

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 and 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 CFDs throughout their lifetime; and
- Electricity Settlements Company Ltd (ESC) to oversee settlement of the Capacity agreements.

ESC is governed by a Framework Document³ with its sole shareholder, the Secretary of State for Energy and Climate Change. This Framework Document, published on ESC’s website, is one of the company’s primary governance documents, which sets out its relationship with its shareholder and its Guiding Principle.



ESC’s Guiding Principle is to maintain market participants’ confidence in the Capacity Market settlement process 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), 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://electricitysettlementscompany.uk/sites/intranet2/files/general/Electricity%20Settlements%20Company%20Framework%20Document%20-%20August%202014%20-%20Signe...pdf>

Contents

Chairman's statement	3
Chief Executive's statement	4
Corporate Report	5
Environment Report	11
Strategic Report	12
Directors Report	16
Corporate Governance Report	18
Remuneration Report	25
Independent Auditor's Report	27
Financial statements and notes to the accounts	28
Glossary	40

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

Building a strong company



I was delighted to be appointed as the first Chairman of ESC 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 initial operations.



Pivotal to the success of Electricity Market Reform (EMR)

The company was established to oversee the settlement of capacity agreements. The Capacity Market will play a key role in ensuring that sufficient reliable capacity is available when it is needed. Most of ESC's operational activities are carried out by its sister company LCCC.

Building a strong, reliable company

I have been impressed by the amount that has been achieved in such a short space of time, in terms of setting up the business and putting key settlement functions in place to manage operational costs. 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 new 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 practices in to our corporate governance. The Corporate Governance section on page 18 outlines our governance structure.

Looking forward

The scale of the company's activity is set to increase substantially in the years ahead. The capacity agreements awarded by National Grid in December 2014 will require ESC to make around £1 billion of payments in 2018/19.

Dr Martin Read CBE
Chairman

Shaping the future of capacity generation



ESC's role is to oversee the settlement of the Capacity Market to ensure that regular payments are made to capacity providers who have agreed to provide capacity at times of system stress. These capacity arrangements help to keep the lights on across Great Britain.



Starting up the business

In setting up and operating ESC, we've been able to take advantage of synergies with the activities of our sister company, LCCC. By establishing a cost-share arrangement and receiving all of our services from LCCC, we have avoided employment and other overhead costs. ESC also benefits from economies of scale through shared infrastructure with LCCC.

Successful implementation of EMR

In addition to overseeing the work to implement the Capacity Market settlement system and processes, our main activity this year has been the management of the credit cover process for participants in the first Capacity Auction. This auction, run by National Grid, has resulted in commitments from capacity providers to deliver over 49.26GW of secure capacity for 2018/19, which could result in up to £1 billion of capacity payments being made in that year.

Looking forward

ESC continues to work proactively with DECC and our delivery partners to improve the effectiveness of the Capacity Market processes and identify further efficiencies. In particular, we are keen that together we look for further ways to improve the synergies between the Capacity Market and CFD settlement arrangements so that we can minimise the costs passed on to electricity suppliers. It is important to play our part in building investor confidence in the sector to ensure the UK has sufficient generation capacity coming forward in future years.

Neil McDermott
Chief Executive

Capacity Market explained

What is the 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 providers provide capacity under either a capacity agreement or a Transitional Arrangement agreement.

How does the Capacity Auction work?

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.

What are capacity agreements?

Capacity agreements are arrangements between National Grid (as System Operator) and capacity providers. They require the capacity provider to be ready to provide a certain amount of capacity in their applicable delivery years when called upon to do so by National Grid. Capacity providers are subject to penalties if they do not provide the capacity when called upon to do so.

What are Transitional Arrangements?

Transitional Arrangements are agreements between providers of Demand Side Response (DSR) and National Grid (as System Operator) under which DSR providers agree to reduce electricity demand at times of high (or peak) demand. These agreements are carried out following a Transitional Auction.

What is a Transitional Auction?

Transitional Auctions are aimed at providing transitional support to DSR providers by reducing the time between the auction and the delivery year during the early years of the Capacity Market. The next Transitional Auction will be held in January 2016. These one year ahead auctions have been designed by DECC with the aim of addressing the predicted shortfall in capacity between now and the first capacity agreement delivery year of 2018/19.

What is Demand Side Response (DSR)?

DSR helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the "demand side") in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. DSR is seen as having the potential to help to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.

