

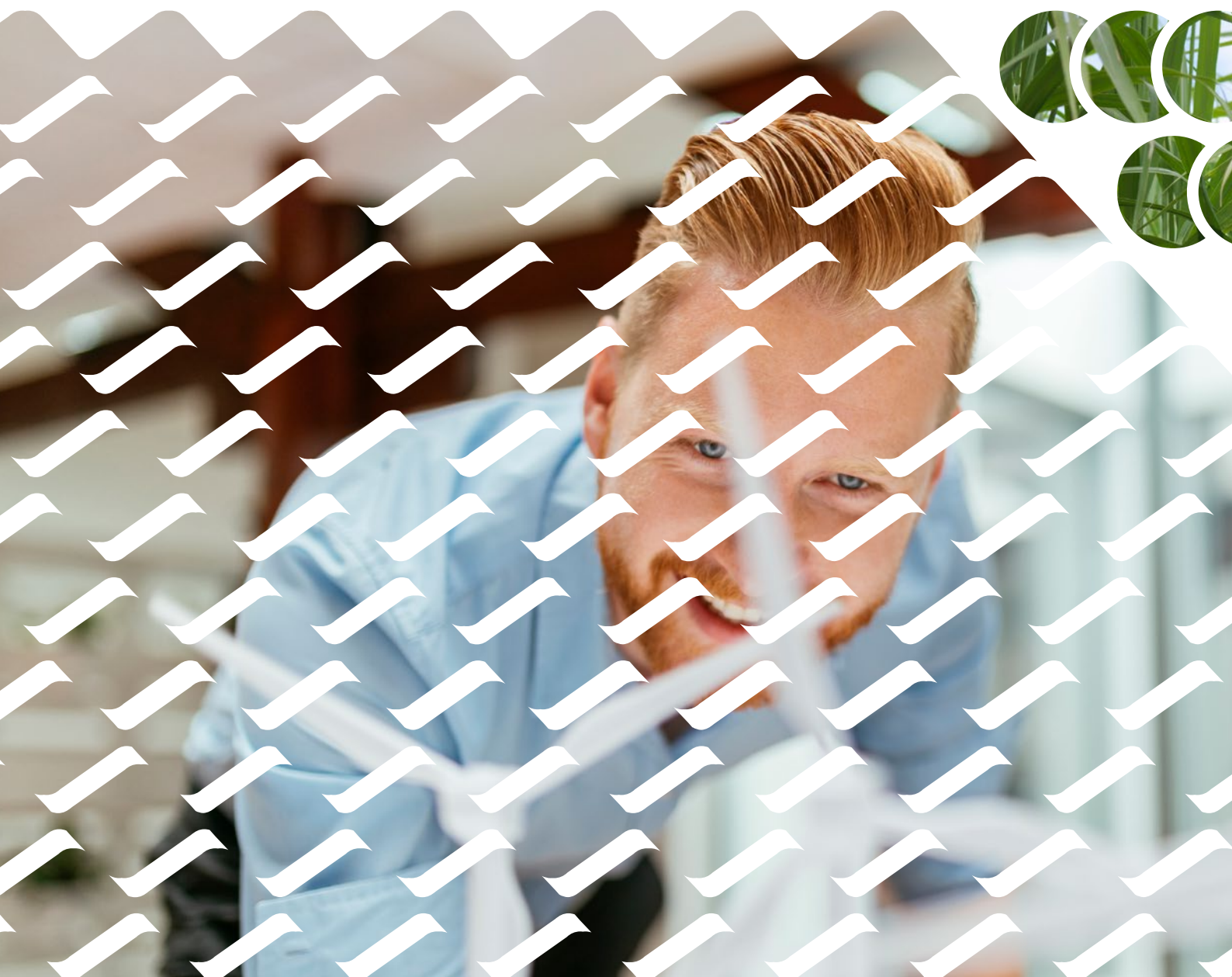


**LOW CARBON
CONTRACTS COMPANY**

POWERING NET ZERO

HELPING TO ACCELERATE THE DELIVERY OF A NET ZERO FUTURE

Annual Report and Accounts
for Low Carbon Contracts Company Ltd
2021/22



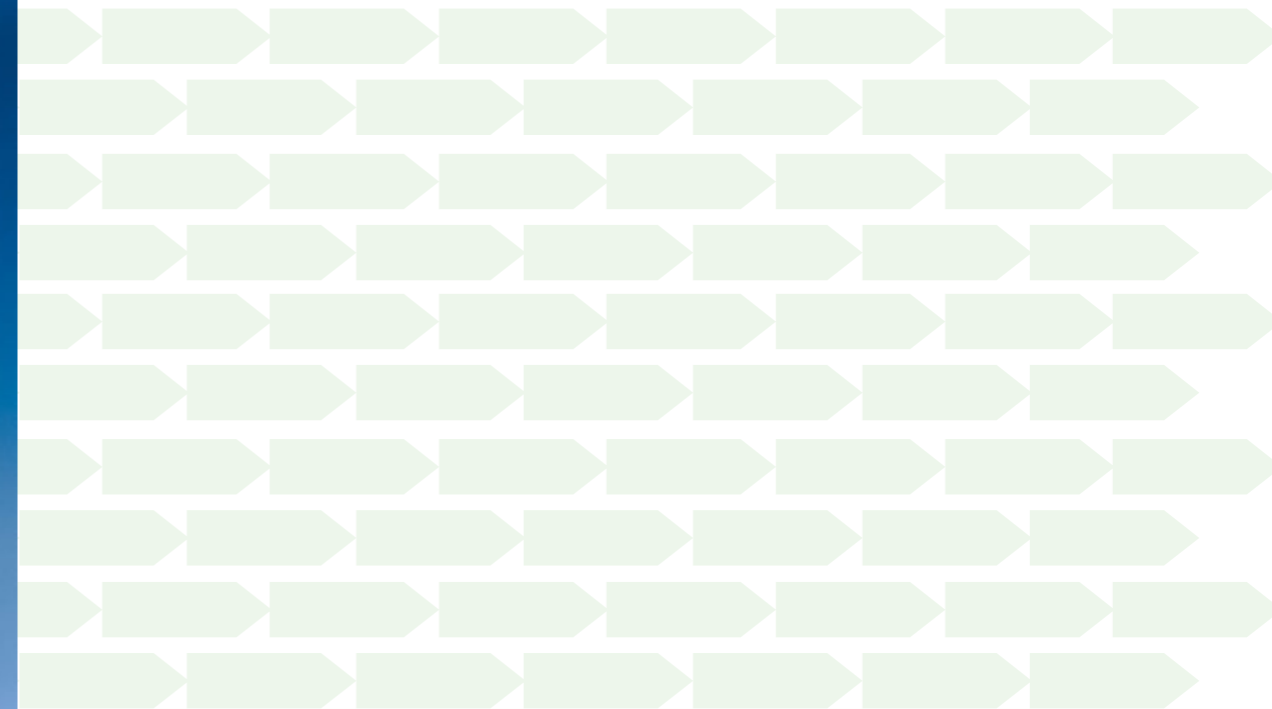
OUR PROJECTS GENERATED
22.66TWH OF ENERGY.

THAT'S ENOUGH TO
POWER THE WHOLE
OF SCOTLAND



Edinburgh
The capital city
of Scotland

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Our Portfolio

LCCC is managing **69 CfDs** with an estimated fair value of **£97.6bn**, including Hinkley Point C^a. Its counterparties hold CfDs that represent around **18.6GW^b** of new low carbon capacity to be delivered by 2030.

Two CfD projects became operational in 2021/22, commissioning

0.4GW

This brings the total operational CfD capacity to around

6.0GW

Operational Facility



Key to sites

Offshore Wind



Onshore Wind



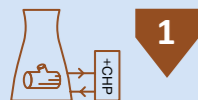
Remote Island Wind



Advanced Conversion Technology



Dedicated Biomass with CHP



Solar PV



Energy from Waste with CHP

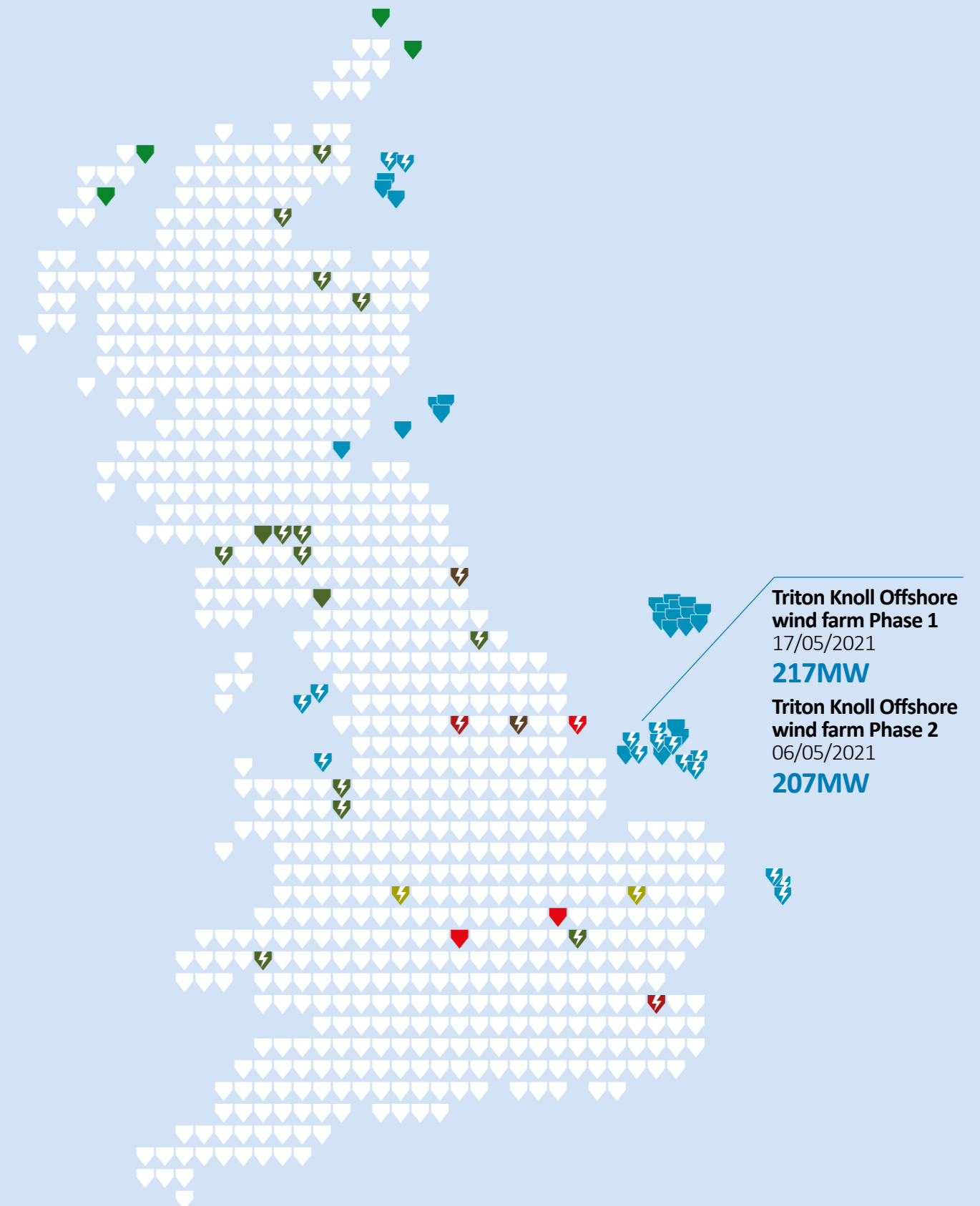


Biomass Conversion



1 Tralorg wind farm

2 Triangle Farm Solar Park



All positions shown as of 31 March 2022.

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

Highlights for 2021/22

CfD and Capacity Market scheme delivery



Delivering Excellence



431 MW

431 MW OF NEW LOW CARBON CAPACITY became operational in 2021/22 and started to receive CfD payments.



RELATIONSHIPS

DEEPENED RELATIONSHIPS WITH CFD GENERATORS as we resumed site visits.



12 DATA SETS

CONTINUED SUCCESS IN MAKING DATA MORE ACCESSIBLE – a total of 12 data sets added to the LCCC Data Portal.

Acting as a Trusted Advisor



ADVICE

ADVISED BEIS ON THE DESIGN OF THE INDUSTRIAL CARBON CAPTURE AND STORAGE CONTRACT as well as the Low Carbon Hydrogen business models and private law contracts.



FUTURE


SUPPORTED BEIS ON THE CM CALL FOR EVIDENCE the move to Annual CfD auctions and AR5.




RAB

ADVICE TO BEIS ON THE LEGAL SET-UP AND IMPLEMENTATION REQUIREMENTS for managing a RAB-based payment scheme for new nuclear.

Key

 **Contract for Difference (CfD) activity**

 **Capacity Market (CM) activity**

 **CfD and Capacity Market activity**

Chair's foreword

OUR SUCCESS IS DOWN TO OUR PEOPLE...



As the 2021/22 financial year started, the ongoing impact of COVID-19 dwarfed the very real challenges of Brexit that had been the focus of previous years. By the end of the year, the shocking development of war in Europe pushed even the pandemic off the front pages. Never has the over-used word 'unprecedented' seemed more apposite.

The impact of these events is global and severe, and the individual losses and suffering that have resulted is tragic. The energy sector has been significantly affected with global supply chain challenges, soaring oil – and consequently wholesale energy – prices, and, closer to home, a cost-of-living crisis that has hit consumers hard as energy bills rocket.

Against this difficult backdrop, the Government has reaffirmed its commitment to decarbonising the UK economy and has increased its ambition to develop secure supplies of low-carbon energy to remove any residual reliance on imported and high-cost fossil fuels. Along with the rest of the UK energy sector, LCCC is being asked to step up to this challenge and I am very proud of the work that our people have done this year to do just that.

That work involves growing the LCCC business significantly over coming years. First, our core business in the power sector has to expand to support the delivery of the huge volume of low-carbon generation capacity that will be needed to meet the growing demand for clean power as the economy is increasingly electrified. The fourth Allocation Round will potentially triple the number of Contract for Difference (CfD) the business manages, and that is just a down payment on this growth; annual Allocation Rounds are now planned in order to deliver the increased targets for low-carbon generation set out in the Energy Supply Strategy.

LCCC will also have to move into new areas to support the delivery of Net Zero. For example, the business will be the settlement body for the Regulated Asset Base mechanism to support new nuclear build. We will be the counterparty for contracts to support power Carbon Capture Use and Storage (CCUS) and we are also the anticipated counterparty for the planned industrial CCUS contract, which will be critical to decarbonise non-power sectors of our economy like heavy industry. We also stand ready to play our part in the hydrogen economy, depending on how Government decides to implement the low-carbon hydrogen business model.

We can capitalise on the experience and expertise of our dedicated teams at LCCC not only to support the development of new schemes in these sectors, but critically we can capture synergies across schemes to manage the delivery of these schemes at the most efficient cost, keeping overall costs to bill-payers in the power sector down in a time when bills are under severe upward pressure.

All this means that LCCC will make a real contribution to decarbonising the UK economy. Over one-sixth of the UK emissions reductions needed between now and 2035 will stem directly from LCCC activities. Much of the rest is due to electrification of heat and transport, which LCCC supports through facilitating investment in new low-carbon capacity.

Growing this fast will be a challenge, especially when the skills and people we need are in high demand. But we have the advantage of being a business with a real and valuable mission that inspires and enthuses our people and makes LCCC a great place to work. We look forward to welcoming many new colleagues over the coming year to join us in delivering that mission.

Our success is down to our people. I want to thank all LCCC colleagues for their unfailing commitment and professionalism over the past year. I am also very grateful to my non-executive colleagues who all bring extremely valuable and diverse experience to our high performing Board to support the business as it expands rapidly into new and exciting areas.

Regina Finn
Chair

Chief Executive's statement

DELIVERY EXCELLENCE LEADS TO MORE DELIVERY...



One of the great things about leading this organisation is seeing how central we are to delivering the huge investment that Net Zero requires, at an affordable cost to the consumer. One of the highlights of the last year for me was being in Glasgow for the CoP26 talks. While I wasn't anywhere near the actual international negotiations, I was in the thick of the business events that surrounded those. It was clear that business has cottoned on to the fact that Net Zero represents the investment opportunity of the century, with demands from the business community for policy-makers to lean in to climate action so those opportunities can be realised. It was an exciting time!

With Net Zero being put into law three years ago and the Committee on Climate Change (CCC) proposing the sixth Carbon Budget in 2021, it is becoming ever clearer that the investment challenge is spreading to more sectors. Globally, trillions of dollars, pounds and euros will need to be pumped into many different sectors to retool the entire economy for Net Zero. It is vital that this is done at the lowest cost of capital possible, given the capital intensive nature of the investments. This is why there has been so much interest in the CfD and its applicability beyond the power sector.

In our engagement with developers and investors, it is clear that they value the stability of the CfD in terms of price and risk allocation. It is also clear that they value the stability of the regime over the past eight years and of LCCC as a counterparty. Similar models are now being developed for other sectors including CCUS and hydrogen, technologies that can both benefit from the support that the CfD can bring to mobilise private sector investment. Through risk sharing between the public and private sectors, the economy can benefit from a significant reduction in the cost of the Net Zero transition. It's a mission I am passionate about and I am glad to see the model moving to implementation in new sectors.

Delivery excellence leads to more delivery
Over the year, a key theme has been the movement from discussing how new schemes should operate to working out how they will be delivered and gearing up for this task. LCCC is only able to do this due to the strong foundation laid down by delivering our core CfD business consistently and well.

As with last year, we have worked through the challenges of a global pandemic and I am proud of how the team has continued to perform, predominantly working remotely. That said, we have moved to a new office during the year and instituted hybrid working as the 'new normal', seeking to get the best of both office and home working.

The challenges of this year have been much more to do with the economic fallout of COVID-19, which saw inflationary pressures in the economy, including the energy market. The war in Ukraine has further added to the pressure in the power and gas sectors. The team at LCCC has been agile in responding to these challenges. In Q3 2021, we moved the Interim Levy Rate (ILR) we charge electricity suppliers to zero when it was clear that the generator portfolio would be making net payments to LCCC for the first time. These funds flow back to electricity suppliers in our quarterly reconciliation processes. In parallel, we worked with Ofgem to reflect the flows of funds from generators to suppliers in the price cap setting process. While consumers are impacted by the increased tariff prices, the fixed price nature of the CfD provides a hedge for electricity suppliers, taking some of the upward pressure off tariffs. We look forward to the portfolio expanding further with low-cost, low-carbon projects driving benefits for consumers.

Chief Executive's statement

(Continued)

With no CfD Allocation Round this year, the CfD portfolio has remained at 15.3GW of 'generic' CfDs, increasing to 18.6GW when Hinkley Point C is included. We enabled two projects to commence generation during the year, bringing total CfD output to 22.12TWh in 2021/22, enough generation to power Scotland in 2021. The year also saw 16 contracts from AR3, representing 5.5GW of capacity, achieve their Milestone Requirement; these projects will deliver a significant tranche of the low-carbon generation that the UK needs on its path to Net Zero. We anticipate that AR4 will support as much capacity as the first three competitive allocation rounds put together, massively growing the number of projects and the total size of the capacity supported.

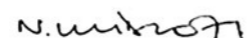
Sound finances

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 £9.8m (2020/21: £15.1m), compared to the pre-approved budget of £20.7m (2020/21: £17.5m). There are three contributing factors which have resulted in a lower net operating expenditure than originally budgeted for. Firstly, actual electricity demand has been higher than expected; secondly a legal case was settled and the income has been recognised in the financial year 21/22 (see Note 6); and finally, LCCC has been able to meet its commitments whilst being under budget.

Working closely with BEIS, we have set out our growth plans in a three-year business plan, which was the basis for setting operational levy rates for the

whole of this period. I am happy to say that the new rates have been set in regulation and hence LCCC can finance the growth expected in our existing core business. We have also secured grant funding from Government for the coming three years to implement the new schemes that we expect to deliver.

In all, we plan to more than double our headcount in this period, a challenge we can only meet if we continue to be an attractive place to work. LCCC will be central to the UK's Net Zero mission and we know this is a key part of the attraction for many of our employees. It is a journey that we are eager to continue.



Neil McDermott
Chief Executive



OUR VISION

Our vision is to accelerate the delivery of Net Zero.

OUR MISSION

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

LCCC'S GUIDING PRINCIPLE

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

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

Strategic Report



Strategic Report

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

- **Counterparty to Contracts for Difference (CfDs)**, responsible for managing agreements with low-carbon electricity generators under the CfD scheme, forecasting and collecting the Supplier Obligation Levy that funds CfD payments, and settling and clearing the CfDs³;
- **Capacity Market Settlement Body**, responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as: credit cover; meter assurance; penalties; and payments to Capacity Providers. LCCC delivers these functions on behalf of its sister company, the Electricity Settlements Company Ltd (ESC).

In October 2021, LCCC was confirmed by the Government as the scheme counterparty to the Dispatchable Power Agreement (DPA) for Carbon Capture, Use and Storage (CCUS). Also, on 31 March 2022, LCCC was confirmed⁴ as the revenue collection counterparty for the nuclear Regulated Asset Base (RAB) funding model. LCCC also anticipates being confirmed by BEIS as the scheme counterparty for Industrial Carbon Capture (ICC) in the near future.

Our role in accelerating the delivery of Net Zero

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

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

- To ensure that we are always able to make payments to CfD generators, we forecast and collect in advance the CfD Supplier Obligation Levy, which we then use to **settle and clear the CfDs**.
- To increase industry knowledge and build investor confidence in CfDs, we **provide information about the scheme and how it is performing** to the market.

- We carry out **Capacity Market settlement** functions on behalf of our sister company, ESC, via a cost-sharing arrangement. ESC's role in the Capacity Market is detailed in the ESC Annual Report.

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

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

4. <https://bills.parliament.uk/bills/3057/publications>

Key outcomes in 2021/22

Table 1: Key scheme outcomes 2021/22⁵

Scheme	Outcomes	Total payments made under scheme	Total annual net costs to consumers (including operational cost levies)	Operational costs as a percentage of gross cash flow with generators
CfD	22.12TWh of low carbon power produced. Approximately 6.3m tonnes equivalent of avoided CO ₂ ⁶	£689.9m (Total payment) £419.1m (Total receipts from generators) £1,109.0m (Gross cash flow)	£280.6m	0.9%
Capacity Market	Availability payments made to 22.0GW of capacity for Delivery Year 2020/21 and 48.4GW for Delivery Year 2021/22	£522.9m (for Delivery Year 2020/21) ⁷ £333.4m (for Delivery Year 2021/22) ⁷	£863.2m	0.8%

The percentage shown for the CfD scheme was historically based on payments to generators. However, this year we have seen cash flow both ways due to high market prices and so we have expressed operational costs as a percentage of total gross cash flow to and from generators.



