LOW CARBON
CONTRACTS COMPANY

Annual Report and Accounts 2014/15

The Government's energy and climate change goals are "to deliver the low carbon energy and reliable supplies that the UK needs, while minimising costs to consumers".[1]

The Department of Energy & Climate Change (DECC) has said that to provide renewable, reliable and sustainable energy by 2020 requires an estimated investment of around £100 billion in electricity generation and transmission in this decade alone in order to replace the UK's ageing assets.[2]

To help secure investment of this scale, DECC created the Electricity Market Reform (EMR) programme, including the Contracts for Difference (CFD) scheme to support investment in new low carbon generation (replacing the existing Renewables Obligation) and a Capacity Market scheme to facilitate security of supply. DECC also created two companies to help deliver these schemes:

- Low Carbon Contracts Company Ltd (LCCC) to be the counterparty to and manage CFD's throughout their lifetime; and
- Electricity Settlements Company Ltd (ESC) to oversee settlement of the Capacity Market agreements.

LCCC is governed by a Framework Document[3] with its sole shareholder, the Secretary of State for Energy and Climate Change. The Framework Document, published on LCCC's website, is one of the company's primary governance documents, which sets out its relationship with its shareholder and its Guiding Principle.

LCCC's Guiding Principle is to maintain investor confidence in the CFD scheme and minimise costs to consumers

1 https://www.gov.uk/government/policies/maintaining-uk-energy-security--2/supporting-pages/electricity-market-reform

2 DECC, Implementing Electricity Market Reform, (June 2014), page 12, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324176/Implementing_Electricity_Market_Reform.pdf; and DECC, Energy Investment Report April 2014, (April 2014), page 4, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305860/DECC_Energy_investment_report_Web_Final.pdf

3 https://lowcarboncontracts.uk/system/files/Low%20Carbon%20Contracts%20Company%20Framework%20Document%20-%20August%202014%20-%20Signed.pdf

Contents

Senior team

Martin Read
Chairman

Neil McDermott
Chief Executive

Helen Turner
Chief Finance Officer

Claire Williams
Head of Legal &
Company Secretary

Ruth Herbert
Head of Strategy &
External Relations

Nic Rigby
Head of Contract
Management

Cynthia Duodu
Head of Corporate
Services

James Rushton
Head of Nuclear

OUR VISION…

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

OUR MISSION…

is to build confidence in electricity market reform through effective commercial delivery and continuous improvement

A pivotal company

I was delighted to be appointed as the first Chairman of LCCC in the early months of 2014. It has been a demanding and exciting time as we put everything in place for go live on 1 August last year and began the business of operating the new CFD scheme.

Pivotal to the success of Electricity Market Reform (EMR)

CFDs are bilateral contracts awarded to low carbon generators early in the project development lifecycle with the aim of enabling the developer to secure the necessary finance to see the project through to completion. LCCC is already managing CFDs worth over ten billion pounds, playing a key role in incentivising investment in low carbon generation in Great Britain.

Building a strong, reliable company

I have been impressed by the amount that has been achieved in such a short space of time, both in terms of setting up the business and, most importantly, implementing the CFD scheme. This success has only been possible through close collaboration with electricity suppliers and generators and our extensive industry readiness programme.

A critical achievement was establishing the company in its new premises ahead of go live with essential systems and infrastructure in place.

As always, people are our most important asset and I am delighted to have recruited Neil McDermott as our Chief Executive. He has significant experience in the industry stretching over 20 years. We have put in place a highly skilled senior management team to support him and to ensure that the company can meet the challenges of EMR.

I am also very pleased to have assembled a strong non-executive team. Our non-executive directors bring a wide range of expertise covering energy markets, finance, law, construction, settlement systems, regulatory oversight and government policy. The board has put in place processes and mechanisms to ensure effective oversight and to facilitate the proactive management of commercial risks.

The company has adopted the UK Corporate Governance Code as a means of recognising and embedding best practice in our corporate governance. The Corporate Governance section on page 31 outlines our governance structure.

Looking ahead

As we move into "business as usual" activities, our focus is on refining the company's processes to ensure we operate as efficiently as possible and deliver value for money. Continued and effective communication with the industry remains key to the success of the CFD scheme as we prepare for the second round of contract awards, building the momentum towards a sustainable electricity future.

Dr Martin Read CBE
Chairman

Site of proposed Energy from Waste with combined heat and power facility (artist's impression), K3 CHP, Kemsley, Kent © Wheelabrators Technologies Inc.

Shaping the future of energy generation

Achieving our targets

LCCC has played a critical role in the implementation and operation of the EMR programme since the CFD regulatory framework came into force and we became operationally independent from DECC in August last year. Since then, we have been faced with building a new business while at the same time working to a very tight timeline and at considerable pace to complete predefined milestone activities.

From the outset, it was clear to me that we had a mammoth task ahead of us and I am pleased that, to date, we have successfully delivered on all our regulatory obligations. Early key appointments ensured that we had a dedicated and experienced senior team which could hit the ground running and meet the challenges of the EMR timetable.

Successful implementation of EMR

The vast majority of our business activity during this Annual Report period has rightly focused on implementation of EMR – managing the Investment Contracts transferred by DECC, setting the Supplier Obligation Levy, coordinating industry readiness and overseeing the project to implement the new EMR settlement system. Most recently, in March 2015, we completed the award of 27 CFDs resulting from the first Allocation Round.

Our programme of industry readiness has seen us facilitate regular workshops with our delivery partners for both electricity generators and suppliers. These sessions have considered the mechanics of EMR, including the timing and the processes. For generators, we focused on promoting understanding of the CFDs and the contracting process. For suppliers, our first priority was to familiarise them with the Supplier Obligation Levy and our approach.

Contract management activities for Investment Contracts have been underway since go live in August 2014. In our contract management role, we want to develop transparent relations with our counterparties so that key issues or risks can be shared early, increasing the likelihood of successful delivery of low carbon generation while seeking to minimise costs to electricity consumers.

We could not have successfully achieved our key milestones without effective collaboration with our shareholder DECC, our delivery partners and industry participants. I would particularly like to recognise the significant contribution of LCCC's most important asset – its people. We have completed our recruitment campaign, succeeding in attracting expert teams to cover areas such as commercial, finance, legal, IT, supply chain and human resources. At the same time, we have successfully established our enduring internal systems and processes.

Looking ahead

Our key milestones for the year ahead include preparations for the second CFD Allocation Round, for which we have issued the timings. We will also be actively working with DECC and our delivery partners, improving our processes further and increasing industry familiarity with the scheme.

We will continue to monitor CFDs signed in March this year to track progression towards their Milestone Delivery Date. We will also be preparing to make the first payments for CFD generation to projects that complete the construction phase and start to generate electricity. In addition, we will continue to ensure that any issues are resolved for future Allocation Rounds.

As we gain further operational experience in CFD management and settlement, we will be setting performance indicators that drive excellent delivery, including increased value for money for consumers.

I am confident that over the coming months we will further demonstrate that we can be counted on as a robust and reliable counterparty, which is a key reason for our operational independence – and key to maintaining investor confidence in CFDs. I look forward to playing our part in attracting vital future investment into the low carbon economy here in the UK.

N McDermott.

Neil McDermott
Chief Executive

"The LCCC have recruited some very professional people with extensive knowledge of the industry which is very valuable to us."

ALEX MURLEY, RWE INNOGY LTD

Site of proposed Solar Farm (visualisation), Charity Farm, Shropshire © Lightsource

The CFD explained

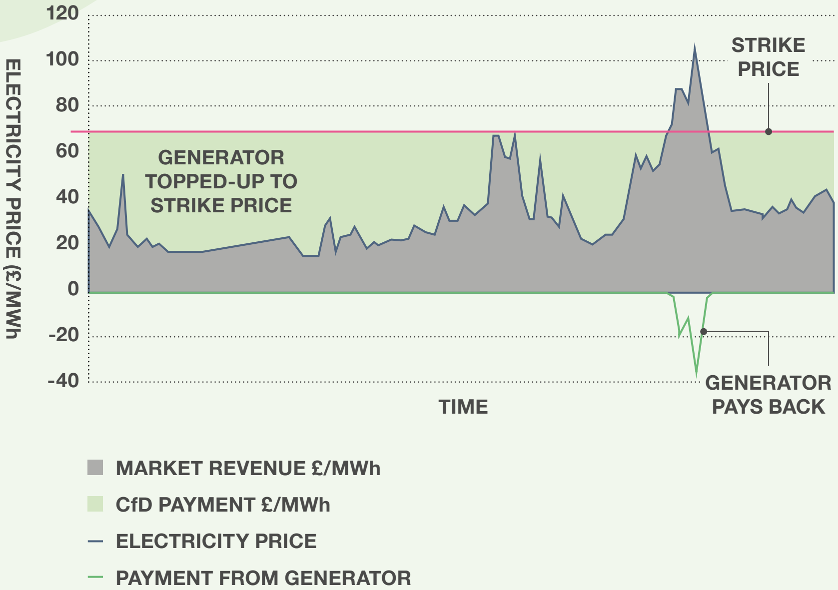
WHAT IS A CFD?

A Contract for Difference or 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 prices are less than the strike price and receiving the difference when prices are higher than the strike price.

WHAT IS THE SUPPLIER OBLIGATION?

Electricity suppliers are required under statutory regulations to fund the CFD payments made by LCCC to generators. This is known as the Supplier Obligation Levy. LCCC determines what amount it will need in each quarter in order to pay difference payments to generators and sets the levy accordingly. As part of the settlement process, LCCC collects this payment from suppliers and pays the monies due to the CFD generators. As difference payments can be a “two-way” process. In the event that it is the generators who owe the difference payments, LCCC collects such difference payments from generators and pays the monies to suppliers (see figure 1).

FIGURE 1: CFDS PROVIDE LONG TERM REVENUE STABILISATION FOR LOW CARBON TECHNOLOGIES*



Source: DECC, Planning our electric future: white paper (July 2011), page 38, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48129/2176-emr-white-paper.pdf

WHAT ARE CFD PAYMENTS?

A two-way payment process, whereby LCCC pays a CFD generator the difference where the reference price is less than the strike price applying to the relevant generation technology, and the generator pays LCCC the difference where the reference price is greater than the strike price.

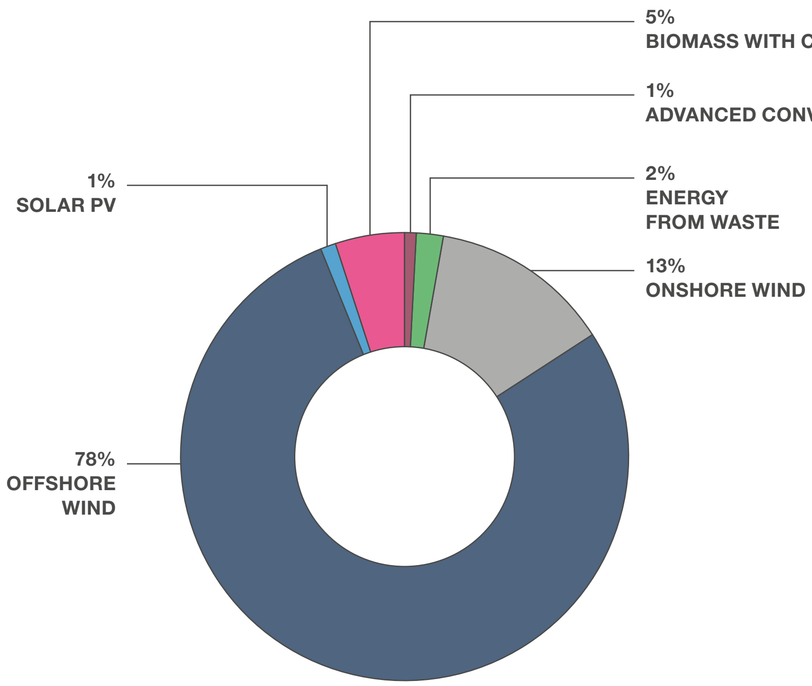
The strike price is the generator’s guaranteed level of revenue expressed in £/MWh of generation and is expected to reflect the cost of the generator’s investment in low carbon technology. The “reference price” is essentially the average market price relating to the electricity sold by the generator.

