greenhouse gas emissions avoided as result estimated to be about 18 MtCO₂e p.a., which would account for around 28% of the expected CO₂e emissions reduction under the Clean Growth Strategy '2032 pathway'¹².

Figure 3 charts the volume of available capacity for future years, based on capacity agreements currently in place, subject to the outcome of the European Commission's State aid investigation. This does not attempt to forecast any additional capacity that will be procured through future year-ahead (T-1) auctions, which could result in further payments for "top-up" capacity in the event that State aid approval for the Capacity Market is granted.

As the amount of generation under the CFD scheme grows, we are exploring how we can present scheme information more clearly in our publications and within our website, through development of scheme dashboards¹³ that we expect to publish during 2019/20.

Figure 2: CFD Portfolio Output and Avoided CO₂ Equivalent by Generation Technology

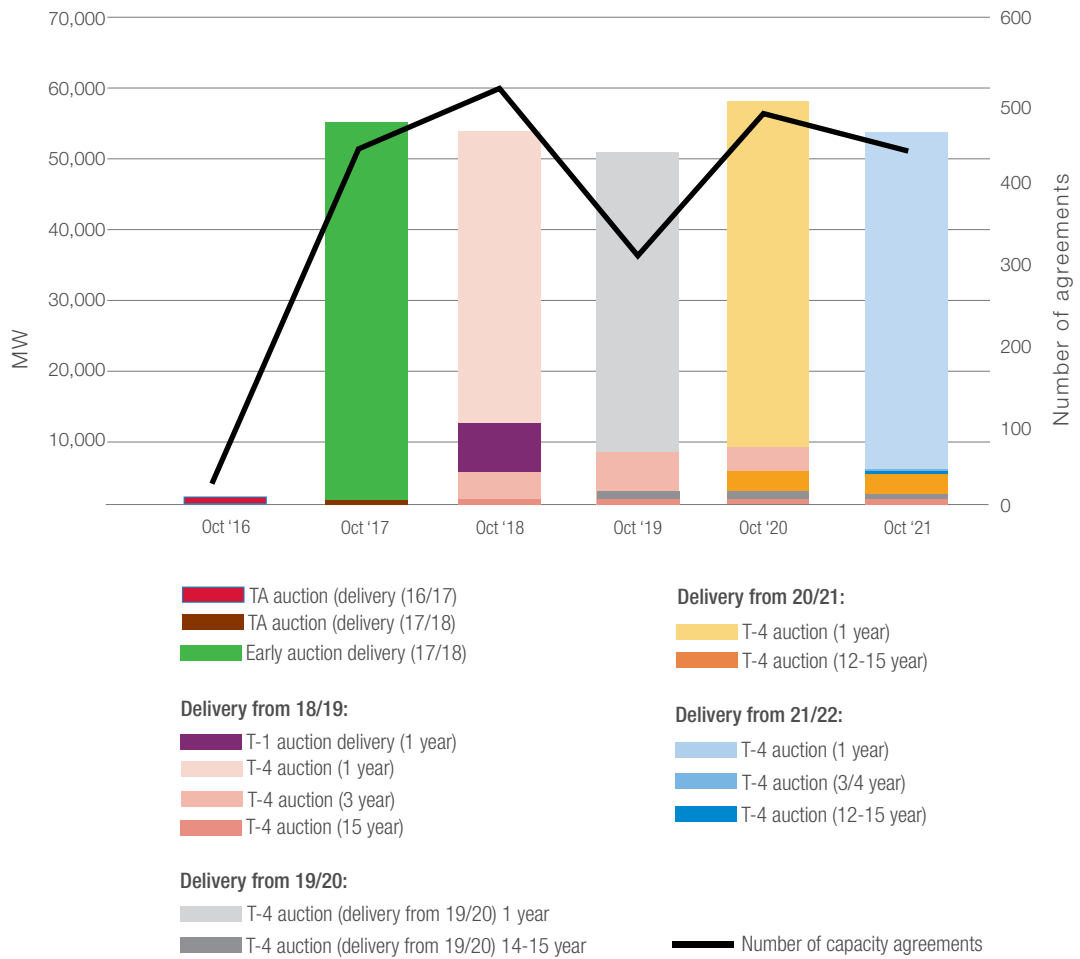


Notes to Figure 2:

1. The estimated forecast generation is consistent with the assumptions used for the long-term CFD portfolio projection – see notes 26 and 28 of the Financial Statements.
2. The estimated forecast of avoided GHG (shown in million tonnes of CO₂ equivalent) uses BEIS' published generation based long-run marginal emissions factor for the electricity sector in 2018 of 0.291 kgCO₂e/kWh (see HMT Green Book Supplementary guidance): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/793632/data-tables-1-19.xlsx
3. These estimates are for illustrative purposes only and assume that CFD generation is carbon neutral. For thermal generators, CFD generation is the proportion of the CFD Facility's generation resulting from the use of sustainable biofuels.
4. The CFD valuation exercise utilises forecasts of intermittent generation capture prices according to Aurora Energy Research projections.

¹² Clean Growth Strategy Report at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf.

Figure 3: Total volume of capacity agreements by auction by year



Notes to Figure 3:

1. Based on information in the Capacity Market Registers, published by National Grid on 4 May 2018. Archived Capacity Market Registers available at: <https://www.emrdeliverybody.com/CM/Registers.aspx>
2. Subject to the outcome of the European Commission’s investigation of the Capacity Market.



People in focus: Ulrich Arnheiter

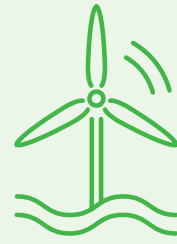
Ulrich has been exploring our data and finding ways to present it more clearly to support business improvements and external understanding of the schemes. He is working

on dashboards for internal use to support development of scheme insights, with a view to making them available on our website in the near future.

“The dashboard development work has been fun and enjoyable. I’ve worked on some challenging data sets and applied data science skills learned through formal training and hands-on learning. I’m looking forward to spending more time creating valuable scheme insights for our stakeholders in the coming year.”

¹³ The dashboards from the Transparency Tool are available at <https://sofm.lowcarboncontracts.uk/>

In Focus: East Anglia ONE



This year the East Anglia ONE offshore windfarm, a project in three phases, located off the Suffolk Coast, will generate first power. It will be fully operational in 2020, providing clean, renewable energy to the UK.

Successfully securing a CFD in February 2015, the East Anglia ONE offshore windfarm is now nearing completion. Developed by ScottishPower Renewables, a subsidiary of the Iberdrola Group, it is located 43km off the Suffolk coast.

The project commenced construction in 2017 and will feature 102 Siemens Gamesa 7MW turbines providing an installed capacity of 714MW. Once operational, East Anglia ONE will generate enough clean energy to power the equivalent of over 630,000 homes¹⁴.

LCCC has worked closely with ScottishPower Renewables on East Anglia ONE since 2015 and the project is well prepared to begin generation in 2019.

ScottishPower Renewables made excellent progress both onshore and offshore in 2019.

The first quarter saw the first of two offshore export cables successfully installed and tested, while considerable progress was made in installing each of the two onshore cables and commencement of the inter-array cable campaign. Turbine installation will commence in May 2019, with first power expected later in the year. Operational Conditions Precedents for the first two phases are expected to be met in 2019, with the third phase being met in 2020.

East Anglia ONE will see an overall investment of around £2.5bn and ScottishPower Renewables is on track to spend over 50% of this investment in the UK.

Once complete, East Anglia ONE expects to provide around 100 full-time operations and maintenance jobs for the project's 30-year lifetime; offering the opportunity for industry transfer from other sectors such as oil and gas, and apprenticeships.



©ScottishPower Renewables
Offshore substation and GMS Endurance jack-up accommodation vessel.



©ScottishPower Renewables
Jacket foundations installed

¹⁴ Based on the following calculation: 714 MW (installed capacity) x 0.3836 "offshore wind" average load factor (Digest of UK Energy Statistics) x 8,766 hours (hours per year)/3.781MWh/year (average domestic annual consumption) = 634,997 homes powered equivalent <https://www.gov.uk/government/statistical-data-sets/regional-and-local-authority-electricity-consumption-statistics>

East Anglia ONE timeline

2017

Spring 2017:

Onshore substation construction

Summer 2017:

Onshore cable route construction commenced

2018

Spring 2018:

Offshore turbine foundation installation

Summer 2018:

Construction and installation of the offshore export cable

2019

First turbines erected and installation of inter array cables

First power generation expected from the turbines

2020

East Anglia ONE expects to be fully operational powering 630,000 homes



Charlie Jordan,

Project Director for East Anglia

ONE: "LCCC has played an important role in making East Anglia ONE a success. The organisation's commercial and technical expertise, combined with early and constant engagement, has helped to optimise our plans for the project, enabling the provision of vital renewable energy."

Once fully operational, East Anglia ONE will produce a significant amount of clean energy for the UK. As a world leader in wind energy, we are committed to working with government to help meet climate change targets by driving down carbon emissions and ultimately delivering a better future, quicker for the UK."



Eduardo Kriznic, Head of Contract Management at

LCCC: "East Anglia One has been an exemplary project to work with – constantly communicating with us about the project and preparing early for CFD milestones, discussing any requirements with us well in advance, to ensure that they are completed as smoothly as possible. We enjoy a really good working relationship with the team – that has helped immensely."

Environment report

How the CFD scheme is impacting overall on UK CO₂ emissions

Through bringing forward the investment needed to deliver an increase in low carbon electricity generation, CFDs are facilitating a reduction in the UK's greenhouse gas emissions.

The latest figures for UK greenhouse gas (GHG) emissions shows that carbon dioxide emissions from power stations accounted for 18% of all carbon dioxide emissions in 2018¹⁵. This means that the opportunity to decarbonise

our energy supply, and in turn reduce the UK's GHG emissions, remains significant. The Digest of United Kingdom Energy Statistics (DUKES) 2018¹⁶ states that over half of UK generation is provided from low carbon electricity sources¹⁷. During 2018/19, ten new CFD projects have been commissioned, making a total of 18 operational CFD projects. We estimate that the total GHG emissions that have been offset through CFD generation in 2018/19 is approximately 3.5 million tonnes of CO₂ equivalent¹⁸.