Building up capacity

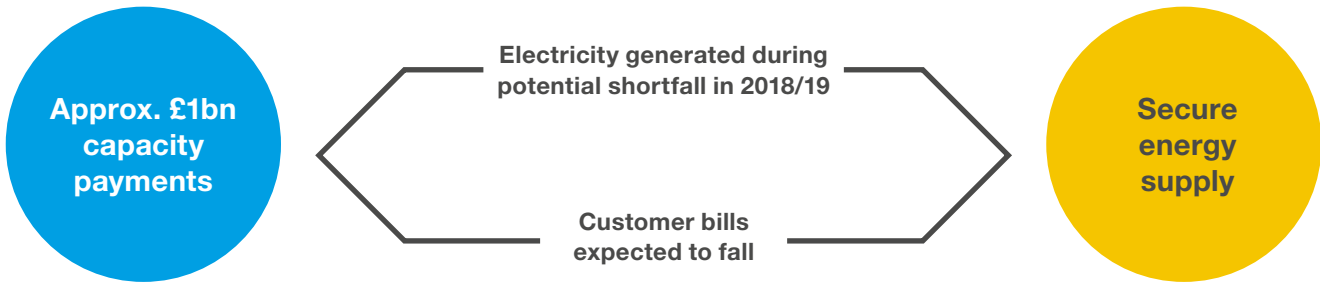
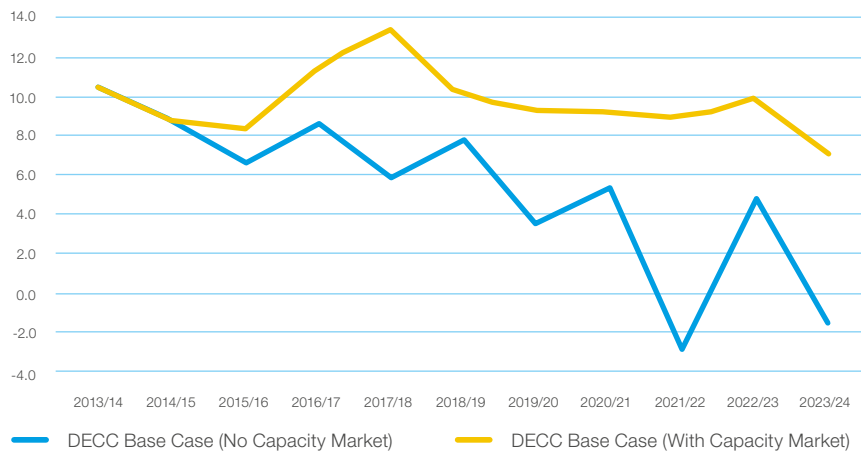
Yearly Capacity Auctions are intended to secure reliable production of electricity while the UK moves to a low carbon economy. Energy providers compete to provide electricity at the cheapest price, ensuring the lights stay on during this transition.

Keeping the Lights on

This graph shows the difference between stored capacity with the Capacity Market ensuring a secure supply of energy and no stored capacity without the Capacity Market.

Source: DECC, Statutory Security of Supply report (October 2013), page 62, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/261604/HC_675_updated_accessible.pdf

Ensuring security of supply Derated capacity margin (%)



ESC...

- Provides accountability, governance and delivery of settlement operations under the electricity Capacity Market payment regulations.
- Holds and monitors credit cover from applicants in Capacity Auctions and Transitional Auctions.
- Undertakes meter checks on capacity providers with complex sites or those which are not subject to other meter assurance.
- Decides any Capacity Market settlement disputes.
- Monitors and reviews the regulations relating to the settlement functions of the Capacity Market.

Building strong foundations

Who we are

ESC is a private limited company that is wholly owned by the Secretary of State for Energy and Climate Change. The company plays a key role in delivering the EMR programme – managing the Capacity Market settlement process.

Our role

ESC has overall accountability for Capacity Market settlement. LCCC manages this on behalf of ESC.

Our objectives

Our objectives set out how we aim to deliver our responsibilities in line with our Guiding Principle. Two main themes encapsulate our objectives: delivery first and striving for excellence.



The scale of the company's activity is set to increase substantially in the years ahead. The capacity agreements awarded by National Grid in December 2014 will require ESC to make around £1 billion of payments in 2018/19.

Martin Read
Chairman

Delivery first

Objective

Provide accountability, governance and delivery of settlement operations under the Capacity Market payment regulations.

Striving for excellence

Objective

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

Delivery first

Our operations and mechanisms are being developed, ready to deliver the Capacity Market settlement process efficiently and effectively from 2016 onwards.

Our objective

Provide accountability, governance and delivery of settlement operations under the Capacity Market payment regulations.

Our key achievements

- Successfully processed credit cover for the first Capacity Auction.
- Progressed arrangements to obtain meter assurance in relation to capacity providers.
- Achieved operational readiness for necessary settlement services relating to ESC's operations costs from their go live date on 1 April 2015.

Led by our guiding principle

We are putting in place reliable processes to collect and make capacity payments from 2016 onwards, while minimising costs to consumers by exploiting synergies with CFD settlement where possible.

Looking forward

- Process credit cover for the 2015 Capacity Auction and also for the Transitional Auction in January 2016.
- Verify meters of those capacity providers who have a capacity agreement conditional on ESC approving their meter configuration.
- Receive delivery of the remaining Capacity Market settlement system modules required to collect and make payments to capacity providers from winter 2016 onwards.