5. Figures may not reconcile due to rounding.

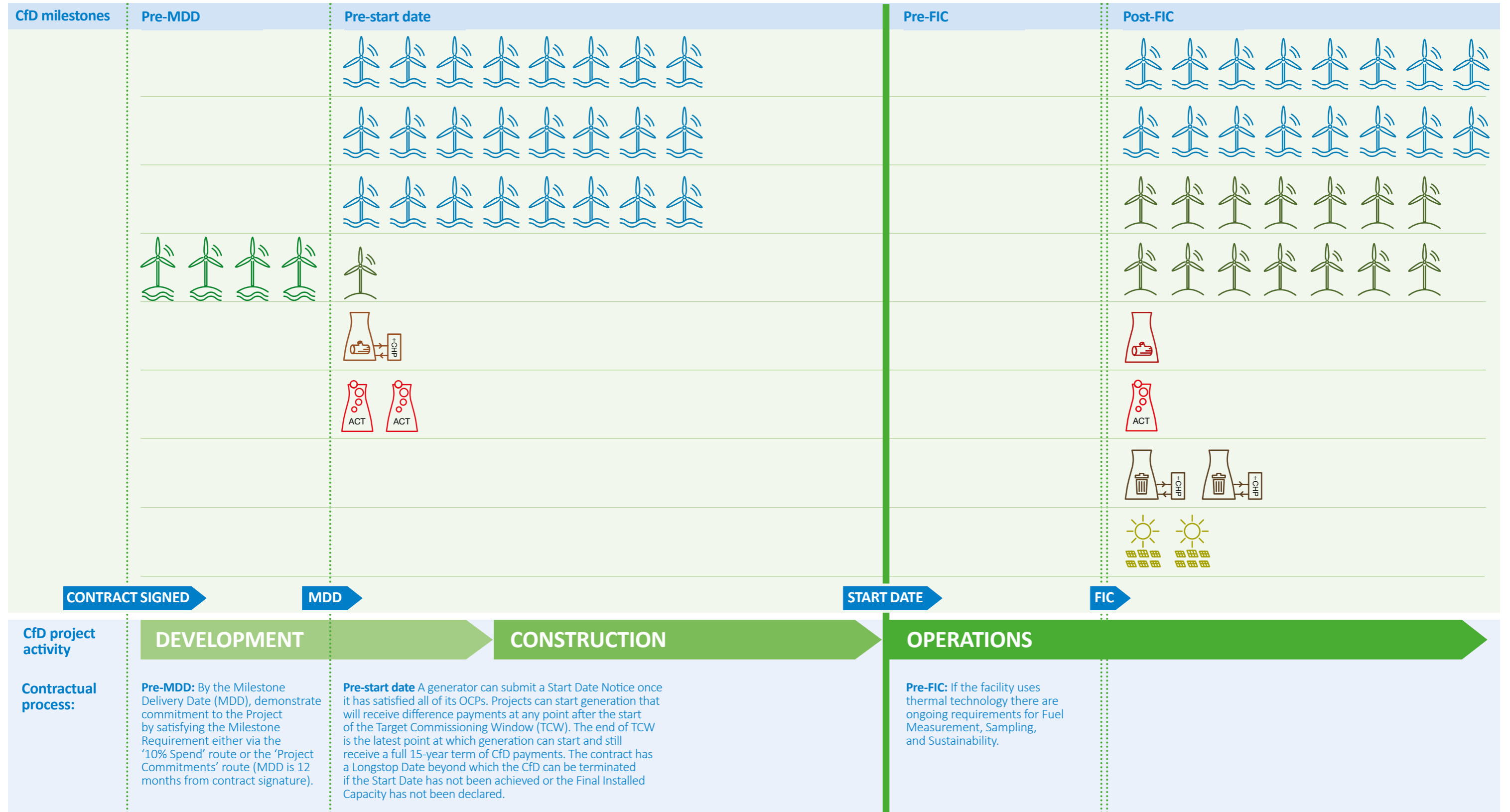
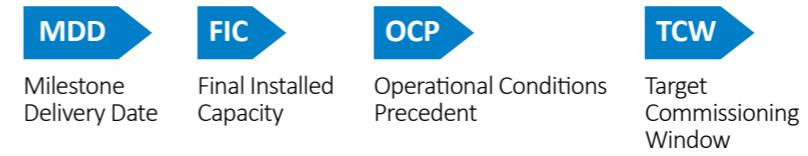
6. GHG avoided from the CfD portfolio which are calculated using the actual CfD generation and BEIS annual generation based long-run marginal emissions factors – <https://www.lowcarboncontracts.uk/data-portal/dataset/actual-cfd-generation-and-avoided-ghg-emissions>

7. A Capacity Market Delivery Year runs from 1 October to 30 September the following year.

Portfolio view

Progress of CfD generators as of 31 March 2022⁸

Key contractual definitions



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



Performance against strategy

The CfD and the CM schemes have delivered successfully over the last year as we continued to deal with the impact of the COVID-19 on global economies. The start of 2022 brought light at the end of the tunnel with restrictions from COVID-19 ending; however, with the Russian invasion of Ukraine and rising gas and energy prices, we have been facing different challenges.

Throughout the year, we have continued to work closely with our stakeholders to ensure we are supporting them and minimising impacts on projects. We have seen sixteen projects reach the critical milestone of Milestone Delivery Date (MDD), two projects reach Operational Conditions Precedent (OCP) and three projects reach Final Installed Capacity (FIC).

On a positive note, the LCCC Board approved a new strategy for LCCC for the period 2021-2025, with particular focus on our role in technologies which have not yet been deployed at scale in the UK. LCCC has been named as the

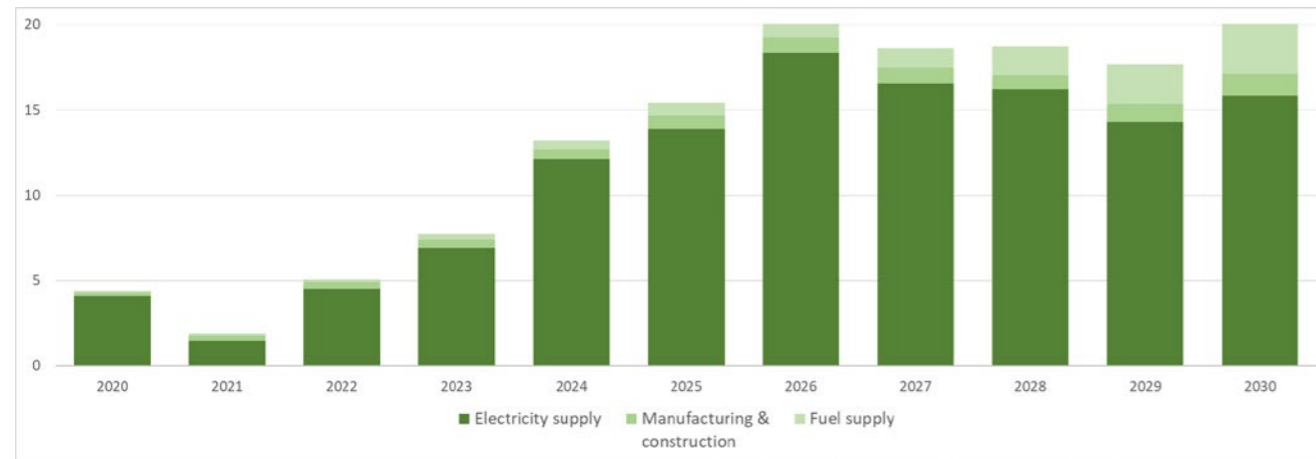
contract counterparty for Power CCUS (Dispatchable Power Agreement). LCCC is also anticipated to be the contract counterparty for Industrial CCUS and will perform financial settlement for new nuclear (Regulated Asset Base). Our growth in these challenging times stems from an underlying confidence in the renewable CfD mechanism, which has demonstrated its resilience over the last year.

A Broader Strategy

With the legislation of the 2050 Net Zero target in 2019 and the subsequent advice from the Climate Change Committee on the sixth carbon budget, covering 2033 to 2037, it is now very clear that decarbonisation must be more wide-ranging and happen faster than was previously envisaged. The sixth carbon budget set an objective of emissions being 78% lower than the 1990 baseline for the budget period, when previously the target for 2050 had been an 80% reduction. The Net Zero target has effectively brought forward that ambition by 15 years.

Given such bold targets, the work of the next 10-15 years is to complete the decarbonisation of the power sector and fully embark on the journey to reduce emissions in other sectors of the economy, such as industry and transport. Given that the challenge of decarbonisation is primarily one of investment in new equipment and processes that do not emit greenhouse gases into the atmosphere, an instrument like the low-carbon contract, that spreads risks across all users and therefore allows access to a larger, lower cost pool of private capital, is an attractive policy. The Climate Change Committee projects total additional capital investment of up to £50bn per year, with the largest investment required in the power sector, but significant amounts also needed in manufacturing and construction, and fuel supply (see below).

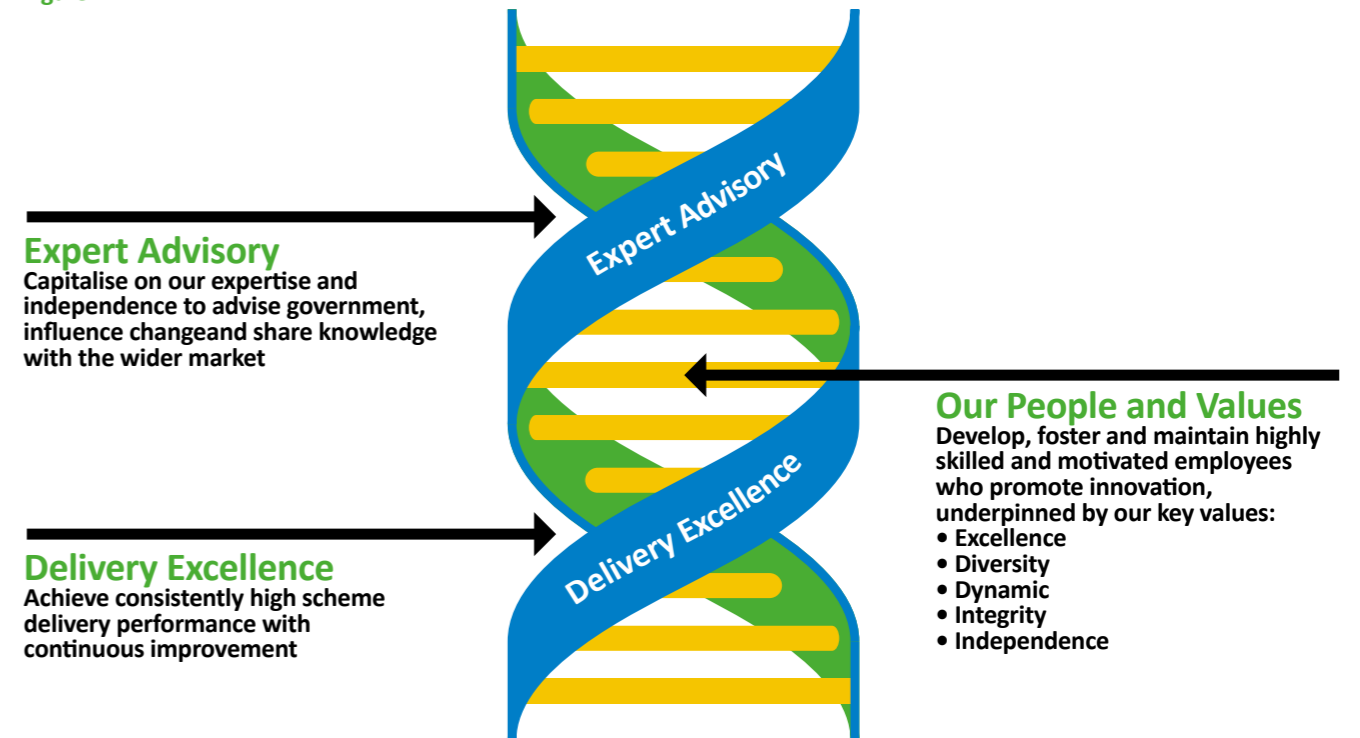
Figure 1: Projected annual capital investment in selected sectors up to 2030 (£bn) required to deliver the Climate Change Committee's 'balanced pathway' to Net Zero (Source: The Sixth Carbon Budget – The UK's path to Net Zero, Climate Change Committee, December 2020)



Our previous strategy has positioned the company for growth by organising around an integrated business model to deliver the CfD and CM. This integrated model should be able to deliver further schemes in new sectors as Government legislates for them, with benefits in terms of the economies of scale that come from spreading fixed costs over a larger number of activities. The five years covered by our new strategy will see the organisation move to deliver a series of activities, both within and outside the power sector, that are key to the Government's decarbonisation agenda.

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

Figure 2: The LCCC 'DNA'



A new vision and mission

Given the Net Zero imperative and LCCC's experience in facilitating investment through the use of Low Carbon Contracts, new vision and mission statements have been created to guide the organisation over the next five years.

Our vision is:

TO ACCELERATE THE DELIVERY OF NET ZERO

This statement reflects the need for a step change in the pace of delivery to meet the commitment to Net Zero emissions in 2050. The most important difference to our previous vision is that it expands beyond the electricity sector, so that it encompasses both our existing CfD and CM work (and the significant acceleration in progress there) and new activity.

It will also be within the skills and experience of the organisation and the people within it.

We can add value from our unique place in the energy ecosystem: we should be able to bring forward solutions based on our individual knowledge and collective experience that can aid the societal mission.

This is a wider vision of all parts of society contributing to accelerated delivery, with LCCC contributing where we can. Our involvement will be within the parameters set for us by Government in our Framework Document, which clearly sets out what we are expected and able to do.

Our Mission is:

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

This form of words recognises our role in bringing forward investment, as a robust and operationally independent counterparty, and our strengths in managing schemes intended to do this. It also acknowledges that we are using the skills and experience gained in electricity to help shape new schemes outside the power sector, where such instruments are appropriate. The last phrase, about cost to the consumer, acknowledges the importance of delivering outcomes that lower the cost of the transition for everyone.

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

Performance against Strategy

Our key strategic objectives against which our progress is measured are highlighted in the figure below.

Figure 3: Our three strategic objectives



Medium-term targets are defined for each of these Objectives, for the first three years of the strategic period – up to the end of 2023/24.

FOLLOWING THE CHALLENGES OF OPERATING UNDER LOCKDOWN RESTRICTIONS DURING THE YEAR, LCCC WAS ABLE TO RECOMMENCE SITE VISITS WHEN THE RESTRICTIONS WERE EASED.



Our key achievements

in 2021/22

Delivering excellence



EXCELLENT SCHEME DELIVERY



CFD MANAGEMENT



SITE VISITS ARE BACK



CHARITY FARM SOLAR VISIT



COMBINED HEAT AND POWER



NANCLACH WIND FARM



SOLWAYBANK WIND FARM



CHANGE DELIVERY



OPEN DATA

Our key achievements

(Continued)

Excellent Scheme Delivery

The CfD scheme is designed to provide generators with price certainty over the lifetime of the contract by providing to or taking from the generator the difference payment between a reference price and a strike price. CfD generators have, to date, received top-up payments to the strike price set for the low-carbon electricity they generate. This has had a huge impact on diversifying and increasing investment in renewable power since 2014, as the CfD has helped to stabilise what generators earn, whilst auctions for the contracts have brought down the cost of this power for consumers.

However, the scheme is designed to work two ways, with CfD generators paying money back when market prices rise beyond their strike price. The CfD therefore not only gives confidence to investors but also acts as a hedge for consumers, as we have seen in the current market.

This year, for the first time since its inception, generators were paying back to suppliers under the CfD contract. Our Forecasting Team has worked hard to respond to fast moving changes in the electricity market.

While still operating under COVID-19 restrictions, the priority was to continue supporting our stakeholders on both the CfD and CM schemes through our events, bulletins and 1-2-1 engagement. The Board approved the five-year strategy focusing on the forward look on generating low-carbon energy not just under the existing CfD contracts but using this as a mechanism in technologies which have not yet deployed at scale in the UK, such as Industrial and Power CCUS. The business has been working on implementing this strategy following the announcement by the Government naming LCCC as the contract counterparty for Power CCUS.

As the year came to an end, LCCC Teams continued to work on challenges impacting generators, suppliers and consumers as energy prices rose to an all-time high. Events in Ukraine have further impacted the markets. In these unprecedented times, LCCC has continued to work with developers to bring projects online, showing flexibility where necessary.

CfD Management

We have seen the CfD scheme continue to demonstrate how resilient and flexible it is. We have seen two new projects reach their operational milestone.

As of 31 March 2022, the total installed capacity commissioned under the CfD scheme was 6.0GW – almost a third of the current total contracted pipeline. New projects joining the operational category contributed to the combined low-carbon electrical output growing over the year to 22.12TWh from the CfD portfolio, enough to power Scotland in 2021. Page 14 depicts the status of CfD projects as of 31 March 2022. As well as projects commencing operations, progress in 2021/22 included:

- Walney Extension offshore wind farm Phase 2 achieved FIC;
- Triton Knoll Phase 1 and 2 offshore wind farm achieved Start Date;
- Allocation Round 3 projects achieved their Milestone Delivery Date – 16 CfD contracts (5.5GW, 95% of total allocated capacity); and
- LCCC accrued payments from generators of £419.1m, the first time since the scheme started that sustained generator payments had been experienced.

An important part of our role is to manage extension-of-time claims applicable to CfD Milestones; either in relation to force majeure (FM) events or any failure to carry out grid reinforcement or connection works specified in the construction agreement and attributable to the facility. From the start of COVID-19, our team received 14 claims related to FM events, many of which were driven by COVID-19, and we invested appropriate time and resources to reach optimal solutions with contracting generators. At the beginning of this financial year, we had seven of those claims left to close, either by agreeing related closure terms with our CfD counterparty, or by progressing internally for approval. We are pleased to report that only two claims needed extensions of time, which shows the resilience of the sector, while we reached amicable closure terms on the remaining 12 with our CfD counterparties.

In addition to our day-to-day contract management responsibilities, building and sustaining long-term contractual relationships with our CfD counterparties remains a key focus for us. We recognise that we need to continue engaging our stakeholders to help implement positive change, regardless of what stage a project is in its lifecycle, to enable us to achieve our common goals. We therefore created a new stakeholder engagement process to seek feedback via multiple communication channels, targeting relevant organisation levels, to identify improvement opportunities and implement these (with assistance from our partners), as exemplified below:

- Worked with BEIS to modify the CfD, allowing more time for generators to submit evidence for ICP and MDD Milestones;
- Overhauled our Know Your Customer (KYC) financial due diligence process to create efficiencies on the obligations placed on generators;

- Deployed and developed technology-specific training to improve our capability as an intelligent customer and readiness for Allocation Round 4 (AR4);
- Updated the Wind Commissioning Guidance and Operation Conditions Precedent (OCP) Metering and Settlement (G21) to reduce unnecessary documentation, refocus the scope of requirements, streamline associated processes and be clearer in our expectations of evidence;
- Created new interfaces between generators and our Policy and Advisory team; and
- Introduced generator suggestions on Merchant Capacity and Storage Co-location solutions, sometimes in the form of contract variations, to enable improved levels of low-carbon generation whilst operating within our regulatory framework.

Our relationship with Hinkley Point C, one of the UK's largest infrastructure projects, has continued to evolve, with the monitoring and reporting framework established in 2018/19 remaining effective in providing timely and current information to Government stakeholders regarding progress. Last year saw Hinkley Point C achieving another major milestone: the 250m tall "Big Carl" crane (the world's largest crane) lifted a 170-tonne prefabricated part of the Unit 2 reactor's steel containment liner into place. Despite the positive progress, the challenges related to the scale, complexity and nature of Hinkley Point C should not be underestimated.



In January 2021, EDF SA announced that the Commercial Operation Date of Unit 1 is now expected in June 2026 (formerly December 2025) and the previously disclosed risk of a 15-month delay to the Commercial Operation Date of Unit 1 still remains. In addition, we are continuing to work with the project to understand the impact of COVID-19 on timelines and the extent of any contractual relief that may be applicable.

The LCCC Scheme Delivery team published guidance on storage co-location which highlights the flexibility of CfD contract. This milestone demonstrated how the flexibility of the private law contract structure allowed the intent of a policy to be delivered, even where the letter of the policy was different. In this case, we are allowing co-located storage without it having to be a separate Balancing Market Unit (BMU), even though that is the stated policy, through working with generators to ensure suitable, and less onerous, metering arrangements.

Allocation Round 4

The fourth CfD auction opened in December 2021, allowing solar and onshore wind projects to bid via a Pot 1 auction, a separate pot for offshore wind, and budget minima for floating offshore wind and tidal energy in Pot 2. The process for the auction is underway with the results to be announced in summer 2022.

The Delivery partners (BEIS, National Grid ESO, LCCC and Ofgem) continue to work closely to communicate with auction participants through the dedicated portal⁸.

In February 2022, the Government announced that CfD auctions will take place annually, starting with Allocation Round 5 in 2023⁹. This decision to move to annual auctions came after the outcome of an internal review on the frequency of CfD auctions, which the Government agreed to undertake in the Net Zero Strategy¹⁰.

POSITIVE CHANGE

We recognise that we need to continue engaging our stakeholders to help implement positive change

8. www.cfdallocationround.uk.

9. Ministerial statement – questions-statements.parliament.uk/written-statements/detail/2022-02-09/hcws600 Press release – www.gov.uk/government/news/government-hits-accelerator-on-low-cost-renewable-power

10. www.gov.uk/government/publications/net-zero-strategy

POWERING 25 MILLION
HOMES WITH LOW
CARBON ENERGY



OUR PEOPLE ARE AT THE HEART OF DELIVERING OUR OBJECTIVES



SOLWAYBANK ONSHORE WIND FARM
15 VESTAS 2MW TURBINES INSTALLED
CAPACITY OF 30MW

In the same month, Kevin Mettam, Matthew Bunn and Christopher Jones visited Solwaybank wind farm, located in Dumfries and Galloway, Scotland. The wind farm is owned by The Renewables Infrastructure Group Limited (TRIG) and

operated and managed by Renewable Energy Systems (RES). It comprises 15, Vestas 2MW turbines (V100 model) with an overall installed capacity of 30MW. It was a fantastic opportunity for the contract managers to see the project

on a typical business-as-usual day of operations. It was particularly satisfying for them to see this project in action, having worked with the generator through its commissioning-related CfD Milestones in late 2020.



Our key achievements

(Continued)

Site visits are back

Following the challenges of operating under lockdown restrictions during the year, LCCC was able to recommence site visits when the restrictions were eased. Site visits provide a great opportunity to better understand different types of technologies and discuss challenges our operational projects are facing. The purpose of these site visits has always been to learn and make improvements to the generators' CfD journey on a day-to-day basis. In this, they have been invaluable. As part of the process, we covered many technologies including solar, onshore wind and biomass.

Enfinium Kemsley combined heat and power facility

In October 2021, Contract Managers Stuart Finn, Alex Houston and Manmeet Badh visited the enfinium Kemsley combined heat and power facility, which is located in Kent. The facility converts up to 657,000 tonnes a year of residual waste into electricity (45MW at peak under the Contract for Difference or CfD) and steam (exported to the adjacent DS Smith papermill). This "co-generation" ensures the facility is much more efficient than a traditional waste to energy facility and so qualifies for a CfD, whereas waste to energy alone does not.

Those on the visit were particularly impressed by the scale of the operation, and how a feedstock containing bulky items can all be processed, ensuring an 80% reduction in material which might otherwise have ended up as landfill. Another feature which impressed was the tight control of flue gas; operation within the safe predetermined limits was closely monitored and ensured.

Nanclach onshore wind farm

In March 2022, Christopher Jones, Claudia Swallow and Manmeet Badh visited Nanclach wind farm located 15 miles southeast of Inverness. The project consists of 13x3.45MW Vestas turbines with a total export capacity of 40MW, supplying enough clean energy to power 42,000 households. The project is currently owned by Greencoat UK Wind with a stake of 75%.