How LCCC's own operations are impacting UK CO₂ emissions

LCCC is in the fourth year of capturing and reporting the carbon emissions from its activities and operations. It remains committed to minimising the environmental impact of its own operations through the adoption of sustainable practices and continuous environmental performance. We continue to monitor electricity, gas, water consumption and waste via our carbon reporting tool.

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.

Additionally, for 2018/19, improvements in our operational processes have allowed us to capture the impacts of staff travel, which at present is limited to travel during business and not commuting. This will assist us in making improvements to reduce our carbon footprint.

For the 2018/19 year our scope 1 emissions (natural gas consumed on site) have reduced by 20.8% and our scope 2 emissions (purchased electricity) have reduced by 21.3%. LCCC is a tenant within a multi-tenanted 9-floor building, which makes identifying causes for increases and decreases in consumption challenging. The decreases of scope 1 and 2 emissions for 2018/19 may stem from an increase in operating efficiency resulting from the introduction of our flexible working policy. This could potentially have had an impact, although this would not be significant.

Scope 3 emissions have increased for this reporting year, this is due to LCCC reporting on business travel for the first time. Our other scope 3 emissions have also increased due to an increase in water consumption.

LCCC continues to monitor staff travel and encourage sustainable forms of transport as well as embracing technologies such as video-conferencing. We have continued to offer our cycle to work scheme as part of our employee benefits package to encourage consideration for our environment.

¹⁵ 2018 National Statistics UK greenhouse gas emissions provisional figures: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790626/2018-provisional-emissions-statistics-report.pdf

¹⁶ Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/736148/DUKES_2018.pdf

¹⁷ 50.1%. Note this is for 2017 generation, since the latest DUKES report was published in 2018.

¹⁸ The estimated forecast of avoided GHG uses BEIS's published generation based long-run marginal emissions factor for the electricity sector in 2018 of 0.291 kgCO₂e/kWh, multiplied by the annual CFD generation output of 12.1 TWh. Source is from 2019 HMT Green Book supplementary guidance on valuation of energy use and greenhouse gas emissions: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/793632/data-tables-1-19.xlsx

Table 2: Emissions from LCCC operations

Greenhouse gas emissions (Total tCO ₂ e)	2015/16 Apr – Mar ¹⁹	2016/17 Apr – Mar ²⁰	2017/18 Apr – Mar ²¹	2018/19 Apr – Mar ²²
Scope 1: direct emissions	33.57	19.23	35.78	28.33
Scope 2: indirect emissions	127.62	124.51	89.45	70.41
Total Scope 1 & 2 emissions	161.20	143.74	125.23	98.74
Scope 3: other indirect emissions Water & Waste Water	0.76	0.74	1.32	1.96
Scope 3: other indirect emissions - Waste	0.119	0.147	0.242	0.242
Scope 3: other indirect emissions - Travel	Data not recorded	Data not recorded	Data not recorded	0.042
Total Scope 3 emissions	0.879	0.887	1.562	2.244
Total Scope 1, 2 & 3 emissions	161.96	144.48	126.55	100.98



The work on Dorenell onshore windfarm, located at in Moray, Scotland, progressed well despite challenging weather conditions and it achieved its CFD Start Date in December 2018. Dorenell will power 109,000 homes.
© EDF Renewables

¹⁹ Estimated data – Scope 1 March, Scope 2 March, Scope 3 July & October - March

²⁰ Estimated data – Scope 1 October - March, Scope 2 October - March, Scope 3 March

²¹ Estimated data – Scope 3 February - March

²² Estimated data – Scope 1 March, Scope 2 March, Scope 3 February - March (excluding travel)

²³ Drax Group plc Annual Report, 2018

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. In addition, preparations are underway for administration of Capacity Market standstill provisions, such as holding voluntary payments from suppliers in respect of their potential future liabilities in the post-Standstill Period.

The principal activities of the company are described further in the Corporate Report.

Performance against Strategy

Our vision, mission and objectives are set out in the **Corporate Report**, alongside our key achievements during 2018/19.

Key Performance Indicators (KPIs) are used to evaluate overall company performance against our four strategic objectives (below).

People Centric – develop, foster and maintain a highly skilled and motivated workforce

Delivery Excellence – achieve consistently high scheme delivery performance with continuous improvement

Centre of Expertise – maximise added value to our stakeholders and consumers from our expertise and insights into scheme delivery

Trusted Advisor – leverage our expertise and independence to proactively influence change among our key stakeholders

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; and People**).

- **Value for Money:** budget management, adjusted CFD cost variance to forecast, and audit performance.
- **Stakeholders:** query management and perceptions evidenced by annual independent survey.
- **Operations:** delivery of LCCC's contract management obligations, accuracy and timeliness of CFD and CM settlement invoices, notifications, meter tests and payments.
- **People:** engagement evidenced by annual staff engagement survey and retention rate.

Performance Overview

Progress on strategic initiatives is also used to assess performance. In 2018/19 these included: rebalancing the organisational operating model to reflect strategic priorities; delivering a new risk management framework; working to more clearly define roles with Delivery Partners relating to Capacity Market non-compliance and fraud prevention; operational improvements and simplification proposals for the CFD and Capacity Market 5-year reviews; delivering a Leadership & Change project; and applying the staff Competency Framework to job families.

Value for Money

The year has seen LCCC continue to deliver our core Contracts for Difference (CfD) and Capacity Market (CM) business activities as well as progress on our Trusted Advisor strategy implementation. We have reviewed our settlements services commercial arrangements, implementing several improvements that will drive further value for money from this activity going forward.

LCCC has remained within operating cost budgets, driven primarily by savings in settlements, payroll and insurance renewals,

saving more than 7% against budget. We have implemented our new risk management framework to better identify and manage our risks across the business.

Operations

LCCC concluded 100% of its 80 contractual obligations in 2018/19 within deadline. Working with our settlement agent, EMRS, we delivered all 2018/19 system releases on time with timely and accurate starts to operational settlements for new CFDs and Capacity Market agreements. 99.9% of issued invoices, notifications and payments were accurate and 100% of Requested Meter Tests were completed on time.

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, undertaking extensive work on the options for the Capacity Market, ceasing settlement of Capacity Market agreements, returning money to suppliers and managing communications with key stakeholders.

Stakeholders

The 2018/19 stakeholder survey feedback tells us that while our operations were widely viewed as competent and proactive, we have further work to do to raise the profile of the companies and achieve our targets in terms of being viewed as a Trusted Advisor and an Expert in Scheme Delivery.

People

Our fourth staff engagement survey was completed in Q1 2019 and resulted in a 63% overall engagement score, 1% up on last year. Most importantly, 62% of our employees believe that action will be taken as a result of the survey. 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.

Following a review to assess whether our organisation was optimal for the challenges facing the companies in the future and armed with recommendations spanning organisation, data, management reporting and people aspects of our business, LCCC embarked on an Organisational Development Programme (ODP) to deliver a new target operating model, a data and information strategy, new management reporting and leadership and change initiatives.

We have ended the year with a new organisation structure which brings together many aspects of managing both CFDs and the Capacity Market, together with improved capability in data

analytics, management reporting, strategy and change management and development of our people. This project will be the forerunner to many of the future initiatives in the business and, we expect, will be a defining piece of work for our future success.

Our workforce

Our highly skilled workforce is one of our main strengths and the key to transforming our business over the long term. Our people strategy is reflected by our people centric ambition to be a great place to work.

We want LCCC to be a place where people feel engaged and inspired to be the best they can be. Our values sit at the heart of this to enable a culture that will deliver against our strategic objectives.

During 2018/2019, we employed an average of 54 permanent employees and 4 contractors'. We have increased awareness of the LCCC employer brand by developing an Employee Value Proposition (EVP) that defines the relationship between LCCC, our people and prospective employees.

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 10 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 19% of staff, and one third of our senior leadership team, are from a Black, Asian or Minority Ethnic Group (BAME); approximately 37% of our staff are female and 66% of our senior leadership team are female. Three out of nine board members are women (30%). We are not complacent however, we are still working hard to attract and maintain diversity and inclusion in our business.

Gender pay gap section

This year, we have reported our first gender pay gap under new government guidelines. The headline message is encouraging. Using the average or mean of hourly pay, men are paid 1.8% more than women, however using the median of hourly pay, the median for women is 1.1% more than the median for men. The company gender split is 63% male and 37% female, and this proportion is broadly reflected through the quartile pay distribution.

Table 3: Overall Gender gap - Hourly Pay

Overall Gender gap	Female	Male	% Diff Female v Male
Mean (Average)	£35.72	£36.40	1.8%
Median	£33.71	£33.35	-1.1%

Investing in our people

We provide learning and training opportunities to our staff and actively encourage career and personal development and the building of skills and expertise. In line with our strategic objectives, we continue to invest in our leaders to ensure they set direction and reinforce standards and expectations. We are building 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 employee's 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 are training selected employees to be mental health first aiders to help the business spot first signs of stress and anxiety amongst our people.

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 current financial year was £980.2m (2017/18: £544.3m).

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).

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 the Interim Levy Rate and the Total Reserve Amount. It then returns any 'excess' collected to suppliers or requests additional Interim Levy Rate if payment made to the generators is higher than the Interim Levy Rate collected. As at 31 March 2019, £11.3m was receivable from suppliers (2017/18: £17.2m payable) as part of the quarterly reconciliation. Unutilised Total Reserve Amount due to be returned to suppliers is £73.2m (2017/18: £30.7m).

The company collects credit cover from suppliers for 21 days of Interim Levy Rate payments to protect against supplier default. As at 31 March 2019, the company held £14.7m (2017/18: £11.1m) of credit cover.