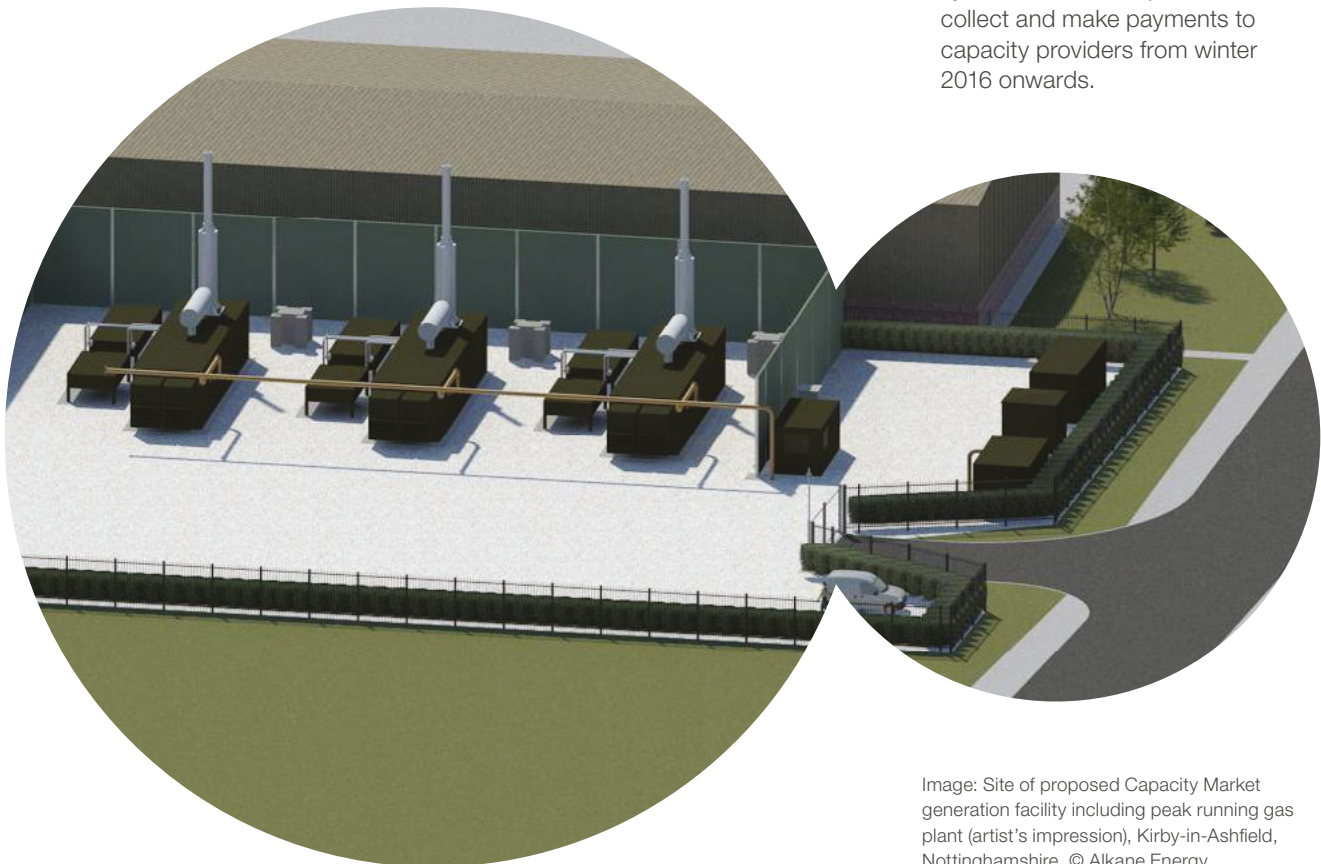


Image: Site of proposed Capacity Market generation facility including peak running gas plant (artist's impression), Kirby-in-Ashfield, Nottinghamshire. © Alkane Energy

Striving for excellence

Minimising costs and driving efficiency

Our role in the Capacity Market scheme contributes towards ensuring security of electricity supply in future years. We proactively work to improve our mechanisms and processes and embed best practice into our operations, working closely with our delivery partners.

Our objective

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

Our key achievement

Established cost share agreement with LCCC in relation to synergies and the delivery of our Capacity Market responsibilities.

Looking forward

Continue to work closely with Government, industry and other delivery partners to improve the delivery of the Capacity Market scheme in future.

Delivering excellence

In just 3 weeks, we successfully returned all credit cover to those who were unsuccessful in the 2014 Capacity Auction.



Image: Redcar Blast Furnace, Redcar & Cleveland, North East, powered by a station with a capacity agreement. © SSI UK

Getting down to business

Establishing the groundwork

On 1 August 2014 ESC was launched at Fleetbank House, ready to start delivering its obligations under the Capacity Market scheme.

Starting up the business

Core internal processes and systems were developed by LCCC on ESC's behalf as shared assets. These include the website, customer relationship management system and information communication technology.