As seen from the pictures it was a windy day with some sunshine. For nature lovers and keen bird watchers, it was a great day driving in the Scottish Highlands.

Enfinium Kemsley combined heat and power facility



Nanclach onshore wind farm



CHARITY FARM SOLAR VISIT

- 54,000 SOLAR PANELS
- 12MW ELECTRICITY
- INSTALLED CAPACITY OF 30MW

In October 2021, Contract Managers Stuart Finn and Manmeet Badh visited the Charity Farm solar project in the Shropshire countryside. The generator consists of over 54,000 solar panels, enough to generate almost 12MW of electricity for the local distribution system. Originally developed by LightsourceBP, the solar farm is managed by Greencoat Capital, one of Europe's largest renewables investment managers.

The weather on the day was particularly sunny for autumn, ensuring that electricity was being generated at close to full capacity during the visit. The visit also demonstrated just how well the solar farm co-exists with the environment in which it is located; an example of which was the fencing surrounding the high voltage cabling, which enabled livestock to graze elsewhere, under the solar panels.

Our key achievements

(Continued)

Managing the impacts of COVID-19

Organisational Resilience
Following the gradual lifting of restrictions in 2021/22, we continued to adapt and refine our Organisational Resilience. Staff continued to work remotely until September 2021, at which point we moved into our new office and utilised a hybrid working model. Our wider Business Continuity plan was overhauled during the year to align to our changing risk profile, for example, use of a Cloud IT infrastructure and less dependency on a physical site. The assessment of risk now considers cyber-security arrangements, and a testing programme has been developed for our new approach to Organisational Resilience in line with the assessment of current and future risk.

Engaging with our stakeholders

Whilst for most the year events were still online, we were delighted to see many of our stakeholders in person at CoP26. LCCC's CEO, Neil McDermott, and Gordon Edge (Head of Strategy and Corporate Affairs) participated in panel discussions on key topics, such as the use of the CfD to drive investment in electricity and other sectors, as well as attending many other business events and receptions.

We continued with our online webinars informing stakeholders on the quarterly ILR/TRA levy rates, targeted webinars for generators updating them on the CfD scheme and a CfD masterclass providing an introduction on the CfD scheme.

LCCC Teams made the most of attending events such as Solar and Storage Live and speaking about the role of the CfD for solar, leading to further engagement with key stakeholders.

We were delighted to be able to have external stakeholders as part of an industry panel at the LCCC Away Day (SMB, Macquarie, Solar Energy UK & Progressive Energy). It's a great opportunity to learn more about their business and for them to meet LCCC colleagues whom they may not interact with on a day-to-day basis.

Forecasting the CfD levy

2020/21 saw very low market prices brought about by the sharp, COVID-19 driven decline in electricity and gas demand. This, in turn, led to very high CfD payments from suppliers to generators, as well as an interest-free loan from BEIS to LCCC to limit impact on suppliers.

As global vaccination efforts reduced the fatality of COVID-19, societies re-opened more or less in concert in 2021/22. The rebound in demand took energy markets by surprise, leading to gradually rising prices for oil and gas in the first half of the financial year, with a consequent falling of CfD costs.

Towards the end of September, prices started to rise very rapidly on fears that there would be a global gas shortage for the winter, particularly if it were to be a cold winter in Europe as gas storage levels (in terms of % of full) were historically low for the start of winter. Average Day Ahead power prices spiked to over £400/MWh, a new record. This fear of a supply crunch peaked just before Christmas with forward gas prices and power prices setting further new records.

For LCCC, it meant that the amount of payments collected from intermittent generators (largely wind and solar) exceeded the amounts paid to baseload plant (largely biomass conversion and advanced conversion technologies), resulting in a £133.5m negative CfD income for FY Q3 2021/22 (October to December), the first generator receipts quarter in the history of LCCC.

Coming into the new year and the final quarter of the financial year, the supply concerns eased and prices fell back sharply, only to increase again to yet further record highs due to Russia invading Ukraine, potentially reducing or cutting off vital gas flows from Russia to Europe. While month-ahead prices eased a bit back from levels seen at the end of February of over 500p/therm to around 250p/therm (still a record April gas price), the risk of escalation of the ongoing war and potential for interruption remained, leading to the second consecutive quarter of negative CfD costs – a further £137.4m of net income from generators for the quarter.

For LCCC, the forecasting challenges for 2020/21 and 2021/22 may seem very different but have actually been of similar magnitude and nature. Last year, the key risk was sustained low prices, high payments and supplier failures. This year, the high prices and low payments have led to LCCC setting zero ILR rates for four quarters running (FY Q3 2021/22 to FY Q2 2022/23 – October 2021 to September 2022).

Given the time delay for LCCC in raising the ILR, should prices drop sharply, this has led to relatively high Total Reserve Amounts being set, which has been the subject of many discussions with BEIS, Ofgem and some suppliers. LCCC continuously assesses the suitability of regulations and engages with BEIS on potential proposals for improvements (subject to consultation with all relevant stakeholders), with a core aim being to minimise the cost of the CfD schemes to suppliers.

Introducing the LCCC Tech Hub

To enable LCCC to achieve its objectives across existing and new schemes, the Tech Hub team was formed, bringing together technical expertise in IT systems development and data. This concentration of specialism allows us to deepen our expertise in these areas opening up efficiencies and synergies, and promoting delivery excellence as shown in sections below.

Change delivery

Over the course of the year, we delivered 28 system, process and/or service improvement changes. Of these changes, 24 were targeted at improving the overall service delivered through our settlement system, with a mixture of front-end and back-end improvements. The remaining four changes implemented CfD AR4 contract changes relating to negative pricing, as well as some industry code driven changes. In addition, we have supported National Grid software releases through this period.

Regulatory system and process changes

Additional development work on some CfD projects has also led to the need to

create new percentage and volumetric capping functionality applicable to individual meters on a facility.

Industry changes BSC modification P399 has resulted in the need to update some of the data input interfaces to continue to support the CfD and CM schemes.

Service improvements changes

Regarding our CfD service improvements, the risk and control framework used by our settlement service provider, EMRS, has been updated and improved. The underlying hosting infrastructure has been modernised and improved with future resilience in mind. Improvements have been made to the Energy Intensive Industry exemptions processes.

Additionally, a new registration portal has been developed from the ground up, catering for CfD Generators, Electricity Suppliers and Capacity Providers, thus benefiting all users of the CfD and CM schemes – it's called My EMRS. Industry feedback on this new portal has been positive and further improvements are planned in the upcoming year.

Settlement system enhancements

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

Open data

Our stakeholders, particularly suppliers, continue to ask for more data to be provided and in greater granularity.

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

Building on our new Data Portal launched in January 2021, we continue to develop our dashboards, making as much of the data as possible available as downloadable spreadsheets, JavaScript Object Notation (JSON) and Application Programming Interface (API) formats.

This year, we have published an additional 12 data sets, taking the total to 30 on our Data Portal¹¹, split into 5 groups:

- Capacity Market
- CfD Actuals
- CfD Forecasts
- Levy
- CfD Allocation Round

Two new data sets were the CfD ID to Balancing Market Unit (BMU) ID mapping and the daily difference payments by generator (previously this was only published on a generation technology

basis). This significantly increased the transparency of the CfD mechanism, allowing everyone to see exactly how much has been paid to each CfD counterparty since the start of the scheme, which has driven a large share of Freedom of Information (FoI) and Environmental Information Regulation (EIR) requests submitted to LCCC. With the updated information always available on the data portal, the administrative effort of responding to these kinds of requests has been removed.

In the coming year, in line with the Open Data agenda, we are planning to expand the amount of data published further, continuously assessing whether the public benefit of releasing further information outweighs commercial confidentiality concerns. LCCC will engage with stakeholders prior to publishing data and information to discuss any concerns around confidentiality.

The Data Portal remains a good platform on which to continue expanding our data provision, both to meet (and ideally exceed) stakeholder expectations and to drive forward the general "Open Data" agenda by modelling best-in-class data management, including provision.

During 2021, our Data & Analytics team continued to expand their internal capability in preparation for future development needs to ensure high quality and control costs.

Some of these efforts were internal, automating management reporting and supporting the People team by building a bespoke recruitment management and turnover analysis application.

Externally focused developments included:

- Redeveloping the CfD Register in-house, enabling us to move from quarterly to daily updates of the information; and
- A new Generator Portal, initially only to streamline the exchange of information with the large number of prospective AR4 CfD counterparties. However, the functionality of the Generator Portal will be expanded over time, enabling the LCCC to efficiently manage an expected tripling of CfD contracts.

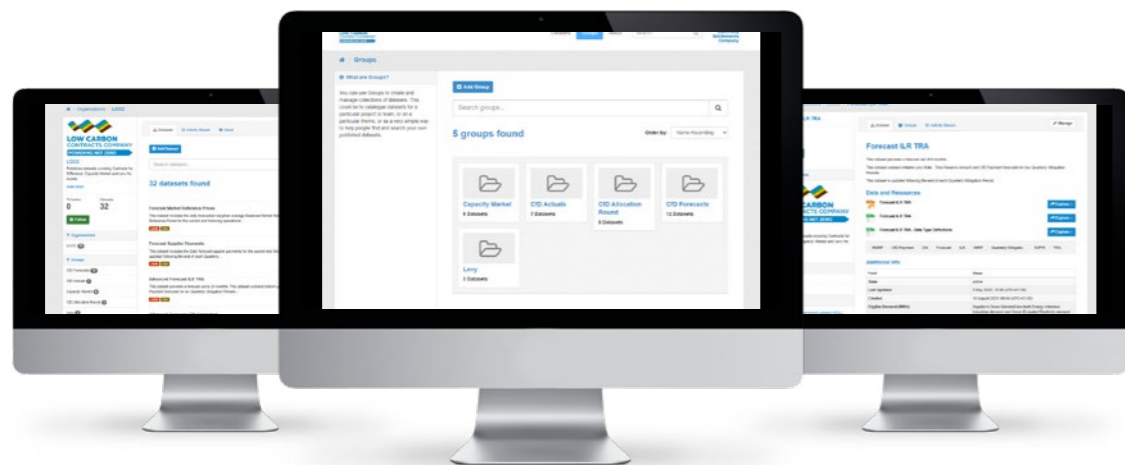
Looking forward to 2022/2023, LCCC will be looking at options to redevelop and improve its forecasting and modelling capabilities to:

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

¹¹. <https://www.lowcarboncontracts.uk/data-portal/>

Our key achievements

(Continued)



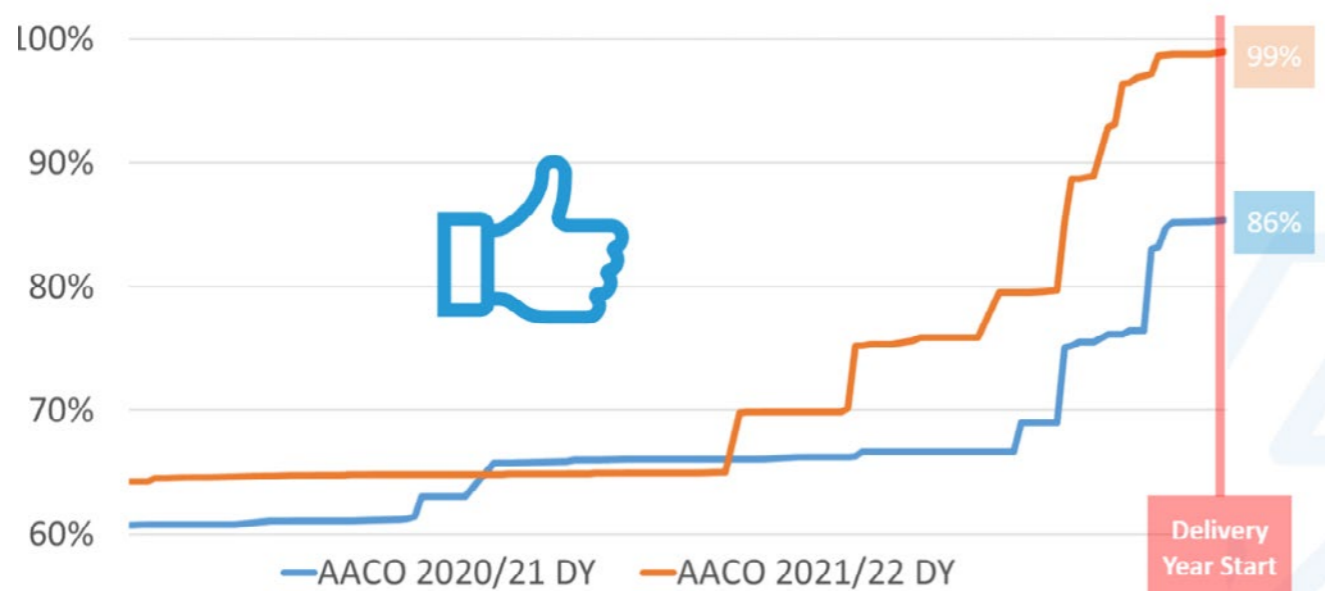
Capacity Market scheme

The Stress Event programme initiated last year highlighted a number of complexities of the system as a whole, which were exacerbated by incomplete knowledge of Capacity Providers. This year, therefore, the focus has shifted to ensuring the data held on the scheme is a proper mirror of reality. A key deliverable was to make delivery of aggregation rules prior to Delivery Year mandatory, leading to increased visibility and operational benefits, with more complete data to work from.

Given the data is now available, we are working towards analysing how we can use this data to inform our stakeholders. A key output has been to automate the Satisfactory Performance Day (SPD) process, which went live in March 2022. This step removed an onerous process for ESC and all Capacity Providers. We look forward to further data-driven improvements, making the system more usable and accessible to all capacity types.

This data utilisation drive will continue into the next year and is highlighted in more detail in the ESC Annual Report.

Figure 4: Percentage of Capacity Providers submitting aggregation rule data in 2021/22 compared to 2020/21



Advisory services

Our expanded role in Net Zero

In addition to three exciting new delivery roles, LCCC has also continued to support government's wider Net Zero agenda. The most notable work in this area has been LCCC's advice to BEIS as part of its consideration and development of the low-carbon hydrogen business model. Additionally, we have continued to advise BEIS on the design of the Power CCUS and Industrial CCUS private law contracts, ahead of LCCC's confirmed contract counterparty role for Power CCUS and anticipated role (subject to successful completion of administrative and legislative arrangements) for Industrial CCUSs for both of these new schemes.

Low-carbon hydrogen business model

BEIS recently confirmed¹² that a private law contract like the CfD will be the basis of support for low-carbon hydrogen producers across the UK. This business model is likely to support a range of production pathways including electrolytic and CCUS-enabled hydrogen and able to facilitate hydrogen use in a broad range of sectors. Producers will need to meet a UK Low Carbon Hydrogen Standard to qualify for support.

Whilst using many features of the current CfD, there will be a number of unique aspects to reflect the different challenges of a nascent hydrogen market, like a producer volume support mechanism.

LCCC has used its experience of the CfD and other recent new schemes like the Dispatchable Power Agreement (DPA) to advise BEIS on its development of the new contract, with a particular emphasis on the potential implications of implementing the proposals.

Move to annual CfD Auctions

Following the announcement by the Secretary of State in February 2022¹³ to move to annual CfD auctions from March 2023, LCCC has been supporting BEIS by undertaking external stakeholder engagement with GB trade associations. The aim of this has been to gather feedback on how to implement an annual CfD auction process, streamlining and simplifying processes so that they can be delivered on a 12-month cycle.

Nuclear Regulated Asset Base (RAB)

The Nuclear Energy (Financing) Bill obtained Royal Assent on 31 March 2022, and LCCC is fully expected to be the settlement agent for the new nuclear RAB scheme established under this law, subject to the passage of secondary legislation. In the run-up to this legislation being sent to Parliament, LCCC had been involved in advising on the legal set-up and implementation requirements for managing a RAB-based payment scheme, building on our experience of levying funds from suppliers to pay for the CfD and CM. This advice should ensure that the system can be delivered smoothly alongside our existing schemes.



12. <https://www.gov.uk/government/consultations/design-of-a-business-model-for-low-carbon-hydrogen>

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

Implementing New Schemes

The success of the CfD as a mechanism for driving the UK's Net Zero ambitions means its use is expanding beyond renewable and other low-carbon electricity. LCCC's established expertise has resulted in BEIS allocating counterparty and settlement roles to us for new schemes focusing on CCUS for generators and emitters. These are the Dispatchable Power Agreement (DPA) and, subject to the successful completion of administrative and legislative arrangements, Industrial CCUS.

The DPA has been developed by BEIS to incentivise private sector investment into mid-merit order Combined Cycle Gas Turbines that can combine this conventional gas generation technology with industrial scale Carbon Capture plants to trap the CO₂ normally emitted during this process. The DPA is based upon the Allocation Round 4 CfD, and will form the contractual relationship between generators and LCCC that will govern the financial subsidies offered.

The planned Industrial Carbon Capture (ICC) Agreement seeks to incentivise a range of energy intensive industries involved in industrial processes such as cement, steel, and chemical manufacturing to deploy Carbon Capture Plants that will sequester their waste CO₂ emissions. The ICC Agreement is also based upon the CfD, with important differences, and will form the contractual relationship between emitters and LCCC.

We have also supported, and will continue to support, development and implementation of these schemes through advisory work to BEIS.

Furthermore, we have been allocated the potential role of settlement agent for the Nuclear RAB model. In October 2021, BEIS laid in Parliament the Nuclear Energy (Financing) Bill, within which LCCC is envisaged to be the settlement agent for the Nuclear RAB model. This Bill obtained Royal Assent on 31 March 2022, so now the BEIS Secretary of State can formally designate LCCC as the settlement agent. This model is expected to attract private finance to nuclear projects and also drive down financing costs, which are a major component of

nuclear projects, hence reducing costs paid by suppliers and ultimately consumers. Under this new scheme, Ofgem is expected to act as an economic regulator and there will be an interface between LCCC and Ofgem to share information related to the project so that LCCC can perform the settlements with suppliers and make the corresponding payments to the generator.

Over the past 12 months we have been establishing a strong base for successful delivery of, and effective operation in, these additional areas over the coming years. This is an exciting time for us as an organisation, with LCCC poised for rapid growth. Our planning principles centre on driving efficiency and resilience across schemes.



CONTRACT SUCCESS

The success of the CfD as a mechanism for driving the UK's Net Zero ambitions means its use is expanding beyond renewable and other low-carbon electricity.

Our people

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

Attraction and retention

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

Our default position is to fill role vacancies internally where possible, and in 2021/22, 32% of 57 role vacancies were filled internally.

Apprenticeship Scheme

Following the success of our Apprenticeship Scheme last year, which placed three apprentices in our business, we have continued with our commitment to developing young people and growing the skills we need for the future by expanding the scheme to all functions within the business. This aligns with our talent attraction strategy of creating more space for junior talent and developing frameworks that will accelerate learning for early-career colleagues so they can build their industry knowledge and skills.

Rewarding our people

Innovation runs through the DNA of LCCC and we encourage our people to contribute new ideas and solutions for continuous improvement, and to enhance our Expert Advisory status both internally and externally. Throughout 2021/22, we have recognised and celebrated those employees who have innovated across the company and effectively demonstrated our values by way of our monthly All Staff meetings and annual values recognition awards.

This year, we continued with our internal change programme to build an agile and dynamic organisation that will effectively position the business and help us respond to our stakeholders in a rapidly changing environment now and in the future. This included introducing a number of demonstrator projects as a means to drive pace in the way we work. This has given us a great base from which to continue growing and to make our vision of accelerating the delivery of Net Zero a reality.

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.

Figure 5: LCCC vacancies filled 2021/22



Our people

(Continued)

Our workforce

Our highly skilled workforce is one of our key strengths and we want LCCC to be a place where people feel engaged and inspired to be the best they can be. Our values sit at the heart of this to enable a culture that will deliver against our strategic objectives. During 2021/22, we employed an average of 82 permanent employees and 10 fixed term employees. With continued growth of our business operations, we have filled 57 vacancies this year, which includes 12 internal promotions. We also enabled four internal secondments and two internal transfers.

Employee engagement

Our most recent staff engagement survey, 'Your Voice Powers our Future', was conducted in February 2022 and had an extremely high response rate of 99%, similar to last year. With an overall engagement score of 78%, the survey results show that we have successfully maintained our positive culture, and that we have made meaningful gains in key areas employees said were important in the previous survey.

Our employees continue to recognise that LCCC is a good place to work: 89% said they are proud to work for LCCC, 75% said that our Senior Leadership Team make the effort to listen to staff and 84% feel enabled to manage their health and wellbeing at LCCC. About 80% of our people would recommend LCCC to friends and family as a good place to work, 93% of our colleagues care about the future of LCCC and 75% believe we are doing the right thing in order to deliver our Expert Advisory, Delivery Excellence and Powering Net Zero agenda. Our engagement levels are largely driven by our positive and collaborative culture, as well as our collective role in supporting the UK Government's Net Zero ambitions.

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

The survey results have provided useful insights to help LCCC both build on its areas of strength and be responsive to suggestions for improvement. The Board reviews the results of the annual employee survey. Actions will be implemented throughout 2022 by senior leadership and our engagement champions and we will continue to monitor progress throughout this year.

Investing in our people – LCCC, a learning organisation

We empower our people to develop themselves and their teams, providing tools to drive career development and growth. As a learning organisation, we support staff in developing their skills and capabilities. In our recent engagement survey, 75% of employees agreed they have the opportunity to take part in the training and development they need to do their job.

In 2021-22, we built upon our new learning and development curriculum, continuing to upskill our people and give them the business and industry sector skills they need. We have sponsored 30 professional qualifications in 2021-22, we have continued to use LinkedIn Learning as a source of knowledge and have seen a significant increase in this mode of learning, with 1,310 learning videos viewed. In total, in 2021-22, LCCC staff attended 527 days of learning.

Adapting our working model in the midst of COVID-19

2021/22 continued to be a challenging year for the business, as we continued to operate in COVID-19 and subsequent restrictions. The health, safety and wellbeing of all our employees and their families continued to be our priority and we closely monitored the ongoing wellness of our employees.

We have continued to monitor morale and wellbeing through a number of initiatives such as monthly wellbeing polls via Slido, a weekly social gathering (Helen's Pub) and mental health awareness campaigns. Over the past year, our employees' wellbeing remained high. On average, 70% of employees said their wellbeing was good and 88% said they felt supported by our organisation during the pandemic. In January 2022, we doubled our efforts and implemented a series of activities for our annual wellbeing month including yoga classes, an online comedy night and a company-wide wellbeing day, all of which were very well received by our people.

In September 2021, in the midst of COVID-19, we completed our relocation from Fleetbank House to our brand new office in Canary Wharf. The project began in 2019, and experienced several delays due to COVID-19 restrictions in place at the time. Our Project team, made up of colleagues from across our business, spared no effort to ensure our transition to the new office was as smooth as possible.

COVID-19 accelerated our plans for introducing additional flexibility in the way we work. We developed and implemented our new Smarter Working Policy following the successful transition of the organisation to remote working due to the pandemic, and in readiness for our return to office working. In 2021, we successfully adopted our new hybrid working model, with colleagues now working from home up to three days a week. 73% of our employees agree that our new hybrid working approach balances the needs of employees and the organisation.