If a supplier fails to make the levy payments due and there is insufficient credit cover in place to cover the full amount of the levy, the failure is "mutualised" between the remaining suppliers (i.e. the remaining suppliers have to make up the "shortfall" between them). There was no mutualisation in the 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 2018/19 was set in the Supplier Obligation Regulations at £0.0570/MWh (which represented an expected budget for operational costs of £16.5m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2019/20 has been set at £0.0592/MWh (which represents an expected budget for operational costs of £17.0m). The Supplier Obligations Regulations have also set the levy for a further year:

Table 4: Delivery years, budgets, and levy rate

Year	Budget	Forecast of eligible electricity demand TWh	Levy rate (£/mega-watt hour)
2018/19	£16.519m	289.66	0.0570
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 2018/19 was £16.5m (2017/18: £15.9m). This compares with a net operating cost of £12.3m (2017/18: £13.2m). As a result of this strong financial performance the company will return £4.2m to suppliers for 2018/19 (2017/18: £2.7m).

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.

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.

There have been a number of contributory factors to the company's positive financial performance, including lower payroll costs due to higher savings from the new organisational structure than originally budgeted, lower than expected insurance costs, and lower settlement costs due to the level of resources deployed by the outsourced provider being lower than expected. In total savings account for £4.2m of the total being refunded to suppliers.

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.

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 (minimum 15 year) CFDs is £35.2bn. The figure for 2017/18 was £39.2bn. The decrease is mainly due to revisions to the wholesale electricity price forecasts that are expected to be achieved by generators and payments made during the year 2018/19. The decrease is partially offset by the change in indexation to 2019. 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 26 of the financial statements.

Valuation of Hinkley Point C CFD

The CFD for Hinkley Point C was signed on 29 September 2016. Consistent with 2017/18, the liability for the CFD for Hinkley Point C is not recognised in the statement of financial position as a result of the accounting treatment factors outlined in note 28 of the financial statements. The estimated discounted value of payments which the company may be required to pay out over the life of the contract is £30.3bn. The figure for 2017/18 was £36.6bn. The decrease is mainly due to revisions to the wholesale electricity price forecasts used. In common with the other CFDs, payments will vary because of projected wholesale electricity prices, commissioning dates for generation

and the average load factor of the generator. The valuation for Hinkley Point C is particularly sensitive in relation to forecast wholesale electricity prices as the contract runs for 35 years from the commencement of operation and covers the costs of decommissioning at the end of the 60-year life of the power station. The period relating to the CFD (i.e. 2060) is some ten years beyond the horizon of the BEIS electricity price forecasts (referred to in note 28). LCCC has used BEIS's electricity price forecasts, which run until 2050, and assumed no change in the real value of the electricity price for the remainder of the contract. Additional sensitivities around the effect of the carbon price on future electricity prices have been included in note 28 of the financial statements.

Viability statement

The Board has assessed the company's prospects, taking into account the company's current position and the principal risks faced by it over the remaining two years of the funded three-year business plan period that runs from 1 April 2018 to 31 March 2021. The period of two years has been chosen as this is the (i) time period over which the company has reasonable visibility of its strategy implementation and business planning, (ii) period for which the operational costs levy has been set by Parliament in the relevant regulations.

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. 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 remaining two years of the current three-year plan. The directors have also carefully considered how the company manages its principal risks, and the potential financial impact of the principal risks identified across various severe and plausible scenarios, and do not feel that these risks will bring into question the company's viability.

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's approach to risk management has continued to evolve over the past year. In September 2018, the audit, risk and assurance committee approved the updated LCCC Risk Management Framework. The updates ensure a stronger link between strategy and business performance and risk, greater focus on measuring risk and risk appetite and provide practical tools to support the business in managing risk. The risk management framework has been designed to provide the executive and board with a clear line of sight over risk and to 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.

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 38.

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 5: LCCC principal risks

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2018)
<p>Capacity Market (on behalf of ESC)</p> <p>There is a risk of issues arising and associated costs and reputational damage if ESC is unable to effectively deliver its role in the Capacity Market.</p> <p>There is also a risk to stakeholder relationships and perceptions of ESC's independence in the way it approaches arrangements around the suspension and potential restart of the scheme.</p>	<ul style="list-style-type: none"> Capacity Market workstreams have been developed involving personnel from across the business. The senior management team and board have been closely involved. We have liaised closely with BEIS, Ofgem and Delivery Partners. External legal advice has been sought on key risk areas. 	<p>New risk in 2018/19</p>

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2018)
<p>Contract Management</p> <p>There is a risk of litigation related to our management of Contracts for Difference which may result in reputational damage and financial loss.</p>	<ul style="list-style-type: none"> • We have reorganised our Scheme Delivery function and clarified team roles and responsibilities. • We have updated our delegated authority framework to enhance decision-making internally. • We have developed a plan of 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 external access to external legal and technical advice. 	
<p>Cyber and Information Security</p> <p>There is a risk that our data may be lost, stolen or compromised resulting in disruption to business operations, financial loss and reputational damage.</p>	<ul style="list-style-type: none"> • IT security policies and controls are in place. • We have raised staff awareness around cyber and information security. • We have developed 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. 	
<p>EU Exit</p> <p>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.</p>	<ul style="list-style-type: none"> • Cross-functional EU Exit workstreams have been established. • 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. 	<p>New risk in 2018/19</p>
<p>External Market</p> <p>There is a risk that we may be unable to anticipate and respond to the complexity and volume of change in the market (including changes in regulations, rules and participants).</p> <p>There is a risk that in the longer-term, structural market change such as the evolution of the supplier hub model, may lead to an inability to collect levies.</p>	<ul style="list-style-type: none"> • 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. 	<p>New risk in 2018/19</p>

Governance Framework

There is a risk that the Framework Document is becoming out of date and in need of a refresh to reflect evolution of the companies and their relationship with the shareholder.

There is also a risk that changes to the company's classification (following a public body review by the Cabinet Office) could frustrate delivery and impact on our independence, if new controls placed on the company are unsuited to our role under Contracts for Difference and Capacity Market regulations or prevent us from adhering to company law.

- The Framework Document review is progressing positively.
- 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 continue to support these reviews as an opportunity to bring the Framework Document up to date, whilst ensuring that the company can continue to operate effectively and independently.

New risk in 2018/19

People

There is a risk that we are unable to recruit, develop and retain staff resulting in adverse business performance and missed strategic objectives.

- We have created 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 developed a new competency framework.
- We have sought insights from employee engagement surveys, on-boarding and exit interviews, and have developed action plans accordingly.
- We maintain a central training and development budget.
- We perform annual salary benchmarking.
- Succession planning is regularly reviewed.



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.

- We have documented governance arrangements in place regarding management of settlement services.
- We regularly receive and review performance reports on settlement services provision.
- We have documented our 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 assess the pipeline of changes to schemes.




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.

There is a risk that 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 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.
- We plan to increase information and insights available on our website to add further value to our stakeholders.



Risk	Key Mitigating Activities	Direction of Risk (trend since March 2018)
<p>Scheme Fraud</p> <p>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.</p>	<ul style="list-style-type: none"> • Key finance controls and fraud controls are in place and monitored. • We have developed 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 as well as a Fraud and Compliance Manager. 	

Signed on behalf of the Board



Neil McDermott
Chief Executive Officer

5 June 2019



Board and Management Committee members visiting Hinkley Point C Nuclear CFD in 2018.
© LCCC

Board of Directors



Jim Keohane
Interim Chair
Nomination (chair)
Remuneration (member)



Neil McDermott
Chief Executive Officer



Anne Baldock
Interim Senior Independent
director
Remuneration (chair)
Nomination (member)



Catherine Gan
Chief Finance Officer



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



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



Kate Collyer
Non-Executive Director
Audit, Risk & Assurance (member)



David Long
Non-Executive Director
Remuneration (member)



Chris Murray MBE
Non-Executive Director
Audit, Risk & Assurance (member)
Remuneration (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 2019. 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 page 35 and pages 39 to 46.

Directors and corporate governance

Full details of the directors and corporate governance matters are set out on pages 45 to 48.

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 2019 were 58.

Environment

Details are set out in the Environment Report on pages 24 to 25.

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 2018/19 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2019 are set out on pages 59 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 page 29. 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 28 to 30.

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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the 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 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 auditors (the NAO) 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

5 June 2019

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 maintained a programme of site visits to our CFD generators.

I would like to thank all board members for their support to me as Interim Chair since October, and for their dedication and commitment over the year, especially Martin Read for chairing the LCCC board from the start until his resignation in September 2018, but also Tony White whose three-year term of office expired in July 2018.

I am delighted that two new non-executive directors joined during the year; Chris Murray in June 2018 and Kate Collyer in September 2018; and finally, thank Anne Baldock for taking on the role of interim Senior Independent Director, whilst I am fulfilling the duties as Interim Chair.

As a result, the remuneration committee as well as the audit, risk and assurance committee have seen changes to the membership during the year, as outlined in the report below.

Jim Keohane, Interim Chair

Background to LCCC

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 establishes the fundamental relationship between the shareholder and the company. It 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 establishes 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.

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.

Martin Read, the then Chair, retired from the board on 30 September 2018. Jim Keohane, the Senior Independent Director, was appointed as interim Chair effective on 1 October 2018, pending the appointment of a new Chair (and for this purpose temporarily stepping aside from his role as Senior Independent Director for the period for which he is Interim Chair). Anne Baldock (a non-executive director) was appointed as interim Senior Independent Director effective on 1 October 2018, pending the return of Jim Keohane to the role of Senior Independent Director.

The board comprises seven other directors, being currently two shareholder nominated directors, three independent non-executive directors, the Chief Executive and the Chief Finance Officer.

The shareholder nominated directors at year end (and currently) are David Long (appointed 27 October 2015), a public servant employed by a government wholly owned company (UKGI), and Kate Collyer (appointed on 13 September 2018), a civil servant employed by BEIS. Shareholder nominated directors are appointed for the period required by the shareholder.