> "We are managing CFDs relating to projects that are planning to deliver over 5.5GW additional low carbon capacity by 2020, equivalent to almost 7% of current total installed electricity capacity in the UK."
>
> **NEIL MCDERMOTT,** CHIEF EXECUTIVE

LCCC...

- Considers requests for Minor and Necessary modifications to the CFD.
- Manages the process for entering into CFDs with successful generators notified to it by National Grid (as System Operator).
- Manages and monitors CFDs (including Investment Contracts transferred from the Secretary of State) throughout their lifetime.
- Forecasts CFD payments to generators, and sets and collects the Supplier Obligation Levy.
- Calculates and settles the amounts payable to generators and suppliers.
- Acts as Implementation Coordinator for systems and processes required for CFD implementation.

FIGURE 2: CFDS BY TECHNOLOGY*



TECHNOLOGY	MW
Advanced Conversion Technology	62
Energy from waste	94.75
Onshore wind	748.55
Offshore wind	4346
Solar PV	38.67
Biomass with combined heat and power	299

Percentage of total MW currently managed by LCCC

Source: LCCC CFD Register available at: https://lowcarboncontracts.uk/

Site of proposed Advanced Conversion Technology facility (artist's impression), Hirwaun, Wales
© Enviroparks (Wales) Ltd

LCCC is a private limited company, wholly owned by the Secretary of State for Energy and Climate Change. The company was established to be the counterparty to CFDs, which were designed by Government to incentivise the investment needed to sustainably deliver the UK's goals for renewable and other low carbon electricity.

Building strong foundations

WHO WE ARE

LCCC plays a key role in delivering the EMR programme.

LCCC manages CFDs with low carbon generators – a cornerstone of the EMR programme. The CFD was designed by DECC with the goal of incentivising investors to fund the development of low carbon electricity generation projects.

WHAT WE DO

LCCC's primary role is to manage CFDs throughout their lifetime, which involves management of the contracts as well as the Supplier Obligation Levy that funds CFD payments. Critical to these functions is power price forecasting and settlement activities. LCCC also runs Capacity Market settlement operations on behalf of the ESC.

OUR OBJECTIVES

Our objectives set out how we aim to deliver our role in line with our Guiding Principle.

In support of our Mission (see page 5), three main themes encapsulate our objectives: ***delivery first; fostering partnerships*** and ***striving for excellence.***

Delivery first

OBJECTIVE:

Proactively manage CFDs with low carbon generators in a way that builds investor confidence.

OBJECTIVE:

Provide accountability, governance and delivery of settlement operations under the CFD Supplier Obligation regulations and, on behalf of ESC, the Capacity Market payment regulations.

Fostering partnerships

OBJECTIVE:

Support our stakeholders in Government and industry to continue to implement EMR and seek continuous improvements in its delivery.

Striving for excellence

OBJECTIVE:

Strive for operational excellence, through robust, reliable and transparent operations delivered efficiently and sustainably, to minimise costs to consumers.

OBJECTIVE:

Create a great place to work built on our core values.

Delivery first

Our key priorities during the first year of the company have been to deliver against our EMR implementation milestones while building the foundations of the company and putting in place the people, operations and processes to meet our ongoing regulatory responsibilities under the CFD scheme.

LED BY OUR GUIDING PRINCIPLE

We strive for robust and reliable operations to maintain investor confidence in the CFD scheme and proactively and efficiently manage generator contracts and supplier payment processes to minimise costs to consumers.

OBJECTIVE:

Proactively manage CFDs with low carbon generators in a way that builds investor confidence.

Our key achievements:

- Managed Investment Contracts since August 2014.
- Efficient, timely and effective process for signing 27 new CFDs with renewable generators in March 2015.

Looking forward:

- Continue to manage Investment Contracts and CFDs, including their first construction phase milestone.
- Prepare to sign CFDs with the successful applicants in the forthcoming Allocation Round which starts in October 2015.
- Manage two biomass Investment Contracts on behalf of DECC pending the transfer of these contracts to LCCC upon state aid approval being obtained.
- Prepare for the potential transfer of the Hinkley Point C nuclear contract.

OBJECTIVE:

Provide accountability, governance and delivery of settlement operations under the CFD Supplier Obligation regulations and, on behalf of ESC, the Capacity Market payment regulations.

Our key achievements:

- Administered credit cover for the 2014 Capacity Auction.
- Forecast and set the CFD Supplier Obligation Levy for the first two obligation periods.
- Developed the Supplier Obligation Forecasting Model (SOFM) to forecast the Supplier Obligation Levy and the Transparency Tool to give visibility of the forecast and of any sensitivities to industry.
- Achieved readiness for necessary EMR settlement services to go live on 1 April 2015.

Looking forward:

- Operationalise the settlement system and deliver further functionality, e.g. Supplier Obligations exemptions and Capacity Market settlement modules.
- On behalf of ESC, facilitate credit cover process for the next Capacity Auction and continue to run efficient corporate operations.

Fostering partnerships

Delivery of EMR involves a number of organisations and requires specific actions from industry in order to succeed. Recognising that collaboration across these parties was vital to the success of the EMR programme, LCCC was given the role of Implementation Coordinator. As such it has worked hard to coordinate with delivery partners on planning and communication with industry. Building on these strong partnerships, LCCC will seek to apply the lessons from implementation and work with DECC, delivery partners and industry to improve delivery of the CFD scheme going forward.

OBJECTIVE:

Support our stakeholders in Government and industry to continue to implement EMR and seek continuous improvements in its delivery.

Our key achievements:

- Coordinated implementation of the EMR programme with DECC and our delivery partners through maintaining and publishing updates to a common CFD Implementation Plan.
- Collaborated with delivery partners to deliver an industry implementation programme to prepare generators and suppliers for the CFD scheme.
- Developed generator and supplier areas on our website to streamline information for CFD scheme participants.

Looking forward:

- Build, with DECC, delivery partners and industry, on lessons learned from implementation to improve the delivery of the EMR programme.
- Use feedback to improve the way we support industry readiness.
- Maintain a common CFD Operational Plan for the Allocation Round scheduled to begin in October 2015.
- Prepare prospective CFD generators to engage with our processes ahead of the 2015 Allocation Round.
- Create a community for generators who have CFDs to support them through contractual milestones.

"The event was praised by our delegates, which reflects a wider stakeholder engagement process from the LCCC. We feel it has been very good in its level of proactiveness and its engagement with interested CFD participants."

ALEX COULTON, RENEWABLE UK

STRONG LEADERSHIP

We work to develop strong partnerships, coordinate implementation and facilitate industry readiness for the CFD scheme.

Striving for excellence

We proactively work to improve our processes by embedding best practice into our operations to ensure the CFDs and Capacity Market schemes run smoothly, accurately and to tight deadlines, with a focus on value for money and minimising costs to consumers.

DELIVERING EXCELLENCE…

…by adopting a proactive contract management approach that focuses on early engagement and clear and straightforward communication with generators.

OBJECTIVE:

Strive for operational excellence, through robust, reliable and transparent operations delivered efficiently and sustainably, to minimise costs to consumers.

Our key achievements:

- Established effective and robust internal controls, systems and processes, focusing on financial, budgetary and commercial controls.

Looking forward:

- Develop key performance indicators to drive efficiencies across the company's operations and those of our settlement service provider.
- Continue operational improvements through the application of lessons learned and implement efficiencies.

OBJECTIVE:

Create a great place to work built on our core values.

Our key achievements:

- Appointed a high calibre and skilled workforce, including a highly experienced senior leadership team with strong commercial, industry, legal and government expertise.
- Created a modern, positive working environment which supports new and sustainable ways of working.

Looking forward:

- Develop values and competencies that recognise, reinforce and reward each individual's efforts.
- Build a strong positive culture, firmly grounded in the purpose of LCCC and engage staff in the development of our core values.

Getting down to business

GETTING STARTED

Since August 2014, LCCC has been managing eleven Investment Contracts transferred from the Secretary of State relating to five offshore wind projects (with three being phased projects with separate contracts for each phase). A further Investment Contract was transferred to LCCC in early February 2015, relating to a biomass conversion project. In March 2015, LCCC signed 27 renewable CFDs with successful applicants from the 2014 Allocation Round.

BUILDING KEY SYSTEMS

In its first year of operation, LCCC has developed and utilised its SOFM and published its Transparency Tool.

DELIVERING STRONG COLLABORATION

Since summer 2014, LCCC has run a number of implementation events involving DECC and delivery partners to provide generators and suppliers with an end-to-end overview of the CFD process.

SETTING THE SUPPLIER OBLIGATION

LCCC had to set the first Supplier Obligation Levy for the levy quarter (from April to June 2015) by 31 December 2014.

It had originally been expected that the timing for setting the first Supplier Obligation Levy would coincide with the outcome of the first CFD Allocation Round, which would have enabled the amount of generation in the first levy quarter to be calculated. However, the Allocation Round had not yet concluded by the date the levy had to be set. The challenge for LCCC was to decide how to set the levy without the clarity of the Allocation Round outcome.

The solution was to set the levy based on assumptions derived from published material on technology pipelines, and to be ready to make an in-period adjustment should it become clear, once the outcome of the Allocation Round was known, that this was appropriate.

CFDs were allocated on 26 February 2015. It was clear there would be no payments to CFD generators during the first levy quarter. LCCC therefore made an in-period adjustment on 27 February 2015, setting a new Interim Levy Rate of zero, with a notification being issued to suppliers, in time to avoid a levy being raised.

MINOR AND NECESSARY SURGERIES

The first Minor and Necessary modification process presented challenges, particularly for some small and medium size generator companies.

LCCC offered individual generator meetings or "surgeries" to explain the process to generators. Of the requests subsequently received by LCCC, all were successfully processed by the 23 October 2014 deadline.

SENDING OUT THE FIRST CFDS

On Thursday 26 February 2015 the first CFD Allocation Round concluded. LCCC was required to issue signed CFDs to the successful generators within 10 working days. Upon receipt, the generators had 10 working days to sign and return the CFDs and a further 10 working days to provide the information and documents relating to the "Initial Conditions Precedent" set out in the CFDs. LCCC published clear guidelines on the process on its website and implemented a streamlined procedure, resulting in 27 CFDs being signed.

CFD welcome ceremony

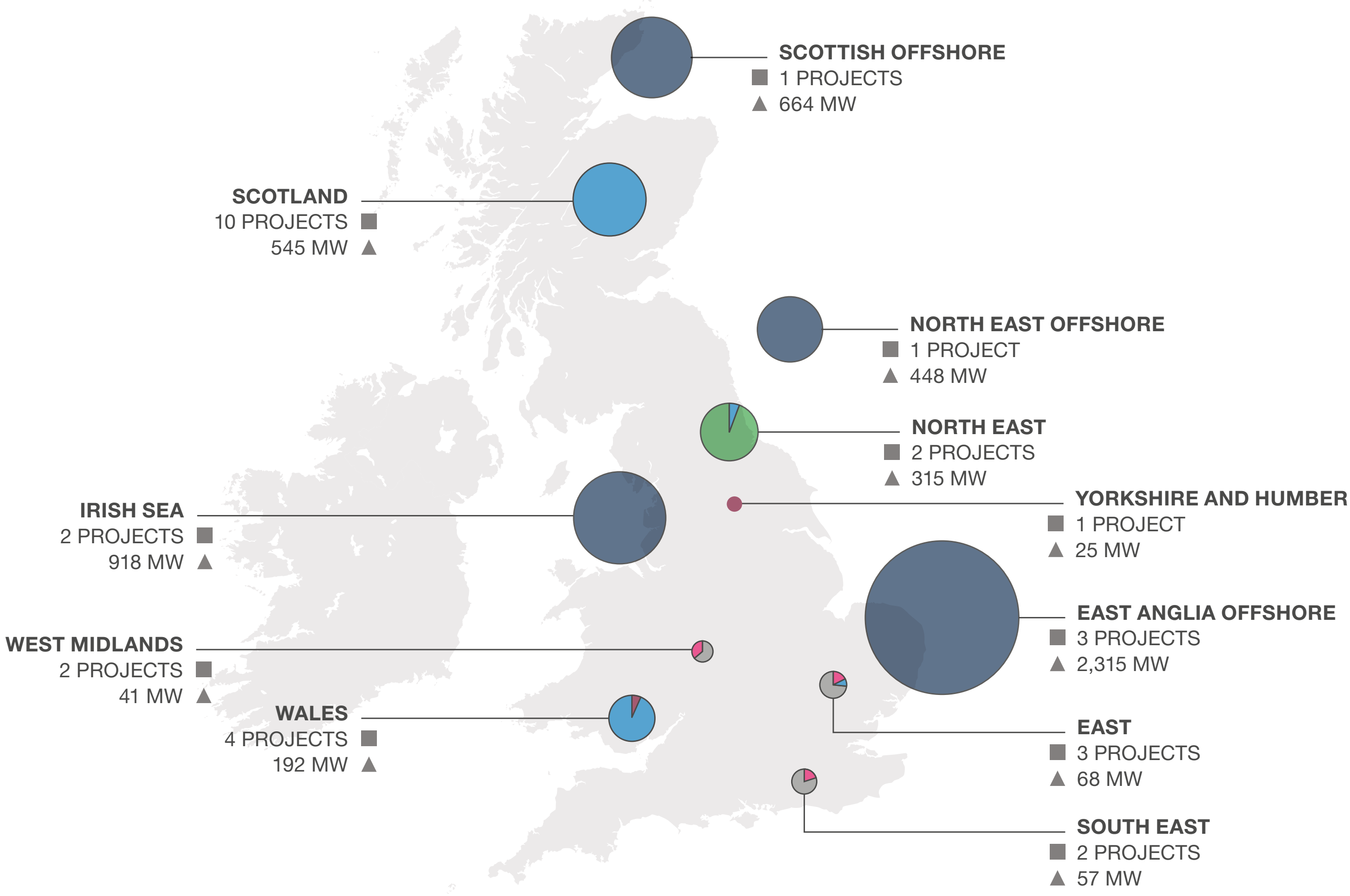
On 14 April 2015, LCCC welcomed CFD electricity generators to commemorate CFDs awarded in the 2014 Allocation Round.