Equity, Diversity and Inclusion (EDI)

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

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

We are committed to helping everyone be at their best by creating a sense of belonging and valuing the individuality and uniqueness of colleagues. We want our people to feel they can be themselves at work. This year we have striven to create a more diverse and inclusive culture by defining what inclusive leadership means at LCCC, and rolling out inclusive culture training across the business with a focus on bias, equality and fairness to demonstrate the business benefits of EDI. In our 2022 engagement survey, 78% of our people agree they belong at LCCC and 76% agree that they can be themselves at work.

As at 31 March 2022, we have 24 different nationalities represented by our employees, and an even wider range of backgrounds, skills and experience, all of which provide a lively and diverse environment for our staff to work within. Approximately 38% of staff are from a black or minority ethnic group (BME); approximately 39% of our staff are female and 50% of our Senior Leadership Team are female. Currently, 50% of our Board members are women. We are not complacent, however, and we continue to work hard to attract and maintain diversity and inclusion in our business.

Figure 6: Our Learning and Development Strategy



Figure 7: LCCC gender split 2021/22

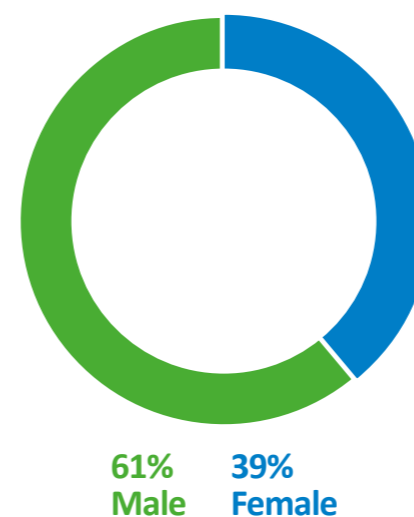
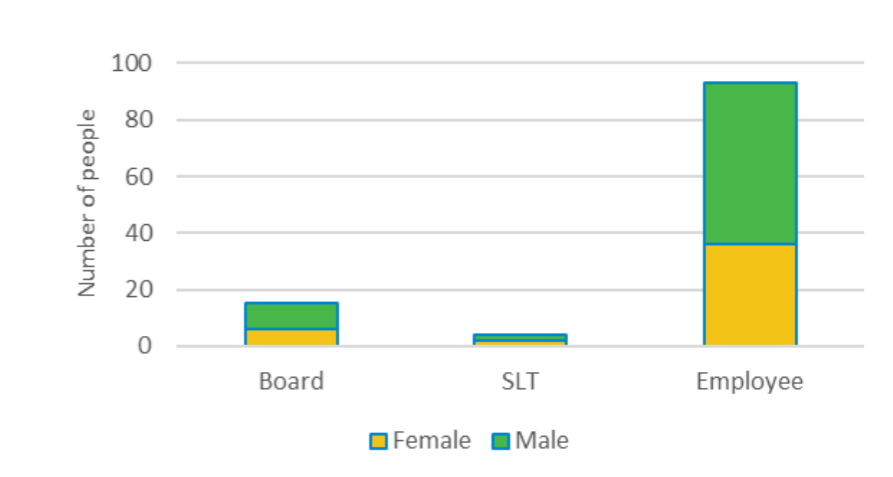


Figure 8: LCCC gender split – all levels



Our people

(Continued)

Gender and Ethnicity Pay Reporting

We are committed to improving the gender and ethnicity balance across our business and continue to report on our gender and ethnicity pay practice in support of and in line with UK government reporting requirements that look at the differences in hourly pay between men and women and between BME and white employees. LCCC only has a very small average employee population of 82, while the requirement for compulsory reporting starts at 250 employees. Overall employee diversity is good, with 47% of staff (44 employees) representing 24 non-British nationalities.

Gender pay gap 2021/22

The mean headline gender pay gap for 2021 is 16.2% in favour of males which is an increase of 1.4% on LCCC's 2020 mean gender pay gap. The median pay gap of 15.4% has decreased from 16.8% in 2020/21 (-1.4%). Gender distribution remains very close to 2020/21, as we continue to employ more males than females (an overall split of 66%/34% in 2021) and this is most pronounced in the upper middle and upper pay quartiles. The national median gender pay gap is 15.4% in favour of men and LCCC's median gender pay gap aligns with this figure. The other pay quartiles show a

more balanced picture with most quartiles recording a pay gap of less than 5%, and the median pay gap in the lower quartile reporting a pay gap of 8% in favour of females. Our pay gap of less than 5% indicates that pay between men and women within each quartile is equitable. Given LCCC's size, small variations in staff make-up have a big impact on the data.

Ethnicity pay gap 2020/21

The mean ethnicity pay gap is 23% in favour of white employees which equates to white employees earning, on average, £8.13 per hour more than minority ethnicity employees. The median ethnicity pay gap is 7% in favour of white employees. There continues to be greater representation of minority ethnicity employees at the upper middle and lower quartiles accounting for 79% of all minority ethnicity employees.

We continue to develop talent strategies within the business to ensure we create a truly diverse talent pipeline at all levels of the organisation. We are also communicating the business benefits of EDI through company-wide diversity and inclusion training and programmes.

Figure 9: Overall Gender gap – Hourly Pay

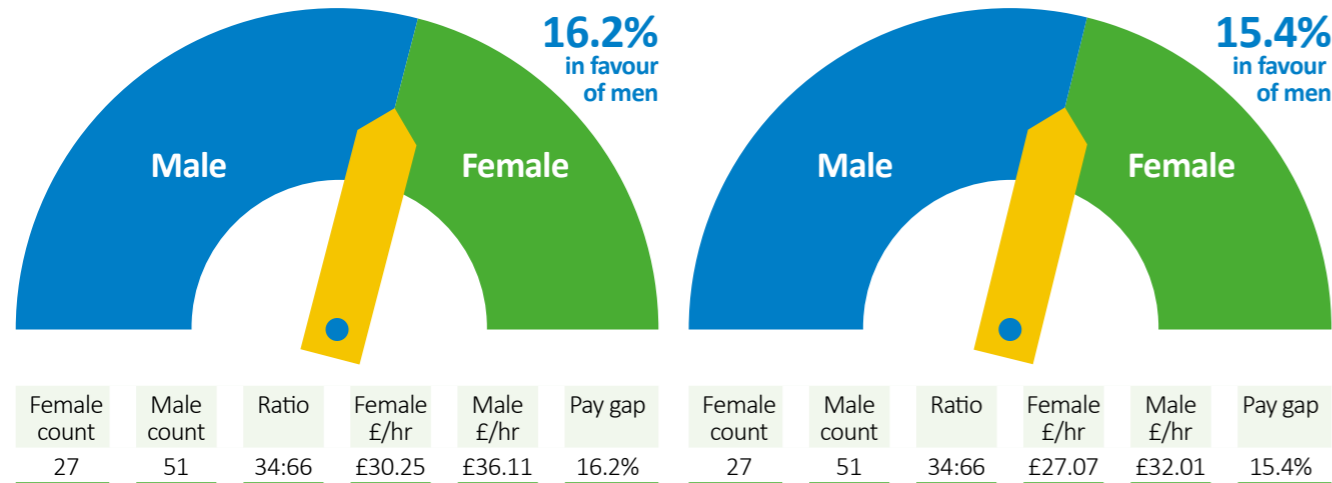
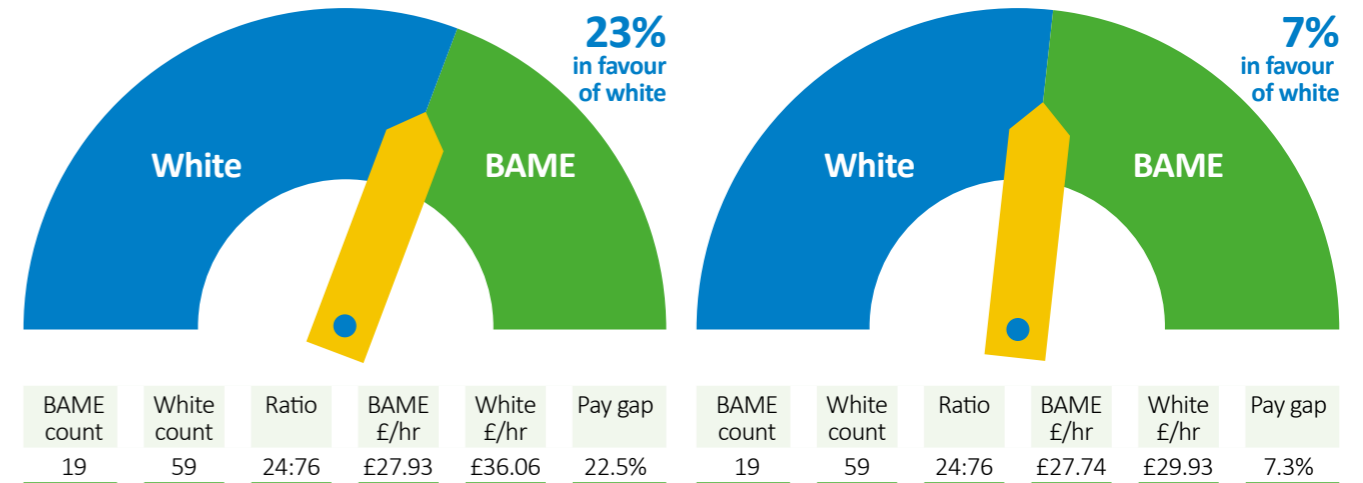


Figure 11: Overall Ethnicity gap – Hourly Pay



Corporate Social Responsibility

We are committed to having a positive impact in the communities where we work and live. Through our company volunteering scheme, we continue to encourage staff to use their volunteering time to support a charity or community group of their own choice, or to take up an opportunity to support our charity partner, Renewable World.

In 2021/22, two of our colleagues volunteered their time and offered pro bono work with Renewable World, helping to develop their human resources and communications systems. We invited their representatives for a virtual Lunch & Learn, where they presented the challenges faced during

COVID-19, as well as their plans for the future. We also raised £1,000 in support of the charity's work by taking part in their annual cycling event, Earth, Wind and Tyre, and through laptop sales. We are proud of our collective achievement and support to Renewable World, which works tirelessly to tackle energy poverty, promote sustainable development, and protect the environment.

This year we also supported a number of other not-for-profit organisations via smaller initiatives, such as raising £600 for the Salvation Army in Poplar, as part of their annual Christmas Present Appeal, raising awareness of the situation of women in Afghanistan with Women for Afghanistan, and collecting much needed items for Solace, a London charity supporting victims of domestic violence.

Performance Overview

Key Performance Indicators (KPIs)

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

- Value for Money: budget management, adjusted CfD cost variance to forecast, change cost management and efficiency.
- Stakeholders: performance against an index derived from results of our annual stakeholder survey.
- Operations: delivery of LCCC’s contract management obligations (including management of non-standard requests), accuracy and timeliness of CfD and Capacity Market settlement invoices and notifications, and time management of internal change projects.
- People: staff engagement, as evidenced by annual survey.

We have delivered on our strategic initiatives over the last three years, which has been part of our performance assessment. In 2021/22 we worked on three areas:

- Business Agility (capability assessment, workforce plan, agile culture internal engagement plan, develop agile ways of working)
- Readiness for new roles (new schemes operating model, new schemes programme /change process review, develop non-electricity capability, stakeholder engagement plan for new areas, advisory service model)
- Resilience of CfD and CM (future of supplier levy, CfD and CM efficiency and participant journey, CfD accessibility and flexibility, SOFM Review)

Performance against KPIs

The performance of LCCC against the metrics described above is summarised in the table 2 below.

Figure 13: Performance against KPIs

Strategy dimension	Performance measures	Score against target
Value for Money	• Operating costs actuals variance to first forecast of the financial year (excl. disputes and Demand contingencies, and adjusted by events beyond company control).	■
	• CfD costs forecast variance.	■
	• % of change projects with budget variance against forecast <10% (for internal projects >£50,000 and all EMRS change projects).	■
	• Savings against 2020/21 IT costs, and professional and legal fees (excl. disputes).	■
Stakeholders	• Stakeholder satisfaction index.	■
Operations	• % of LCCC’s (response) notices for standard contractual processes delivered within the contractual timescales.	■
	• % of LCCC’s responses for non-standard requests from CfD generators delivered as per “case manager” agreed plan, unless delays are due to actions or omissions of the generator or any other third parties.	■
	• % of LCCC’s AR4 deadlines met (M&N process, contract signing, and ICPS).	■
	• Settlements effectiveness index.	■
	• % of change projects/initiatives delivered within 10% of planned completion date and external spend against PID baseline.	■
	• % employees engaged as per annual staff survey.	■
Development	• Business agility.	■
	• Resilience of CfD and CM.	■
	• Preparing for new roles.	■

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 net payments made by the company to CfD Generators for electricity generated in the 2021/22 financial year was £270.8m (2020/21: £2,277.4m). As the market price exceeded some strike prices this financial year, the total amount of receipts received from the CfD Generators in the 2021/22 financial year was £419.1m (2020/21: nil).

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” (ILR) 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 ILR. This amount is invoiced each working day and must be paid by the suppliers within five working days of receipt of an invoice. The company, on the other hand, has 28 calendar days to make the payments due to generators (thereby providing a positive cashflow due to timing). The company can also issue an “in-period adjustment” notice requiring additional funding if it becomes clear that the amount to be collected under the ILR is likely to be insufficient (or to reduce the amount of the ILR if it is clear that there will be an over-collection).

In addition to the ILR, 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 (TRA) 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. In the current environment where generators are paying LCCC, the TRA has a slightly different role, mainly protecting LCCC in case prices collapse unexpectedly.

At the end of each quarter the company calculates the difference between the total net payment to generators and the total amount collected from suppliers under each of the ILR and the TRA. It then returns any ‘excess’ collected to suppliers or, in the case of the ILR, requests additional funds if the payment made to the generators in the quarter is higher than the ILR collected. As at 31 March 2022, £210.2m was payable to suppliers (2020/21: £2.0m receivable) as part of the quarterly reconciliation. TRA due to be returned to suppliers is £303.4m (2020/21: £127.3m). Subsequent to the financial year ended 31 March 2022, the unutilised TRA and the Supplier Obligation Levy payable will be reconciled based on the cash payments received from the generators in the next quarter.

During the previous year BEIS provided the company with a loan totalling £75.1m to provide short-term deferral of additional Supplier Obligation Levy costs to electricity suppliers which arose as a result of COVID-19. The company fully repaid the loan in the current year, following receipt of cleared funds from the electricity suppliers in respect of the first reconciliation exercise carried out relating to 2021/22.

The company collects credit cover from suppliers for 21 days of ILR payments to protect against supplier default. As at 31 March 2022, the company held £14.7m (2020/21: £36.7m) of credit cover.

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

Operational costs

The day-to-day operational costs of the company are funded by suppliers under the “operational costs levy” set out in the Supplier Obligation Regulations. The Supplier Obligation Regulations are amended by Parliament, after public consultation, to update the operational costs levy rate applicable to the relevant financial year. The operational costs levy for 2021/22 was set in the Supplier Obligation Regulations at £0.0760/MWh (which represented an expected budget for operational costs of £20.7m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2022/23 has been set at £0.0879/MWh (which represents an expected budget for operational costs of £24.2m). The operational costs levy rate has been set for a further two years.

Financial Overview

(Continued)

Figure 14: Delivery Years, budgets, and levy rate

Year	Budget (£m)	Forecast of eligible electricity demand (TWh)	Levy rate (£/MWh)
2021/22	20.736	271.84	0.0760
2022/23	24.210	275.38	0.0879
2023/24	26.978	271.46	0.0994
2024/25	29.051	266.87	0.1089

The total operational cost levy collected depends on the actual volume of gross electricity demand. The amount collected for 2021/22 was £21m (2020/21: £16.6m). This compares with a net operating cost of £9.8m (2020/21: £15.1m). As a result of operational costs being lower than budget and higher operational cost levy collected, £11.2m of the total operational costs levy is being refunded to suppliers (2020/21: £1.5m).

The company applies robust financial management to ensure that its commitments are managed within both its budgeted levels of spend and the timing of the collection of its operational costs levy. The amount collected under the levy this year was greater than in 2020/21 as demand bounced back from the lows of the first lockdowns, which led to additional surplus.

At the same time, there has also been a contribution this year to the company's lower cost base from the company not needing to utilise its budgeted MWh electricity volume contingency of £1.5m. 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.

Also making a significant difference to our operation cost was the effect of legal disputes, where our need to draw on the contingency which we hold for this purpose was significantly reduced and, conversely, we received a payment in settlement of a dispute which materially contributed to our income (see Note 6 to the financial statements below (page 92)).

The company shares resources with ESC, such as office accommodation, which are paid for by the company, with the proportion of the costs relating to the Capacity Market being recharged to ESC as further set out in note 2.5 to the financial statements.

Significant accounting matters and key judgements in the financial statements

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

Valuation of CfDs (excluding Hinkley Point C)

The estimated discounted value of payments which the company may be required to pay out over the life of the standard (normally 15 year) CfDs is £36.2bn. The figure for 2020/21 was £36.9bn. The increase is primarily due to a reduction in the discount rate used for valuation purposes in line with updated guidance from HM Treasury. The actual cash payments made to generators over the life of the contracts will vary, depending on various key matters, such as projected wholesale

electricity prices, commissioning dates for generation and the average load factor for each generator. Further details relating to the treatment of the valuation of CfDs are set out in note 19 of the financial statements.

Valuation of Hinkley Point C CfD

The company entered into the Hinkley Point C CfD on 29 September 2016. This project has a maximum lifetime generation cap of 910TWh. The duration of Hinkley Point C's CfD is, at 35 years, more than double the length of other CfDs (15 years) entered into by the company. Since recognition of the CfD in the 2019/20 financial statements, when management first considered the criteria for recognition had been met, third party forecasts have been used as reference to support the reasonableness of the

internally generated price series derived from the DDM forecast. In the current year, as a result of the reasonableness of the underlying assumptions of the forecast, management deem the valuation of the Hinkley Point C CfD as a reliable estimate.

The estimated discounted value of payments which the company may be required to pay out over the life of the contract is £61.4bn. The figure for 2020/21 was £52.0bn. This increase is primarily due to the aforementioned reduction in discount rate in line with HM Treasury guidance, offset by updated wholesale electricity price forecasts and the removal of BSUoS charges from generators.

Financial Overview

(Continued)

Viability statement

The Directors have assessed the viability and prospects of the company over the next three years. In doing so the Directors have undertaken a robust assessment of the company's current position, the emerging and principal risks faced by it and the potential impact of these risks on the future prospects and development of the company (including those that would threaten the company's business model, future performance, solvency or liquidity). The Directors consider the company to be viable for at least three years up to March 2025.

The operational costs levy is set for the next three years (to March 2025). A three-year budget (2022/23, 2023/24 and 2024/25) has been publicly consulted on and came into full legal effect (The Electricity Supplier Payment (Amendment) Regulations 2022) on 1 April 2022.¹⁴

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

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

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

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

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

Risk Management

Risks affecting the delivery of our objectives

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

LCCC's risk management framework has continued to develop in 2021/22, with Strategic Risk workshops held during July 2021 to undertake a 'blank page' review of the strategic risks facing LCCC. This was partly done as a periodic refresh, but also to reflect the embedding of our strategy

and growth ambitions – this has significantly changed our risk landscape. A more concise Strategic Risk Register was developed, which now has more direct alignment to our strategy and to operational risk registers. This also involved resetting our risk appetite in relation to these areas and the identification of thematic actions across different risks.

At operational level, risk management is undergoing further review, with a refresh of operational registers and further development of an enterprise risk approach, including clear escalation points and operational interdependencies. A quarterly review of operational risk is conducted alongside performance reporting and as part of the Heads of Teams forum. Risk appetite is now a more active measure as we seek to differentiate between the risks and opportunities in how we deliver our strategy.

The company's approach to risk management is further detailed in the Corporate Governance Report on page 60. The assessment of the company's most significant principal risks.


Strategic Risks

Our overall risk landscape continued to evolve in 2021/22, particularly given the changes in the wider energy market and our growth strategy. Our refreshed Strategic Risk Register reflects changes in how some of these risks are managed, as well as further emphasis on opportunities and efficiencies. We have also been mindful of external risks, with a view of assessing how we can improve our visibility on risk areas that we are unable to directly manage. We have also been reviewing how we can develop new areas of business and how we manage the associated risks/opportunities. A summary of key risk activity and movement since March 2021 is provided below; where appropriate, a risk trend is provided, although due to the refresh of the Strategic Risk Register, the wording of these risks has changed in most cases. Further mitigations are in progress to ensure risks are managed in line with risk appetite, with target scores and timescales captured in the assessment of the risk.

14. www.legislation.gov.uk/uk/si/2022/401/pdfs/uk/si_20220401_en.pdf

Risk Management

(Continued)


RISK	SUMMARY	RISK TREND (SINCE MARCH 2021)
<p>Stakeholder Reputation Our stakeholders may lose confidence in our ability to deliver existing work or to take on new schemes. We may also miss opportunities to enhance our reputation with stakeholders. We may not be able to effectively maintain/demonstrate our operational independence due to taking on new areas of work.</p>	<ul style="list-style-type: none"> This risk was reviewed as part of the Strategic Risk workshop, with a new assessment of impact and likelihood. There has also been a general increase in the risk due to the activities in new schemes and the wider geopolitical situation. The Director of Strategy left during the financial year. While recruitment is ongoing, this has affected our overall capacity for stakeholder engagement. This area of risk also reflects the opportunities that are inherent in how we manage our stakeholder reputation. For example, we will face increased reputational risk as we commit to new areas of work, although effective delivery will potentially enhance our overall reputation and improve confidence. 	
<p>Funding Our funding arrangements may restrict us in terms of how we operate. This could affect our ability to effectively deliver new schemes and reduce our flexibility as an organisation. There may be issues with the sustainability of our funding approach in the longer term.</p>	<ul style="list-style-type: none"> This was a newly identified risk from the Strategic Risk refresh, reflecting the potential risk of restrictions on how funding is used, particularly in terms of scheme management. This also brings in a longer-term focus on how schemes will be funded in the future, linking closely to the new Institutional Landscape risk. As per the previous risk, there are inherent opportunities within this risk area too, linked to how we are structured and how we manage our funding to pursue longer-term objectives. 	<p>NEW RISK IN 2021/22</p>

RISK	SUMMARY	RISK TREND (SINCE MARCH 2021)
<p>Institutional Landscape There may be wider changes in LCCC's role, resulting from changes in political prioritisation (eg outcomes of the HMT Net Zero review), as well as positive or negative impacts from the wider macro-economic situation. There is a risk that LCCC's operating model (eg CfDs) is not perceived to be viable in the longer term. This may present a risk to our core objectives but may also present opportunities for how we support Net Zero.</p>	<ul style="list-style-type: none"> This was a newly identified risk from the Strategic Risk refresh, reflecting on our wider institutional landscape, our strategy, and our ambitions. We completed an external review of, and held a Board session on, this area and how this interacts with the organisational strategy. We will review our institutional landscape on an annual basis to continue to assess risks and opportunities. There is a degree of scalability associated with this area in terms of what new schemes are managed, balanced against the delivery of existing schemes. During a year, there has been an upturn in risk likelihood due to the medium to long-term impact of external geopolitical activity. 	<p>NEW RISK IN 2021/22</p>
<p>External Market We are unable to anticipate and respond effectively to the competition, the complexity and volume of change in the market. There is wider structural market change (eg market consolidation, merchant capacity in renewables) that provides us with opportunities.</p>	<ul style="list-style-type: none"> There have been significant challenges within the energy sector in 2021/22, particularly in terms of market price increases and the recent impact of geopolitical activity. We have continued to work closely with stakeholders to manage the impacts, as well as understanding how this affects our existing internal activities (eg settlements). This has resulted in an increase in the overall risk environment. We have also continued to engage strategically with our existing stakeholders to explore and manage change to the CfD and Capacity Market, as well as being responsive to wider market change. Internally, we have further developed our Insights programme driven by our Policy and Advisory team, aimed at influencing public debate and our positioning as key advisors on CCUS. 	