The three independent non-executive directors at year end (and currently) are Tony Bickerstaff and Simon Orebi Gann (both appointed 11 on November 2014 and re-appointed on November 2017) and Chris Murray (appointed 26 June 2018), each being 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 re-appointment (as applicable).

Neil McDermott, the Chief Executive, was appointed as a director on 22 July 2014 and Catherine Gan, the Chief Finance Officer, was appointed as director effective on 24 April 2017.

An external recruitment consultancy was used in the original appointments of the Chair, Senior Independent Director, independent non-executive directors, Chief Executive and 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 or public 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 45 to 46. 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 former Chair and the Interim Chair were independent on appointment. The board considers the interim 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 45.

Board governance

The board meets sufficiently regularly to discharge its duties effectively, generally meeting seven to eight times per year (with additional ad hoc meetings as required). The board met nine times in 2018/19 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.
- 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.
- Governance – reviewed the steps being taken to implement the recommendations of the 2017/18 externally facilitated annual evaluation and, in 2018/19, conducted an internally facilitated board effectiveness review. Further information about this evaluation process can be found on page 42.
- Organisation structure and staff – reviewed the proposals relating to the Organisation Development Programme. The Board also 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, approving relevant CFD terminations and review of performance in relation to the setting of the Supplier Obligation Levy.
- Capacity Market – oversight of organisation delivery and considering issues relating to the Capacity Market Standstill Period and the preparation for the voluntary arrangement for supply charge payments and the potential Capacity Market restoration.
- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.
- Visits – site visit to Hinkley Point C. The board also received insights from a meeting with a capacity provider and a meeting with BEIS.

The Chair has held a meeting with the non-executive directors without the executives being present. The non-executive directors, led by the 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, executive directors 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 for the board. In high level terms, the day to day management of the company is delegated to the Chief Executive and senior management with the matters reserved 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 Officer²⁴
- 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. Following a third party evaluation review carried out in the preceding year, in 2018/19 the evaluation 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 Interim Chair has, with the input and assistance from the other directors and the executive management, undertaken an objective and thorough evaluation of the performance of the Senior Independent Director. The non-executive directors, led by the interim Senior Independent Director, have undertaken an objective and thorough performance evaluation of the interim Chair, taking into account the views of executive directors.

The 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 regularly 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 and compliance matters.

Audit, Risk & Assurance Committee

At year end, the membership of this committee comprised four non-executive directors, namely Tony Bickerstaff (chair), Kate Collyer, Simon Orebi Gann and Chris Murray.

The following members resigned from the committee during the course of the year - Jim Keohane (1 January 2019), David Long (13 September 2018), Tony White (11/07/2018, consequent on his resignation from the board) and Simon Elliston (12 April 2018, consequent upon his resignation from the board). The following members were appointed to the committee – David Long (25 April 2018 to fill a temporary vacancy), Chris Murray (18 July 2018) and Kate Collyer (13 September 2018).

²⁴ 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. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742188/Managing_Public_Money__MPM__2018.pdf

The chair of the committee is a qualified accountant with recent 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 2018/19, with meetings in May 2018, September 2018 and January 2019.

The Chief Executive (as Accounting Officer), Chief Finance Officer, Head of Assurance & Risk, Company Secretary and external auditors attend each meeting. The Accounting Officer, Chief Finance Officer, Head of Assurance & Risk 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 2017/18
- Letters of Representation for 2017/18
- Recommendation of Annual Report and Accounts for 2017/18
- Committee Annual Report to the Board
- Review of Whistleblowing Policy and Procedure
- Internal Audit Charter
- HPC Valuation Update
- Deep Dive Discussion on Response to Data Incidents
- Re-Appointment of External Auditors and Audit Fee for 2018/19
- External Auditor Letter of Engagement for 2017/18
- Review of Audit Committee Terms of Reference
- Annual Evaluation of Committee for 2018/19
- Risk Management and Internal Control Framework

- Annual Report Process for 2018/19
- External Audit Plan for 2018/19
- Update on IT Access Controls

The minutes of the meeting are circulated to the board.

The significant issue considered by the committee in relation to the financial statements relates to the valuation of the CFDs (including the accounting treatment for the Hinkley Point C CFD). These matters are further referred to in notes 26 and 28 of the financial statements.

The company's main risks and related mitigating actions are set out on pages 30 to 34 of the Strategic Report. There have been no lapses in data security (other than minor or non-significant lapses). 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 October 2018 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 would operate 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 together with another committee member attended a BEIS audit committee conference in February 2019 which provided an opportunity to learn from the experience and activities of both the BEIS audit committee and the audit committees of several of BEIS's other partner organisations.

Nomination Committee

At year end, the committee comprised Jim Keohane (chair), Anne Baldock and Simon Orebi Gann.

Jim Keohane, an existing member of the committee, was appointed chair after Martin Read (the previous chair) retired from the committee on 13 September 2018. Tony White resigned from the committee on 11 July 2018. All members of the nomination committee are independent non-executive directors.

The committee met four times during the year, in April, September and October 2018 and January 2019. No member of the committee attended an agenda item in 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 a new director 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 49 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
Anne Baldock	Non-Executive Director to 30/09/2018 and interim Senior Independent Director from 01/10/2018	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		
Kate Collyer	Non-Executive Director	App. 13/09/2018	App. 13/09/2018		
Simon Elliston	Non-Executive Director	App. 16/12/2015 Res 12/04/2018	App. 16/12/2015 Res 12/04/2018		
Catherine Gan	Chief Finance Officer	App.24/04/2017			
Jim Keohane	Senior Independent Director to 30/09/2018 and Interim Chair from 01/10/2018	App. 22/07/2014 (re-appointed for 2 years from 01/03/2017 and for a further 1 year until 29/02/2020)	App. 16/12/2014 Res. 1 January 2019	App. 24/10/2017	App. 16/12/2014
David Long	Non-Executive Director	App. 27/10/2015	App. 25/04/2018 Res. 13/09/2018		App. 27/10/2015
Neil McDermott	Chief Executive	App. 22/07/2014			
Chris Murray	Non-Executive Director	App. 26/06/2018	App. 26/06/2018		App. 26/06/2018
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	
Martin Read	Chair	App. 22/07/2014 (re-appointed for 3 years from 01/03/2017) Res. 30/09/2018		App. 16/12/2014 Res. 13/09/2018	App.16/12/2014 Res. 30/09/2018
Tony White	Non-Executive Director	App. 11/11/2014 Res. 11/07/2018	App. 13/12/2017 Res. 11/07/2018	App. 16/12/2014 Res. 11/07/2018	App. 16/12/2014 Res. 11/07/2018

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 (such as public sector non-executive director training sessions and a BEIS audit committee conference), 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

	Board	Audit, Risk & Assurance Committee	Nomination Committee	Remuneration Committee
Number of meetings	9	3	4	3
Anne Baldock	9		4	3
Tony Bickerstaff	9	3		
Kate Collyer	6**	2**		
Simon Elliston	0*	0*		
Catherine Gan	5***	(attends but not a member)		
Jim Keohane	9	2	4	3
David Long	8	1*		3
Neil McDermott	9	(attends but not a member)		
Chris Murray	7**	3		1*
Simon Orebi Gann	9	3	4	
Martin Read	4*		1*	1*
Tony White	2*	2*	1*	1*

*Resigned part way through the year

**Appointed part way through the year

***For two meetings, an agenda item was attended

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 44).
- 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.²⁵

Risk management framework

- The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. Each functional department of the company maintains a risk register identifying the business 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 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 2018/19, in May 2018, September 2018 and January 2019) and is updated on any significant risk matter which falls outside its formal review cycle. The committee considers the risk appetite of the company in relation to the principal risks and receives a completion report relating to the actions being undertaken to minimise and mitigate risk items.

- The board reviews the strategic risk register twice per year (in 2018/19, in June 2018 and January 2019). 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 34.

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.

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. 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

²⁵ The company takes into account the MacPherson Review, HM Treasury Review of Quality Assurance of government analytical models: Final Report, March 2013. 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> https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

manages within its budget so as not to exceed the operational costs levy.

- An update on the company's progress, 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 to discuss business progress and review management accounts.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "*Managing Public Money*"²⁶.

Operational

- The senior management team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the senior executive team.
- The Chief Executive and the executive team meet with appropriate regularity with the shareholder and other stakeholders.
- The commercial, 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, whistle-blowing, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.
- The company expects the highest standards from all employees and supply chain.
- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.²⁷

Treasury management

- The Finance department:
 - operates within policies agreed by the audit, risk 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

5 June 2019

²⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-_jan15.pdf

²⁷ HM Treasury, Review of tax arrangements of public sector appointees, May 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

Remuneration report

The company's registered number is 08818711

Remuneration committee

At year end, this committee comprised Anne Baldock (chair), Jim Keohane, David Long and Chris Murray. The following members resigned from the committee during the course of the year – Martin Read (30 September 2018) and Tony White (11 July 2018).

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 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:

- 2017/18 – Company Performance Report and Staff Incentive Scheme Award
- 2017/18 – Proposal for Senior Team Staff Incentive Scheme Award

- 2017/18 – CEO Award and Objectives for 2018/19
- Company Annual Pay Review for 2018/19
- Reports on Bonus Benchmarking Review and Bonus Scheme Proposal
- 2018/19 Interim Company Performance Report
- Flexible Working Policy
- Maternity, Paternity and Parental Leave
- Career Development Project
- Compressed Hours Flexible Working Update
- Employee Value Proposition
- LCCC Benefits Review
- Redundancy Policy
- LCCC Competency Framework Report
- Committee Annual Evaluation Update
- Staff Turnover Report
- Company Scorecard Annual Review
- Committee Terms of Reference Amendment

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 July 2018 and again in January 2019 from Korn Ferry. 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 are required 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 £278,309 (2017/18: £269,040).²⁸ In 2018/19 this is 4.0 times the median remuneration of the company's workforce (2017/18: 4.2) which is £69,482 (2017/18: £63,977²⁹). 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 3% effective from 1 April 2018, with the specific amount to be awarded dependent on the company's remuneration policy.