"We have had very clear, well-written emails explaining the process. The seminars have been extremely thorough, some inevitable repetition but we understand that is necessary. Overall they were run very well, brilliantly well done."

PHIL WHYMAN, BANKS RENEWABLE

CFDs across the UK

Through its role managing CFDs, LCCC is supporting the Government in helping to achieve the UK's legally binding carbon targets and its commitment to meet 15% of its energy demand from renewable sources by 2020.



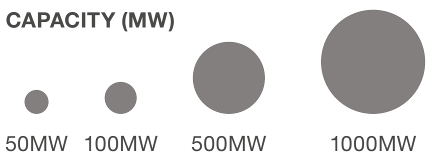
LEGEND

- ■ Number of regeneration contracts managed by LCCC*
- ▲ Total capacity

TECHNOLOGY

- Advanced conversion technologies
- Biomass
- Energy from waste with combined heat and power
- Offshore wind
- Onshore wind
- Solar PV

CAPACITY (MW)



*N.B. the total number of CFDs and Investment Contracts managed by LCCC (39) is greater than the number of projects (31), as some projects are phased and have a CFD for each phase

Site of Offshore Wind Farm (visualisation), Burbo Bank Extension, Irish Sea
©Dong Energy

Environment Report

LCCC is committed to implementing its environmental policy in a way that will allow it to continue to achieve its sustainability objectives and contribute towards achieving the overall objective set out by Government to reduce greenhouse gases and CO2 emissions.

As LCCC was only launched as an operational company on 1 August 2014, and moved into its new premises on 6 October 2014, the company will not be able to fully report on its Scope 1 and Scope 2 greenhouse gas (GHG) emissions until the 2015/16 financial year. LCCC also plans to report on its Scope 3 emissions.

LCCC is in the process of developing a carbon reporting tool to facilitate its mandatory carbon reporting.

Site of proposed Onshore Wind Farm (visualisation), Achlachan Wind Farm, Scotland © The Energy Shop Ltd

Strategic Report

The company was incorporated on 18 December 2013, but only commenced operational activity on 1 August 2014.

LCCC is an independent, highly skilled organisation delivering key elements of the CFD scheme and, on behalf of ESC, delivering key elements of the Capacity Market scheme. CFDs, which provide long term price certainty for investors, are a key cornerstone of the Government's EMR programme. EMR has been designed by DECC to provide incentives for the investment in the UK's energy infrastructure required to deliver secure, sustainable and affordable electricity for the future.

The company's mission is to build confidence in electricity market reform through effective commercial delivery and continuous improvement.

This mission reflects the company's Guiding Principle (see inside front cover). It is fundamental to the work of the company and aligns with the strategy to focus on delivery first, given LCCC's crucial operational role in delivering key elements of a major government programme. LCCC's strategy also requires the company to be ready to deliver change within the EMR delivery landscape.

The principal activities of the company, including its work for ESC, are described on pages 13 to 17.

During the year the company increased its staff through recruitment, with staff numbers reaching 23 at year end (excluding interim contractors who are being progressively replaced at year end as part of the company's recruitment programme). One of the company's key strengths as it develops is its highly skilled workforce which will help the company to deliver against its core strategic objectives over the long term.

The company monitors its progress against its strategic objectives through key performance indicators ("KPIs"). In the first year of its start-up operations, most of the KPIs were defined by reference to the company's key year 1 milestones. A summary of the company's KPIs is set out below.

THREE KEY MILESTONES	DEADLINE	STATUS
Setting the levy rate: Publication and notification of the first CFD Supplier Obligation Levy (i.e. Interim Levy Rate and Total Reserve Amount)	31 December 2014	Completed on time
Entering into CFDs: First allocated CFDs signed and "Entered Into" notices issued	30 March 2015	Completed on time
Managing settlement operations: Ready to collect the operational costs levy and to make the first CFD payments to generators	29 April 2015	Operational costs levy collected. CFD payments – not required until early 2016

FINANCIAL OVERVIEW

The company was set up by the Secretary of State as a departmental arm's length body to perform an integral role in the delivery of CFDs. In particular, its role is to be the CFD counterparty to a large number of long term CFDs and to manage the collection and settlement process relating to the Supplier Obligation Levy.

The company pays CFD generators when the reference price is less than the strike price (see page 10). The company obtains the funds to make payments to generators from levies on electricity suppliers made under CFD (Electricity Supplier Obligations) Regulations 2014 (as amended) ("Supplier Obligation Regulations"). Suppliers are obliged to pay their respective levies within seven working days of receipt of a notice to pay, but the company, for its part, has 28 calendar days to pay the monies due to generators. In addition, the company also collects a reserve amount (the "Total Reserve Amount") to provide further comfort that the cash payments to generators can be made in line with requirements. This helps to insulate the company against liquidity issues. In addition, if a supplier fails to pay a levy for which it is liable, this failure is "mutualised" between the remaining suppliers (i.e. the remaining suppliers have to make up the "shortfall" between them). Further, the terms of the CFD make it clear that the company's obligation is to pay when paid (i.e. the company has no obligation to pay the generators until it receives the adequate funds to do so).

Where the company receives monies from generators (i.e. where the reference price is greater than the strike price, see page 10), it is obliged under the Supplier Obligation Regulations to make appropriate payments to suppliers. If a generator fails to pay an amount due and, as a result, the company does not make an expected payment to suppliers, the shortfall is mutualised between the remaining suppliers. The company has no obligation to make up any shortfall.

The day to day operational costs of the company relating to the set up period (i.e. prior to 1 August 2014) were directly funded by DECC. Going forward from 1 August 2014, the operational costs of the company are funded by suppliers under the operational costs levy set by the Supplier Obligation Regulations.

The operational costs levy for 2014/15 was set in the Supplier Obligation Regulations at £0.079 per MWh (based on an estimated 82.9m MWh of electricity being supplied in Great Britain over the period from 1 January 2015 to 31 March 2015, representing an estimated operational budget of £6.485m). The actual operational budget is based on the total metered electricity actually supplied over the period, being 86.6m MWh (which equates to an actual charge of £6.847m). For 2015/16 the levy rate is £0.0397 per MWh (which represents an expected budget for operational costs of £12.007m). The company, in due course, returns to suppliers any monies which it has collected in excess of its operational spend requirements for the relevant financial year. The company will return £1.279m for 2014/15.

The company applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of the levy.

The company has delivered a solid financial performance since it became operational on 1 August 2014, managing its cost base well within the operational costs levy budget set by Parliament after public consultation. As a result the company will be in a position to return £1.279m to suppliers in the near future. One of the contributing factors to this has been management's decision to place greater reliance on in-house skills and capabilities rather than depending on external consultancy support. This has also allowed the company to maximise its retention of key knowledge and experience accumulated through the operationalisation of the CFD regulations and associated processes.

The company has seen significant investment in new internal systems which will enable it to operate efficiently in the delivery of settlement services, contract and customer relationship management activities and support activities such as finance, IT and communications. In total for the year to 31 March 2015, the company has directly invested £1.177m in its own IT systems.

£1.279m

TO BE RETURNED TO SUPPLIERS

£1.177m

DIRECTLY INVESTED IN SYSTEMS

Additionally through grant funding from DECC, ELEXON Ltd and its subsidiary, EMR Settlements Ltd (as settlement services provider), have invested a further £4.609m in the system functionality required to deliver CFD and Capacity Market settlement operations.

The original expectation was to have all CFD settlement system functionality in place for 1 April 2015, which was the earliest date that CFD generators might need to be paid. The design and build of the settlement system is being undertaken by ELEXON Ltd and EMR Settlements Ltd, and its subcontractors. Delays in the build and testing of the system have meant that the settlement services have commenced on 1 April 2015 with a higher level of manual workarounds than had been anticipated. This is manageable due to the fact that no generator payments are expected to be made prior to delivery of full CFD system functionality. The company is working with its core contractors ELEXON Ltd and EMR Settlements Ltd, and their systems developer (Sopra-Steria), to deliver the remaining CFD system functionality, currently scheduled to be delivered before the end of June 2015, and Capacity Market functionality.

Given that this is the first time that the company has prepared financial statements, it has been required to define, in accordance with International Financial Reporting Standards ("IFRS"), its accounting policies and associated accounting treatments. One of the more complex areas has been the valuation and accounting for CFDs. Based on the 27 new CFDs awarded in March 2015 and the 12 Investment Contracts previously transferred to the company by DECC, the estimated total cash payments which the company may be required to pay out over the life of these (minimum 15 year) contracts is £18.8bn. The actual cash payments will depend on a number of key variables such as projected wholesale electricity prices, commissioning dates for generation and the mix of generation technologies.

PRINCIPAL OPPORTUNITIES AND RISKS

As outlined in the Corporate Report, the company's business model is to deliver on its strategic focus, in particular by identifying opportunities for achieving the company's objectives of "delivery first", "fostering partnerships" and "striving for excellence". As DECC resources on EMR implementation wind down, LCCC may be seen by the industry as the "custodian" of EMR and may be required to run ongoing industry training and induction into EMR for new generators and suppliers.

Similarly, as part of the company's strategy to be "ready for change", the company is prepared to take on the CFD counterparty role for bespoke CFD contracts such as CFDs for nuclear, Carbon Capture and Storage (CCS) and tidal lagoon projects. The company will also participate in lessons learned processes and provide feedback and advice to DECC on EMR improvements going forward.

The board considers the matters outlined below to be the principal risks and uncertainties that could adversely impact the company's operations, its strategy and its ability to deliver against its mission.