Designing systems

ESC refined its requirements for the Capacity Market module of the settlement system during 2014/15, with the planned build being postponed until after the successful completion of the CFD modules. It is still projected to complete in good time ahead of the first payments to DSR providers expected in winter 2016.

Running Capacity

Within months of its launch on 1 August 2014, ESC was processing credit cover for 76 applicants in the first Capacity Auction. ESC worked with DECC, National Grid and Ofgem after the auction to review the Capacity Market regulatory framework to identify implementation improvements.

Processing £57m in credit cover

The total amount of credit cover managed by ESC during the first Capacity Auction held in October 2014 was £57m. £3m was returned to applicants due to overpayment and £42m to unsuccessful participants in the auction. The remaining £12m will be held by ESC until it is released on completion of milestones monitored by National Grid (as System Operator).

Environment Report

The company does not have any employees. Its role is performed by its agent, LCCC. The company accordingly does not itself have any Scope 1, Scope 2 or Scope 3 emissions. The company is, however, committed to ensuring its sustainability objective and will work closely with LCCC in this regard.



Image: Combined Cycle Gas Turbine plant, Plymouth, Devon. © CentricaEnergy

Strategic Report

The company was incorporated on 26 March 2014, but only commenced active operations on 1 August 2014.

ESC is an independent, highly capable organisation that plays a key role in the Capacity Market scheme introduced as part of the Government's EMR programme.

The Capacity Market, which aims to ensure security of supply in future years at least cost to consumers, is 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 Guiding Principle requires that, in carrying out its functions, activities and role the company shall seek to maintain market participants' confidence in the Capacity Market scheme and minimise costs to consumers.

The company's strategy is to focus on delivery first, given ESC's crucial operational role in delivering key elements of a major Government programme. ESC's strategy also requires the company to be ready to deliver change within the EMR delivery landscape.

The principal activities of the company are described on pages 7 to 10. The company's functions are performed through LCCC. The company has no plans to change this business model.

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

Key milestone	Deadline	Status
Ready to process credit cover from applicants to the first Capacity Auction	1 October 2014	Completed on time

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 the Capacity Market. The company's main function is to perform the settlement role set out in the Electricity Capacity Regulations 2014 (as amended) and the Electricity Capacity (Supplier Payment etc) Regulations 2014 (as amended) (the "Regulations").

This role requires the company to make payments to and receive payments from capacity providers who hold capacity agreements with National Grid. The company will make regular payments to capacity providers who have agreements to make capacity available when they are called upon by National Grid to do so. The company will also receive payments from capacity providers in the form of penalties should they not make this capacity available. The company does not expect to commence making capacity payments prior to 2016.

The company will obtain the funds to make the payments to capacity providers from levies by electricity suppliers as set out in the Regulations. Suppliers are obliged to pay their respective levies by the due date for payment (which is not less than three working days of receipt of a notice to pay), but the company, for its part, does not have to make capacity payments until, depending on the type of payment, either 29 working days after the end of each relevant month or 29 working days after the end of the relevant year. This will insulate the company against liquidity timing issues. In addition, suppliers must lodge credit cover as security against their failure to pay amounts for which they are liable and, if this credit cover is insufficient, the failure is "mutualised" between the remaining suppliers (i.e. the remaining suppliers have to make up the "shortfall" between them).

Where the company receives monies from capacity providers (i.e. as a "penalty" if the capacity provider does not make the required capacity available), it will pay these monies to suppliers. If a capacity provider fails to pay an amount due from it and, as a result, the company does not make an expected payment to suppliers, the shortfall will be borne by suppliers (i.e. it will be shared between them). The company has no obligation to make up any shortfall.

The day to day operational costs of the company were funded directly by DECC until the end of July 2014 (and so do not appear in the accounts). After 1 August 2014, the operational costs are funded by suppliers under the Capacity Market settlement costs levy which is set by the relevant Capacity Market regulations. The amount is updated annually by amending regulations. The operational costs levy for 2014/15 was fixed at £1.374m. For 2015/16 it is fixed at £3.891m.

The company applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of the levy. It also undertakes a robust and detailed annual business planning and management process to establish its operational cost requirement for each financial year.

The company has delivered a solid financial performance since it became operational on 1 August 2014, managing its cost base well within the external budgetary limits set by Parliament after public consultation. As a result the company will be in a position to return £0.702m 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 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. The funding for these new systems is initially made through LCCC and ESC then contributes to the shared elements of these systems through payment of a use of asset charge to LCCC. The use of asset charge equates to the depreciation charged over the estimated useful life of the specific asset. Additionally through grant funding from DECC, ELEXON Ltd and its subsidiary, EMR Settlements Ltd (as settlement services provider), have invested a further £2.207m in the settlement system functionality required to deliver Capacity Market settlement operations.