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 executive directors' remuneration has been designed to promote the long term success of the company. Their respective earnings consist 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, has agreed the bonuses to the two executive directors for 2018/19 as set out below.

Neil McDermott (Chief Executive) and Catherine Gan (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.

²⁸ The total remuneration figure includes salary, non-consolidated performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions, cash payments in lieu of pension contributions and the cash equivalent transfer value of pensions.

²⁹ Salary increases took effect on 1 April 2018. It should be noted that while the median calculation for 2018/19 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.

Executive Directors' Remuneration (audited)

Name	2018/19 Salary	2018/19 Performance Related Pay (Bonus)	2018/19 Taxable Benefits	2018/19 Pension Payments	2018/19 Total
Neil McDermott	2018/19: £227,294 (2017/18: £220,674)	2018/19: £43,252 (2017/18: £42,404)	2018/19: £7,763 (2017/18: £5,962)	2018/19: £22,729 (2017/18: £22,067)	2018/19: £301,038 (2017/18: £291,107)
Catherine Gan	2018/19: £150,895 (2017/18: £137,109)	2018/19: £23,468 (2017/18: Nil*)	2018/19: £3,716 (2017/18: £2,784)	2018/19: £15,089 (2017/18: £13,711)	2018/19: £193,168 (2017/18: £153,604)

*Catherine Gan commenced employment with the company in April 2017, and therefore did not receive any rewards in respect of 2016/17.

The performance related incentive bonuses are only approved for payment and paid in the year following the year to which they relate. As a result, any bonus relating to 2018/19 is not paid until early in 2019/20. Such bonuses are £44,550 for Neil McDermott and £24,143 for Catherine Gan.

The executive director payments for 2018/19 reflect that Neil McDermott and Catherine Gan received a 3% 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 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 their original appointments, by Odgers Berndtson (an independent recruitment consultancy).

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	2018/19 Fees ³⁰	Principal positions held elsewhere at 31 March 2019
Anne Baldock	£32,500 (including £6,500 for ESC) ³¹ 2017/18: £25,000	<ul style="list-style-type: none"> • ESC – Senior Independent Director • Bazalgette Tunnel Limited – 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 2017/18: £31,000	<ul style="list-style-type: none"> • Costain Group Plc – Group Finance Director • CBI Economic Growth Board – member • ESC – non-executive director
Kate Collyer	£nil (shareholder nominated director – civil servant)	<ul style="list-style-type: none"> • ESC – non-executive director • Joint Director, Analysis, Chief Economist for Market Framework & Energy – BEIS
Simon Elliston	£nil (shareholder nominated director – civil servant)	N/A
Catherine Gan	N/A	<ul style="list-style-type: none"> • ESC – Chief Finance Officer and director
Jim Keohane	£68,000 (including £16,000 relating to ESC) ³² 2017/18: £40,000	<ul style="list-style-type: none"> • Harwich Haven Authority – Chair • Market Operator Services Ltd – Chair • ESC – Interim Chair
David Long	£nil (shareholder nominated director – public servant)	<ul style="list-style-type: none"> • Executive Director, UK Government Investments • ESC – non-executive director • BIS (Postal Services Act 2011) Company Ltd – non-executive director
Neil McDermott	N/A	<ul style="list-style-type: none"> • ESC – Chief Executive and director
Chris Murray	£19,135 ³³ 2017/18: £nil	<ul style="list-style-type: none"> • 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
Simon Orebi Gann	£25,000 2017/18: £25,000	<ul style="list-style-type: none"> • 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
Martin Read	£48,000 ³⁴ (including £12,000 relating to ESC) 2017/18: £96,000 (inc £24,000 for ESC)	<ul style="list-style-type: none"> • Wincanton Plc – Chair • UK Government Senior Salaries Review Body - Chair • Winchester Science Centre – Trustee • University of Cambridge Library Advisory Committee - member
Tony White	£7,019 ³⁵ 2017/18: £25,000	<ul style="list-style-type: none"> • Green Energy Options – Non-Executive Director • BW Energy Ltd – Director • The Ecofin Research Foundation – Trustee Director • Sark Electricity Price Control Commissioner

³⁰ 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 Martin Read, Jim Keohane and Anne Baldock where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

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

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

³³ 9 months, 4 days pro rata (26 June – 31 March 2019) at £25,000.

³⁴ 6 months pro rata (1 April – 30 September 2018) at £96,000.

³⁵ 3 months, 8 days pro rata (1 April – 11 July 2018) at £25,000.

Independent Auditor's Report to the sole shareholder of the Low Carbon Contracts Company Ltd

Opinion on financial statements

I have audited the financial statements of the Low Carbon Contracts Company Ltd ("the company") for the year ended 31 March 2019 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 2019 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 me 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	<ul style="list-style-type: none">• Energy Act 2013• The Contracts for Difference (Counterparty Designation) Order 2014• Articles of Association
Parliamentary authorities	<ul style="list-style-type: none">• The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014
Shareholder, HM Treasury and related authorities	<ul style="list-style-type: none">• 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 44.

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)

Description of risk	How the scope of my audit responded to the risk
<p>I assessed the valuation of the company's financial liability for CFDs to be a significant risk for my audit based on materiality and the degree of estimation uncertainty inherent in the estimate which involves forecasting electricity generation volumes and wholesale prices over the life of the contracts (which extend into the late 2030s).</p> <p>As disclosed in note 26 to the financial statements, management has estimated the fair value of financial liabilities arising from CFDs (excluding the Hinkley Point C CFD) to be £35,249 million at 31 March 2019, of which £12,921 million has been recognised in the statement of financial position (together with a matching Supplier Obligation Levy asset) and the remainder has been deferred.</p> <p>In preparing its fair value estimate the company applies wholesale electricity price forecasts generated by the Department for Business, Energy and Industrial Strategy using their in-house model. The long-term forecasts involve a series of significant judgements which are both complex and subjective.</p> <p>An error in the inputs or assumptions used, or a calculation error, could result in a material misstatement of the financial statements. In addition, the valuation model is complex and small changes in assumptions can lead to material movements in the valuation.</p> <p>The uncertainties inherent in determining the fair value of CFDs are further discussed in the disclosures made in note 26 to the financial statements.</p>	<p>I assessed the company's controls over the valuation of the CFD liability.</p> <p>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 price series from reputable third parties).</p> <p>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. The span of my constructed range reflects the significant degree of uncertainty inherent in estimating fair value for these instruments.</p>
	<p>Key observations</p> <p>Management's point valuation fell within my constructed range, on the basis of which I judge it to be a reasonable estimate.</p>

Accounting for the Hinkley Point C CFD

Description of risk	How the scope of my audit responded to the risk
<p>In the preparation of its financial statements for prior years, management concluded that the liability arising from the Hinkley Point C (HPC) CFD failed to meet the reliability criteria for recognition within the financial statements. Specifically, management concluded that it could not prepare an estimate which was complete, neutral and free from error in respect of the cash flows in the later years of the contract (which is expected to continue generating cash flows until 2060). I evaluated management's judgement on non-recognition as reasonable in each of the prior years and concluded that the disclosures made in respect of the HPC CFD liability were properly prepared.</p> <p>As disclosed in note 28 to the financial statements, management's judgement remains that, for the time being, the HPC CFD fails to meet the reliability criteria for recognition within the financial statements. Whilst I did not identify the valuation of the HPC CFD liability as a significant risk for my audit (on the basis that it is not recognised in the financial statements) the accounting treatment for this contract remains a significant judgement and an area of focus for my audit. Management has estimated the fair value of the HPC CFD to be £30,309 million at 31 March 2019.</p>	<p>Management revisited the assessment it had made in the prior year and concluded that the HPC CFD liability continued to fail to meet the reliability criteria for recognition within the financial statements. I reviewed this assessment and the evidence underpinning it. I continue to judge as reasonable management's assertion in note 28 that the HPC CFD should not be recognised in order to avoid the introduction of excessive reliability issues into the financial statements.</p>
	<p>Key observations</p> <p>I have reviewed the adequacy of disclosures around management's fair value estimate for HPC presented in note 28 and found these to be properly prepared, and a fair reflection of the estimation uncertainty inherent to this contract.</p>

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.

Audited Area	Basis	Materiality
Account balances and transaction streams not connected with the valuation of Contracts for Difference and to support my opinion on regularity	2% of the combined value of gross operating expenditure and payments to CFD generators. 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.	£19.9m
Overall Financial Statement Materiality (applying to all audited areas with the exception of those listed above)	2% of the disclosed fair value of the CFD liability, excluding Hinkley Point C which does not meet the criteria to be recognised within the financial statements. I chose this benchmark given that I consider it to be principal interest to users of the financial statements as one of the company's primary objectives is to manage CFDs.	£704m

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 my staff and 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 our 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 do not 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 consistent with my knowledge obtained in the audit; or
- Audit, Risk and Assurance Committee reporting: the section describing the work of the company's 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 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; or
- 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; or
- 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

6 June 2019

Financial statements and notes to the accounts



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Statement of comprehensive income for the year ended 31 March

	Note	2019 £'000	2018 £'000
Other income	6	15,084	15,011
Supplier Obligation Levy	27	(1,991,096)	4,102,520
Fair value movement of CFDs	26	1,991,096	(4,102,520)
Staff costs	7	(5,763)	(5,652)
Depreciation	9	(131)	(178)
Amortisation	10	(606)	(732)
Other operating costs	8	(8,584)	(8,449)
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 65 to 87 form part of these accounts.