Risk management is a fundamental element of the company's approach to discharging its responsibilities. The company's approach to risk management is detailed in the Corporate Governance Report on page 31 of this report. The company's primary risks are referred to opposite and overleaf:

RISK OR UNCERTAINTY	RISK BRIEF DESCRIPTION	MAIN MITIGATING ACTIONS
Resource management	Sufficient staff resource needs to be in place to meet all the company's business needs.	• Assessment has been made of the resource requirement and the timing when the resource is needed • Interim and/or secondee resource is in place or available • Succession planning is underway
Operational integrity	The company is a new company and needs to have in place the appropriate business infrastructure, such as IT systems, designed processes and corporate policies to deliver its key business activities.	• Project governance is in place for key projects • Effective planning, coordination and prioritisation of projects is in place • Contingency plans are in place • Core elements of internal systems are in place • Review of key processes and creation of process for managing change is being undertaken • Business continuity plan is being created
Settlement services readiness	Delays in the settlement system project and/or in the implementation of key processes might lead to the settlement system and settlement services not being ready on time to provide key functionality.	• Process documentation is in place • CFD and regulatory requirements have been recorded in a single document • Staff resources have been recruited • Project governance is being strengthened • External resource has been engaged to provide project management support • Contingency plans and manual workaround processes are in place and being developed • External controls review of workaround process has been undertaken
Litigation and compliance	Legal claims being brought or threatened.	• In-house legal department provides advice on company activity • Robust contract management processes are in place • Insurance cover is in place • Supplier Obligations Regulations give costs protection in relation to payments to CFD generators • Robust corporate policies and procedures are in place

RISK OR UNCERTAINTY	RISK BRIEF DESCRIPTION	MAIN MITIGATING ACTIONS
Financial reporting: timeliness and accuracy	The company may not achieve its requirement to consolidate adequate and accurate information for issuance of financial reports and information to external stakeholders in a timely manner.	• Key financial controls are documented and implemented • Staffing and resources are in place • Finance system is in place • Year end audit has taken place
Policy change	The effectiveness of the company's operations will be impacted if stakeholders are not ready for EMR, if Government EMR policy changes, or there are wider delivery landscape changes affecting LCCC.	• Ongoing stakeholder engagement, e.g. via trade associations and bilateral engagement • Industry readiness workstream • Transparency Tool and expert groups • Regular shareholder meetings and liaison with Government on new policies as they emerge • Media and policy monitoring
Fraud risk	Fraudulent activity from individuals or third parties.	• Finance controls are in place • Key fraud controls and embedded segregation of duties in finance processes and systems access are in place • Review of settlement service provider and settlement system controls is underway • Know your client checks are in place • Internal audit function is in place and internal audit has been undertaken • Compliance and checking processes are being developed in relation to CFD and Capacity Market risks
Data Privacy/Security	Insufficient security of company and third party data.	• IT security in place • IT security policy and process are in place • Staff training and awareness is taking place • Review of security is scheduled • Sharepoint is being introduced
Contract lifecycle management	Issues might arise during the course of the contract lifetime.	• Use of contract management and customer relationship management systems • Early engagement with CFD generators • Contingency planning
Budget	Annual budget is insufficient for requirements.	• Prudent financial planning takes place • Prudent financial forecasting is undertaken • Robust governance processes are in place • In-year adjustments may be possible • Application could be made for grant-in-aid to DECC • Reprioritise spend where applicable

Signed on behalf of the board

NEIL MCDERMOTT
CHIEF EXECUTIVE

15 July 2015

The board of directors

Martin Read
Chairman

Jim Keohane
Senior Independent Director

Neil McDermott
Chief Executive

"We are delighted to have brought people on board who have such a vast wealth of experience, complementing our highly skilled and effective senior management delivery team."

MARTIN READ, CHAIRMAN

Helen Turner
Chief Finance Officer

Anne Baldock
non-executive director

Tony Bickerstaff
non-executive director

Marion King
non-executive director

Jonathan Mills
non-executive director (shareholder representative)

Anthony Odgers
non-executive director (shareholder representative)

Simon Orebi Gann
non-executive director

Tony White
non-executive director

For more information on the board, visit **www.lowcarboncontracts.uk**

Directors Report

The directors present their Annual Report on the affairs of the company, together with the financial statements and auditor's report for the period from incorporation of the company to 31 March 2015. The company's registered number is 8818711.

BOARD

The board is responsible for the overall strategy and direction of the company. Details of the board's composition are set out on pages 32 to 33.

DIRECTORS AND CORPORATE GOVERNANCE

Full details of the directors and corporate governance matters are set out on pages 31 to 38.

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 the company's objectives.

The company is a fair, honest and considerate employer. It is committed to treating its employees with dignity and respect, and to valuing diversity. The company is also committed to equal treatment and opportunities for all present and potential employees and does not discriminate on the grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability, marital status or sexual orientation. Applications for employment by all persons are fully considered, bearing in mind the aptitudes of the applicant concerned. The company provides training opportunities to staff and encourages career and personal development and the building of skills and expertise.

If employees should become disabled, every reasonable effort will be made to continue to provide suitable employment either in the same job or, by training, in an alternative job. Disabled persons are given equal consideration for training, career development and opportunities for promotion within the company.

There are a number of communication and discussion channels in place to enable employee engagement. These channels include company-wide briefings and team meetings. The company encourages open and frank communication between employees and senior management, including providing opportunities for employees to express their views and generate ideas.

The number of the company's employees as at 31 March 2015 was 23 (including secondees and executive directors, but excluding interim contractors and non-executive directors). There were 16 interim contractors as at 31 March 2015.

ENVIRONMENT

Details are set out on page 21 in the Environment Report.

PAYMENT TO SUPPLIERS

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

CHARITABLE AND POLITICAL CONTRIBUTIONS

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

RESULTS AND DIVIDENDS

The company has prepared its 2014/15 financial statements in accordance with IFRS. The audited financial statements for the year ended 31 March 2015 are set out on pages 46 to 70.

The company is a not-for-profit company, with the settlement activity it performs ensuring that the CFD payments it is required to make to generators under CFDs are matched with the Supplier Obligation Levy it collects from suppliers. In addition, the company's costs were funded by DECC for the period prior to 1 August 2014 and thereafter are funded by the operational costs levy referred to on page 23. Any excess operational costs levy collected 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 period reflect a neutral profit position, i.e. nil gain-nil loss.

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 the financial statements on pages 46 to 70, the company overview on pages 6 to 19 and the Strategic Report on pages 22 to 27.

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 have therefore been 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 the IFRS as adopted by the European Union and in accordance with applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

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

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

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

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

- the financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets and liabilities, financial position and the profit or loss of the company; and
- the Directors Report and Strategic Report include a review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

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

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

AUDITORS

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

The company's auditors have expressed a willingness to continue in office. A resolution to reappoint them will be proposed at the next annual general meeting.

By order of the board

CLAIRE WILLIAMS
COMPANY SECRETARY

15 July 2015

Corporate Governance Report

The company was set up by the Secretary of State to be the CFD counterparty and has been designated as such pursuant to section 7 of the Energy Act 2013 and paragraph 2 of the Contracts for Difference (Counterparty Designation) Order 2014. The Secretary of State is the sole shareholder of the company.

While the company was set up as, and is, a private law company, it is also a governmental arm's length body which is funded by and manages compulsory levies. Compulsory levies are normally classified as taxation, which effectively means that the company is managing public monies.

The company accordingly, both as a 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. The company also recognises the importance of embedding the seven principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) into its culture and operations.

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 companies activities in the year are described in pages 13 to 17 and in the Strategic Report at pages 22 to 27.

FRAMEWORK DOCUMENT

The company's main governing documents are its Articles of Association and the 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 establishes that in carrying out its functions, activities and role the company shall seek to maintain investor confidence in the CFD scheme and minimise costs to consumers. This is known as the "Guiding Principle". The company recognises the importance of this Guiding Principle.

UK CORPORATE GOVERNANCE CODE

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

The company additionally believes that the adoption of the UK Corporate Governance Code is important as a means of recognising and embedding best practice in corporate governance. The board considers that the company has complied in full with the Code, otherwise than as explained in this Corporate Governance Report. Any non-compliance is due to the requirements of the company's shareholder as reflected in company's Articles of Association and the Framework Document or are due to the fact that it has only been in active operation since 1 August 2014.

ROLE OF THE BOARD

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

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

The board establishes the values, culture, ethics and standards of the company and sets the framework for prudent and effective controls which enables risk to be assessed and managed.

The board has delegated authority to its committees to carry out the tasks defined in the committees' terms of reference. The committees are – the audit, risk and assurance committee; the remuneration committee; and 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 Chairman, the Senior Independent Director and two shareholder representative directors.

The shareholder has appointed the Chairman (Martin Read), Senior Independent Director (Jim Keohane) and two suitably qualified persons as its shareholder representative directors (Jonathan Mills and Anthony Odgers).

Martin Read was appointed as Chairman designate in early 2014 and as Chairman on 2 May 2014 and Jim Keohane was similarly appointed in early 2014 as designate and then, formally on 2 May 2014, as Senior Independent Director. The two shareholder representative directors are Jonathan Mills and Anthony Odgers (appointed on 12 March 2014 and 2 May 2014 respectively). Neil McDermott, the Chief Executive, was appointed as a director on 22 July 2014 and Helen Turner, the Chief Finance Officer, was appointed as a director on 22 July 2014.

After obtaining the consent of the shareholder in accordance with the Framework Document and Articles of Association, the board, on 11 November 2014, appointed an additional five independent non-executive directors (Anne Baldock, Tony Bickerstaff, Marion King, Simon Orebi Gann and Tony White).

The details of all board members, any changes in the year and attendance at board meetings are listed on pages 37 to 38. All directors, with the exception of the two shareholder representative 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 shareholder representative directors are civil servants employed by central government.

The Chairman was independent on appointment. The board considers all non-executive directors to be independent of the company, with the exception of Jonathan Mills and Anthony Odgers who have been appointed by the shareholder as its representative directors.

The independent non-executive directors are appointed for a term of three years as set out in the Framework Document, subject to statutory and appropriate other provisions relating to the cessation of their appointment. The shareholder representative directors are appointed for the period required by the shareholder.

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

New directors receive an induction programme that is tailored to their individual needs.

The company maintains a register of Directors' interests.

BOARD GOVERNANCE

The board meets sufficiently regularly to discharge its duties effectively, currently meeting eight times per year (with ad hoc meetings as required). The board also held a separate strategy meeting.

The Chairman has held a meeting with the non-executive directors without the executives being present. As the company and its board have only recently commenced active operations, with many of the non-executive directors not being appointed until 11 November 2014, the non-executive directors, led by the Senior Independent Director, have not as yet met without the Chairman and executive directors being present. The non-executive directors intend to hold this meeting during the course of 2015/16.

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. 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:

- strategy and leadership
- financial statements
- annual business plan and budget
- risk management, financial reporting and the system of internal control
- Supplier Obligation Levy
- oversight of the company's operations
- terms of reference of board committees.

The main roles and responsibilities of the Chairman, Chief Executive, Senior Independent Director and non-executive directors are summarised in high level terms below. There is a written division of responsibilities between the Chairman and the Chief Executive which has been approved by the board.

The Chairman:

- leads the board and is responsible for its operation and governance
- is responsible for promoting a culture of openness and debate by facilitating the effective contribution of the non-executive directors
- ensures constructive relations between the executive and non-executive directors
- speaks on behalf of the board and represents the board to the shareholder
- is responsible for setting the board's agenda and ensuring that adequate time is available for the discussion of all agenda items, in particular, strategic issues
- is responsible for ensuring that the directors receive accurate, timely and clear information.

The Chief Executive:

- fulfils his responsibilities as Accounting Officer[4]
- 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

4 The responsibilities of an Accounting Officer are described in HM Treasury guidance "Managing Public Money". They include accountability for the activities of the company, the stewardship of public funds and the extent to which key performance targets and objectives are met. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212123/Managing_Public_Money_AA_v2_-_chapters_annex_web.pdf

- ensures appropriate internal controls and risk management processes are in place
- facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory and governmental authorities and the community.

The Senior Independent Director:

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

Non-executive directors:

- Non-executive directors (including via their activities in relevant committees) contribute to the performance by the board of its responsibilities, including in relation to strategy, monitoring the performance of management and satisfying themselves as to the integrity of financial information and that there is in place robust internal controls and a sound system of risk management.

BOARD EVALUATION

As the company did not engage in active operations prior to August 2014, and with the majority of the independent non-executive directors only being appointed in November 2014, the board has not as yet undertaken a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The board intends to carry out this evaluation within 2015/16.

The Chairman also plans to regularly review and agree with each director their training and development needs, including as part of the evaluation process.

The non-executive directors, led by the Senior Independent Director, will be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.

AUDIT, RISK & ASSURANCE COMMITTEE

This committee was established by the board on 16 December 2014. Prior to this the board oversaw the setting up of the governance and control framework for the company and the initial period of its implementation.

From its establishment on 16 December 2014 and at year end this committee comprised five non-executive directors, namely Tony Bickerstaff (Chairman), Jim Keohane, Marion King, Jonathan Mills and Simon Orebi Gann.