The original expectation was to have all Capacity Market settlement system functionality in place for 1 April 2015. 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 for the necessary aspects of settlement required for 1 April 2015 (being the Capacity Market settlement costs levy) commenced on 1 April 2015 with a higher level of manual and other workarounds than had been anticipated. The company is working with its core contractors ELEXON Ltd and EMR Settlements Ltd, and their systems developer (Sopra-Steria), to deliver full Capacity Market functionality as required during the course of 2015/16.

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.

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" and "striving for excellence". As the Capacity Market scheme is new to industry, there is significant scope for identifying opportunities to streamline the company's processes and expand its provision of stakeholder engagement and dissemination of knowledge and information. Similarly, as part of the company's strategy to be "ready for change", the company will participate in lessons learned processes and provide feedback and advice to DECC on EMR improvements going forward and be ready to implement those improvements.

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 18 of this report.

Risk or uncertainty	Risk brief description	Main mitigating actions
Operational integrity	The company is new and may not have in place the appropriate business infrastructure, such as IT systems, designed processes and corporate policies to deliver its key business activities.	<ul style="list-style-type: none"> • Project governance for key projects is in place • Effective planning, coordination and prioritisation of projects is in place • Contingency plans are in place • Core elements of the internal systems are in place • Review of key processes and creation of process for managing change is underway • Business continuity plan is being created
Settlement services readiness	Delays to 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.	<ul style="list-style-type: none"> • Process documentation is in place • Capacity Market and regulatory requirements have been recorded in a single document • 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
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 accordance with the time requirements.	<ul style="list-style-type: none"> • Key financial controls are documented and implemented • 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 ESC.	<ul style="list-style-type: none"> • Ongoing stakeholder engagement, e.g. via trade associations and bilateral engagement • Industry readiness workstream • Regular shareholder meetings and liaison with Government • Media and policy monitoring
Fraud risk	Fraudulent activity from individuals or third parties.	<ul style="list-style-type: none"> • 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 under way • Know your client checks are in place • Internal audit function is in place and internal audit has been undertaken • Compliance and checking processes being developed in relation to the Capacity Market risks
Data Privacy/Security	Insufficient security of company and third party data.	<ul style="list-style-type: none"> • IT security is in place • IT security policy and process is in place • Operational staff training and awareness is taking place • Review of security is scheduled • Sharepoint is being introduced
Budget	Annual budget is insufficient for requirements.	<ul style="list-style-type: none"> • 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
9 June 2015



Neil McDermott
Chief Executive

The board of directors



I am delighted to have recruited a team with such a vast wealth of experience across a number of sectors to enable us to meet the challenges of Electricity Market Reform, in terms of both its scale and ambition.

Martin Read
Chairman



Martin Read
Chairman



Jim Keohane
Senior Independent
Director



Neil McDermott
Chief Executive



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 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 year from its incorporation to 31 March 2015. The company's registered number is 8961281.

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 19 to 20.

Directors and Corporate Governance

Full details of the directors and corporate governance matters are set out on pages 18 to 26.

Employees

The company does not have any employees.

Environment

Details are set out on page 11 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 30 to 39.

The company is a not-for-profit company, with the settlement activity it performs ensuring that the capacity payments it is required to make to capacity providers under capacity agreements are matched with the levies 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 settlement costs levy referred to on page 13. Any excess settlement 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 30 to 39, the company overview on pages 3 to 10 and the Strategic Report on pages 12 to 14.

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.

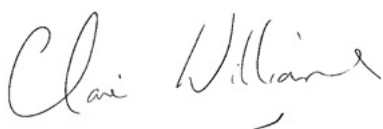
The directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

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

9 June 2015

Corporate Governance Report

The company was set up by the Secretary of State to be the Capacity Market settlement body and has been appointed as such by the Secretary of State. 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 company's activities in the year are described in pages 7 to 10 and in the Strategic Report at pages 12 to 14.

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 which it is the company's responsibility to execute.

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 market participants' confidence in the Capacity Market process 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 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.

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.

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 and the nomination committee. The written terms of reference of both committees 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 26 March 2014 and 20 May 2014 respectively). Neil McDermott, 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 page 23. 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
- 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 Officer¹
- leads the executive team in the day-to-day running of the company
- makes and executes operational decisions
- implements the strategy agreed by the board
- ensures delivery within the annual budget
- ensures appropriate internal controls and risk management processes are in place
- 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 plans also 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 also have access to the Chairman of the committee outside formal committee meetings. The Head of Internal Audit and the external auditors each separately also 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

¹ 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

- 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 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 1 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 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 25 to 26.

Board and committee membership

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

Board and committee meetings

The table opposite 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.

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 the company's risk management and system of internal controls 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 below:

Control and assurance environment

- The board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and where possible to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The audit, risk and assurance committee assists the board in discharging its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 20 to 21).

- 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 continued 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 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 cycle. 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.