Statement of financial position as at 31 March

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	9	181	227
Intangible assets	10	1,160	1,596
Supplier Obligation Levy	27	12,920,812	15,892,096
Total non-current assets		12,922,153	15,893,919
Current assets			
Operational costs levy receivable	11	1,585	1,753
Supplier Obligation Levy receivable	12	62,102	36,922
Trade and other receivables	13	215	221
Cash and cash equivalents	14	122,122	78,048
Total current assets		186,024	116,944
Total assets		13,108,177	16,010,863
Current liabilities			
Operational costs levy payable	15	(4,189)	(2,788)
Supplier Obligation Levy and generators payments payable	16	(165,080)	(100,781)
Trade and other payables	17	(16,590)	(13,104)
Borrowings	18	(402)	(402)
Finance lease obligations	19	(220)	(220)
Total current liabilities		(186,481)	(117,295)
Non-current liabilities			
Contracts for Difference	26	(12,920,812)	(15,892,096)
Trade and other payables	17	(285)	(440)
Borrowings	18	(237)	(466)
Finance lease obligations	19	(295)	(499)
Provisions	20	(67)	(67)
Total non-current liabilities		(12,921,696)	(15,893,568)
Total liabilities		(13,108,177)	(16,010,863)
Net assets		-	-
Shareholders' equity and other reserves			
Share capital	21	-	-
Retained earnings		-	-
Total equity		-	-

The notes on pages 65 to 87 form part of these accounts.

The financial statements were approved by the board of directors on 5 June 2019 and signed on its behalf on 5 June 2019 by:



Neil McDermott
Chief Executive Officer



Catherine Gan
Chief Finance Officer

Statement of changes in equity for the year ended 31 March

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
As at 31 March 2017	-	-	-
Share capital issued	-	-	-
Total comprehensive income for the year	-	-	-
As at 31 March 2018	-	-	-
Share capital issued	-	-	-
Total comprehensive income for the year	-	-	-
As at 31 March 2019	-	-	-

As at 31 March 2019 the company has one authorised ordinary share, issued and fully paid.
The notes on pages 65 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March

	Note	2019 £'000	2018 £'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	131	178
Amortisation of intangible assets	10	606	732
Amortisation of government grant liability	22	(155)	(166)
Working capital adjustments:			
Decrease/(increase) in operational costs levy receivable	11	168	(359)
(Increase)/decrease in Supplier Obligation Levy receivable	12	(25,180)	4,131
Decrease in trade and other receivables	13	6	64
Increase/(decrease) in operational costs levy payable	15	1,401	(1,047)
Increase in Supplier Obligation Levy and generators payments payable	16	64,299	28,782
Increase in trade and other payables	17	3,443	6,001
Net cash inflow from operating activities		44,719	38,316
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(42)	(63)
Purchase of intangible assets	10	(170)	–
Net cash outflow from investing activities		(212)	(63)
Cash flows from financing activities			
Decrease in borrowings	18	(229)	(261)
Repayment of finance lease obligations	19	(204)	(210)
Net cash outflow from financing activities		(433)	(471)
Net increase in cash and cash equivalents in the year		44,074	37,782
Cash and cash equivalents at the beginning of the year		78,048	40,266
Cash and cash equivalents at the end of the year	14	122,122	78,048

The notes on pages 65 to 87 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2019

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the “company”) for the year ended 31 March 2019 were approved and authorised for issue in accordance with a resolution of the board on 5 June 2019.

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

2. Accounting policies

2.1 Basis of preparation

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

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

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

2.2 Going concern

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

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

- i. applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its operational costs levy and the Supplier Obligation Levy;
- ii. undertakes a robust and detailed annual business planning and budgeting process to establish its operational cost requirements for each financial year; and
- iii. has considered the potential impact of credit risk and liquidity risk detailed in note 3.

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

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

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 2018/19 after public consultation was £0.0570/MWh (2017/18: £0.0524/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 2019/20 the operational costs levy has been set at £0.0592/MWh and will be apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2019 to 31 March 2020. The operational cost levy has also been set for 2020/21 at £0.0614/MWh

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

The 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.

The company has assessed and judged that IFRS 15 does not apply to income from electricity suppliers. LCCC will continue to apply its accounting policy which follows the IFRS Conceptual Framework for Financial Reporting.

The levy is recognised on an accrued basis and 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 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.

2.7 Financial assets

2.7.1 Classification

Financial assets, at initial recognition, are classified at fair value through profit or loss and subsequently measured at amortised cost.

2.7.2 Recognition and measurement

Financial assets at amortised cost are subsequently measured 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.

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 has a contract payment for 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 benefit from these contracts over the payment period life of the contract.

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

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

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

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

The CFD is not recognised in the accounts when a reasonable estimate of the value of that CFD cannot be measured with reliability. As explained in note 28, the company has not recognised the Hinkley Point C CFD in the accounts.

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.

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

2.9.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same

lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.10 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 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

Leasehold items will be depreciated over the shorter of their useful life and the lease term.

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.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised over the following periods:

	Years
Settlement System	5
Other IT Software	5

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

2.12 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 to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

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

2.13 Leases

Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.13.1 Finance leases

Company as a lessee

Lease of the settlement system where the company has substantially all the risks and rewards of ownership is classified as a finance lease. Finance leases are capitalised at commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The present value of the minimum lease payments of the settlement system approximates to its fair value.

The settlement system acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term. The useful life of the settlement system is equivalent to the lease term.

2.13.2 Operating leases

Lease rentals relating to office premises are charged to the statement of comprehensive income on a straight line basis over the term of the lease. The rent free period received as an incentive to enter into the property operating lease has been spread on a straight line basis over the lease term.

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.

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 non-current liability under the heading 'Contracts for Difference' (the corresponding entry to the CFD

fair value movement also being to the statement of comprehensive income). This results in the company's statement of comprehensive income remaining neutral to the impact of the CFD valuation movements and remaining consistent with the company's role as defined by the Regulations.

2.19.2 Supplier Obligation Levy receivable

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

2.19.3 Supplier Obligation Levy payable

The Supplier Obligation Levy payable reported as a current liability is recognised in the statement of financial position to reflect the actual amounts owed to suppliers in respect of over-collection of the Interim Levy Rate and Total Reserve Amount at the reporting date. This situation occurs where the estimated payments to be made by suppliers under the Regulations in respect of the Interim Levy Rate and Total Reserve Amount are reconciled to the actual payments which should have been made by suppliers and a difference arises. The over-collection will be returned to suppliers through issuing a credit note after the reporting date which will then be used to offset any subsequent collection of the 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 borrowings that are subject to interest rate risk.

3.1.2 Maturity profiles

Maturities of finance liabilities are provided in the following table:

CFDs exc. HPC	<1 year £'000	2-5 years £'000	>5 years £'000	Total £'000
As at 31 March 2018	580,936	4,596,275	10,714,885	15,892,096
As at 31 March 2019	871,341	4,439,680	7,609,791	12,920,812

These amounts are based on the carrying values of CFD financial liabilities. Note 26 provides disclosures relating to the fair value of the CFDs excluding the Hinkley Point C CFD.

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 Estimating useful lives and residual values of property, plant, and equipment and intangible assets

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

4.1.2 Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the company. This can be very complex, especially when there are a wide range of possible outcomes.

As of 31 March 2019, 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 an undiscounted 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.

4.1.3 Valuation of CFD liabilities

The fair value is calculated using the income approach 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. Significant inputs, especially the wholesale electricity prices used in the valuation technique are detailed in note 26.

4.2 Significant judgement

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

The fair value of the CFDs, disclosed in note 26, 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.

4.2.2 Fair value measurement of Hinkley Point C CFD

As explained in the Strategic report on pages 29 to 30 and note 28, (and consistent with the conclusions reached in the 2016/17 and 2017/18 financial years) management is of the view that a reasonable estimate of the value of the Hinkley Point C CFD cannot be measured with reliability and on that basis the company has not recognised the Hinkley Point C CFD in the accounts.

4.2.3 Supplier Obligation Levy

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

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

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

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

The timing difference is analogous to the timing differences discussed in IAS 12 (Income Taxes). It is highly probable that the company will receive future funding to pay for the CFDs through the Supplier Obligation Levy, and management believe it is appropriate to recognise an asset for the timing difference. Therefore a Supplier Obligation Levy non-current asset is recognised in the statement of

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

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

5. New standards, amendments and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these standards, if applicable, when they become effective. The company has not sought early adoption of any standards or amendments. The company has reviewed the potential impacts of these standards in accordance with 'IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. None of these standards, except IFRS 16: Leases, are expected to have a significant effect on the financial statements of the company. Once IFRS 16 is adopted, the operating lease for the office rental will be capitalised.

The new Conceptual Framework comes into effect for the financial year 2020/21. Management will evaluate the accounting treatment of the Hinkley Point C CFD against the new framework to ensure that the accounting treatment for HPC remains appropriate following these changes.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and establishes principles for the recognition, measurement, presentation and disclosure of leases.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. The standard is effective for accounting periods beginning on or after 1 January 2019.

LCCC would account for the office premises lease, recognising a corresponding asset and liability in the statement of financial position. The current premises lease expired on 31 March 2019, a new lease is being negotiated.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

6. Other income

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

	2019	2018
	£'000	£'000
Operational costs levy income	16,451	15,877
Less: expected refund to suppliers	(4,189)	(2,661)
Net operational costs levy income	12,262	13,216
Recharges to related parties	2,667	1,628
Amortisation of deferred government grant liability	155	155
Other income	–	12
Other income	15,084	15,011

Recharges to related parties represent £2.7m (2017/18: £1.6m) charged to ESC.

7. Staff costs

	2019	2018
	£'000	£'000
Wages and salaries (including secondees)	4,585	4,602
Agency and contracted staff costs	370	273
Social security costs	513	519
Defined contribution pension plans	295	258
Staff costs	5,763	5,652

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

	2019	2018
	Number	Number
Permanent staff	54	54
Agency and contracted staff	4	5
Total	58	59

The remuneration of directors and the disclosure of the highest-paid director are included in the Remuneration Report on pages 49 to 52.

8. Other operating costs

	2019	2018
	£'000	£'000
Operational settlement costs	3,038	3,057
Legal, professional and consultancy	3,599	3,510
IT support, telephony and maintenance	828	789
Miscellaneous costs	398	406
Premises costs	397	366
Insurance	230	229
Auditor's remuneration	94	92
Other operating costs	8,584	8,449

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

Premises costs for the year include operating lease rental expenses of £0.212m (2017/18: £0.191m).