The Chairman of the committee is a qualified accountant with recent and relevant financial experience. The committee is composed of four independent non-executive directors and one shareholder representative non-executive director. The Framework Document, as permitted by the Articles of Association, requires the committee to include a shareholder representative director nominated by the shareholder.

The committee met twice in the financial year 2014/15, with meetings in January 2015 and March 2015. The company's external auditor attends committee meetings.

The Chief Executive (as Accounting Officer), Chief Finance Officer, Head of Internal Audit, Company Secretary and external auditors are invited to attend each meeting. The Accounting Officer, Chief Finance Officer, Head of Internal Audit and the external auditors have access to the Chairman of the committee outside formal committee meetings. The Head of Internal Audit and the external auditors each separately meet informally with the committee after every scheduled committee meeting.

The main responsibilities of the committee include:

- monitoring the assurance needs of the company in relation to risk, governance and the control framework
- reviewing the company's internal controls (including financial controls) and risk management systems
- monitoring the integrity of the company's financial statements and reviewing and reporting to the board on significant financial reporting issues and judgements

- monitoring the effectiveness of the company's internal audit function
- making recommendations to the board in relation to the appointment, reappointment 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 board, pending the establishment of the audit, risk and assurance committee, 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 intends to review these arrangements during the course of 2015/16.

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 period from its establishment in December 2014 to the end of the financial year, the Committee discussed the following matters:

- Governance Framework
- Risk Management Framework
- Internal Control Framework
- Annual Report Process and Updates
- External Audit Plan and Audit Engagement Letter
- Internal Audit Plan and Objectives and Updates
- Key Financial & Accounting Policies
- Finance Update
- Engagement of External Auditors in Non-Audit Services Policy
- Status on Significant Accounting Estimates, Judgements and Special Issues
- Delegation of Financial Authority
- Risk Assessment of Manual Payment Workarounds
- Procedure for Handling Financial Reporting Errors or Irregularities
- Fraud Risk Assessment
- Statement of Internal Control for Annual Report.

The minutes of the meeting are circulated to the board.

The significant issue considered by the committee in relation to the financial statements relates to the valuation of CFDs. This matter is further referred to on page 23 of the Strategic Report and note 22 of the financial statements.

The appointment of the external auditor was approved by the board in December 2014. In approving this appointment the board 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. The committee also noted the significant benefits of appointing the NAO based on value for money, the potential synergies with DECC's audit requirements and the NAO's understanding of both the complex environment within which the company would operate and the wider government and public sector context.

As this Annual Report relates to the first year in which the company has been externally audited, the committee's assessment of the effectiveness of the external audit process will take place in 2015/16.

NOMINATION COMMITTEE

The committee was established by the board on 16 December 2014.

From this date and at year end the committee comprised Martin Read (Chairman), Anne Baldock, Marion King, Simon Orebi Gann and Tony White. A majority of members of the nomination committee are independent non-executive directors.

As the committee was only established in December 2014, with all board members being appointed during the course of the preceding several months, the committee did not meet in the year 2014/15. The committee intends to meet during the course of the first year of its activity, including to discuss matters such as succession planning.

Under the Articles of Association and the Framework Agreement, the shareholder has reserved the right to approve the appointment of directors.

As the committee was not established until December 2014 and the company did not commence active operations until August 2014, and taking into account the appointment rights of the shareholder, the committee did not lead the process for board appointments. The shareholder appointed the Chairman, Senior Independent Director and the two shareholder representative directors. The Chairman and the Senior Independent Director led the process for the remaining board appointments and recommended the proposed appointments to the shareholder. The shareholder consented to these appointments.

An external search consultancy, Odgers Berndtson, was used in the appointment of the Chairman, the Senior Independent Director and all other directors, with the exception of the two shareholder representative directors who are civil servants selected by the shareholder. Odgers Berndston was also used in the recruitment of some members of the senior management team. Odgers Berndtson does not have any other connection with the company.

The search process for the appointment of the Chairman, Senior Independent Director and other directors was formal, rigorous and transparent and the search was conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

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.

The minutes of meetings will be circulated to the board.

REMUNERATION COMMITTEE

This committee was established by the board on 16 December 2014. The membership and responsibilities of this committee are described in the Remuneration Report on pages 41 to 43.

BOARD AND COMMITTEE MEMBERSHIP

The table opposite sets out the dates of appointment of the members to the board and the committees.

BOARD AND COMMITTEE MEMBERSHIP

	ROLE	APPOINTED TO BOARD	APPOINTED TO AUDIT, RISK & ASSURANCE COMMITTEE	APPOINTED TO NOMINATION COMMITTEE	APPOINTED TO REMUNERATION COMMITTEE
Anne Baldock	non-executive director	11/11/2014		16/12/2014	16/12/2014
Tony Bickerstaff	non-executive director	11/11/2014	16/12/2014		
Jim Keohane	non-executive director	02/05/2014*	16/12/2014		16/12/2014
Marion King	non-executive director	11/11/2014	16/12/2014	16/12/2014	
Neil McDermott	Chief Executive	22/07/2014			
Jonathan Mills	non-executive director	12/03/2014*	16/12/2014		
Anthony Odgers	non-executive director	02/05/2014*			16/12/2014
Simon Orebi Gann	non-executive director	11/11/2014	16/12/2014	16/12/2014	
Martin Read	Chairman	02/05/2014*		16/12/2014	16/12/2014
Helen Turner	Chief Finance Officer	22/07/2014			
Tony White	non-executive director	11/11/2014		16/12/2014	16/12/2014
Declan Burke	non-executive director	App 02/04/2014 Res 02/05/2014			
Truesec Limited	non-executive director	App. 18/12/2013 Res. 02/04/2014			
Timothy Pharoah	non-executive director	App. 18/12/2013 Res. 02/04/2014			

*Martin Read, Jim Keohane, Jonathan Mills and Anthony Odgers were closely involved from early 2014 in preparing the company to commence operations. The company commenced its operations in August 2014.

BOARD AND COMMITTEE MEETINGS

The table overleaf shows the number of board and committee meetings of the company held during the year ended 31 March 2015, and the attendance of the individual directors. All directors are expected to attend all board meetings and all members of committees are expected to attend all committee meetings.

It should be emphasised that this information does not fully reflect the contribution made to the company's business by many of the directors who have also attended other meetings and events relating to the company's business and activities during the year.

MEMBER ATTENDANCE RECORD

	BOARD	AUDIT, RISK & ASSURANCE COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
Number of meetings held	13	2	0	1
Anne Baldock*	3		0	1
Tony Bickerstaff*	3	2		
Jim Keohane*	12	2		1
Marion King*	4	0	0	
Neil McDermott*	8	(attends but not a member)		
Jonathan Mills*	11	2		
Anthony Odgers*	9			1
Simon Orebi Gann*	4	1	0	
Martin Read*	11		0	1
Helen Turner*	8	(attends but not a member)		
Tony White*	3		0	1
Declan Burke*	1			
Truesec Limited*	0			
Timothy Pharoah*	0			

*Appointed part way through the year

RELATIONS WITH SHAREHOLDER AND STAKEHOLDERS

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. The shareholder has appointed two shareholder representative directors.

The company has also engaged in regular communication with industry and other stakeholders, including by stakeholder engagement events 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 risk management and the company's system of internal control and for reviewing their effectiveness.

As the company only commenced its operational activities on 1 August 2014, the key elements and procedures established to provide effective risk management and internal controls have been established progressively since that date. All important systems were in place almost immediately after operations commenced, with the remainder being in place prior to the end of December 2014. The systems are being monitored and embedded, and are as set out opposite.

Control and assurance environment

- The board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and where possible to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The audit, risk and assurance committee assists the board in discharging its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 34 to 35.
- The board, with the assistance of the audit, risk and assurance committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control. There have been no significant lapses in protective security.

Risk

- The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. Each functional department of the company maintains a risk register identifying the business risks and allocating responsibility for appropriate monitoring and the implementation of mitigating controls. Departmental risk registers and the company's strategic risk register are kept under regular review by the senior management team and reported to the board and audit, risk and assurance committee, with the top strategic risks receiving particular attention. A risk workshop attended by senior employees was held during the year.
- The audit, risk and assurance committee formally reviews the risk position twice per year (c. February and May) and is updated on any significant risk matter which falls outside its formal review cycles. The board also reviews risk twice per year (c. June and October). The reports to the audit, risk and assurance committee and the board include a report from management on the state of risk management and internal control, any significant failings or weaknesses identified during the period and actions taken to remedy any significant weaknesses.
- The board has reviewed, with the assistance of the audit, risk and assurance committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed risk report on pages 25 to 26.

Internal audit

- The company has an internal audit function that provides the audit, risk and assurance committee with independent, objective assurance regarding internal controls and the risk management process as part of the company's risk management and assurance regime. The audit, risk and assurance committee agrees a programme of internal audit work annually and reviews progress at each of its meetings.

Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the board.
- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability to ensure that a robust and prudent annual budget is prepared which also ensures cost control and value for money for consumers. The draft budget is reviewed by the board, subsequent to which it is submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently the operational costs levy which funds the company's budget is laid before Parliament in the form of regulations.
- The company must manage within its budget so as not to exceed the operational costs levy.

- An update on the company's progress, forecasts and results is reported in the management information report submitted to each board meeting.
- Senior management meet regularly with the Chief Executive and Chief Finance Officer to discuss business progress and review management accounts.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "Managing Public Money".

Operational

- The senior management team meets on a weekly 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 regularly with the shareholder and other stakeholders.

Procurement

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

Legal and compliance

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

Treasury management

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

Insurance

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

Signed

N McDermott.

NEIL MCDERMOTT
CHIEF EXECUTIVE AND ACCOUNTING OFFICER

15 July 2015

Remuneration Report

REMUNERATION COMMITTEE

This committee was established by the board on 16 December 2014.

From establishment and at year end this committee comprised Jim Keohane (Chairman), Anne Baldock, Anthony Odgers, Martin Read and Tony White. The Framework Document requires that one shareholder representative director may always be a member of the committee. The committee consists of a majority of independent non-executive directors, the board Chairman and a shareholder representative director.

The responsibilities of the committee include:

- setting the overall remuneration policy for the company
- setting the conditions of employment, including levels of salary and pension arrangements for executive directors and senior management, but subject to the shareholder's consent being necessary to the remuneration or material variation to the remuneration of any executive director or employee whose salary is equal to or higher than the threshold set in Cabinet Office guidance in respect of senior pay
- recommending the level of remuneration of the non-executive directors to the board, but subject to the shareholder's consent being necessary to the remuneration or material variation to the remuneration of any director
- ensuring that the remuneration package for employees and salary levels are appropriately benchmarked
- undertaking an evaluation of its own performance.

During the period the Committee met once. This was an introductory meeting which received an overview of the remuneration package offered by the company to employees. The committee's substantive business will take place in May 2015.

The minutes of each meeting are circulated to the board.

Prior to the establishment of the committee, the then board of the company (comprising Martin Read, Jim Keohane, Jonathan Mills and Anthony Odgers) met to approve the appointment of appropriate remuneration for incoming executives.

Advice on remuneration for the executive directors and senior management team was obtained from Odgers Berndtson. Odgers Berndtson has no other connection with the company. No director is involved in deciding his or her own individual remuneration. Advice on remuneration for staff below senior management level was obtained from PwC.

Public sector reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. An annualised figure has been used to better reflect contractual remuneration. The annual remuneration of the highest paid director is £216,194. This is 3.5 times the median remuneration of the company's workforce, which is £62,540. No employees receive salary in excess of the highest paid director.

Levels of remuneration for 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 Odgers Berndtson (an independent recruitment consultancy).

PROCEDURES FOR DEVELOPING POLICY AND DETERMINING REMUNERATION

The committee has the 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 advisers. No director is involved in deciding his or her own remuneration.

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 benchmarks employee salaries.

STATEMENT OF REMUNERATION POLICY

The remuneration policy is to:

- provide a compensation package to attract, motivate and retain high quality employees
- 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.

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

PAY REVIEW

There was no general pay review for employees in 2014/15 as the company only commenced active operations in August 2014 and the majority of employees were progressively recruited from this date until the end of the financial year.