Board and committee membership

Board and Committee Member	Role	Appointed to Board/ Resigned	Appointed to Audit, Risk & Assurance Committee	Appointed to Nomination Committee	Appointed to Remuneration Committee
Anne Baldock	non-executive director	App. 11/11/2014		16/12/2014	16/12/2014
Tony Bickerstaff	non-executive director	App. 11/11/2014	16/12/2014		
Jim Keohane	non-executive director	App. 22/07/2014*	16/12/2014		16/12/2014
Marion King	non-executive director	App. 11/11/2014	16/12/2014	16/12/2014	
Neil McDermott	Chief Executive	App. 22/07/2014			
Jonathan Mills	non-executive director	App. 26/03/2014*	16/12/2014		
Anthony Odgers	non-executive director	App. 22/07/2014*			16/12/2014
Simon Orebi Gann	non-executive director	App. 11/11/2014	16/12/2014	16/12/2014	
Martin Read	Chairman	App. 22/07/2014*		16/12/2014	16/12/2014
Helen Turner	Chief Finance Officer	App. 22/07/2014			
Tony White	non-executive director	App. 11/11/2014		16/12/2014	16/12/2014
Declan Burke	non-executive director	App. 26/03/2014 Res. 22/07/2014			

* 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.

Member attendance record

	Board	Audit, Risk & Assurance Committee	Nomination Committee	Remuneration Committee
Number of meetings held	9	2	0	1
Anne Baldock*	3		0	1
Tony Bickerstaff*	3	2		
Jim Keohane*	8	2		1
Marion King*	4	0	0	
Neil McDermott*	8	X (attends but not a member)		
Jonathan Mills	8	2		
Anthony Odgers*	7			1
Simon Orebi Gann*	4	1	0	
Martin Read*	8		0	1
Helen Turner*	8	X (attends but not a member)		
Tony White*	3		0	1
Declan Burke*	2			

*Appointed part way through the year

- 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 page 14.

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.



Neil McDermott

Chief Executive and Accounting Officer

9 June 2015

Remuneration Report

Employees

The company does not have any employees. The company performs its functions through the Low Carbon Contracts Company Limited (LCCC).

Non-executive directors

Fees are payable to all non-executive directors. For reasons of synergy, operational efficiency and cost effectiveness, the board of directors of the company and LCCC are identical. The fees paid to directors therefore relate to work for both companies. All fees are paid by LCCC, with a fair and properly allocated amount relating thereto being “recharged” by LCCC to the company under the “recharge” arrangements described in note 2.4 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 provided by Odgers Berndtson (an external recruitment consultancy). Odgers Berndtson has no other connection with the company. No director is involved in deciding his or her own individual remuneration.

Executive directors

The executive directors are employed and paid by LCCC. They therefore do not receive any remuneration from the company. LCCC charges the company for its services, with an amount relating to the full cost of the executive directors to LCCC forming a fair and properly allocated component of that charge. This arrangement is detailed in the “recharge” described in note 2.4 to the financial statements.

Director fees

The company does not directly pay fees to the directors. LCCC pays the fees to the directors, with the allocated portion relating to the company being recouped via the recharge referred to above and in note 2.4 to the financial statements. Essentially, 20% of the total fees paid in 2014/15 in relation to each director is allocated to the company. This allocation is illustrated in the table on the next page.

Director fees

Name	2014/15 Fees £	Principal positions held elsewhere at 31 March 2015
Anne Baldock	[20% of £9,679]	<ul style="list-style-type: none"> • LCCC – non-executive director • Hydrogen Group – non-executive director • Thames Tideway Tunnel – 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	[20% of £12,002]	<ul style="list-style-type: none"> • Costain Group Plc – Group Finance Director • CBI Economic Growth Board – member • LCCC – non-executive director
Jim Keohane*	[20% of £43,333]	<ul style="list-style-type: none"> • Gas & Electricity Markets Authority – non-executive member • Harwich Haven Authority – Chairman • LCCC – non-executive director
Marion King	[20% of £9,679]	<ul style="list-style-type: none"> • Royal Bank of Scotland – Group Director of Payments • LCCC – non-executive director • UK Payments Council – director
Neil McDermott	N/a - see above	<ul style="list-style-type: none"> • LCCC – Chief Executive and director
Jonathan Mills*	0 (shareholder representative director – civil servant)	<ul style="list-style-type: none"> • Department of Energy & Climate Change – Director, Electricity Market Reform • LCCC – non-executive director
Anthony Odgers*	0 (shareholder representative director – civil servant)	<ul style="list-style-type: none"> • Department of Business and Innovation – Deputy Chief Executive & Director Corporate Finance Practice Shareholder Executive • Green Investment Bank – non-executive director • LCCC – non-executive director • Enrichment Holdings Limited – non-executive director • Enrichment Investments Limited – non-executive director
Simon Orebi Gann	[20% of £9,679]	<ul style="list-style-type: none"> • LCCC – non executive director • Next Generation Data Ltd – non-executive director • Aspen Technology Inc (NASDAQ: AZPN) – USA – non-executive director
Martin Read*	[20% of £130,000]	<ul style="list-style-type: none"> • Laird plc – Chairman • Remuneration Consultants Group – Chairman • LCCC – Chairman • UK Government Senior Salaries Review Body – Chairman • Lloyds of London (Franchise Board) – non-executive director
Helen Turner	N/a - see above	<ul style="list-style-type: none"> • LCCC – Chief Finance Officer and Director
Tony White	[20% of £9,679]	<ul style="list-style-type: none"> • Nuclear Liabilities Financing Assurance Board – member • LCCC 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 fees (paid by LCCC with a proportion recharged to the company) are the only form of remuneration that each non-executive director receives. The total amount relating to Martin Read and Jim Keohane reflects fees paid by LCCC since 1 March 2014. The total amount shown as paid by LCCC for the other directors relates to the period of their appointment from 11 November 2014 to 31 March 2015.