9. Property, plant and equipment

	Leasehold improvements	IT equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
As at 31 March 2017	458	289	78	825
Additions during the year	-	27	-	27
Disposals during the year	(6)	-	-	(6)
As at 31 March 2018	452	316	78	846
Additions during the year	-	77	8	85
Disposals during the year	-	-	-	-
As at 31 March 2019	452	393	86	931
Depreciation				
As at 31 March 2017	249	175	17	441
Charge for the year	90	80	8	178
Disposals during the year	-	-	-	-
As at 31 March 2018	339	255	25	619
Charge for the year	90	32	9	131
Disposals during the year	-	-	-	-
As at 31 March 2019	429	287	34	750
Net book value as at 31 March 2018	113	61	53	227
Net book value as at 31 March 2019	23	106	52	181

10. Intangible assets

	Settlement System	Other IT Software	Total
	£'000	£'000	£'000
Cost			
As at 31 March 2017	1,877	1,241	3,118
Additions during the year	–	–	–
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
Amortisation			
As at 31 March 2017	335	455	790
Charge for the year	375	357	732
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
Net book value as at 31 March 2018	1,167	429	1,596
Net book value as at 31 March 2019	792	368	1,160

The carrying value of the settlement system includes an asset created against a deferred government grant liability and finance lease. The settlement system is recognised as a finance lease as economic rights rest with the company.

No impairment is charged in the current year. The lease term is 5 years which is the period over which the asset is being depreciated as management has assessed this to be the useful life of the asset.

11. Operational costs levy receivable

	2019	2018
	£'000	£'000
Operational costs levy receivable	326	488
Operational costs levy accrued	1,259	1,265
Total operational costs levy receivable	1,585	1,753

The operational costs levy receivable reflects the amounts owed by suppliers to fund the operational costs of the company.

12. Supplier Obligation Levy receivable

	2019	2018
	£'000	£'000
Interim Levy Rate accruals	41,877	22,036
Interim Levy Rate receivable	20,225	14,886
Total Supplier Obligation Levy receivable	62,102	36,922

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 2019, Interim Levy Rate accruals of £41.9m (2017/18: £22.0m) comprise £30.6m relating to the ILR invoices (2017/18: £22.0m) and £11.3m receivable from suppliers (2017/18: £17.2m payable) as part of the quarterly reconciliation. Unutilised Total Reserve Amount due to be returned to suppliers is £73.2m (2017/18: £30.7m).

13. Trade and other receivables

	2019	2018
	£'000	£'000
Staff receivables	16	22
Prepayments	199	199
Total trade and other receivables	215	221

14. Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank	107,412	66,986
Suppliers' credit cover	14,710	11,062
Total cash and cash equivalents	122,122	78,048

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 £103.081m (2017/18: £63.939m) received from suppliers in respect of the Supplier Obligation Levy which can only be used to pay generators. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

15. Operational costs levy payable

	2019	2018
	£'000	£'000
Operational costs levy payable	4,189	2,788

To the extent that the company spends less than the annual budget set for operational costs, as approved through public consultation and Parliament, the difference between the amount collected under the operational costs levy and the actual expenditure of the company for the year, is refunded to suppliers. The refund is made as soon as practicable in the following financial year and as a result there is an amount owed to suppliers at the year-end which is reflected as a liability in the statement of financial position.

16. Supplier Obligation Levy and generators payments payable

	2019	2018
	£'000	£'000
Generators payment accrual	27,606	19,594
Total Reserve Amount payable	73,179	30,679
Generators payment payable	63,816	33,304
Interim Levy Rate payable	479	17,204
Total Supplier Obligation Levy and generators payments payable	165,080	100,781

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.

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.

17. Trade and other payables

	2019	2018
	£'000	£'000
Current:		
Suppliers' credit cover	14,706	11,060
Accruals	1,445	1,618
Trade payables	254	282
Other taxation and social security	142	131
Capital creditors	43	-
Accrual for lease incentives	-	13
	16,590	13,104
Non-current:		
Deferred government grant liability (see note 22)	285	440
Total trade and other payables	16,875	13,544

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. There will be no discounting of the grant in aid capital loan as it is considered immaterial. The accrual for lease incentives relates to the rent-free period received on the leasehold premises at Fleetbank House which is spread evenly over the term of the lease.

18. Borrowings

	2019	2018
	£'000	£'000
Current:		
Grant in aid capital loan	402	402
Non-current:		
Grant in aid capital loan	237	466
Total borrowings	639	868

The grant in aid capital loan is interest free and repayable to BEIS from funding received through the operational costs levy collected from suppliers. The actual loan outstanding as at 31 March 2019 was £0.639m (2017/18: £0.868m). The timing of the repayment of the loan is consistent with the depreciation charged on the assets funded via the loan.

19. Finance lease obligations

	£'000	
As at 31 March 2017	929	
Finance lease obligations paid	(210)	
As at 31 March 2018	719	
Finance lease obligations paid	(204)	
As at 31 March 2019	515	
	2019	2018
	£'000	£'000
Less than 1 year	220	220
Between 1 and 5 years	295	499
As at 31 March	515	719

The finance lease obligation is for the part of the settlement system asset that was funded by BEIS through EMRS, a wholly owned subsidiary of ELEXON Limited.

20. Provisions

	Dilapidation	Other	Total
	£'000	£'000	£'000
As at 31 March 2017	67	1,500	1,567
Movement in provision	–	(1,500)	(1,500)
As at 31 March 2018 and 31 March 2019	67	–	67
Current	–	–	–
Non-current	67	–	67
Total provisions	67	–	67

The other provision relating to the generator related costs was recovered through the Supplier Obligation Levy.

Under IAS 16.16 the value of a fixed asset should include the initial estimate of the costs of dismantling and removing items and restoring the site to its original state. As a result the company is required to set up a provision for the estimated costs of this reinstatement work. Refer to note 4.1.2 for further detail on this provision.

21. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
Ordinary share capital issued and fully paid:	£
As at 31 March 2017 and 31 March 2018	1
Share capital issued during the year	–
As at 31 March 2019	1

22. Deferred government grant liability

	£'000
As at 31 March 2017	595
Amortisation	(155)
As at 31 March 2018	440
Amortisation	(155)
As at 31 March 2019	285

23. Commitments under operating leases

Future minimum lease payments under non-cancellable operating leases are outlined in the table below:

	2019	2018
	£'000	£'000
Commitments under operating leases:		
Buildings		
Within one year	–	412
After one year but not more than five years	–	–
Total commitments under operating leases	–	412

24. 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:				
2018				
BEIS	–	366	–	1,587
ESC	1,628	–	–	–
2019				
BEIS	–	154	–	1,205
ESC	2,667	–	–	–

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 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, obligations under the finance lease relating to the settlement system asset and amounts payable against services associated to premises received during the year.

24.1 Compensation of key management personnel of the company

Key management personnel include executive directors and their compensation is disclosed in the Remuneration Report on pages 51 to 52.

25. Financial assets and liabilities

Financial assets

	Note	2019 £'000	2018 £'000
Trade and other receivables	13	16	22
Cash and cash equivalents	14	122,122	78,048
Total financial assets		122,138	78,070
Total current		122,138	78,070
Total non-current		–	–
Total financial assets		122,138	78,070

Financial liabilities

	Note	2019 £'000	2018 £'000
Contracts for Difference	26	12,920,812	15,892,096
Trade and other payables	17	16,448	12,960
Borrowings	18	639	868
Finance lease obligations	19	515	719
Total financial liabilities		12,938,414	15,906,643
Total current		17,070	13,582
Total non-current		12,921,344	15,893,061
Total financial liabilities		12,938,414	15,906,643

26. CFDs excluding Hinkley Point C

Notes 26 and 27 only relate to CFDs other than Hinkley Point C, which is disclosed in note 28. As at 31 March 2019 the company was counterparty to 54 contracts, including Hinkley Point C, further to Note 29.

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.

26.1 Measurement differences relating to day one recognition

The transaction price for CFDs differs from the fair value at initial recognition measured using a valuation model, mainly because the transaction price is not established in an active market. If there are significant unobservable inputs used in the valuation technique (level 3), the financial instrument is recognised at the transaction price and any difference between the transaction price and fair value at initial recognition measured using a valuation model is deferred.

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

	CFDs exc. HPC
	£'000
CFD liability as at 31 March 2017 recognised in the statement of financial position	12,333,869
Remeasurement of the CFD liability	3,720,976
Payments to the CFD generators	(544,293)
Deferred difference recognised during the year	381,544
CFD liability as at 31 March 2018 recognised in the statement of financial position	15,892,096
Remeasurement of the CFD liability	(2,743,426)
Payments to the CFD generators	(980,188)
Deferred difference recognised during the year	712,934
CFD liability released relating to terminated contracts	39,396
CFD liability as at 31 March 2019 recognised in the statement of financial position	12,920,812

During the year the net movement of £(1.991m) (2017/18: £4.103m) in the fair value of CFDs is recognised in the statement of comprehensive income.

26.2 Movement in deferred measurement differences

CFDs exc. HPC

	£'000
Deferred measurement differences as at 31 March 2017	19,078,749
Measurement differences deferred during the year	4,611,678
Deferred measurement differences recognised during the year	(381,544)
Deferred measurement differences as at 31 March 2018	23,308,883
Deferred measurement differences recognised during the year	(712,934)
Measurement differences recognised in respect of terminated CFDs	(267,667)
Deferred measurement differences as at 31 March 2019	22,328,282

26.3 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 Dynamic Dispatch Model (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.