EXECUTIVE DIRECTORS

The executive directors' remuneration has been designed to promote the long term success of the company. Their respective earnings consist of a base salary plus benefits (permanent health insurance, private medical cover and life assurance); a defined contribution pension scheme; and an incentive bonus. The bonus links corporate and individual performance with an appropriate focus on delivery targets and the balance between short and long term elements. As the company only commenced effective operations during the course of the year, no bonuses were paid in year. The committee, based on an assessment of individual and company performance against key objectives, has agreed that bonuses will be paid to the two executive directors during the next financial year.

NAME	2014 SALARY £*	2014 BONUS £	2014 OTHER BENEFITS £	2014 TOTAL £
Neil McDermott	162,346	0	6,194	168,540
Helen Turner	105,192	0	3,274	108,467

*Reflects part year numbers

During the period the company made pension contributions of £10,519 into the personal pension plan of Helen Turner. Neil McDermott received company pension contributions of £16,153 in cash payments in accordance with the terms of his employment contract. The remuneration committee also in May 2015 approved performance related bonus payments of £30,827 for Neil McDermott (being 19% of salary pro rated to length of service) and of £19,833 for Helen Turner (being 19% of salary pro rated to length of service), in respect of the 2014/15 year. The performance related payments for 2014/15 were assessed based on company and individual performance against structured balanced scorecard objectives set in advance.

DIRECTOR FEES

Fees are payable to all non-executive directors. The company provides services to Electricity Settlements Company Ltd (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 being recovered under the "recharge" arrangements described in note 2.5 to the financial statements.

Levels of remuneration for non-executive directors reflect the time commitment and responsibilities of the role and reflect the advice on remuneration for directors based on benchmarking information provided by Odgers Berndtson (an independent recruitment consultancy).

NAME*	2014/15 FEES £	PRINCIPAL POSITIONS HELD ELSEWHERE AT 31 MARCH 2015
Anne Baldock	9,679	• Hydrogen Group – non-executive director • Thames Tideway Tunnel – non-executive director • ESC non-executive director • Cancer Research – trustee • Nuclear Liabilities Financial Assurance Board – member • Tumber Services Limited – director/shareholder • 375 Greyhound Residents Ltd – director/shareholder
Tony Bickerstaff	12,002	• Costain Group Plc – Group Finance Director • ESC non-executive director • CBI Economic Growth Board – member
Jim Keohane	43,333	• Gas & Electricity Markets Authority – non-executive member • ESC non-executive director • Harwich Haven Authority – Chairman
Marion King	9,679	• Royal Bank of Scotland – Group Director of Payments • UK Payments Council – director • ESC non-executive director
Neil McDermott	N/a – see above	• ESC Executive director
Jonathan Mills	0 (Shareholder representative director – part of the role as civil servant)	• Director, Electricity Market Reform – Department of Energy & Climate Change • ESC non-executive director
Anthony Odgers	0 (Shareholder representative director – part of the role as civil servant)	• Deputy Chief Executive & Director Corporate Finance Practice Shareholder Executive, Department of Business and Innovation • ESC non-executive director • Green Investment Bank – non-executive director • Enrichment Holdings Limited – non-executive director • Enrichment Investments Limited – non-executive director
Simon Orebi Gann	9,679	• Next Generation Data Ltd – non-executive director • ESC non-executive director • Aspen Technology Inc (NASDAQ: AZPN) – USA – non-executive director
Martin Read	130,000	• Laird plc – Chairman • Remuneration Consultants Group – Chairman • UK Government Senior Salaries Review Body – Chairman • Lloyds of London (Franchise Board) – non-executive director • ESC Chairman
Helen Turner	N/a – see above	• ESC Executive director
Tony White	9,679	• Nuclear Liabilities Financing Assurance Board – member • ESC non-executive director • Crown Estates – non-executive director • Combined Heat and Power Association – vice president • Green Energy Options – non-executive director • 2OC – non-executive director • BW Energy Ltd – director • First Utility Trust – Trustee • The Green Deal Finance Company – non-executive director

*The above is the only form of remuneration that each non-executive director receives from LCCC.
The total remuneration for Martin Read and Jim Keohane reflects payments made since 1 March 2014. The payments to the other directors represent payments relating to the period of their appointment from 11 November 2014 to 31 March 2015.

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

I have audited the financial statements of the Low Carbon Contracts Company Ltd for the period ended 31 March 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of the directors and the auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of the profit for the period then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Emphasis of matter on Contracts for Difference

Without modifying my opinion, I draw attention to the disclosures made in note 22 to the financial statements concerning the measurement of liabilities relating to Contracts for Difference. As this note describes, the fair value of these liabilities is highly sensitive to assumptions regarding future prices and volumes, particularly in view of the long timescales involved. This sensitivity also applies to the measurement of these liabilities recognised in the Statement of Financial Position (which are adjusted in respect of the difference between fair value and transaction price on initial recognition) and the matching supplier obligation levy asset.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act; and
- the information given in the Directors Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where 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 are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

MATTHEW KAY
(SENIOR STATUTORY AUDITOR)

16 July 2015

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

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

Financial statements and notes to the accounts

2014/15

Contents

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH

	Note	2015 £'000
Other income	6	8,435
Supplier obligation levy	22	1,987,839
Loss on fair value movement of CFDs	22	(1,987,839)
Staff costs	7	(3,395)
Depreciation and amortisation	9,10	(159)
Other operating costs	8	(4,881)
Profit for the period		**–**
Other comprehensive income for the period		**–**
Total comprehensive income for the period		**–**

All operations are continuing operations.
The notes on pages 52 to 70 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

	Note	2015 £'000
Non-current assets		
Property, plant and equipment	9	591
Intangible assets	10	3,321
Supplier obligation levy receivable	23	1,987,839
Total non-current assets		**1,991,751**
Current assets		
Operational costs levy receivable	11	5,568
Trade and other receivables	12	1,460
Cash and cash equivalents	13	406
Total current assets		**7,434**
Total assets		**1,999,185**
Current liabilities		
Trade and other payables	15	(4,311)
Borrowings	16	(3,627)
		(7,938)
Non-current liabilities		
Contracts for Difference	22	(1,987,839)
Trade and other payables	15	(2,499)
Borrowings	16	(842)
Provisions	17	(67)
Total non-current liabilities		**(1,991,247)**
Total liabilities		**(1,999,185)**
Net assets		**–**
Shareholders' equity and other reserves		
Share capital	14	–
Retained earnings		–
Total equity		**–**

The notes on pages 52 to 70 form part of these accounts.
The financial statements were approved by the board of directors on 13 July 2015 and signed on its behalf on 15 July 2015 by

N McDermott.

Neil McDermott
Chief Executive Officer

HETurner

Helen Turner
Chief Finance Officer

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 MARCH

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 18 December 2013	**–**	**–**	**–**
Share capital issued	–	–	–
Total comprehensive income for the period	–	–	–
Balance as at 31 March 2015	**–**	**–**	**–**

As at 31 March 2015 the company has one authorised ordinary share, issued and fully paid.
The notes on pages 52 to 70 form part of these accounts.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH

	Note	2015 £'000
Cash flows from operating activities		
Profit for the period		–
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	9	107
Amortisation of intangible assets	10	52
Working capital adjustments:		
Increase in operational costs levy receivables	11	(5,568)
Increase in trade and other receivables	12	(1,460)
Increase in trade and other payables	15	3,288
Net cash inflow from operating activities		(3,581)
Cash flows from investing activities		
Purchase of property, plant and equipment	9	(180)
Purchase of intangible assets	10	(360)
Net cash outflow from investing activities		(540)
Cash flows from financing activities		
Increase in borrowings	16	4,527
Net increase in cash and cash equivalents in the period		**406**
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period	13	**406**

The notes on pages 52 to 70 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2015

1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the "company") for the period from incorporation to 31 March 2015 were approved and authorised for issue in accordance with a resolution of the board effective 13 July 2015.

No comparative information has been included in these financial statements as the company was incorporated on 18 December 2013 and this is the company's first period of operation.

The company is a company limited by shares, incorporated and domiciled in the UK. The company's registered office is at Fleetbank House, 2-6 Salisbury Square, EC4Y 8JX. It is unlisted and wholly owned by the Secretary of State for Energy and Climate Change (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) and Investment Contracts. The company will also undertake such other activities in relation to Electricity Market Reform (EMR) that the board considers to be consistent with the company's functions, duties and obligations.

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

2. Accounting policies

2.1 Basis of preparation

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

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

These accounts have been prepared under the historical cost convention.

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;

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 post 1 August 2014 are funded by electricity suppliers under the operational costs levy which is set by the Contracts for Difference (Supplier Obligations) Regulations 2014 (the "Regulations").

The operational costs levy is to be set by new regulations made each year. The directors note the low risk that annual regulations may not be made (resulting in the operational costs levy set out in relation to the previous year continuing to apply) or may not be made until after the commencement of the relevant financial year (which could result in the company experiencing a timing mismatch in its funding requirement). The directors are of the view that there is no reason to believe that future regulations will not be forthcoming.

The directors also note the risk that the total operational costs levy set for a year will be insufficient or that a timing mismatch might arise between the time when monies are raised by the levy and the time when monies are required to meet a spend commitment made by the company.

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 cost levy against its requirements, request DECC to support an in-year adjustment to the applicable levy rate. Such an adjustment would be subject to public consultation and the making of new regulations in accordance with the same process that applies to the setting of the annual operational costs levy.

Payment 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).

DECC has funded all set-up costs of the company up to 1 August 2014 and, in line with public commitments, intends to fund and not subsequently recover the company's expenditure on its settlement system up to 31 March 2015. DECC has also provided the company with a working capital loan facility to support the company in managing its operational costs prior to the receipt of the 2014/15 operational costs levy due from suppliers on 6 May 2015.

2.3 Operational costs levy income

Under the Regulations, the company is also entitled to recover its operational costs through the operational costs levy on suppliers referred to above. The levy rate charged is based on total forecast electricity demand for the financial year. However, for 2014/15 the apportionment to suppliers will be based on the amount of electricity they supplied over the period 1 January 2015 to 31 March 2015. The rate set through public consultation for 2014/15 is £0.079 per MWh. For 2015/16 the operational costs levy will be apportioned to suppliers based on the amount of electricity they supplied in the levy year (which runs from 1 April to 31 March) and has been set at £0.0397 per MWh.

As the levy rate is based on estimates of the company's expenses and recovery is based on the estimated overall amount of electricity supplied over the financial 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.

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

The operational costs levy will be 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 Settlements Ltd, will administer the collection process.

2.4 Total Reserve Amount

As required by the Regulations, the company collects payments from electricity suppliers in respect of each quarter to fund the Total Reserve Amount. The Total Reserve Amount is the amount the company determines is needed for there to be a 19 in 20 probability of being able to make all the CFD generation payments required during that quarter, having regard to:

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

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

c. the estimated income to be received by the company from CFD generators in the quarter;

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

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

The Total Reserve Amount received in relation to a quarter, to the extent that it is not required to cover any shortfall in the Supplier Obligation Levy collected in that quarter, will be refunded to suppliers 90 days after the reconciliation notice is issued, following the end of the quarter. It is recognised as repayable to suppliers under "current liabilities".

2.5 Recharges

ESC is a sister company also owned by the Secretary of State for Energy and Climate Change, 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 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 is VAT registered but a significant proportion of the company's income is outside the scope of VAT. The company will only be able to recover its input VAT in the proportion of its recharged income to its total income. On this basis the majority of input VAT incurred by the company is irrecoverable.

2.6 Government grants

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

"Grant in aid" received for the company's set up costs incurred prior to 1 August 2014 is non-repayable and is recognised in the income statement as "other income".

During the period, the company has received an intangible asset (settlement system) from DECC in the form of a non-monetary grant. In line with IAS 20 the asset is recognised at fair value with a corresponding deferred income liability. Deferred income is recognised in the income statement on a systematic basis over the useful life of the settlement system (note 2.12). The fair value of the settlement system approximates to its cost.

The interest free capital loan received by the company from DECC for capital expenditure (excluding the settlement system) is recognised under borrowings and is repayable over the useful life of the assets funded through this loan.
The interest free working capital loan received during the period to fund the operational costs of the company is recognised under borrowings and is repayable within the next financial year. The benefit of a below market rate of interest on the capital loan for capital expenditure and the working capital loan for operational costs is recognised in the income statement over the period of the loan.