Independent Auditor's Report to the shareholder of the Electricity Settlements Company

I have audited the financial statements of the Electricity Settlements Company 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.

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 matter 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 year 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

9 June 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	30
Statement of financial position	31
Statement of changes in equity	32
Statement of cash flows	33
Notes to the accounts	34

Statement of comprehensive income for the period ended 31 March

		2015
	Note	£'000
Other income	6	672
Other operating costs	7	(672)
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 34 to 39 form part of these accounts.

Statement of financial position as at 31 March

2015

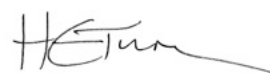
	Note	£'000
Non-current assets		
Intangible assets	8	2,207
Current assets		
Settlement costs levy receivable	9	672
Prepayments	10	12
Cash and cash equivalents	11	3,470
Total current assets		4,154
Total assets		6,361
Current liabilities		
Trade and other payables	13	(3,499)
Borrowings	14	(655)
Finance lease obligations	15	(331)
Total current liabilities		(4,485)
Non-current liabilities		
Finance lease obligations	15	(1,876)
Total liabilities		(6,361)
Net assets		-
Shareholders' equity and other reserves		
Share capital	12	-
Retained earnings		-
Total equity		-

The notes on pages 34 to 39 form part of these accounts.

The financial statements were approved by the board of directors on 9 June 2015 and signed on its behalf by



Neil McDermott
Chief Executive and Accounting Officer



Helen Turner
Chief Finance Officer

Statement of changes in equity for the period ended 31 March

2015

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 26 March 2014	-	-	-
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 34 to 39 form part of these accounts.

Statement of cash flows for the period ended 31 March

2015

	Note	£'000
Cash flows from operating activities		
Profit for the period		–
Working capital adjustments:		
Increase in settlement costs levy receivable	9	(672)
Increase in prepayments	10	(12)
Increase in trade and other payables	13	3,499
Net cash inflow from operating activities		2,815
Cash flows from investing activities		
Net cash outflow from investing activities		–
Cash flows from financing activities		
Increase in borrowings	14	655
Net increase in cash and cash equivalents in the period		3,470
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period		3,470

The notes on pages 34 to 39 form part of these accounts.

Notes to the accounts for the period ended 31 March 2015

1. Authorisation of financial statements

The financial statements of Electricity Settlements 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 directors on 9 June 2015.

No comparative information has been included in these financial statements as the company was incorporated on 26 March 2014 and this is the company's first year 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 settlement body for the Capacity Market. 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.

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 settlement 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 Capacity Market "settlement costs levy" which is set by the Electricity Capacity (Supplier Payment etc) Regulations 2014 (as amended).

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

The directors also note the risk that the total settlement 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 settlement costs 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 settlement costs levy.

The requirement to pay capacity payments to capacity providers is set out in the Electricity Capacity Regulations 2014. The payments to be made to capacity providers are funded by suppliers under the Electricity Capacity (Supplier Payment etc) Regulations 2014 (as amended). It should be noted that the Electricity Capacity Regulations 2014 state that the company's obligation is to pay when paid (i.e. the company has no obligation to pay the capacity providers until it receives adequate funds from suppliers to perform its obligation).

The Department of Energy & Climate Change (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 supplier settlement costs levy due from suppliers on 1 May 2015.

2.3 Settlement costs levy income

Under the Electricity Capacity (Supplier Payment etc) Regulations 2014, the company is entitled to recover its operational costs through the settlement costs levy on suppliers referred to above. The total amount of the levy is re-set annually. Any surplus at the year end is reimbursed to suppliers by issuing credit notes against the following year's levy.

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

The settlement costs levy will be collected through monthly invoices using the settlement systems. The settlement services provider, EMR Settlements Ltd, will administer the collection process.

2.4 Recharges

The company is recharged a proportion of costs which it shares with the Low Carbon Contracts Company Ltd (LCCC). LCCC is a sister arm's length body owned by the Secretary of State for Energy and Climate Change which is responsible for acting as the CFD counterparty for Contracts for Difference (CFDs) and Investment Contracts. In order to maximise operational cost efficiency, LCCC provides certain services to the company 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 also includes costs incurred on those activities which allow the company to perform its functions in relation to the Capacity Market.