Risk Management

(Continued)

RISK	SUMMARY	RISK TREND (SINCE MARCH 2021)
<p>Organisational Model We do not adopt the right organisational structure and culture to effectively deliver our new strategy, including the balance of existing work and new business development.</p>	<ul style="list-style-type: none"> This was a newly identified risk from the Strategic Risk refresh, reflecting the evolution of our company and ensuring we are effectively structured to deliver both new and existing schemes. It reflects both a risk and opportunity to the company. During 2021/22, we continued to recruit for new roles and re-arranged some existing structures to align business activities more closely. This also links closely to the People risk, recognising the dependency between how we manage change and our retention rates. There is likely to be ongoing work to the organisational model alongside the strategy, with a focus on ensuring that we maintain employee engagement. 	<p>NEW RISK IN 2021/22</p>
<p>Scheme Management and Delivery We are unable to effectively deliver our obligations on existing schemes due to growing complexity of the schemes and our stakeholder interactions.</p> <p>We do not have adequate systems or processes in place to effectively deliver new schemes.</p>	<ul style="list-style-type: none"> This risk was refreshed during 2021/22 to focus on our wider scheme management and delivery, rather than just the CfDs, as per the previous risk. This reflects the changes in volume on our existing schemes as we prepare for further CfD Allocation Rounds, as well as the potential for additional complexities within the Capacity Market. This also encompasses wider risks of scheme fraud and error. We also need to effectively implement new schemes, ensuring we have the right systems and processes in place. During 2021/22, a programme has been established, with workshops held to map out the risks and opportunities. 	<p>NEW RISK IN 2021/22</p>

RISK	SUMMARY	RISK TREND (SINCE MARCH 2021)
<p>Settlements Our business model, systems architecture, and controls may not be fit for future, resulting in inefficiencies and late/missed delivery of change. We are not effectively aligned with our external stakeholders to deliver an efficient and cost-effective settlements process.</p>	<ul style="list-style-type: none"> While this risk has had a moderate increase following the Strategic Risk refresh, it has remained a relatively stable risk overall. There are significant strategic and financial implications for the company if this risk was to materialise. Effective management of this risk is also dependent on inputs from different external stakeholders. During 2021/22, we have completed a review of the longer-term options for settlements, as well as the implementation of a Joint Assurance Framework with external bodies to provide a wider view of scheme risk. 	
<p>People We do not have the sufficient capacity and/or capability to deliver our strategy. We also may miss opportunities due to delays in obtaining the right skills.</p> <p>We may also fail to sufficiently engage existing staff within the context of business change, resulting in a potential loss of skills and knowledge.</p>	<ul style="list-style-type: none"> This risk relates to ensuring we have the right capacity and capabilities in the organisation to continue to deliver on existing commitments, as well as for new schemes. During 2021/22, two Directors left the organisation, increasing the pressures on overall capacity at a strategic level; recruitment to these posts has been ongoing. We have also focused on developing our wider recruitment approach and managing retention challenges against a backdrop of difficult market conditions (e.g. higher market movement post-COVID-19). Further work has been undertaken on our Business Agility initiative, focusing on culture and engagement, as well as translating to how these principles can be applied across operational delivery. Overall risk has increased from last year due to the vacancies at Director level, increased staff turnover, and the need to continue to grow the organisation over the next three years. 	

Risk Management

(Continued)

RISK

Cyber and Information Security

We are subject to a cyber-security incident, resulting in potential disruption to business operations, data loss, financial loss and reputational damage.

There is a cyber-security incident at a key stakeholder or within our supply chain, resulting in loss of our data, our wider reputation or confidence in the schemes.

SUMMARY

- Following an Internal Audit review of the area in early 2021/22, a plan of action was agreed to continue development of our cyber-security capability. This has included the implementation of programmes to monitor internal and external threats, as well as risks, within our supply chain.
- Overall risk has decreased since last year, reflecting the work undertaken. However, given wider geopolitical risks at present, there is an increased likelihood of external cyber-attacks. These are under continuous monitoring.

RISK TREND (SINCE MARCH 2021)



Effectiveness of our risk management and internal controls

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

This provided an overall Moderate assurance. Key areas reviewed in 2021/22 include:

- Joint Assurance Framework (with EMRS and National Grid ESO)
- Data Publication Controls
- Budgetary Management
- Settlement Change Management
- Change Management
- External Engagement

Of particular note in this year's plan was the Joint Assurance Framework review. We led this review across LCCC/ESC and two other key stakeholders in the Capacity Market: National Grid ESO and EMRS. The purpose was to identify all areas of cross-cutting risk in managing the Capacity Market – particularly in relation to data transfer points – and the degree of assurance in place on how risks were effectively mitigated/tolerated. The output of this exercise was the development of an overall Capacity Market Assurance Map and Risk Register, alongside a tailored action plan to improve outcomes in the scheme. This has facilitated closer working relationships on risk areas and has helped to develop a template for future cross-scheme risk management.

Alongside the core assurance reviews, there was also significant advisory input during the year. This reflected the changes to the work environment alongside a programme of internal change. Areas of advisory work included the office move, managing residual COVID-19-related impacts, assessing stakeholder risk, and our business agility project. Improvement actions were highlighted within individual reviews and positive assurances were provided across key business activities. Follow-up of previous actions raised also noted a continued positive trend towards improving timeliness of responses and the consideration of risk exposure by the business, indicating an improvement in risk maturity. Towards the end of the year a number of Sanctions against Russian and Belarus people and companies were introduced. LCCC's Anti-financial Crime Policy & Standards was reviewed earlier in the year to include a broader list of crimes leading to a more robust KYC process and dashboard reporting, which provided swift reassurance that no direct or ultimate beneficiary owners of CfDs were affected.

Signed on behalf of the Board

Neil McDermott

Chief Executive Officer
13 June 2022

Environment report

Environment report

(Continued)

LCCC is in the seventh year of capturing and reporting the carbon emissions from its activities and operations. It remains committed to minimising the environmental impact of its operations, increasing its resilience to climate change, and reporting transparently on its sustainability performance. LCCC utilises Market Based and Location Methodology in calculating Green House Gas (GHG) emissions.

LCCC staff moved to working from home as a result of COVID-19 and resulting lockdowns. In 2021/22, the 82 staff continued to work from home until regulations lifted when they moved to hybrid working patterns. In the summer of 2021, LCCC moved from its home at Fleetbank House to its new home at 10 South Colonnade.

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

The table below shows a breakdown of emissions, by scope and activity, for the 2021/22 reporting year. The emissions are compared against the previous financial year (2020/21) and also against the 2017/18 reporting year which is used as a baseline to benchmark sustainability performance according to emissions over time.

Figure 15: Breakdown of emissions, by scope and activity, for the 2021/22

Greenhouse gas emissions (Total tCO ₂ e)	2017/18 Apr – Mar ¹⁴	2018/19 Apr – Mar ¹⁵	2019/20 Apr – Mar ¹⁶	2020/21 Apr – Mar ¹⁷	2021/22 Apr – Mar ¹⁸	% change against 2020/21	% change against 2017/18
Scope 1: direct emissions	35.78	28.33	40.08	2.36	1.38	-45%	-96%
Scope 2: indirect emissions	89.45	70.41	62.67	27.88	22.69	-19%	-75%
Total Scope 1 & 2 emissions	125.23	98.74	102.75	30.38	24.07	-21%	-81%
Scope 3: other indirect emissions – Water, Waste Water and Waste	1.56	2.20	1.00	0.28	0.21	-25%	-87%
Scope 3: other indirect emissions – Travel	Data not recorded	0.04	0.04	Nil data	0.20	N/A	N/A
Scope 3: Homeworking emissions	Data not recorded	Data not recorded	Data not recorded	62.38	38.47	-38%	N/A
Scope 3: Videoconferencing emissions	Data not recorded	Data not recorded	Data not recorded	16.00	10.54	-34%	N/A
Total Scope 3: building emissions	1.56	2.20	1.00	0.28	0.21	-25%	-87%
Total Scope 3: other ¹⁴ emissions	Data not recorded	0.04	0.04	78.38	49.21	-37%	N/A
Total Scope 1, 2 & 3 emissions	126.55	100.98	103.79	109.04	73.49	-33%	-42%

Total emissions for the financial year 2021/22 were 33% less than the previous year and 42% less than the baseline financial year 2017/18.

Scope 1 emissions from the use of gas in office buildings were 45% less in 2021/22 than the previous year and 96% less than the baseline year. Scope 2 emissions from the use of electricity in office buildings

were 19% less than the previous year and 75% less than the baseline. This decrease is a result of moving to 10 South Colonnade. LCCC's new location is a more efficient building that uses a lot less energy. Use of gas is limited to water heating, rather than space heating, and the electricity used in this new location is from 100% renewable sources.

Scope 3 building emissions are 25% less than the previous year despite increased use of the office building as COVID-19 restrictions lifted. There are several factors influencing this, including a significant reduction in water usage since moving to 10SC.

Relocation

On 23 July 2021, LCCC moved out of Fleetbank House and from 1 August 2021 moved to its offices in 10 South Colonnade. LCCC staff were all working from home during this time so the gap between the two locations was not an issue.

LCCC was conscious of minimising the environmental impact of its relocation and sought opportunities to reduce waste and reduce the amount of items being moved to the new location or put into storage. Limiting items needing to be moved or stored resulted in a considerable reduction in vehicle emissions due to transportation.

Redundant IT was collected by a specialist partner for reuse where possible and to be recycled if not, ensuring no items went to landfill. Fifteen cupboards were taken to 1 Victoria Street for reuse. The rest of the furniture was sold with 10% of the sale proceeds going to charity. These initiatives not only prevented waste but also delivered social value both to staff and the community.

LCCC's new office location, 10 South Colonnade, is a newer and more efficient building than our previous home of Fleetbank House. The building is better insulated, has more efficient space and water heating and has sensor taps, reducing water usage. The building has a green roof which helps regulate temperature, manage rain water and improve air quality. There are also plans to add solar panels to the roof which will generate power for heating, cooling and lighting the building.

In the new location, energy, waste and water are apportioned by floor area (square metres). LCCC remains committed to working with and encouraging landlords to implement sub-metering to all floors in the building in order to obtain more accurate consumption data.

Travel

COVID-19 restrictions and LCCC policy limiting staff travel resulted in limited scope 3 emissions from travel during 2021/22.

LCCC's Travel Policy prioritises minimising environmental impact by promoting public transport, requiring taxis and flying to be avoided wherever possible, and offering sustainable travel incentives. Having all become adept at online meetings and conferences during the past two years, LCCC's Travel Policy is in the process of being updated to reflect the increased use of MS Teams. Post-COVID-19, it is anticipated that business travel in general will be significantly less than before the pandemic.

Home Working and Digital Communications

From April 2021, LCCC's 82 members of staff worked from home. On 4 October they returned to the office on a hybrid basis of two days a week in the office and three days at home until 2 December, when lockdown forced everyone to return to full time home working. On 7 February 2022 LCCC's staff returned to the office, continuing to use the hybrid working model as before. The table below shows the homeworking emissions from office electrical equipment and winter heating using the EcoAct¹⁹ base case methodology and internal FTE and working hours data. Summer cooling has not been included: although it is not known if any employees have air conditioning at home; as it is relatively uncommon in the UK, it is assumed that they do not.

Figure 16: Home working and Digital Communications

	kWh p.a.	tCO ₂ e p.a.
Office equipment	8,926.0	2.08
Heating energy	197,916.0	36.39

14. Estimated data – Scope 3 February–March

15. Estimated data – Scope 1 March, Scope 2 March, Scope 3 February–March (excluding travel)

16. Revised data

17. Estimated data February to March

18. Estimated data February to March. As reported in our former Annual Reports, data from previous years has been revisited where data has become available and to also improve the forecast estimates where data is missing. This may have resulted in changes to the original published data.

19. Source methodology and assumptions: EcoAct Homeworking emissions whitepaper. As reported in our former Annual Reports, data from previous years has been revisited where data has become available and to also improve the forecast estimates where data is missing. This may have resulted in changes to the original published data.

Environment report

(Continued)

Despite the importance of using digital technologies to reduce travel and therefore limit emissions, LCCC recognises that its use of online platforms and data generates its own indirect emissions. This is the second year that LCCC has included emissions from videoconferencing in its scope 3 reporting, acknowledging the importance of including all emissions as a result of our operations. These emissions have been calculated using Microsoft Teams data²⁰ and an independent 2020 study²¹. Due to hybrid working rather than full working from home, video conferencing emissions were 34% less than the previous year.

The Paperless Office

During Q1 of 2021/22, LCCC undertook a paper reduction exercise, transitioning to a paperless organisation. Only essential hard copy contracts and records were kept, so this exercise also resulted in less items needing to be moved when we relocated offices. LCCC is transitioning to DocuSign where all our contracts will be issued online, both eliminating paper and saving time, and staff are encouraged to choose digital rather than printed options wherever possible. The combination of working from home and hybrid working throughout 21/22 has meant many staff do not have the means or the use for printing and this has proven an opportunity to break the habit of printing by default.

20. Estimation methodology: Monthly averages determined by available MS Teams data – from August 2020 to date (February 2021). As reported in our former Annual Reports, data from previous years has been revisited where data has become available and to also improve the forecast estimates where data is missing. This may have resulted in changes to the original published data.

21. Carbon emissions factor – 150gCO₂e/hr Zoom use: Researchers from Purdue University, Yale University and the Massachusetts Institute of Technology (2020)

Board of Directors

This was the Board as at 10 June 2022, with the changes during the year shown on page 61.



Regina Finn
Board Chair

Nomination Committee (Chair)
Remuneration Committee (member)



Neil McDermott
Chief Executive Officer



George Pitt
Chief Financial Officer



Amanda Aldridge
Non-Executive Director

Audit, Risk & Assurance Committee (Chair)



Declan Burke
Non-Executive Director

Remuneration Committee (member)



Steph Hurst
Non-Executive Director

Audit, Risk & Assurance Committee (member)



Helen Lamprell
Non-Executive Director

Remuneration Committee (member)



Maxine Mayhew
Senior Independent Director

Nomination Committee (member)



Gerard McIlroy
Non-Executive Director

Audit, Risk & Assurance Committee (member)



Chris Murray
Non-Executive Director

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

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

Directors' report

The Directors present their Annual Report on the affairs of the company, together with the financial statements and Auditors' Report for the year ended 31 March 2022. 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 57 and page 61.

Directors and corporate governance

Full details of the Directors and corporate governance matters are set out on pages 56 to 69.

Position of the company

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

Employees

The company recognises that the commitment of its highly skilled and experienced workforce is key to the efficient and effective delivery of the company's functions and the achievement of its strategic objectives. Further information is set out in the Strategic Report. The company's employee numbers (including Executive Directors but excluding non-Executive Directors and secondees) as at 31 March 2022 were 82.

Environment

Details are set out in the Environment Report on pages 50 to 52.

Payment to suppliers

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

Charitable and political contributions

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

Results and dividends

The company has prepared its 2021/22 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2022 are set out on pages 70 to 103.

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 39. 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, ie 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 70 to 103 of the financial statements, and the Strategic Report on pages 11 to 48.

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 international accounting standards (in conformity with the requirements of the Companies Act 2006) and in accordance with applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

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

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

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

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

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

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

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

Auditors

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

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

By order of the Board



Allison Sandle
Company Secretary
13 June 2022

Corporate Governance report

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



I am pleased to present our Corporate Governance Report for the year, which describes our Board's general approach to corporate governance and how the UK corporate governance code is applied within the company. The Board believes that good corporate governance underpins the delivery of 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, the Board was reviewed by an independent external facilitator to assess how we perform our Board duties, details of which are presented in the report below. We also continued to engage with our shareholder and with key stakeholders and the wider industry, using remote technology.

I would like to thank all Board members for their support, dedication and commitment over the year. My particular thanks go to Anne Baldock, our former Chair of the Remuneration Committee who retired in May 2021, having been with the company since 2018.

Regina Finn
Chair

Background to the company

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

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

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

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

Framework Document

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

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

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

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

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

UK corporate governance code

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

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

Role of the Board

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

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

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

The Board has delegated authority to its committees to carry out the tasks defined in the committees' Terms of Reference. There are three committees, being:

- (i) The Audit, Risk & Assurance Committee;
- (ii) The Remuneration Committee; and
- (iii) The Nomination Committee.

The written Terms of Reference of each Committee are available on the company's website.

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

Composition of the Board

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

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

The Board currently comprises ten Directors, being the Chief Executive and the Chief Financial Officer, two shareholder-nominated Directors and six independent non-Executive Directors including the Chair and the Senior Independent Director.

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

The six non-Executive Directors as at year end (and currently) are Regina Finn, Amanda Aldridge, Helen Lamprell, Maxine Mayhew, Gerard McIlroy and Chris Murray. Each director was appointed after the consent of the shareholder was obtained in accordance with the Framework Document and the Articles of Association. The term of office of each independent non-executive Director is three years from the date of appointment or reappointment (as applicable, and as may be extended). Anne Baldock served as a non-executive Director until 11 May 2021.

Neil McDermott, the Chief Executive, was appointed as a Director on 22 July 2014. George Pitt was appointed Chief Financial Officer on 13 August 2020, having been appointed interim Chief Financial Officer on 4 November 2019.

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

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

The details of all Board members, any changes in the year and attendance at Board meetings are listed on pages 61 to 62. All Directors, with the exception of the shareholder-nominated Directors, have written terms of appointment. These terms of appointment are available for inspection at the company's registered office during normal business hours.

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

Corporate Governance report

(Continued)

The Board and its committees have an appropriate, effective and broad balance of skills, experience, independence and knowledge which enables them to discharge their respective duties and responsibilities effectively. An annual review of the skills of the Board has been undertaken in year to ensure that the Board has the skills necessary to support the company as it evolves.

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 61.

Board governance

The Board meets sufficiently regularly to discharge its duties effectively, generally meeting several times per year (with additional ad hoc meetings as required). The Board met six times in 2021/22 and also held a separate strategy meeting in February 2022.

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

- Review of Declarations of Directors Interests.
- Review of Committee reports/minutes of meeting.
- Approval of Annual Reports and Accounts.
- Approval of CEO objectives.
- Approval of delegated authority for executing key contracts, including the new office lease.
- Approval of the business plan and budget.
- Approval of changes to the Articles of Association and Framework Document.
- Deep dives on the Capacity Market and hydrogen schemes, in addition to regular external guest speakers on industry specific topics.
- Business performance and oversight – including receiving regular updates during the year on how the business is performing against its business plan, budget, strategic priorities and KPIs.

- Strategy and progress – annual strategic workshop also attended by senior management, to set a new long-term strategy. This meeting was preceded by a series of strategic workshops with external speakers that aimed to identify key risks and opportunities. The Board also reviewed the results of the annual industry stakeholder survey and the learnings from that survey, and received strategy updates during the course of the year.
- Risk and opportunity – reviewed the principal risks faced by the company and the actions being undertaken to mitigate against these risks, including in relation to new schemes and cyber-security.
- Audit and Annual Report – reviewed the Annual Report and considered matters such as the valuation of CfD(s) and the re-appointment of the external auditors.
- Governance and compliance – reviewed the results of an independent annual Board evaluation and internal committees evaluation.
- Organisation structure and staff – reviewed the annual staff engagement survey and the actions planned by the company to address matters highlighted in the survey.
- CfDs – oversight of the progress of CfD Generators towards completion of their contractual milestones and other CfD issues. The Board also reviewed performance in relation to the setting of the Supplier Obligation Levy.
- Capacity Market – oversight and consideration of issues relating to the Capacity Market.
- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.

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

Details of the Directors' interests are recorded in a register maintained by the company and reviewed by the Board at each Board meeting. The company has procedures in place to ensure that any actual or potential conflicts of interest are appropriately declared and managed. Directors are required to declare any actual or potential conflict of interest to the Board and to the Company Secretary as soon as they arise. No such conflicts of interest were identified in the financial year 2021/2022.

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

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

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

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

The Chair:

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

The Chief Executive:

- fulfils his responsibilities as Accounting Officer²².
- leads the Executive Team in the day-to-day running of the company.
- Makes and executes operational decisions.
- implements the strategy agreed by the Board.

- ensures delivery within the annual budget.
- ensures appropriate internal controls and risk management processes are in place.
- maintains appropriate dialogue with the Chair and the Board.
- facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities.
- ensures the values of the company are embedded within its operations and staff culture.

The Senior Independent Director:

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

Non-Executive Directors:

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

Board evaluation

The Board undertakes an annual formal and rigorous evaluation of its own performance and that of its committees and individual Directors. The UK corporate governance code recommends that boards should be evaluated annually with an independent audit once every three years. Between November 2021 and March 2022 the Board was evaluated by an independent external facilitator David Nicholl from On Board Training and Consultancy Ltd.

A self-assessment questionnaire was issued to all Board members set against six key parameters:

- strategic leadership,
- performance management,

- clarity of roles and responsibilities,
- operating effectively as a Board,
- managing relationships with stakeholders and partners; and
- building, developing and evaluating the Board.

The independent external facilitator then interviewed each of the Board members separately to evaluate the responses to the questionnaire. This was followed by the attendance and observation of a Board meeting to assess whether the outcomes questionnaire and interviews were reflected in practice. The results of the evaluation were presented to the Board in March 2022.

The Board Evaluation Report concluded that the Board was performing strongly. Relationships between the executive, non-executive and shareholder-nominated Directors were excellent and as a result the Board was highly collegiate and effective, based on a high degree of mutual respect and trust which fostered mature discussions and healthy debate. The report also noted that the non-Executive Directors held skills and experience which added value to the Board which was chaired by a highly experienced and effective leader who was a strong advocate for equality, diversity and promoting the external profile of the company. The report noted the Board had strong financial and risk management governance, backed by a robust Audit, Risk & Committee, and that governance around the Board in general was excellent.

In terms of improvement, the report recommended an annual review of the Schedule of Decisions Reserved for the Board, and this was implemented in March 2022. The report also recommended staggering the replacement of non-Executive Directors as a number of long-serving non-executives had recently retired having reached their maximum length of tenure. A further recommendation was to build on stakeholder relationships with key stakeholders and BEIS, and a detailed action plan has been prepared to ensure all the recommendations contained within the report are implemented.

²² The responsibilities of an Accounting Officer are described in HM Treasury guidance "Managing Public Money". They include accountability for the activities of the company, the stewardship of public funds and the extent to which key performance targets and objectives are met.

Corporate Governance report

(Continued)

The committees also each separately undertake an internal annual evaluation process. The evaluation review in 2021/22 was undertaken by use of a focused questionnaire for each Committee, with the results being discussed by the Board and the committees and compared against the results for the previous year.