2.7 Financial assets

2.7.1 Classification

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management determines the categorisation of financial assets at initial recognition and re-evaluates this designation at each reporting date.

Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise cash and cash equivalents and trade and other receivables. There are no loans receivable held by the company.

2.7.2 Recognition and measurement

Trade and other receivables are initially measured at fair value inclusive of transaction costs. After initial recognition, they are carried at amortised cost, using the effective interest method, less any impairment in accordance with IAS 39. Short term receivables have not been discounted to their net present value as it is management's view that the recognition of interest would not be material.

For the supplier obligation payments due from suppliers, the company can mutualise the non-payment of these amounts across the other electricity suppliers. This reduces the risk borne by the company and is specific to the supplier obligation; it does not apply to the operational costs levy.

The carrying amount of the trade and other receivables approximates to their fair value.

2.7.3 Impairment of financial assets

2.7.3.1 Assets carried at amortised cost

The company must assess at the end of each reporting period whether its financial assets or group of financial assets require impairment. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been adversely impacted and the impact can be reliably estimated. Gains or losses arising when the asset is impaired or derecognised are recognised in the income statement.

Financial assets are derecognised when the rights to receive future cash flows have expired or are transferred and the company has transferred substantially all the risks and rewards of ownership.

2.8 Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell, or paid to transfer, a particular asset or liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined using appropriate valuation techniques. These valuation techniques are applied using, where possible:

- Quoted prices in an active market for identical assets or liabilities (level 1);
- Inputs other than quoted market prices that are observable for the asset or liability (level 2);
- Unobservable inputs for the asset or liability (level 3).

2.9 Financial liabilities

The company classifies financial liabilities into the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL);
- Other financial liabilities

The categorisation of financial liabilities depends on the purpose for which the financial liability is held or acquired. Management determines the categorisation of financial liabilities at initial recognition and re-evaluates this designation at each reporting date.

2.9.1 Recognition and measurement

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

Financial liabilities are classified as FVTPL where the financial liability is designated as FVTPL upon initial recognition.

Contracts for Difference (CFDs)

CFDs are a mechanism introduced as part of EMR 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 profit or loss.

The fair value of the CFDs has been calculated using the income approach based on level 3 inputs, which reflects the present value of future cash flows that are expected to occur over the contract term of the CFD.

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

The deferred difference between the fair value of the liability on day one and the transaction price is amortised over the contract life 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 contract as this is the point at which the contractual liability will start to unwind either as payments to settle the obligation start to be made or the generators right to payments starts reducing.

The significance of these two dates is that these are the part of the contractual terms for determining when the contracts commence. The contracts are typically for 15 years but can be signed many years in advance of actual generation. The benefit to generators is the fact that they can drive economic benefit from these contracts over the life of the contract. However in certain circumstances this may not be the full 15 years.

If generators start generating within their TCW (which is specified in the contract) then the 15 year contract generation period starts from the date of generation and subject to all conditions being met would allow the generator to extract benefit for the full 15 years. If generators miss the end of their TCW then the contract commences at the end of their TCW even if the generator is not in a position to generate.

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.

2.9.1.2 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

2.9.2 Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligations are discharged, cancelled or they expire.

2.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counter party.

2.11 Property, plant and equipment

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

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

Assets are depreciated over the following periods:

	Years
Leasehold improvements	5
IT equipment	3
Furniture and fittings	10

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

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

2.12 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, assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised over the following period:

	Years
Settlement System	5
Other IT software	5

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

2.13 Impairment of non-financial assets

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

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

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

2.14 Leases

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

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

At 31 March 2015 the company does not hold any assets under a finance lease.

2.14.1 Operating leases

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

2.15 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.

2.16 Pensions

The company operates a defined contribution 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 income statement when they become payable.

2.17 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.

The company has a dilapidation provision in respect of the company's leased premises on the 6th Floor, Fleetbank House. The company is required at the expiry of the lease term to return the premises to their previous state and condition, including removing any furniture and fittings installed by the company. In accordance with IAS 37 an undiscounted provision has been created for these future costs based on a dilapidation liability report issued by an independent surveyor. However, due to the immaterial impact of discounting over the lease period discounting has not been applied.

2.18 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.

2.19 Borrowings

Borrowings represent a working capital loan and grant in aid capital loan from DECC. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs, if any) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.20 Supplier Obligation Levy receivable

A supplier obligation receivable is recognised in the statement of financial position to reflect the company's right to benefit from the obligations of electricity suppliers under the Contracts for Difference (Electricity Supplier Obligations) Regulations. The levy receivable is measured as equal and opposite to the CFD fair value movement, recognised in the statement of financial position, in respect of the movement in valuation of this right made in 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. As levy obligations mature, the company expects then to cover all cash flows under CFDs, the fair value attaining to these contracts is given in note 22.

3. Financial risk management

3.1 Financial risk management and financial risk factors

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

3.1.1 Market risk

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

i. price risk;

ii. inflation risk; and

iii. interest rate risk.

i. Price risk

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

ii. Inflation risk

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

iii. Interest rate risk

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

3.1.2 Credit and Liquidity risk

Under the Regulations there is an obligation placed on licensed suppliers to fund in advance, via payment through the Supplier Obligation Interim Levy Rate, the company's CFD payment liabilities as they crystallise. The Supplier Obligation Interim Levy Rate (£/MWh) is set quarterly and is based on the forecast of the amount expected to be paid to CFD parties 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 relation to generation during the quarter;

b. estimated income expected to be received by the company from CFD generators during the quarter; and

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

The key trigger for the collection and recognition of levy payments from suppliers is the date of expected generation of low carbon electricity which will result in the company's payment to generators under the CFDs.

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

3.1.3 Maturity profiles

Maturities of finance liabilities are provided in the following tables

	<1 year £000	2-5 years £000	>5 years £000	Total £000
CFDs and Investment contracts	–	272,899	1,714,940	1,987,839

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 carrying values of assets and liabilities that are not readily apparent from other sources.

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

4.1 Estimates

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

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

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

4.1.2 Provisions

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

The company has only one provision which relates to a future liability for dilapidation costs for its leased premises at Fleetbank House. The provision has been based on a dilapidation liability report issued by an independent surveyor where a range of estimated costs was included dependent on the extent to which rectification work would be required at the end of the lease period. The company has reflected the best estimate of these costs but recognises that there are other potential outcomes.

4.2 Significant judgement

4.2.1 Fair value measurement of CFDs

The fair value of the CFDs, disclosed in note 22, is derived at initial recognition based on the valuation technique that uses data other than from observable sources. In accordance with IAS 39 paragraph AG 76, the measurement of CFDs on 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.

The fair value is calculated using the income approach and represents the company's best estimate of the payments which the company will be committed to make, if and when the generators supply low carbon electricity in accordance with their contractual terms. Significant inputs used in the valuation technique are detailed in note 22.

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 which the contract life will unwind as this reflects the obligation under the contract to make payments and the right to receive monies from suppliers to make those payments. Financial instrument standards require the "deferred difference" to be recognised only to the extent that it arises from a change in factor (including time) that market participants would take into account.

4.2.2 Supplier Obligation Levy receivable

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 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 Supplier Obligation 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.

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, and management believe it is appropriate to recognise an asset for the timing difference. Therefore a supplier obligation levy receivable 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 on 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 remain consistent with the company's role as defined by the Regulations.

A different treatment is taken by DECC 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 so the directors have not applied this adaptation.

5. New standards, amendments and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these standards, if applicable, when they become effective. The company has not sought early adoption of any standards or amendments. None of these standards are expected to have a significant effect on the financial statements of the company:

IFRS 9: Financial instruments

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted and are not expected to have a material impact on the company.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the company. These include:

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

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

6. Other income

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

	2015 £'000
Operating costs levy income	6,847
Less: expected refund to suppliers	(1,279)
Net operating cost levy income	5,568
Grant income	2,369
Recharges to related parties	498
Other operating income	**8,435**

Grant income relates to the Government grant received to fund the set up costs incurred by the company prior to 1 August 2014. The grant is non-repayable and recognised in the income statement to match against these set up costs as incurred (note 2.6).

Recharges to related parties represent £280,064 and £217,436 charged to ESC and DECC respectively.

7. Staff costs

	2015 £'000
Wages and salaries	1,683
Agency staff costs	1,479
Social security costs	169
Contributions to defined contribution plans	64
Staff costs	**3,395**

The average number of staff employed by the company (including executive directors) since the commencement of operations (i.e. 1 August 2014) was:

	2015 Number
Permanent staff	18
DECC's secondees	5
Agency/Contracted staff	16
Total	**39**

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report on page 41.

8. Other operating costs

	2015 £'000
Set up costs pre 1 August 2014	2,369
Legal, professional and consultancy	1,007
IT support, telephony and maintenance	619
Premises costs	371
Operational settlement costs	142
Events management	25
Insurance	79
Auditor's remuneration	72
Other	197
Other operating costs	**4,881**

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

Premises costs include operating lease rental expense of £179,205 for the period.

9. Property, plant and equipment

	Leasehold improvements £'000	IT equipment £'000	Furniture and fittings £'000	Total £'000
Cost				
As at 18 December 2013	–	–	–	–
Additions	425	206	67	698
As at 31 March 2015	425	206	67	698
Depreciation				
As at 18 December 2013	–	–	–	–
Charged for the period	85	19	3	107
As at 31 March 2015	85	19	3	107
Net book value as at 31 March 2015	**340**	**187**	**64**	**591**

10. Intangible assets

	Settlement system £'000	Other IT Software £'000	Total £'000
Cost			
As at 18 December 2013	–	–	–
Additions	2,402	971	3,373
As at 31 March 2015	2,402	971	3,373
Amortisation			
As at 18 December 2013	–	–	–
Charge for the period	–	52	52
As at 31 March 2015	–	52	52
Net book value as at 31 March 2015	**2,402**	**919**	**3,321**

The settlement system is not subject to amortisation as this asset is not available for use as at 31 March 2015. It should also be noted that the capital addition associated with the settlement system is a non-cash transaction as it relates to the provision of an asset by DECC which benefits the company but which is funded through a grant to ELEXON Ltd by DECC.

11. Operational costs levy receivable

	2015 £'000
Operational costs levy receivable	6,847
Less: amount repayable to suppliers	(1,279)
Net amount receivable	5,568

12. Trade and other receivables

	2015 £'000
Supplier reserve fund receivable	1,010
Due from related parties	313
Staff receivables	5
Prepayments and other receivables	132
	1,460

13. Cash and cash equivalents

	2015 £'000
Cash at bank	406

For the purpose of the statement of cash flows, cash and cash equivalents only comprise the cash at bank as stated above. Cash at bank includes restricted cash of £51,436 received from suppliers in respect of the Total Reserve Amount owed for the first levy quarter.

14. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1

	£
Ordinary share capital issued and fully paid:	
As at 18 December 2013	
Ordinary share capital issued £1 each	1
As at 31 March 2015	**1**

15. Trade and other payables

	2015 £'000
Current:	
Trade payables	564
Capital creditors	1,062
Suppliers reserve fund	1,061
Accruals	1,367
Accruals for lease incentives	10
Other taxation and social security	94
Pensions	74
Other payables	79
	4,311
Non-current:	
Deferred income	2,460
Accruals for lease incentives	39
	2,499
Total	**6,810**

The carrying value of trade and other payables approximates to their fair value. Deferred income which relates to the settlement system asset received from DECC is a non-cash transaction for the purposes of disclosure in the statement of cash flows. The accrual for lease incentives relates to the rent free period received on the leasehold premises at Fleetbank House which is spread evenly over the term of lease.

16. Borrowings

	2015 £'000
Current:	
Grant in aid capital loan	140
Working capital loan	3,487
	3,627
Non-current:	
Grant in aid capital loan	842
Total	**4,469**

The grant in aid capital loan is interest free and repayable to DECC from funding received through the operational costs levy collected from suppliers. The timing of the repayment of the loan is in line with the depreciation charged on the assets funded via the loan.

DECC has provided the company with a working capital loan to support the company in managing its operational costs until the company is able to collect the amounts owed from suppliers via the operational costs levy. The loan is interest free and will be repaid during 2015.