26.3.1 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 2018	–	–	39,200,979	39,200,979
As at 31 March 2019	–	–	35,249,094	35,249,094

26.3.2 Reconciliation of CFDs

The following table shows the impact on the fair values of CFDs, classified under level 3, by using the assumptions described below:

CFDs exc. HPC

	£'000
As at 31 March 2017	31,412,618
Additions during the year	4,611,678
Change in fair value during the year	3,720,976
Payments to the CFD generators	(544,293)
As at 31 March 2018	39,200,979
Change in fair value during the year	(2,743,426)
Payments to the CFD generators	(980,188)
CFDs terminated during the year	(228,271)
As at 31 March 2019	35,249,094

The fair value of the unquoted contracts has been estimated using a discounted cash flow model. This method involved the projection of a series of cash flows and application of a discount rate to establish the present value of the expenses associated with the liability. The valuation requires management to make certain assumptions about the model inputs, including cash flows, the discount rate, credit risk and volatility. Further information relating to the assumptions is included below under key inputs and underlying assumptions.

The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted contracts.

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% (2017/18: 0.7%).

26.4 Key inputs and underlying assumptions for CFDs other than Hinkley Point C

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

26.4.1 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.

26.4.2 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. Any change to the start date will change the timing of future cash flows and impact on the discounted fair value. The valuation uses the latest estimate from generators on the start date.

26.4.3 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 2019/20 strike price and reflects the CPI rate for January 2019, in line with the requirements of the CFD contract.

26.4.4 Future forecast wholesale electricity prices

Forecast wholesale electricity prices are derived from the Dynamic Dispatch Model (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:

- using the Short Run Marginal Cost (SRMC) for each plant;
- daily demand for electricity taken into account wind profiles, interconnector flows, pumped storage, auto-generation and wind generation; and
- using a mark-up on the price derived from historic data and the difference between marginal price and cost affected by reduced capacity.

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 central case. BEIS also publishes low and high cases; these have been included in the sensitivity analysis.

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

£3.1bn to the valuation. The CFD valuation exercise utilises forecasts of intermittent generation capture prices according to Aurora Energy Research projections.

26.4.5 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. The installed capacity cannot be increased after contract signature, but can be reduced by the generator by no more than 25% with no penalty between contract signature and the completion of the first contractual milestone by its contractual deadline (i.e. the Milestone Requirement which must be completed 12 months after contract award). 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.

26.4.6 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.

26.5 Sensitivity analysis

The following table shows the impact on the fair value of CFDs, classified under level 3, by using reasonably possible alternative assumptions:

	Favourable changes £'000	Unfavourable changes £'000
Change in fair value of CFDs exc. HPC if:		
Electricity prices decrease by 10%	–	2,857,088
Electricity prices increase by 10%	2,857,088	–
10% more load factor	–	3,524,909
10% less load factor	3,524,909	–
Estimated Commissioning Date moves backward by one year	389,843	–
Generation starts at the earliest possible date	–	184,140
DDM High Case	3,822,234	–
DDM Low Case	–	5,625,314

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.

26.6 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 values used for these significant unobservable inputs.

	Fair value of CFDs (£'000)	Valuation technique	Significant unobservable input	Range Min-Max	Units
2018	39,200,979	DCF	Electricity prices	37.13-63.25	£/MWh
2019	35,249,094	DCF	Electricity prices	44.55-67.73	£/MWh

27. Supplier Obligation Levy

	£'000
As at 31 March 2017	12,333,869
Levy receivable recognised against remeasurement of CFD liability	3,720,976
Supplier Obligation Levy received during the year, net of repayable	(544,293)
Amortisation charge during the year	381,544
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

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.

There is no Supplier Obligation Levy asset for the Hinkley Point C CFD as no matching Hinkley Point C CFD liability is recognised in the accounts. Non-recognition of the Hinkley Point C CFD is discussed in note 28. The Supplier Obligation Levy asset recognised in the statement of financial position only relates to the CFDs other than Hinkley Point C.

28. Hinkley Point C CFD

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

The valuation of the Hinkley Point C CFD would require that an assumption be made of wholesale electricity prices in each year out to 2060. The company uses BEIS's DDM to provide estimates of future wholesale electricity prices. This model currently extends only as far as 2050 and the company has therefore assumed flat wholesale prices for the ten years 2050-2060. Moreover, there is an inherent limitation in accurate estimation beyond 2050 because there is a paucity of independent third party information beyond this point from which to validate the

company's assumptions. The unavoidable uncertainty over possible scenarios so far into the future extend to a variety of factors including electricity demand, fossil fuel prices, generation mix, carbon prices and technology.

Under International Financial Reporting Standards (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).

In comparison to other CFDs the company considers the CFD for Hinkley Point C to be unique. The European Pressurised Reactor is a much more complex asset than the wind turbines or biomass generators associated with the company's other CFDs. It has very high levels of safety, reinforcement and containment incorporated into the design, which make it more expensive and complex to build and result in a significant lead time before generation commences (planned for 2025). Until these challenges are overcome and the asset is built and operational, no payments will be made by the company under the CFD.

The Hinkley Point C CFD duration is also more than double (35 years) the length of other CFDs (15 years) so far entered into by the company. This makes it considerably more challenging to provide a single point fair value estimate, as required for accounting purposes, as that requires estimation of future wholesale electricity prices in every year out to 2060. This means that there are considerable but unavoidable uncertainties in creating a fair value estimate for the Hinkley Point C CFD because of the unusually long time period involved.

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 later years of a present value calculation. For example, in conducting the economic appraisal for the Hinkley Point C project BEIS used the social discount rate of 3.5% per year, as published in the HM Treasury Green Book. However, for valuing financial instruments such as CFDs the company uses the financial instrument discount rate of 0.7%, published in the HM Treasury Financial Reporting Manual. Therefore, compared to an economic appraisal, a present value estimate for a financial instrument includes progressively more weight from the less certain later years of the appraisal period. For comparison, using the social discount rate leads to a valuation of £16.6bn compared to £30.3bn using the financial instrument discount rate of 0.7%.

This is particularly relevant to the Hinkley Point C CFD fair value because external forecasts for wholesale electricity prices are not currently readily available beyond 2050. It has not been possible for the company to satisfactorily verify whether a single point fair value estimate for the Hinkley Point C CFD is complete, neutral and free from error. (Verifiability is one of the qualitative characteristics of useful financial information for financial statements as set out in the Conceptual Framework.) The company has therefore concluded that, for the time being, the Hinkley Point C CFD fails to meet the recognition criteria (b) as outlined above. Therefore, the Hinkley Point C CFD has not been recognised as a transaction in these primary statements.

The company has nonetheless set out below its best estimation of the fair value of the contract, and the assumptions which have been considered in its valuation, in the interests of transparency. This follows a 'Level 3' methodology under IFRS 13, which allows for use of the company's own models and assumptions.

28.1 Fair value measurement of HPC

The following table provides an analysis of the fair value of Hinkley Point C, grouped into 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 2018	–	–	36,585,185	36,585,185
As at 31 March 2019	–	–	30,308,848	30,308,848

The movement in the fair value measurement of HPC is driven by movements in underlying price forecasts for the later years of the contract. Information on other factors which impact on the fair value of Hinkley Point C is set out on the next page.

28.1.1 Start date

The Target Commissioning Dates (TCD: current expected start date) 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.

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

28.1.3 Installed Capacity

Hinkley Point C 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.

28.1.4 Strike price

The relevant strike price for Hinkley Point C 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.

28.1.5 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.

28.1.6 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.

28.1.7 Sizewell C strike price adjustment for Hinkley Point C

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.

28.2 Sensitivity analysis

Using a Level 3 technique to assess the value of the Hinkley Point C CFD is permissible when there is no observable input against which to assess the valuation. The company has used BEIS's internally generated models and assumptions consistent with an emissions pathway towards the government's decarbonisation commitments to generate the wholesale electricity price scenarios used in the valuation of the Hinkley Point C CFD. There is unavoidable uncertainty inherent in all such modelling and as such the results should be interpreted as a range of plausible scenarios rather than a single point value. However, IFRS13 requires that a single amount be declared for fair value and so, to satisfy this condition, the company has adopted its central scenario when valuing the Hinkley Point C CFD.

To provide transparency for the reader it is important to highlight the uncertainty inherent in material values over a long period of time, such is the nature of this CFD. The predicted price series from the DDM between 2025 and 2050 (flat-lined from 2050 to 2060) has a higher degree of certainty in the early years (2025-2050) and a lower degree of certainty in later years (2050-2060). This is due to the lack of available market data against which to judge the output. In the valuation, management has used the DDM central case. BEIS also publishes low and high cases. These have been included in the sensitivity analysis.

The company has illustrated the empirical impact of changes in assumptions on the fair value of the Hinkley Point C CFD. These are shown in the table below:

	Favourable changes	Unfavourable changes
	£'000	£'000
Change in fair value of HPC if:		
Electricity prices decrease by 10%	–	4,967,051
Electricity prices increase by 10%	4,967,051	–
At generation cap	–	192,378
10% less load factor	3,030,885	–
Estimated Commissioning Date moves backward by one year	367,563	–
Generation starts one year earlier	–	388,562
Sizewell C Strike price adjustment for HPC	2,612,881	–
DDM Low Case	–	10,753,001
DDM High Case	4,370,492	–

29. Events after the reporting period

Two CFDs were terminated by mutual agreement since the reporting date. These have been reflected within these financial statements.

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.
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.
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 and 2 are available at: https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy .

DDM	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.
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/)
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.
ESC	Electricity Settlements Company Ltd.
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.
National Grid, National Grid ESO	For CFD related work, the full name being (EMR) Delivery Body, Electricity System Operator, National Grid.
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	<p>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:</p> <ul style="list-style-type: none"> 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; and c) the estimated income to be received by the company from CFD generators in the quarter, 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.
Voluntary Arrangement	Voluntary Arrangement means the arrangement provided by ESC under which it will accept and hold payments made, on a voluntary basis, by suppliers during the Standstill Period. All such payments are made by suppliers and received and held by ESC on the basis of the terms and conditions published by ESC and in accordance with the relevant Capacity Market regulations.

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



Neil McDermott
Chief Executive Officer



Catherine Gan
Chief Finance Officer



Ruth Herbert
Director of Strategy &
Development



Claire Williams
Director of Legal and
Company Secretary



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Director of Scheme Delivery



Cynthia Duodu
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