The Committee evaluation process concluded that the committees are working cohesively and effectively, are performing their role in a proper, good and appropriate manner and that there is strong corporate governance in place. There was some increase in neutrality in responses, however this was due to the introduction of new Board members who had not served for sufficient time to form conclusive views. The Committee's also identified areas where there had been continuous improvements based on lessons learned from previous years.

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

Audit, Risk & Assurance Committee

At financial year end, the membership of this Committee comprised four non-Executive Directors, namely Amanda Aldridge (chair), Steph Hurst, Gerard McIlroy and Chris Murray.

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

The Committee met three times in the financial year 2021/22, with meetings in May 2021, October 2021 and January 2022, with one ad-hoc approval by email in November 2021.

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

The main responsibilities of the Committee include:

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

The Committee has reviewed arrangements by which 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:
- Internal Audit Annual Opinion/Update
- Status of any Significant Accounting Estimates, Judgements and Special Issues
- External Auditor's Report
- Report on Activities of the Audit Committee during the year
- Annual Report planning
- Annual Report – Governance Statement and Accounts Recommendation
- Internal Audit Charter – Annual Review
- Appointment of external auditors and letters of engagement
- External audit plan
- Risk Deep Dives – Recruitment & Retention Strategy and New Schemes
- Internal Audit Activity, Strategy and Plan
- Information Security update
- Committee Annual Evaluation
- Review of the ARAC Terms of Reference
- Review of Whistleblowing Policy and Procedure
- Risk Management Reviews and Risk Register Updates
- Letters of representation
- Accounting Officer Letter

The minutes of the meeting are circulated to the Board.

The company's main risks are set out on pages 43 to 48 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There was one whistleblowing concern raised in the last year. This has been investigated in accordance with the company's whistleblowing process and reported directly to the Chair of the Committee. The concern was not upheld.

The re-appointment of the external auditor was approved by the Board in December 2021 upon the recommendation of the Committee. The Committee in recommending the re-appointment, and the Board in approving the re-appointment, took into account the fact that the Framework Document stated the strong presumption that the company would appoint the National Audit Office (NAO) as its auditor and also that shareholder consent was

required for the appointment of any external auditor. It also noted the significant benefits of appointing the NAO, based on value for money, the potential synergies with BEIS's audit requirements and the NAO's understanding of both the complex environment within which the company operates, as well as the wider government and public sector context.

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

Figure 17: Board and Committee Membership

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

Corporate Governance report

(Continued)

Nomination Committee

At financial year end, the Committee comprised Regina Finn (chair), Maxine Mayhew and Chris Murray.

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

The Committee met three times during the year, in July 2021, December 2021 and March 2022. No member of the Committee attended an agenda item in respect of which they had a personal interest or were discussed or appraised.

The Committee's responsibilities include:

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

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

- composition of the Board and balance of skills;
- reappointment of the Board Chair;
- Committee membership;
- Board, Executive Directors and senior management succession planning;
- Interim Transition Plan or positions of Director of Strategy & Development and Scheme Delivery;
- review of the Nomination Committee's Terms of Reference;
- Committee annual evaluation;
- review independence and time commitment of non-Executive Directors.

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

Remuneration Committee

The membership and responsibilities of this Committee are described in the Remuneration Report at pages 65 to 69.

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.

Board and Committee meetings

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

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 through stakeholder engagement events, the 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, Risk & Assurance Committee and Executive Team.

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

Control and assurance environment

The Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and, where possible, to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The Audit, Risk & Assurance Committee assists the Board in discharging its responsibilities (as further described below and in the section headed Audit, Risk & Assurance Committee on pages 60 to 61).

The Board, with the assistance of the Audit, Risk & Assurance Committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control. There have been no significant lapses in protective security.

Risk management framework

The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. The company's strategic risk register is kept under regular review by the Senior Management Team and reported to the Board and Audit, Risk & Assurance Committee, with the top strategic risks and emerging risks receiving particular attention. Strategic risk is also discussed and monitored by the relevant Heads of Teams to ensure there is alignment and escalation of operational risk where appropriate. Operational risk registers are also maintained to identify local and emerging risks, allocating responsibility for appropriate monitoring and the implementation of mitigating controls. Risk management processes are incorporated into the company's management and governance systems at all levels and form a part of the company's day-to-day operations.

The Audit, Risk & Assurance Committee formally reviews the risk position at each scheduled meeting (in 2021/22, in May 2021, October 2021 and January 2022) and is updated on any significant risk matter which falls outside its formal review cycle. The Committee considers the risk appetite of the company in relation to the principal risks and receives a Completion Report relating to the actions being undertaken to minimise and mitigate risk items.

The Board reviews the strategic risk register twice per year (in 2020/21, in June 2021 and December 2021). The reports to the Audit, Risk & Assurance Committee and the Board include a report from management on the status of the risk management and internal control, significant failings or weaknesses identified during the period (if any) and any actions taken to remedy any significant weaknesses (if relevant). The Board has reviewed the risk framework, with the assistance of the Audit, Risk & Assurance Committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed Risk Report on pages 43 to 48.

Internal Audit

The company has an Internal Audit function that provides the Audit, Risk & Assurance Committee with independent, objective assurance regarding governance, risk management and internal controls, as part of the company's risk management and assurance regime. The Audit, Risk & Assurance Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings. The annual audit plan takes into account current business risks. The Head of Assurance & Risk is supported by an external co-sourced partner to deliver the Internal Audit plan, which was subject to a new tendering exercise in early 2022.

Financial management and reporting

There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the Board.

The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability, to ensure that a robust and prudent annual budget is prepared, which also ensures cost control and value for money for consumers. The draft budget, which can be for a single year or multi-year, is reviewed by the Board, then submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently, the operational costs levy which funds the company's budget is laid before Parliament in the form of regulations.

- The company operates robust financial management processes to ensure that it manages within its budget so as not to exceed the operational costs levy.
- An update on the company's progress, financial performance, budget forecasts and results is reported in the Management Information Report submitted to each Board meeting.

Figure 17: Member attendance record during 2021/22

	Board	Audit, Risk & Assurance Committee	Nomination Committee	Remuneration Committee
Number of meetings	6	3	3	3
Amanda Aldridge	6	3		
Anne Baldock	*			1*
Declan Burke	5			3
Gerard McIlroy	6	3		
Regina Finn	6		3	3
Steph Hurst	6	3		
George Pitt	6			
Maxine Mayhew	5		3	
Helen Lamprell	6			1**
Neil McDermott	4			
Chris Murray	6	3	3	3

* Resigned part way through the year

** Nominated part way through the year

Corporate Governance report

(Continued)

- Senior management meet regularly with the Chief Executive and Chief Financial Officer to discuss business progress. Management accounts are reviewed regularly.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled “Managing Public Money”²³.

Operational

The Senior Management Team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the Senior Executive Team.

The Chief Executive and the Executive Team meet with appropriate regularity with the shareholder and other stakeholders.

The operational, legal and other functional teams work closely together to ensure the appropriate interfaces and communication in relation to CfD management, with the governance, internal decision making and critical processes being documented.

The company reports on its significant matters relating to its operational activities at each Board meeting, including CfD management matters.

The Board decides on matters falling within the schedule of reserved matters (eg 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 (eg relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.

The company expects the highest standards from all employees and supply chain.

The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.²⁴

Treasury management

The finance department:

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

Insurance

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

Neil McDermott

Chief Executive and Accounting Officer
13 June 2022

Remuneration report

Remuneration Committee

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

The Framework Document requires that one shareholder-nominated Director should be a member of the Committee. The Committee consists of a majority of independent non-Executive Directors.

The responsibilities of the Committee include:

- Setting the overall Remuneration Policy for the company.
- Setting the conditions of employment, including levels of salary and pension arrangements for Executive Directors and senior management, but subject to the shareholder’s consent being necessary to the remuneration or material variation to the remuneration of any Executive Director or employee whose salary is equal to or higher than the threshold set in Cabinet Office Senior Pay Approvals guidance in respect of senior pay.
- Recommending the level of remuneration of the non-Executive Directors to the Board, but subject to the shareholder’s consent being necessary to the remuneration or material variation to the remuneration of any Director.
- Ensuring that the remuneration package for employees and salary levels are appropriately benchmarked.
- Undertaking an evaluation of its own performance.
- Setting approach in respect of Executive Directors and other appropriate senior employees accepting non-executive appointments outside the company.

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

- Proposal for In-Year Recognition Awards and Awards Cap
- Company Scorecard Performance Overview 2020/2021
- Employee Bonus Overview and Awards Proposal 2020/21
- Bonus Award Proposal for Senior Team 2020/21
- CEO Bonus 2020/21
- CEO Objectives 2021/2022
- Approval of Revised Bonus Scheme for 2022/23
- Interim Company Scorecard Performance 2021/22
- Board Directors and Senior Executive Approvals Process
- Annual Benefits Review (including deep dive company pension)
- People Policies Overview (including deep dive Health, Safety and Wellbeing Policy)
- Succession Planning (incl. general staff turnover and retention)
- Equity, Diversity and Inclusion Report
- Internal Audit Scorecard Validation Report
- Employee Bonus Scheme Proposals for 2022/23
- Proposed Company Scorecard 2022/23
- Senior Leadership Team Salary Review Proposal
- 2021/22 – Staff Salary Benchmarking and Employee Pay Award Proposal for 2022/23
- In-Year Recognition Award Review (and Proposed Awards)
- Recruitment and Retention Update
- Committee Annual Evaluation including Terms of Reference
- Review Progress of Actions Arising from Committee Annual Evaluation 2020/21
- Remuneration Committee Programme 2021/22.

The minutes of each meeting are circulated to the Board.

Directors and senior management remuneration

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

No Executive Director is involved in deciding their own individual remuneration.

Public sector reporting bodies have a good practice requirement to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation’s workforce. An annualised figure has been used to better reflect contractual salary. The annual remuneration of the highest paid Director is £293,661 (2020/21: £291,009)²⁵. In 2021/22, this is 5.1 times the median remuneration of the company’s workforce (2020/21: 4.8) which is £58,051 (2020/21: £ 60,202).²⁶ No employees receive salary in excess of the highest paid Director.

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

24. 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

25. 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.

26. There were no salary increases in 2021/22. It should be noted that while the median calculation for 2021/22 includes all salary, performance bonuses and benefits payable to staff members, not all staff members will receive a bonus. The reason for this is that a number of staff members may not have been with the company for the qualifying period or may have given notice prior to year-end.

Remuneration report

(Continued)

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 Remuneration Committee reviews workforce remuneration annually taking into account external benchmarking, which is provided to assist the Committee to make decisions on pay awards and pay levels throughout the company. Policies related to remuneration and employment are regularly reviewed so as to ensure that the company can attract, develop and retain talent.

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. Our company scorecard encompasses items that reflect our purpose and values along with our long term strategy. The detail and policies underpinning the scorecard, which is reviewed and updated annually, are regularly reviewed at the Remuneration Committee.

Pay review

No pay award was issued in respect of the 2021/22 financial year. In light of the COVID-19 pandemic, and taking into account the wider economic landscape, the Remuneration Committee decided to set a pay pause for all LCCC employees for 2021/22.

Executive Directors

The remuneration of the Executive Directors (being the Chief Executive and Chief Financial Officer) has been designed to promote the long-term sustainability of the company. Their respective earnings in the financial year consisted of a base salary plus taxable benefits (for example, permanent health insurance, private medical cover (Chief Executive only) and life assurance); a defined contribution pension scheme; and an incentive bonus. The bonus links corporate and individual performance with an appropriate focus on delivery targets and the balance between short- and long-term elements. The Committee, based on an assessment of individual and company performance against key objectives, agreed a bonus for 2021/22 (paid in mid-2022/23) for the Chief Executive and the Chief Financial Officer. The details of these bonuses are set out below.

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

As performance-related incentive bonuses are only approved for payment and paid in the year following the year to which they relate, any bonus relating to 2021/22 is not paid until mid-2022/23. Such bonuses are £45,877 for Neil McDermott and £27,645 for George Pitt.

The Executive Director payments for 2021/22 reflect that Neil McDermott and George Pitt did not receive a pay increase. No pay rise was applicable to LCCC employees due to the pay pause set by the Remuneration Committee for 2021/22.

Non-executive Director fees

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

Levels of remuneration for the remunerated independent non-Executive Directors reflect the time commitment and responsibilities of the role and reflect the advice on remuneration for Directors and benchmarking information provided by GatenbySanderson for the appointment of the Chair and Senior Independent Director, and Korn Ferry for purposes of the remaining non-Executive Directors.

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

No Director is involved in deciding their own remuneration.

Executive Directors' Remuneration (audited)

Name	2021–22 Salary	2021–22 Performance Related Pay (Bonus)	2021–22 Taxable Benefits	2021–22 Pension Payments	2021–22 Total
Neil McDermott	2021/22: £236,477 (2020/21: £236,477)	2021/22: £46,349 (2020/21: £44,166)	2021/22: £10,835 (2020/21: £10,366)	2021/22: £23,647 (2020/21: £23,647)	2021/22: £317,308 (2020/21: £314,656)
George Pitt	2021/22: £150,000 (2020/21: £150,000)	2021/22: £27,645 (2020/21: £13,680)	2021/22: £870 (2020/21: £868)	2021/22: £15,000 (2020/21: £15,000)	2021/22: £193,800 (2020/21: £179,548)

Remuneration report

(Continued)

Non-Executive Directors' Remuneration (audited)

Name	2021/22 fees ^{27 27a}	Principal positions held elsewhere at 31 March 2022
Amanda Aldridge	£30,000 2020/21: £27,436 ²⁸	<ul style="list-style-type: none"> ESC – non-executive director Headlam Group plc – non-executive director Impact Healthcare REIT plc – non-executive director The Brunner Investment Trust plc – non-executive director St Francis College Trust – director and trustee
Anne Baldock	£2,756 ²⁹ 2020/21: £31,417 ³⁰	<ul style="list-style-type: none"> ESC – non-executive director East West Railway Company Limited – non-executive director Electricity North West Limited – non-executive director Restoration and Renewal Delivery Authority Ltd – director 175 Greyhound Road Residents Ltd – director Submarine Delivery Agency – non-executive director
Tony Bickerstaff	£Nil 2020/21: £15,738 ³¹	<ul style="list-style-type: none"> Costain Group Plc – group finance director until 30/11/2020 LCCC – non-executive director Wincanton Plc – director Renown Investments (Holdings) Limited – director County and District Properties Limited – director
Declan Burke	£nil (shareholder nominated director – civil servant)	<ul style="list-style-type: none"> BEIS – director, Nuclear Projects & Development ESC – non-executive director
Regina Finn	£100,000 (including £25,000 relating to ESC) plus £356 in relation to expenses 2020/21: £100,000 (including £25,000 relating to ESC)	<ul style="list-style-type: none"> Electricity Settlements Company Ltd – non-executive director Places for People Group Ltd – non-executive director Places for People Homes Ltd – non-executive director Places for People Living + Ltd – non-executive director Places for People Ventures Ltd – non-executive director Places for People Ventures Operations Ltd – non-executive director Lucerna Partners Ltd – director Chorus Homes Group Ltd – non executive director Chorus Homes Ltd – non-executive director Cotman Housing Association Ltd – non-executive director Derwent Housing Association – non-executive director
George Pitt	N/A	<ul style="list-style-type: none"> ESC – Chief Financial Officer and director Pitt Consulting Ltd – director
Steph Hurst	£nil (shareholder nominated director – civil servant)	<ul style="list-style-type: none"> BEIS – Deputy Director, Energy Efficiency and Local Directorate ESC – non-executive director
Neil McDermott	N/A	<ul style="list-style-type: none"> ESC – Chief Executive and director
Chris Murray	£30,000 2020/21 : £26,628 plus £409 in relation to expenses (which includes relevant tax) ³²	<ul style="list-style-type: none"> ESC – non-executive director APX3 Limited – director West Transmission Limited – director Belfast Gas Transmission Limited – director Mutual Energy Limited – director Premier Transmission Limited – director Moyle Interconnector Limited – director LOROS Commercial Innovations Limited – director LOROS (Leicestershire Hospice) – trustee Water Resources South East – chair

Name	2021/22 fees ^{27 27a}	Principal positions held elsewhere at 31 March 2022
Simon Orebi Gann	Nil 2020/21: £15,353 ³³	<ul style="list-style-type: none"> LCCC – non-executive director Aspen Technology Inc (NASDAQ: AZPN) – USA – non-executive director Market Operator Services Ltd – non-executive director Treasury/Cabinet Office Major Programmes Review Group – independent panel member
Maxine Mayhew	£35,000 2020/21: £22,167 ³⁴	<ul style="list-style-type: none"> ESC – non-executive director Hopkinsons of Lymm Limited – director Cranfield University – Independent Council Member Biffa Waste Services Limited – director Biffa Municipal Limited – director Biffa Environmental Municipal Service Limited – director Company Shop Limited – director
Gerard McIlroy	£25,000 plus £1,108 in relation to expenses 2020/21: £10,801 ³⁵	<ul style="list-style-type: none"> ESC – non-executive director WTL Holdings Ltd – director West Transmission Limited – director Moyle Energy Investments Ltd – director West Transmission Financing plc – director Moyle Interconnector Limited – director Moyle Interconnector (Financing) plc – director Moyle Holdings Limited – director Mutual Energy Limited – director Premier Transmission Limited – director Premier Transmission Holdings Limited – director Premier Transmission Financing plc – director Interconnector Services (NI) Limited – director Belfast Gas Transmission Limited – director Belfast Gas Transmission Holdings Limited – director Belfast Gas Transmission Financing plc – director Northern Ireland Gas Transmission Holdings Limited
Helen Lamprell	£25,000 2020/21: £5,032 ³⁶	<ul style="list-style-type: none"> ESC – non-executive director Employers Initiative on Domestic Abuse – director Aveva Solutions Ltd – General Counsel and Company Secretary Aveva Group Plc – General Counsel and Company Secretary

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

27a. The expenses disclosed in the current financial year are grossed up and no tax is paid by LCCC.

28. 6 months pro rata (2 April–30 September 2020) at £25,000 and 6 months pro rata (1 October–31 March 2021) at £30,000

29. 6 weeks pro rata (1 April–21 May 2021) at £25,000

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

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

32. 8 months pro rata (1 April–30 November 2020) at £25,000 and 4 months pro rata (1 December 2020–31 March 2021) at £30,000

33. 8 months pro rata (1 April–11 November 2020) at £25,000

34. 8 months pro rata (13 August–31 March 2021) at £35,000

35. 6 months pro rata (27 October–31 March 2021) at £25,000

36. 3 months pro rata (19 January–31 March 2021) at £25,000

Independent Auditor's Report

To the shareholders of Low Carbon Contracts Company Ltd

Opinion on financial statements

I have audited the financial statements of Low Carbon Contracts Company Limited ("the company") for the year ended 31 March 2022 which comprise the company's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended; and
- the related notes including the significant accounting policies.

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

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of the result for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied

to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to

the authorities which govern them.

Basis for opinions

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

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

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

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

Framework of Authorities

Authorising legislation

- Energy Act 2013
- The Contracts for Difference (Counterparty Designation) Order 2014
- Companies Act 2006

Parliamentary authorities

- The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014

Shareholder, HM Treasury and related authorities

- Articles of Association
- Framework Document between the Secretary of State for the Department for Business, Energy and Industrial Strategy and the company
- Managing Public Money and Cabinet Office spending controls (to the extent they are applicable to the company)

Conclusions relating to going concern

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

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

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

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

- there is minimal cash flow risk arising from the company's role as counterparty to CfDs as a result of the statutory 'pay when paid' mechanism; and
- there are options available to the company to mitigate forecast cashflow and funding shortfalls.

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

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

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

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

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified though the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the presumed risk of management override of controls which I identified as a significant audit risk in accordance with the requirements of ISA (UK) 240 The Auditor's Responsibility Relating to Fraud in Financial Statements. This had a lesser effect on my overall audit strategy, allocation of resource and direction of effort than the key audit matters reported. My work in this area has not identified any matters to report.

The areas of focus were discussed with the Audit, Risk and Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 60-61.

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

- I identified a risk in relation to the company's change in accounting system, which took effect part way through the financial year and had carried an inherent risk of pervasive misstatement to the financial statements, had the new system not been correctly implemented. My work in this area has not identified any matters to report.

Independent Auditor's Report

To the shareholders of Low Carbon Contracts Company Ltd (Continued)

Fair Value of Contracts for Difference (CfDs)

Description of risk

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

- management has estimated the fair value of financial liabilities arising from CfDs (excluding the Hinkley Point C (HPC) CfD) to be £36,167 million at 31 March 2022, of which £16,439 million has been recognised in the statement of financial position and the remainder has been deferred; and
- management has estimated the fair value of financial liabilities arising from the HPC CfD to be £61,425 million at 31 March 2022, of which £50,826 million has been deferred.

As disclosed in the notes to the financial statements:

- the company determines the fair value of CfDs using an income (discounted cash flow) approach that relies on significant unobservable inputs;
- key unobservable inputs include forecast electricity generation volumes and forecast wholesale electricity prices;
- the forecasting of wholesale electricity prices into the late 2030s (for CfDs excluding the HPC CfD) involves the making of assumptions with regards to: future electricity demand; future commodity prices; future government policy; and the development and deployment of electricity generation technologies;
- the HPC CfD duration is more than double (35 years) the length of other CfDs (typically 15 years) entered into by the company. This makes it considerably more challenging for management to provide a reliable single point fair value estimate for the HPC CfD; and
- (as in previous years) the company has applied the most recent wholesale electricity price forecasts generated by the Department for Business, Energy and Industrial Strategy (BEIS) using their in-house Dynamic Dispatch Model (DDM).

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

The fair valuation estimate is particularly sensitive to certain assumptions, one of which is the rate applied to discount projected future difference payments (within the discounted cashflow model). As disclosed in note 19.5, HM Treasury updated their financial instrument discount rates in December 2021 and the company has derived a real discount rate from the HM Treasury nominal discount rate by applying the latest CPI inflation forecasts for each modelled year. This represents a change in accounting estimate compared to previous years, where the company used the published HM Treasury real discount rate. The impact of the discount rate change (keeping all other modelling inputs the same) is to increase the estimated liability for the HPC CfD by £11,315 million and to increase the estimate liability of other CfDs by £3,378 million.

The fair value estimate reflects the company's expectation that Balancing Services Use of System (BSUoS) charges will cease to become payable by generators from April 2023. This is a position that was confirmed by Ofgem on 25 April 2022. The impact of removing these charges was to decrease the estimated liability for the HPC CfD by £3,703 million and to decrease the estimated liability of other CfDs by £3,388 million.

The uncertainties inherent in determining the fair value of CfDs are further discussed in the disclosures made in notes 4 and 19 to the financial statements.

Fair Value of Contracts for Difference (CfDs) continued

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

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

- Assessed the reasonableness of the future electricity volume and future market price inputs used by management and considered the plausibility of possible alternatives. In doing so, I considered the principles of fair value, which includes the concept of an exit price for the asset or liability being valued, and wherever possible based my auditor's range on data sources which would be consulted by counterparties in a theoretical exit transaction (for instance, by using forecast wholesale electricity price series from reputable third-party industry forecasters); and
- Obtained evidence of the reasonableness of other valuation inputs.

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

Key observations

The range of reasonable valuation outcomes I constructed were:

- £22,911 million – £42,166 million for CfDs excluding the HPC CfD; and
- £48,047 million – £75,557 million for the HPC CfD.