17. Provisions

	2015 £'000
As at 18 December 2013	**–**
Increase in provision	67
As at 31 March 2015	**67**

Current	**–**
Non-current	**67**
Total	**67**

Dilapidation provision

The company moved into its offices on the 6th floor, Fleetbank House in October 2014. There was a complete refurbishment undertaken and improvements made to the offices which have been capitalised. The offices are leased under a five-year contract (with a three-year break clause) from Government. At the end of the lease the company is obliged to return the offices to their original state.

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

18. Government grants

	2015 £'000
As at 18 December 2013	
Received during the period	4,771
Released to the income statement	(2,369)
As at 31 March 2015	**2,402**

19. Commitments under operating leases

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

	2015 £'000
Commitments under operating leases:	
Buildings	
Within one year	206
After one year but not more than five years	646
Total	**852**

20. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial period:

	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:				
DECC	217	5,002	261	4,527
ESC	280	–	52	–
Department for Business, Innovation & Skills (BIS)	–	783	–	732

Services to related parties comprise of 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 from related parties include charges for the rental of premises and associated service costs of the 6th Floor, Fleetbank House from BIS. In addition the services received from DECC include staff costs associated with secondments receipt of the non-monetary asset (i.e. the settlement system) and the set up costs of the company for the period prior to 1 August 2014.

The services supplied to DECC relate primarily to the charges for the secondment of staff. The services from DECC include staff costs associated with secondments as well as capital and working capital loans.

20.1 Compensation of key management personnel of the company

Key management personnel include executive directors and their compensation is disclosed in the Remuneration Report on page 41.

21. Financial assets and liabilities

Financial assets

	Note	2015 £'000
Other receivables	12	318
Cash and cash equivalents	13	406
Total financial assets		**724**
Total current		**724**
Total non-current		**–**
Total financial assets		**724**

Financial liabilities

	Note	£'000
Loss on fair value movement of CFDs	22	1,987,839
Trade and other payables	15	3,156
Borrowings	16	4,469
Total financial liabilities		**1,995,464**
Total current		6,783
Total non-current		1,988,681
Total financial liabilities		**1,995,464**

22. CFDs and Investment Contracts

Fourteen contracts for eight CFD projects were awarded in April/May 2014 by DECC under the "Final Investment Decisions enabling Renewables" programme (FIDeR). These contracts have an assumed capacity of 4,249 MW, strike prices of up to £156 per MW and delivery dates between 2015/2016 and 2020/2021. Eleven offshore wind contracts with an anticipated capacity of 2,944 MW of low carbon generation were novated to the company on 1 August 2014 and one renewable (biomass) energy project subsequently novated before 31 March 2015. Two biomass contracts (Drax and Lynemouth) with a capacity of 1,006 MW of low carbon generation are currently being managed by DECC and the Secretary of State remains the counterparty whilst they progress through the European Commission State aid process, although it is expected that they will novate to the company in the future.

A further 27 contracts for 25 projects were awarded following an auction in February 2015 under the enduring "Contracts for Difference" programme. These contracts involve Advanced Conversion Technologies, Energy from Waste, Onshore Wind, Offshore Wind and Solar. These contracts have an assumed capacity of 2,106 MW, strike prices of up to £125 per MW and delivery dates between 2016 and 2020.

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.

22.1 Measurement differences relating to day one recognition

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

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

	2015 £'000
Fair value of CFDs at initial recognition (Note 22.3)	16,807,315
Deferred day one measurement differences on CFDs	(16,807,315)
CFD liability at initial recognition recognised on the statement of financial position	–
Remeasurement of the CFD liability	1,987,839
CFD liability as at 31 March 2015 recognised on the statement of financial position	**1,987,839**

During the period the difference in fair value movement of CFDs amounting to £1,987,839 is recognised in the statement of comprehensive income.

22.2 Movement in deferred measurement differences

	£'000
Deferred measurement differences as at 18 December 2013	–
Measurement differences deferred during the period	4,017,056
Measurement differences deferred on contracts transferred from DECC	12,790,259
Measurement differences recognised in the statement of comprehensive income	–
Deferred measurement differences as at 31 March 2015	**16,807,315**

22.3 Fair value measurement of CFDs

The fair value of CFDs 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. They are based upon the estimates of fossil fuel prices published by DECC in September 2014, using the low projections of fossil fuel prices and rising carbon prices to forecast the potential liabilities using the Dynamic Dispatch Model (DDM) owned by DECC.

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

The 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:

Fair value of CFDs as at 31 March 2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities at fair value through profit or loss				
CFDs	–	–	18,795,154	**18,795,154**

Reconciliation of CFDs

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

	£'000
As at 18 December 2013	–
Additions during the period	4,017,056
Transferred from DECC	12,790,259
Change in fair value during the period	1,987,839
As at 31 March 2015	**18,795,154**

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

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

Annual cash flow is estimated as reference price less strike price multiplied by estimated capacity delivered. The series of periodic net operating expense is then discounted using the HM Treasury discount rate of 2.2%. Annual cash flow excludes the Drax and Lynemouth contracts which have not yet been transferred from DECC.

22.4 Key inputs and underlying assumptions

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

22.4.1 Transmission Loss Multiplier (TLM)

TLM reflects the fact that electricity is lost as it passes through the transmission system from generators to suppliers. TLM was calculated by DECC and set out in the EMR Final Delivery Plan. 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.

22.4.2 Target Commissioning Date (TCD)

TCD represents the date at which the project is eligible to receive CFD difference payments. Generators nominate a target commissioning date in their binding application form, and this is specified in their CFD contract following contract award. However, the generator is free to commission at any time within their Target Commissioning Window (TCW, a period of one year for most technologies) with no penalty, or up to their Long-Stop 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% of their revised installed capacity estimate by the end of the long-stop date. Any change to the commissioning date will change the timing of future cash flows and impact on the discounted fair value.

22.4.3 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. It is specified in the contract following allocation, and once agreed formally 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. Changes in the strike price would have large effects on the output of the model but no significant change is expected to occur.

22.4.4 Future forecast wholesale electricity prices

Forecast wholesale electricity prices are derived from the Dynamic Dispatch Model (DDM). The DDM model was developed to facilitate / inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment (GB model out to 2050). The DDM can model investment behaviour based on rational forecasts of market prices for up to 15 years ahead. The wholesale price has been modelled using the Short Run Marginal Cost (SRMC) for each plant included in the model enabling the calculation of the generation merit order. Demand for each day is then calculated taking wind profiles into account and interconnector flows, pumped storage, auto-generation and wind generation. The wholesale price is equal to the system marginal price plus the mark up. The mark up is derived from historic data and reflects the increase of system marginal price above marginal costs at times of reduced capacity margins.

22.4.5 Installed Capacity

The installed capacity is the maximum capacity each project is capable of achieving. It was provided by the generator in their application and specified in their CFD contract following allocation. The installed capacity cannot be increased after contract signature, but can be reduced by no more than 30% with no penalty between contract signature and final commissioning. The actual output of the generator will depend on the load factor.

22.4.6 Load Factor (LF)

LF 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 for given technology types; however, actual power outputs are sensitive to technological and environmental factors which may impact actual cash flows.

22.4.7 External inputs

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.

22.5 Sensitivity analysis

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

	Favourable Changes £'000	Unfavourable Changes £'000
Change in fair value if:		
Electricity prices decrease by 10%	–	1,628,099
Electricity prices increase by 10%	1,628,099	–
10% more load factor	–	1,879,515
10% less load factor	1,879,515	–
Estimated Commissioning Date moves backward by one year	723,296	–
Generation starts at the start of the Estimated Commissioning Date	–	549,769

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.

22.6 Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for CFDs recognised at fair value and classified as level 3 along with the range of values used for these significant unobservable inputs.

	Fair value of CFDs (£'000)	Valuation technique	Significant unobservable input	Range Min-Max	Units
CFDs	18,795,154	DCF	Electricity prices	41.81– 71.63	£/MWh

23. Supplier Obligation Levy Receivable

	2015 £'000
Supplier obligation levy receivable	1,987,839

A supplier obligation levy receivable 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. (note 4.2.2).

24. Events after the reporting period

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

Glossary

Allocation Round	The process by which potential generators apply to the National Grid (as "Delivery Body") for a CFD and the successful applicants are selected. Allocation Rounds are expected to take place at least annually and are announced by DECC, who sets the available CFD "budget" for the Allocation Round and specifies the generation technologies which are eligible for that Allocation Round.
Contracts for Difference (CFDs)	A 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 prices are less than the strike price (and receiving the difference when prices are higher than the strike price).
Capacity Market	The Capacity Market has been designed by DECC to offer capacity providers who have been awarded capacity agreements with a steady, predictable revenue stream upon which they can base their future investments, with the aim of ensuring security of supply in future years 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 Auction	At a Capacity Auction, applicants who offer the lowest bid can win a capacity agreement. The capacity agreements resulting from the 2014 auction will require capacity to be delivered in the delivery year commencing 2018/19.
CFD auction	An event held by National Grid in February 2015 to determine which energy generator companies will be allocated a low carbon CFD. These auctions will be held annually.
DECC	Department of Energy & Climate Change
Delivery Partners	National Grid; Ofgem; and ELEXON Ltd
EMR	Electricity Market Reform (see inside front cover)
EMR Settlements Ltd	EMR Settlements Ltd is a wholly owned subsidiary company of ELEXON Ltd.* It will act as the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (*ELEXON website: www.elexon.co.uk/)
ESC	Electricity Settlements Company Ltd
Interim Levy Rate	Under the CFD Supplier Obligation Levy, electricity suppliers make pre-payments consisting of a unit cost fixed Interim Levy Rate, charged a daily £/MWh rate to fund the cost of CFD generation. The Interim Levy Rate is set by LCCC every quarter in advance, based on estimated payments to generators to be made in that quarter.
Investment Contracts	An earlier version of CFDs entered into by the Secretary of State in early 2014 pending the full establishment of EMR and of LCCC. The Secretary of State has novated most of these contracts to LCCC in August 2014.

Implementation Coordinator	In its role as CFD Implementation Coordinator, the LCCC is responsible for: • Overall monitoring of progress and readiness against the CFD Implementation Plan; • Maintenance of the CFD Implementation Plan; • Coordinating CFD implementation activities across delivery partners and potential industry participants; • Passing any policy issues to DECC if raised as part of implementation discussions; and • Owning and updating the CFD operating model.[5]
Milestone Delivery Date (MDD)	The CFD requires a generator to demonstrate by the Milestone Delivery Date that they have made a significant financial commitment to the construction of their new generation plant. The Milestone Delivery Date is 12 months from the date of the CFD agreement. Generators demonstrate this requirement by providing LCCC with evidence that they either have spent a specified amount of project cost or have entered into contracts committing to equivalent significant expenditure by the Milestone Delivery Date.
Minor and necessary modifications	Applicants for a CFD are given the right during the course of an Allocation Round and prior to the successful generators/projects being selected, to apply to LCCC for "minor and necessary" modifications to their prospective CFD template. The minor and necessary process, and the matters LCCC must consider, are set out in the relevant regulations.
Supplier Obligation Forecast Model (SOFM)	The model forecasts the Supplier Obligation Levy. LCCC sets the amount of the CFD Supplier Obligation levy (i.e. the Interim Levy Rate and Total Reserve Amount) on a quarterly basis ahead of the start of the quarter.
Total Reserve Amount	The amount the company determines is needed for there to be a 19 in 20 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; and c. the estimated income to be received by the company from CFD generators in the quarter, the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CFD generators.
Transparency Tool	LCCC developed a model called the Transparency Tool which provides stakeholders with insight into LCCC's assumptions and calculations underlying the forecasts produced by SOFM and any sensitivities. This tool can be found on LCCC's website (www.lowcarboncontracts.uk).
Renewables Obligation	DECC introduced Renewables Obligation (RO) in 2002 to provide incentives for the deployment of large-scale renewable electricity in the UK. The RO requires licensed UK electricity suppliers to source a specified proportion of the electricity they provide to customers from eligible renewable sources. This proportion (known as the "obligation") is set each year and has increased annually. In the UK, there are ROs for England, Wales and Scotland (managed by the Scottish Government). Further information is available at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/the-renewables-obligation-ro

5 DECC, Electricity Market Reform Contracts for Difference: GB implementation plan, (updated January 2015) page 5, available at: https://lowcarboncontracts.uk/system/files/January%202015%20CFD%20Implementation%20Plan%20V2%20(2).pdf

Notes

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