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

How the scope of my audit responded to the risk

Independent Auditor's Report

To the shareholders of Low Carbon Contracts Company Ltd (Continued)

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable,

rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

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

	Overall financial statement materiality	Lower materiality threshold for account balances and transaction streams not connected to the valuation of Contracts for Difference and to support my opinion on regularity
Materiality	£1,000 million	£30 million
Basis for determining materiality	I have set materiality at £1,000 million. This is equivalent to approximately 1.0% of the total estimated value of CfDs at the reporting date. Whilst I consider that a 2% threshold would be appropriate in the context of the inherent estimation uncertainty associated with the valuation of contracts for difference, I have applied a lower threshold due to the impact of the deferral of 'day one' losses which results in amounts less than the total estimated fair value being recognised on the company balance sheet. In my professional judgement, the users of the financial statements could reasonably expect a precision of at least +/- £1 billion on the balances recorded in the primary statements.	Approximately 2% of the combined value of gross operating expenditure and payments to CfD generators.
Rationale for the benchmark applied	I chose this benchmark because I consider it to be of principal interest to users of the financial statements as one of the company's primary objectives is to manage CfDs.	I determined that for financial statement components unconnected with the valuation of CfDs, misstatements of a lesser amount than overall financial statement materiality could influence the decisions of users of the accounts.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2021/22 audit (2020/21: 75%). In determining performance materiality, I have also considered the low level of uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very

nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

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

Error Reporting Threshold

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

Total unadjusted audit differences reported to the Audit, Risk and Assurance Committee have decreased the estimate fair value of CfD liabilities by £469 million.

Audit scope

The scope of my audit was determined by obtaining an understanding of the company and its environment, including

the entity-wide controls, and assessing the risks of material misstatement.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

- the Strategic Report and the Directors' Report been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and

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

Independent Auditor's Report

To the shareholders of Low Carbon Contracts Company Ltd (Continued)

Matters on which I report by exception

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

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company; or
- I have not received all of the information and explanations I require for my audit.

Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified [set out on page 54];
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate [set out on page 42];
- Directors' statement on fair, balanced and understandable [set out on page 55];
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out on page 63];
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems [set out on page 63]; and
- The section describing the work of the Audit, Risk and Assurance Committee [set out on page 60].

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- the nature of the sector, control environment and operational performance including the design of the company's accounting policies.
- inquiring of management, the company's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the company's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the company's controls relating to the company's compliance with the Companies Act 2006, Managing Public Money, the Energy Act 2013, the Contracts for Difference (Counterparty Designation) Order 2014 and the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014.
- discussing among the engagement team and involving relevant internal specialists, including IT auditors, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

I also obtained an understanding of the company's framework of authority as well as other legal and regulatory frameworks in which the company operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, the Energy Act 2013, the Contracts for Difference (Counterparty Designation) Order 2014, Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 and employment legislation and regulation.

In addition, I considered the reasonableness of significant estimates made by management in the production of the financial statements, in particular in relation to the fair value of CfD liabilities.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit, Risk and Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- considering the reasonableness of significant estimates made by management in the production of the financial statements, in particular in relation to the fair value of CfD liabilities.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Independent Auditor's Report

To the shareholders of Low Carbon Contracts Company Ltd (Continued)

Other auditor's responsibilities

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

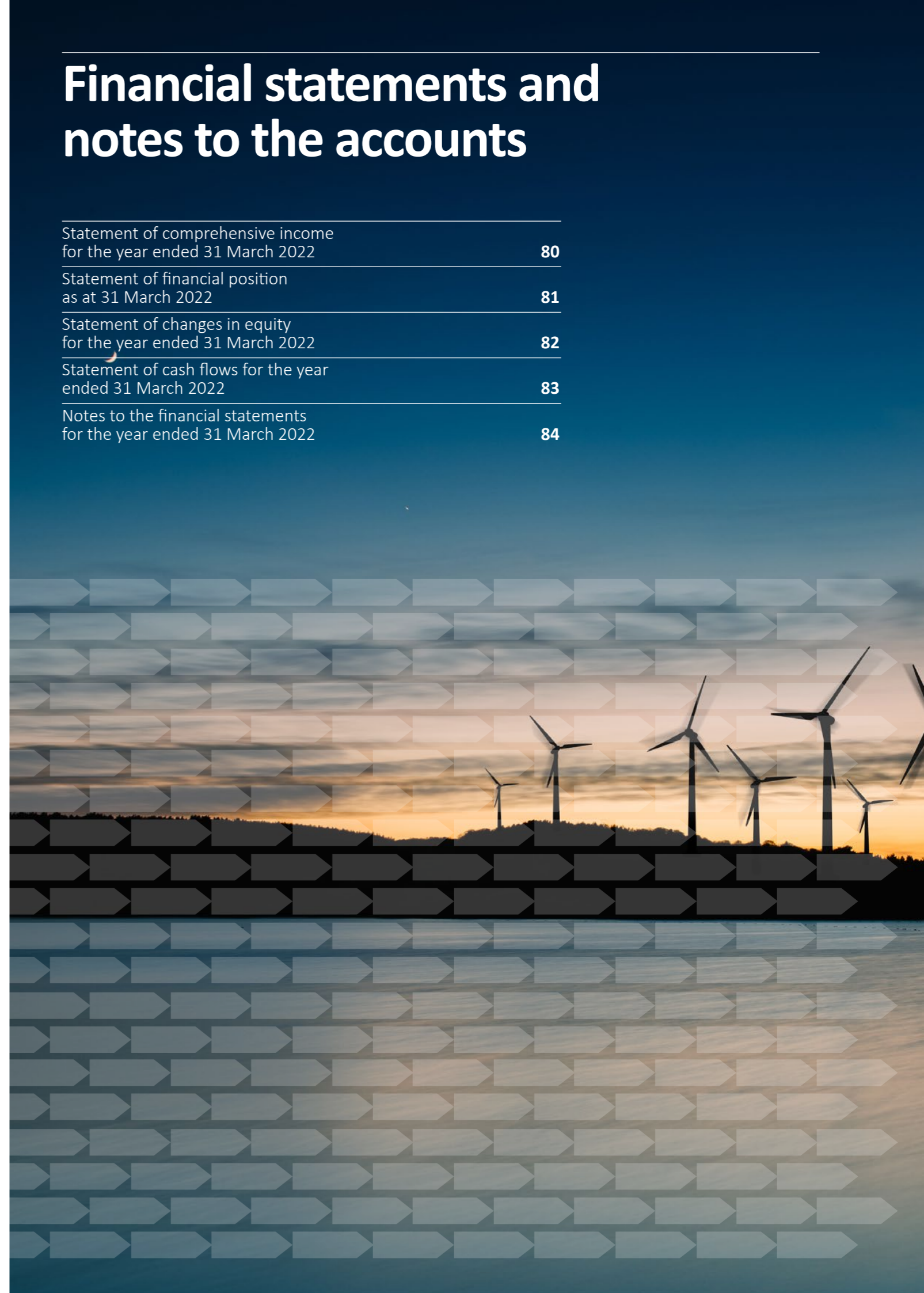
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Susan Clark (Senior Statutory Auditor)
13 June 2022

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

Financial statements and notes to the accounts

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Statement of comprehensive income

for the year ended 31 March

	Note	2022 £'000	2021 £'000
Other income	6	15,654	18,054
Supplier Obligation Levy	20	10,286,084	2,745,890
Fair value movement of CfDs	19	(10,286,084)	(2,745,890)
Staff costs	7	(7,402)	(7,164)
Depreciation	9	(283)	(350)
Amortisation	10	(140)	(386)
Other operating costs	8	(7,829)	(10,154)
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 84 to 103 form part of these accounts.

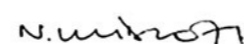
Statement of financial position

for the year ended 31 March

	Note	2022 £'000	2021 £'000
Non-current assets			
Property, plant and equipment	9	2,300	196
Intangible assets	10	188	247
Supplier Obligation Levy	20	26,948,043	16,932,718
Total non-current assets		26,950,531	16,933,161
Current assets			
Operational costs levy receivable		1,967	1,554
Supplier Obligation Levy and generator payments receivable	11	118,330	154,366
Trade and other receivables		503	408
Cash and cash equivalents	12	430,385	267,245
Total current assets		551,185	423,573
Total assets		27,501,716	17,356,734
Current liabilities			
Operational costs levy payable		(11,174)	(1,500)
Supplier Obligation Levy and generator payments payable	13	(523,051)	(308,060)
Trade and other payables	14	(16,910)	(38,850)
Loans and borrowings	15	(95)	(75,237)
Lease liabilities		(276)	(167)
Provisions		–	(67)
Total current liabilities		(551,506)	(423,881)
Non-current liabilities			
Contracts for Difference	19	(26,948,043)	(16,932,718)
Trade and other payables	14	–	–
Loans and borrowings	15	(165)	(135)
Lease liabilities		(1,878)	–
Provisions		(125)	–
Total non-current liabilities		(26,950,210)	(16,932,853)
Total liabilities		(27,501,716)	(17,356,734)
Net assets		–	–
Shareholders' equity and other reserves			
Share capital	16	–	–
Retained earnings		–	–
Total equity		–	–

The notes on pages 84 to 103 form part of these accounts.

The financial statements were approved by the Board of Directors on 10 June 2022 and signed on its behalf on 13 June 2022 by:



Neil McDermott
Chief Executive Officer



George Pitt
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 31 March 2020	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2021	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2022	–	–	–

As at 31 March 2022 the company has one authorised ordinary share, issued and fully paid.

The notes on pages 84 to 103 form part of these accounts.

Statement of cash flows

for the year ended 31 March

	Note	2022 £'000	2021 £'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	283	350
Loss on disposal of property, plant and equipment		31	–
Amortisation of intangible assets	10	140	386
Amortisation of government grant liability		–	(130)
Reversal of dilapidation provision		(67)	–
Working capital adjustments:			
Decrease/(increase) in operational costs levy receivable		(413)	65
Decrease/(increase) in Supplier Obligation Levy receivable	11	36,036	19,569
Increase in trade and other receivables		(95)	(183)
(Decrease)/increase in operational costs levy payable		9,674	(3,366)
Increase in Supplier Obligation Levy and generators payments payable	13	214,991	43,938
Increase in trade and other payables	14	(21,940)	622
Net cash inflow from operating activities		238,640	61,251
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(143)	(60)
Purchase of intangible assets	10	(81)	(49)
Net cash outflow from investing activities		(224)	(109)
Cash flows from financing activities			
Proceeds from loans and borrowings	15	–	75,110
Repayment of loans and borrowings	15	(75,112)	(149)
Repayment of lease liabilities		(164)	(490)
Net cash inflow/(outflow) from financing activities		(75,276)	74,471
Net (decrease)/increase in cash and cash equivalents in the year		163,140	135,613
Cash and cash equivalents at the beginning of the year		267,245	131,632
Cash and cash equivalents at the end of the year	12	430,385	267,245

Notes to the financial statements

for the year ended 31 March 2022

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the “company”) for the year ended 31 March 2022 were approved with a resolution of the board on 10 June 2022 and authorised for issue on the same date as the independent auditor’s report.

The company is a company limited by shares, incorporated and domiciled in the UK. The company’s registered office is at 10 South Colonnade, London, E14 4PU. The company is unlisted and wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (the “shareholder”) making it the company’s ultimate controlling party.

1.1 Principal activities

The company has been established to act as the counterparty for Contracts for Difference (CfDs). The company will also undertake such other activities that the board considers to be consistent with the company’s functions, duties, obligations and constitution.

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

2. Accounting policies

2.1 Basis of preparation

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

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

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

2.2 Going concern

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

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

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

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

The operational costs levy is reset by new amending Regulations and has currently been set for the next 3 years (to March 2025).

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

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

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 2021/22 after public consultation was £0.0760/MWh (2020/21: £0.0614/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 2022/23 the operational costs levy has been set at £0.0879/MWh and will be apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2022 to 31 March 2023. The operational cost levy has also been set for the following two years, for 2023/24 at £0.0994/MWh and for 2024/25 at £0.1089/MWh.

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

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

LCCC continues to apply its accounting policy which follows the IFRS Conceptual Framework for Financial Reporting.

The levy is recognised on an accrued basis and is driven by the recognition of operational expenditure. The levy is collected alongside the principal Supplier Obligation Levy (relating to payments to CfD generators) in the same daily invoice using the same settlement systems. The company’s settlement service provider, EMR Settlement Limited (EMRS), administers the collection process.

2.4 Total Reserve Amount and Interim Levy Rate payment

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

- (a) an Interim Levy Rate, charged on a daily basis at a fixed £/MWh rate on electricity supplied each day across each levy quarter; and
- (b) a Total Reserve Amount which is a lump sum ‘reserve’ payment made in respect of each levy quarter at the start of the quarter.

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

- (a) the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter;
- (b) the likelihood of any supplier failing to make payments during the quarter;
- (c) the estimated income to be received from suppliers from CfD generators in the quarter;
- (d) the estimated amount of electricity to be supplied by suppliers in the quarter; and
- (e) the estimated amount the company will need in the quarter to pay CfD generators.

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

- (a) the total amount payable to the generators, less
- (b) the Total Reserve Amount and Interim Levy Rate payment for that period.

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

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

- (a) estimated payments that the company will need to make to CfD generators in respect to generation during the quarter;
- (b) estimated income expected to be received by the company from CfD generators in respect of the quarter; and
- (c) estimated amount of electricity to be supplied by suppliers during the quarter.

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

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

The Total Reserve Amount and Interim Levy Rate are recognised as ‘other income’ in the financial year to which it relates and is presented net of any Total Reserve Amount and Interim Levy repayable to suppliers.

LCCC continues to apply its accounting policy which follows the IFRS Conceptual Framework for Financial Reporting.

The Supplier Obligation Levy is recognised on an accrued basis and is driven by the suppliers metered data and the Interim Levy Rate. The levy is collected alongside the operational costs levy (relating to the company’s expenses for the financial year) in the same daily invoice using the same settlement systems. The company’s settlement service provider, EMR Settlement Limited (EMRS), administers the collection process.

2.5 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.

As part of our new strategy supporting the delivery of Net Zero, LCCC has been working with BEIS to administer new schemes. Staffing costs are being recharged to BEIS to fund the initial development stage as we move to implement and administer the new schemes.

Monthly invoices are being sent to BEIS to reimburse LCCC for their costs and VAT is incurred on these charges.

2.6 Government grants

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

2.7 Financial assets

2.7.1 Classification

Financial assets are classified and measured at amortised cost.

2.7.2 Recognition and measurement

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

Notes to the financial statements

for the year ended 31 March 2022 (Continued)

2.7.3 Impairment of financial assets

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

2.7.4 Cash and cash equivalents

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

2.8 Determination of fair value of financial instruments

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

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

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

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

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

2.9 Recognition and measurement

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

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

2.9.1 Subsequent measurement

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

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

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition (i.e., when the company becomes party to the contract and the recognition criteria is

met, or at a later date if the recognition criteria is subsequently met) as at fair value through profit or loss.

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

Contracts for Difference (CfDs)

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

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

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

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

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

point at which the potential payment period under the CfD commences).

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

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

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

Changes in fair value arising after day one are recognised in the reporting period that they occur and are accounted for in the statement of comprehensive income and in the statement of financial position as they arise. An individual CfD is only recognised as an asset if the decrease in fair value is significant as compared to the CfD portfolio.

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

2.9.1.2 Other financial liabilities

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

2.9.2 Derecognition of financial liabilities

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

2.10 Property, plant and equipment

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

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

Assets are depreciated over the following periods:

	Years
Leasehold improvements	5
IT equipment	3
Furniture and Fittings	10

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

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

	Months
Office building & related facilities	131

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

2.11 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses, if any.

Intangible assets have finite lives and are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

Intangible assets are amortised over the following periods:

	Years
Settlement System	5
Other IT Software	5

2.12 Leases

2.12.1 Company as a lessee

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

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

2.12.2 Measurement of lease liabilities

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

2.12.3 Measurement of right-of-use assets

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

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 2.13.

2.13 Impairment of non-financial assets

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

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

Notes to the financial statements

for the year ended 31 March 2022 (Continued)

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

2.14 Staff Costs

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

2.15 Pensions

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

2.16 Provisions

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

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

As of 31 March 2022, the company has only one provision, which is for dilapidation. The dilapidation provision relates to a future liability for dilapidation costs for its leased premises at 10 South Colonnade. The company is required, at the expiry of the lease term, to return the premises to their previous state and condition, including removing any furniture and fittings installed by the company. In accordance with IAS 37 a provision has been created for the relevant estimated future costs. However, due to the immaterial impact

of discounting over the lease period, discounting has not been applied.

2.17 Segmental reporting

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

2.18 Loans and borrowings

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

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

2.19 Supplier Obligation Levy and Generator Payments recognition

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

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

The Supplier Obligation Levy payable can also occur when market prices rise above the strike price. In these circumstances LCCC would be collecting money from generators and this would then be repaid to suppliers through the quarterly reconciliations. This liability to suppliers has been classified as a current liability, payable within one year in the statement of financial position.

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.

2.19.5 Generators Payments receivable

If the market price exceeds the strike price under the CfD's contractual obligation generators must pay LCCC the difference. Since October 2021 we have seen high market prices and so Generators are classified as both current liabilities and assets. Balances have been netted off for each generator to understand their overall position as at March 2022. The generators payments receivable is classified under current assets in the statement of financial position.

3. Financial risk management

3.1 Financial risk management and financial risk factors

CfDs potentially expose the company to a variety of financial risks: market risk, credit risk and liquidity risk. However, in practice the financial risk is minimal given the Supplier Obligation Levy funding arrangements with licensed suppliers (described above and set out in more detail below) and the terms of the short-term loan from BEIS (the company only obliged to make repayment if it is confident that it holds sufficient funds from electricity suppliers, refer to note 17) which has now been fully repaid in this financial year.

3.1.1 Credit and liquidity risk

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

3.1.2 Market risk

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

- price risk;
- inflation risk; and
- interest rate risk.

i. Price risk

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

ii. Inflation risk

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

iii. Interest rate risk

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

3.1.3 Maturity profiles

Maturities of finance liabilities are provided in the following table

	<1 year £'000	2–5 years £'000	>5 years £'000	Total £'000
As at 31 March 2021				
Contracts for Difference	1,021,667	3,961,754	11,950,297	16,933,718
Trade and other payables	38,646	–	–	38,646
Loans and borrowings	75,237	135	–	75,372
Lease liabilities	167	–	–	167
Total	1,135,717	3,961,889	11,950,297	17,047,903
As at 31 March 2022				
Contracts for Difference	(3,904,008)	2,639,331	28,212,719	26,948,042
Trade and other payables	16,698	–	–	16,698
Loans and borrowings	95	165	–	260
Lease liabilities	276	1,878	–	2,154
Total	3,886,939	2,641,374	28,212,719	26,967,154

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

Notes to the financial statements

for the year ended 31 March 2022 (Continued)

4. Critical accounting judgements, estimates and assumptions

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

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

4.1 Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

4.1.1 Valuation of CfD liabilities

The fair value of the unquoted CfD contracts is calculated using the income approach (discounted cash flow model) and represents the company's best estimate of the payments which the company will be committed to make, if and when the generators supply low carbon electricity in accordance with their contractual terms. Annual cash flow is estimated as strike price minus forecast reference price, multiplied by estimated eligible generation volume. The series of periodic net operating expense is then discounted using a real discount rate based on the HM Treasury nominal rate of 1.9% adjusted the latest OBR CPI inflation forecasts for each modelled year (2020/21: real 0.7% rate for all periods).

The valuation requires management to make certain assumptions about the model inputs, including cash flows, the discount rate, credit risk and volatility. Significant inputs are disclosed in note 19.

One of the key inputs into the cash flow model is the estimate of future electricity prices which is derived by applying certain inputs and assumptions such as overall electricity demand, commodity prices, carbon prices, government policy, technology, and deployment of new generating capacity. Most commercial and public sector modelling of the electricity system for long term forecasting takes a very similar approach, but the detailed assumptions and methodology may differ. Given the complexity, range of possible inputs, and long-term nature of the modelling, and also to some extent the iterative relationship between the expectations of overall system cost and long-term demand (especially industrial demand), long-term system forecasts are not generally seen as a single "most likely" outcome with degrees of uncertainty either side. In fact, there are multiple sets of inputs that are internally consistent, and credible. Often a set of these inputs will be used as a "scenario," and multiple deliberately different scenarios are used to illustrate different possible futures when undertaking long-term forecasting. The range of uncertainty can be significant when forecasting (as illustrated in note 19.5) but does not necessarily mean that an individual scenario is not reasonable. The company continues to use the Dynamic Despatch Model (DDM), unless there is evidence that it is not a reliable proxy for the price series that a third party might use to estimate the payments they would need to make under the terms of the CfD contracts.

4.2 Significant judgement

4.2.1 Fair value measurement of Hinkley Point C CfD

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

The Hinkley Point C CfD duration is more than double (35 years) the length of other CfDs (15 years) entered into by the company. This has made it considerably more challenging for management to provide a reliable single point fair value estimate for Hinkley Point C CfD.

However the BEIS DDM model forecasts pricing out to 2060 and therefore in line with the recognition criteria for the other CfD's, the recognition criteria for Hinkley Point C CfD was deemed to have been met and the CfD is recognised in the financial statements since 2019/20.

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

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

The fair value of the CfDs, disclosed in note 19, is derived at initial recognition based on the valuation technique that uses data other than from observable sources. In accordance with IFRS 9, the measurement of CfDs in the statement of financial position therefore includes an adjustment to defer the difference between the fair value at initial recognition and the transaction price of nil.

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

4.2.3 Supplier Obligation Levy

The accounting treatment of CfDs as a financial liability would result in a charge to the statement of comprehensive income in subsequent periods due to the amortisation of the day one deferred difference, between the fair value of the liability and the transaction price, and the movement in fair value of the CfDs. In substance, the Supplier Obligation Levy and the CfD obligation to make payments to generators are linked transactions. The company's reason for existence is to facilitate the settlement of CfDs to generate low carbon electricity with funding raised via the Supplier Obligation Levy.

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 March 2022 (Continued)

6. Other income

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

	2022 £'000	2021 £'000
Operational costs levy income	21,018	16,585
Less: expected refund to suppliers	(11,174)	(1,500)
Net operational costs levy income	9,844	15,085
Settlement of a dispute	2,800	–
Recharges to ESC (refer to note 17)	2,793	2,793
Recharges to BEIS (refer to note 17)	192	43
Amortisation of deferred government grant liability	–	130
Miscellaneous income	25	3
Other income	15,654	18,054

7. Staff costs

	2022 £'000	2021 £'000
Wages and salaries	6,215	5,703
Social security costs	683	644
Agency and contracted staff costs	37	421
Defined contribution pension plans	467	396
Staff costs	7,402	7,164

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

In 2022 we see agency and contracted staff costs reduce as there were no legal disputes this financial year.

	2022 Number	2021 Number
Permanent staff	82	69
Agency and contracted staff	10	7
Total	92	76

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report on pages 65 to 69.

8. Other operating costs

	2022 £'000	2021 £'000
Operational settlement costs	3,453	3,316
Legal, professional and consultancy	2,386	5,048
IT support, telephony and maintenance	671	725
Insurance	464	376
Premises costs	292	296
Miscellaneous costs	430	263
Auditor's remuneration	133	130
Other operating costs	7,829	10,154

Auditor's remuneration represents audit fees of £111K (2021: £109K) excluding VAT. The fees shown in the table above are VAT inclusive.

Other Income have reduced in the current year due to the company recovering legal costs amounting to £2.8m, incurred in prior years, relating to a dispute which was decided in the year in the company's favour.

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

9. Property, plant and equipment

	Leasehold improvements £'000	Office building & related facilities £'000	IT equipment £'000	Furniture and Fittings £'000	Total £'000
Cost					
As at 31 March 2020	385	625	364	86	1,460
Additions during the year	–	–	60	–	60
Disposals during the year	–	–	(33)	–	(33)
As at 31 March 2021	385	625	391	86	1,487
Additions during the year	–	2,277	68	75	2,420
Disposals during the year	(385)	(625)	(213)	(86)	(1,309)
As at 31 March 2022	–	2,277	246	75	2,598
Depreciation					
As at 31 March 2020	369	278	283	44	974
Charge for the year	7	278	55	10	350
Disposals during the year	–	–	(33)	–	(33)
As at 31 March 2021	376	556	305	54	1,291
Charge for the year	3	208	62	9	283
Disposals during the year	(379)	(625)	(213)	(58)	(1,276)
As at 31 March 2022	–	139	154	5	298
Net book value as at 31 March 2021	9	69	86	32	196
Net book value as at 31 March 2022	–	2,138	92	70	2,300

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

Notes to the financial statements

for the year ended 31 March 2022 (Continued)

10. Intangible assets

	Settlement System £'000	Other IT Software £'000	Total £'000
Cost			
As at 31 March 2020	1,877	1,163	3,040
Additions during the year	–	49	49
As at 31 March 2021	1,877	1,212	3,089
Additions during the year	–	81	81
As at 31 March 2022	1,877	1,293	3,170
Amortisation			
As at 31 March 2020	1,460	996	2,456
Charge for the year	332	54	386
As at 31 March 2021	1,792	1,050	2,842
Charge for the year	85	55	140
As at 31 March 2022	1,877	1,105	2,982
Net book value as at 31 March 2021	85	162	247
Net book value as at 31 March 2022	-	188	188

11. Supplier Obligation Levy receivable

	2022 £'000	2021 £'000
Interim Levy Rate accruals	–	120,174
Interim Levy Rate receivable	5,344	34,192
Generator's payment receivable	77,514	–
Generator's payment accruals	35,472	–
Total Supplier Obligation Levy receivable	118,330	154,366

The Interim Levy Rate receivable reflects the amounts owed by suppliers to fund the necessary payments to generators under the CfDs. This financial year we saw the market rate rise above the strike price resulting in generators paying LCCC and as a result the interim levy rate has been set to '0' since October 2021. Therefore, as at the 31 March 2022 the Interim Levy Rate receivables are nil (2020/21: £120.2m) and generators invoices total £77.5m plus accruals of £35.5m (2020/21: nil). Unutilised Total Reserve Amount due to be returned to suppliers, as disclosed in note 13, is £303.4m (2020/21: £127.3m).

12. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank	415,681	230,579
Suppliers' credit cover	14,704	36,666
Total cash and cash equivalents	430,385	267,245

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 £15.4m relating to unutilised Total Reserve Amount received from suppliers to cover the shortfall in Supplier Obligation Levy. Total Reserve Amount and Supplier Obligation Levy included within cash at bank in prior year amounted to £90.3m. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

13. Supplier Obligation Levy and generators payments payable

	2022 £'000	2021 £'000
Generators payment payable	6,630	112,647
Total Reserve Amount payable	303,432	127,253
Generators payment accrual	2,783	67,355
Interim Levy Rate payable	210,206	805
Total Supplier Obligation Levy and generators payments payable	523,051	308,060

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

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

14. Trade and other payables

	2022 £'000	2021 £'000
Current:		
Suppliers' credit cover	14,697	36,660
Accruals	1,884	1,986
Other taxation and social security	212	204
Trade payables	117	–
Total trade and other payables	16,910	38,850

The carrying values of trade and other payables approximate to their fair values.

15. Loans and borrowings

	2022 £'000	2021 £'000
Current:		
Loan from BEIS (refer to note 17)	–	75,110
Grant in aid capital loan	95	127
	95	75,237
Non-current:		
Grant in aid capital loan	165	135
Total loans and borrowings	260	75,372

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16. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
Ordinary share capital issued and fully paid:	£
As at 31 March 2020 and 31 March 2021	1
Share capital issued during the year	–
As at 31 March 2022	1

17. Related party transactions

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

	Services to related parties	Services from related parties	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Entities with significant influence:				
2021				
BEIS	84	1	–	75,502
ESC	2,793	–	–	–
2022				
BEIS	192	–	–	263
ESC	2,793	–	–	–

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

Services to BEIS includes costs recharged totalling £99k (2021: £40k) relating to work carried out relating to the development of industrial carbon capture and storage capability in the UK, £70k (2021: £3k) relating to the deployment of low carbon hydrogen in the UK, and £23k (2021: £nil) relating to the development of a Regulated Asset Base (RAB) model to fund the provision of new nuclear energy infrastructure projects. In the previous year also included secondment of staff amounting to £41k.

Amounts owed to BEIS include the grant in aid capital loan £260k (refer to note 15), deferred income amounting to £22k (2021: £34k) and lease liability relating to the settlement system asset totalling £3k (2021: £96k).

In the previous year amounts owed to BEIS also included an unsecured short-term loan totalling £75,110k. The loan was to provide short-term deferral of the increased levy payment due by electricity suppliers, which arose as a result of Covid-19. During the year, the company fully repaid the loan. Under the agreement the company was only obliged to make repayments to the extent that it is confident that it holds sufficient funds from electricity suppliers.

17.1 Compensation of key management personnel of the company

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

18. Financial assets and liabilities

	Note	2022 £'000	2021 £'000
Financial assets			
Trade receivables		65	–
Cash and cash equivalents	12	430,385	267,245
Total financial assets		430,450	267,245
Total current		430,450	267,245
Total non-current		–	–
Total financial assets		430,450	267,245

	Note	2022 £'000	2021 £'000
Financial liabilities			
Contracts for Difference	19	26,948,043	16,932,718
Trade and other payables	14	16,698	38,646
Loans and borrowings	15	260	75,372
Lease liabilities		2,154	167
Total financial liabilities		26,967,155	17,046,903
Total current		17,069	114,050
Total non-current		26,950,086	16,932,853
Total financial liabilities		26,967,155	17,046,903

19. CfDs

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

As at 31 March 2022 the company was counterparty to 69 contracts, including Hinkley Point C.

19.1 Measurement differences relating to day one recognition

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

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

	CfDs exc.HPC £'000	HPC CfD £'000	Total £'000
CfD liability as at 31 March 2020 recognised in the statement of financial position	16,464,240	–	16,464,240
Remeasurement of the CfD liability	416,675	1,201,738	1,618,413
Payments to the CfD generators	(2,277,412)	–	(2,277,412)
Deferred difference recognised during the year	1,127,477	–	1,127,477
CfD liability as at 31 March 2021 recognised in the statement of financial position	15,730,980	1,201,738	16,932,718
Remeasurement of the CfD liability	(449,384)	9,396,587	8,947,203
Payments to the CfD generators	(270,760)	–	(270,760)
Deferred difference recognised during the year	1,338,882	–	1,338,882
CfD liability as at 31 March 2022 recognised in the statement of financial position	16,349,718	10,598,325	26,948,043

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for the year ended 31 March 2022 (Continued)

During the year, the net movement of £10,286m (2020/21: £2,746m) in the fair value of CfDs is recognised in the statement of comprehensive income.

19.2 Movement in deferred measurement differences

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
Deferred measurement differences as at 31 March 2020	22,292,944	50,826,301	73,119,245
Deferred measurement differences recognised during the year	(1,127,477)	–	(1,127,477)
Measurement differences recognised relating to terminated CfDs	5,561	–	5,561
Deferred measurement differences as at 31 March 2021	21,171,028	50,826,301	71,997,329
Measurement differences recognised relating to terminated CfDs	(15,084)	–	(15,084)
Deferred measurement differences recognised during the year	(1,323,797)	–	(1,323,797)
Deferred measurement differences as at 31 March 2022	19,832,147	50,826,301	70,658,448

19.3 Fair value measurement of CfDs

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

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

19.3.1 Fair value of CfDs (financial liabilities at fair value through profit and loss)

The following table provides an analysis of financial instruments which are measured subsequent to initial recognition at fair value and grouped into input levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 31 March 2021	–	–	88,930,047	88,930,047
As at 31 March 2022	–	–	97,591,406	97,591,406

19.3.2 Reconciliation of CfDs

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

	CfDs exc.HPC £'000	HPC CfD £'000	Total £'000
As at 31 March 2020	38,757,184	50,826,301	89,583,485
Change in fair value during the year	416,675	1,201,738	1,618,413
Payments to the CfD generators	(2,277,412)	–	(2,277,412)
CfDs terminated during the year	5,561	–	5,561
As at 31 March 2021	36,902,008	52,028,039	88,930,047
Change in fair value during the year	(449,384)	9,396,587	8,947,203
CfDs terminated during the year	(15,084)	–	(15,084)
Payments to the CfD generators	(270,760)	–	(270,760)
As at 31 March 2022	36,166,780	61,424,626	97,591,406

19.4 Key inputs and underlying assumptions for CfDs

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

19.4.1 Estimated future forecast wholesale electricity prices

Forecast wholesale electricity prices used to estimate the fair value of CfDs are derived from the DDM which has been developed by BEIS to facilitate/inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment. The DDM estimates the wholesale price by:

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

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

The forecast trajectory of electricity prices are uncertain and volatile. In the valuation, management has used the 2021 DDM reference case to calculate the fair value of the CfD portfolio. Low and high cases were also published by BEIS, which presented low and high assumptions for the wholesale prices of oil, gas and coal. The impact of the high and low cases is illustrated in note 19.5. The internal model used to calculate the fair value has been updated for short-term prices, installed capacities, TLM, and load factors.

In the valuation, the wholesale price has been reduced to reflect the price the wind generator is likely to receive. Additionally, wholesale electricity forward prices have been used for the liquid trading horizon, covering the next 2 financial years. For the remainder of the CfD's contract life the DDM forecast has been incorporated into the valuation. On windy days, the price that wind generators receive is likely to be reduced. The effect of reduced prices for wind generation adds approximately £2.4bn to the valuation.

19.4.2 Estimated future wholesale electricity generation

19.4.2.1 Transmission Loss Multiplier (TLM)

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

19.4.2.2 Start date

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

The estimated start dates for reactor one and reactor two of the Hinkley Point C project are June 2026 and June 2027, respectively. The TCW for reactor one is 1 May 2025 to 30 April 2029. The TCW for reactor two is 1 November 2025 to 31 October 2029.

Any change to the start date will change the timing of future cash flows and impact on the discounted fair value.

19.4.2.3 Installed Capacity

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

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

19.4.2.4 Load Factor

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

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for the year ended 31 March 2022 (Continued)

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

19.4.3 Strike price

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

The relevant strike price is specified in each CfD and is not intended to change for the duration of the project, other than through indexation to CPI and certain network charges, or in the event of certain qualifying changes in law. The strike price used in the valuation of the CfDs is the 2022/23 strike price and reflects the CPI rate for January 2022, in line with the requirements of the CfD contract.

The announcement made by Ofgem in April 2022 stating that from the 1st April 2023 generators will no longer pay BSUoS charges confirmed the market view at the reporting date which LCCC had already incorporated into the strike price forecast as at the 31st March 2022.

The relevant strike price for the Hinkley Point C CfD is specified at £92.50/MWh in real 2012 terms and is not intended to change for the 35 year contract duration, other than through indexation to CPI and certain network charges, the event of certain qualifying changes in law, or the additional factors discussed below. If a government scheme in relation to Sizewell C is entered into before the reactor one start date, then the applicable strike price shall be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh. Management's assumption with regards to Sizewell C has not changed since last year as there is still no certainty that Sizewell C will enter into a low carbon government scheme, hence the fair value of Hinkley Point C CfD continues to be £92.50/MWh.

19.4.4 Equity gain share for Hinkley Point C

The equity gain share mechanism consists of two separate components: (i) a mechanism to capture gains above specified levels where the Hinkley Point C project outperforms relative to the original base case assumptions; and (ii) a mechanism to capture gains above specified levels arising from the sale of equity and economic interests (direct or indirect) in the Hinkley Point C project. In each case, as and when the Internal Rate of Return (IRR) thresholds are reached:

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

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

19.4.5 Construction gain share for Hinkley Point C

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

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

No adjustment to the valuation has been made for construction gain share on the grounds that there hasn't been any construction gain share during the year and none is currently forecast.

19.4.6 OPEX reopener for Hinkley Point C

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

No adjustment to the valuation has been made for OPEX reopener on the grounds that the opex reopener dates have not been reached yet and there is no evidence of operating costs materially differing from initial projections

19.5 Sensitivity analysis

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

In order to value the CfD liabilities management has used future wholesale electricity prices derived from the selected DDM reference case scenario. The two reference case scenarios provided (with alternative levels of demand) represents BEIS's view of the optimal generation mix (from the perspective of whole system costs) to achieve Net Zero by 2050. The reference case scenario that was deemed the most reasonable estimate of the two by management and used for the valuation produces a forecast price of £54.04 per MWh in 2040 and £48.09 per MWh in 2050 (and 2060). BEIS also included high and low cases for this reference case scenario. These high and low cases represent BEIS's view of the optimal generation mix from the perspective of whole system cost to achieve Net Zero by 2050 based on low and high assumptions for future wholesale prices of oil, gas, and coal. Under these BEIS high/low fossil fuel prices scenarios the forecast price is £58.07/£49.36 per MWh in 2040 and £52.43/£46.67 per MWh in 2050 (and 2060). The impact on the CfD valuation of using these alternative scenarios is shown in the table below.

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

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

In previous years the company has used the HM Treasury real discount rate of 0.7% for valuing financial instruments such as CfDs, and as a modelling enhancement, LCCC has this year derived a real discount rate from the HM Treasury nominal discount rate of 1.9% adjusted by the latest CPI inflation forecasts for each modelled year, given that the strike price is indexed to CPI, resulting in the following real discount rates:

2022/23:	-5.65%
2023/24:	-0.47%
2024/25:	0.24%
2025/26:	-0.06%
2026/27 and thereafter:	-0.10%

Given that HM Treasury now has an intention to vary their discount rate guidance on an annual basis, for future year-on-year comparability we now include an undiscounted valuation of the CfDs to compare with table 19.3.2:

	CfDs exc. HPC £'000	HPC CfD £'000	Total £'000
As at 31 March 2020	40,902,542	60,000,270	100,902,812
As at 31 March 2021	38,864,510	61,221,251	100,085,761
As at 31 March 2022	34,843,617	58,381,214	93,224,831

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

	Favourable/ (unfavourable) HPC CfD £'000	Favourable/ (unfavourable) Other CfDs £'000	Favourable/ (unfavourable) Total impact £'000
Change in fair value of CfDs if:			
DDM High Case	4,751,612	(1,111,775)	3,639,837
DDM Low Case	(3,375,529)	(13,462,862)	(16,838,391)
Discount rate of 3.5%	32,461,295	10,235,737	42,697,032
Discount rate of 0.7%	11,314,593	3,378,497	14,693,091
Undiscounted	3,043,412	1,323,162	4,366,574
Specific to Other CfDs:			
10% more load factor	–	(3,616,678)	(3,616,678)
10% less load factor	–	3,616,678	3,616,678
Estimated Commissioning Date moves backward by one year	–	(1,358,891)	(1,358,891)
Generation starts at the earliest possible date	–	3,172,460	3,172,460
Specific to HPC CfD:			
10% less load factor	6,142,463	–	6,142,463
Generation starts at the earliest possible date	207,184	–	207,184
Generation start date delayed one year from estimated start date	(113,138)	–	(113,138)
Sizewell C strike price adjustment	3,648,911	–	3,648,911

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

19.6 Significant unobservable inputs

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

	Fair value of CfDs (£'000)	Valuation technique	Significant unobservable input	Market Price Range Min-Max	Units
2021	88,930,047	DCF	Electricity prices	24.62–77.77	£/MWh
2022	97,951,406	DCF	Electricity prices	37.84–244.00	£/MWh

20. Supplier Obligation Levy

	£'000
As at 31 March 2020	16,464,240
Levy receivable recognised against remeasurement of CfD liability	1,618,413
Supplier Obligation Levy received during the year, net of repayable	(2,277,412)
Amortisation charge during the year	1,127,477
As at 31 March 2021	16,932,718
Levy receivable recognised against remeasurement of CfD liability	8,947,203
Supplier Obligation Levy received during the year, net of repayable	(270,760)
Amortisation charge during the year	1,338,882
As at 31 March 2022	26,948,043

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

21. Events after the reporting period

On 19th May 2022, EDF announced the conclusion of a review of the schedule of Hinkley Point C assessing Covid-19 related impacts, with a new target start date of June 2027. The impact of these delays would be to increase the valuation of the HPC CfD from £61.4bn to £61.6bn keeping all other modelling inputs (including electricity price forecasts) the same.

Glossary

Acronym	Description
ACT	Advanced Conversion Technologies
Allocation Round	The process by which potential generators apply to National Grid (as “Delivery Body”) for a CfD and the successful applicants are selected. Allocation Rounds are announced by BEIS, which sets the available CfD “budget” for the relevant Allocation Round and specifies the generation technologies which are eligible. The first Allocation Round (“Allocation Round 1”) concluded in March 2015. Allocation Round 2 concluded in October 2017.
Apportioned CfD	The Apportioned Metering CfD variant amends the same standard terms and conditions used by single metered CfDs. In the Apportioned Metering option net Metered Volume is recorded for the whole project (i.e. all phases). This is achieved via one central metering point. The total Metered Volume from that central point is then apportioned to each individual phase based on the overall functionality of that phase.
BEIS	Department for Business, Energy and Industrial Strategy.
BMU	Balancing Market Unit-
Capacity agreement	A capacity agreement is a regulatory and rule based arrangement between National Grid, as System Operator, and a successful applicant in a Capacity Market auction. The capacity agreement provides a regular retainer payment to the successful applicant or “capacity provider”.
Capacity Auction	At a Capacity Auction, applicants who offer the lowest bid can win a capacity agreement. A Capacity Auction relates to delivery of capacity approximately four years ahead (T-4). For instance, the capacity agreements resulting from the 2014 T-4 Capacity Auction will require capacity to be delivered in the Delivery Year commencing 2018/19.
Capacity Market	The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded capacity agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions.
Capacity Provider	A capacity provider is the holder of a capacity agreement with National Grid (as System Operator). Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand side reductions (Demand Side Response). Capacity providers provide capacity under either a capacity agreement resulting from a Capacity Market auction or from a Transitional Arrangement Auction.
CCUS	Carbon Capture, Usage and Storage.
CfD Counterparty or counterparty	CfD counterparty is responsible for managing CfDs throughout their contractual life.
CfD project	This refers to a project as defined within a CfD agreement in relation to a particular facility. Each phase of an offshore wind farm has a separate contract, and therefore each phase is referred to as a separate CfD project.
CfD Standard Conditions	The relevant standard CfD template contract used in each Allocation Round, also referred to as the CfD Standard Terms and Conditions. The Standard Terms and Conditions offered under Allocation Rounds 1, 2 and 3 are available at: https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference
Contracts for Difference or CfD	A Contract for Difference (CfD) is a long term agreement between a low carbon electricity generator and LCCC. It is designed to provide the generator with a stable pre-agreed price (the “strike price”) for the lifetime of the contract. This is done by paying the difference where electricity price (the “market reference price”) is less than the strike price and receiving the difference when the market reference price is higher than the strike price.
DDM (or Dynamic Despatch Model)	The long term forecast of wholesale electricity prices is derived from the Dynamic Dispatch Model. The DDM was developed by BEIS to inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment (the figures for Great Britain are modelled out to 2050).
Delivery Partners	CfD Delivery Partners are organisations involved in delivering the CfD. The CfD Delivery Partners are LCCC Ofgem and the EMR Delivery Body of National Grid ESO.

Acronym	Description
Delivery Year	This is a defined term within the Capacity Market rules referring to the obligation period of a capacity agreement being 1 October to 31 March of the following year.
Demand Side Response	Demand Side Response helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the “demand side”) in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. Demand Side Response is seen as having the potential to help to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.
ECJ	Means the General Court of the Court of Justice of the European Union. The ECJ on 15 November 2018 (Case T–793 14) annulled the main State aid approval granted by the European Commission for the Capacity Market scheme.
EMRS	EMR Settlement Ltd (EMRS) is a wholly owned subsidiary company of ELEXON Ltd.* It is the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (*ELEXON website: www.elexon.co.uk/)
Energy Data Taskforce	The Energy Data Taskforce was established by Government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency.
ESC	Electricity Settlements Company Ltd.
ESO	The Electricity System Operator (ESO), a ring-fenced part of National Grid which performs the functions of the ‘EMR Delivery Body’, in relation to CfD and Capacity Market auctions.
FIDeR	See Investment Contracts.
FIC	Final Installed Capacity.
Interim Levy Rate	Under the Supplier Obligation Levy, electricity suppliers make pre-payments consisting of a unit cost fixed Interim Levy Rate, charged at a daily £/MWh rate to fund the cost of CfD generation payments. The Interim Levy Rate is set by LCCC every quarter, one quarter in advance, based on an estimate of the payments that will need to be made in respect of CfD generation in that quarter.
Investment Contracts	Investment Contracts are an earlier (April 2014) version of CfDs entered into by the Secretary of State in mid 2014 pending the full establishment of the CfD scheme and of LCCC. The Secretary of State has transferred these contracts to LCCC. The contracts are also known as the Financial Investment Decision enabling Renewables (or FiDeR).
Market reference price	The market reference price is a proxy for the average market price relating to the electricity sold by the generator.
Milestone Requirement	The CfD requires generators to demonstrate that, by the “Milestone Delivery Date” set out in their CfD, they have made a significant financial commitment to and are progressing the construction of their project (i.e. new generation plant). This date is 12 months from the date of entry into the CfD agreement. Generators demonstrate this requirement by providing LCCC with evidence that they either have spent 10% of the project cost or have entered into contracts committing to expenditure and development of the project.
Operational Conditions Precedent	Operational Conditions Precedent is a significant milestone under the CfD. Generators are required to satisfy certain commissioning and other requirements in order to achieve their CfD start date and be eligible for CfD payments (i.e. they must achieve their Operational Conditions Precedent). In particular, as part of their requirements, projects are required to be able to achieve a minimum 80% of their installed capacity (or expected Facility generation) referred to in the relevant generator’s application for a CfD.
Secretary of State (SoS)	Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder.

Glossary

(Continued)

Acronym	Description
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">• the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter;• the likelihood of any supplier failing to make payments during the quarter; and the estimated income to be received by the company from CfD generators in the quarter; and• the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CfD generators.
System Operator (SO)	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">• the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter;• the likelihood of any supplier failing to make payments during the quarter; and the estimated income to be received by the company from CfD generators in the quarter; and• the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CfD generators.

Management Committee

LCCC provides:

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

This was the Management Committee as at 10 June 2022.



Neil McDermott
Chief Executive Officer



Allison Sandle
General Counsel
& Company Secretary



Cynthia Duodu
Director of People
& Organisational Development



George Pitt
Chief Financial Officer



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