This recharge is based on an estimate of the time LCCC's employees will spend on the company's activities during the relevant financial year, together with an appropriate allocation of overhead costs (including rent, service charge, IT infrastructure and telephony support) 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. LCCC undertake these activities on behalf of the company and the company's board retains responsibility and accountability for the quality and cost of services provided by LCCC.

The company's income is outside the scope of VAT therefore the company is not VAT registered. As the company is not VAT registered it will not be able to recover its input VAT on any of its expenditure.

2.5 Government grants

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

The 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 working capital loan for operational costs,

if material, is recognised in the income statement over the period of the loan.

2.6 Financial assets

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.

The only financial assets held by the company at the reporting date are cash and cash equivalents.

2.7 Financial liabilities

The company classifies financial liabilities as "other financial liabilities". Other financial liabilities include trade and other payables, borrowings and finance lease obligations. The categorisation 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.

2.7.1 Recognition and measurement

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

2.7.2 Derecognition of financial liabilities

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

2.8 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.

2.9 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:

Settlement system	5 years
-------------------	---------

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

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

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

2.11 Leases

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

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

2.11.1 Finance leases Company as a lessee

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

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

2.12 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.

2.13 Borrowings

Borrowings represents a working capital loan from DECC. Borrowings are recognised initially at fair value, net of transaction costs incurred (if any). Borrowings are subsequently carried at amortised cost. The working capital loan outstanding at the reporting date is repaid, through levy income received, within 60 days of the reporting date unless otherwise agreed.

3. Financial risk management

3.1 Financial risk management and financial risk factors

Due to the nature of its operational and financial arrangements the company is not exposed to any significant financial risk. The financial risk is minimal by virtue of the company's levy funding arrangements with licensed suppliers which are set out below.

3.2 Credit and Liquidity risk

Under the legislation there is an obligation placed on licensed suppliers to fund in advance, via payment through a levy, the capacity payment obligations as they crystallise. The company has no obligation to pay the capacity providers until it receives adequate funds from suppliers to perform its obligations.

As the Capacity Market settlement timetable is structured such that monies to be received by the company are invoiced and collected prior to the issue of credit notes and payments out from the company, the liquidity risk is minimal.

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.

4.2 Estimating useful lives and residual values of intangible assets

At each balance sheet date, the useful lives and residual values of 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 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 amortisation expense recognised in the income statement and the asset's carrying amount.

4.3 Capacity agreements

Capacity agreements are arrangements between National Grid (as System Operator) and capacity providers. They require the capacity provider to be ready to provide a certain amount of capacity in their applicable delivery years when called upon to do so by National Grid.

The company is not party to capacity agreements but is only responsible for acting as an administrator for the settlement process. A Capacity Market obligation for the company only arises when settlement levy payments are received from electricity suppliers and the capacity provider delivers the required capacity in line with the capacity arrangements.

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
- IFRS 13 Fair Value Measurement

Annual improvements 2011-2013 Cycle

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

These include:

- IFRS 13 Fair Value Measurement

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

	2015
	£'000
Settlement costs levy income	1,374
Less amount repayable to suppliers	(702)
Net settlement costs levy income	672

7. Other operating costs

	2015
	£'000
Costs recharged by LCCC	336
Operational settlement costs	193
Consultancy fees	68
Audit's remuneration	30
Insurance	25
IT support and maintenance	18
Bank charges	2
Other operating costs	672

8. Intangible assets

	2015
	Settlement system £'000
Cost	
As at 26 March 2014	–
Additions	2,207
As at 31 March 2015	2,207

Amortisation

As at 26 March 2014	–
Charge for the period	–
As at 31 March 2015	–
Net book value as at 31 March 2015	2,207

The company leases the settlement system from DECC under a finance lease where all the risks and rewards of ownership rest with the company. The lease term is 5 years which is the period over which the asset will be depreciated. The settlement system has not been depreciated during 2014/15 as the asset is not in use as at 31 March 2015.

As the settlement system is recognised against the finance lease obligations, so additions during the year are treated as non-cash transactions in preparation of the statement of cash flows.

9. Settlement costs levy receivable

	2015
	£'000
Settlement costs levy receivable	1,374
Less: amount repayable to suppliers	(702)
Net amount receivable	672

10. Prepayments

	2015
	£'000
Prepayments	12

Prepayments comprise the insurance charge relating to the next financial year, 2015/16, which has been paid in advance.

11. Cash and cash equivalents

	2015
	£'000
Cash at bank	134
Bid bond collateral	3,336
Cash and cash equivalents	3,470

For the purpose of the statement of cash flows, cash and cash equivalents only comprise the cash at bank and bid bond collateral as stated above. Bid bond collateral is a restricted cash balance and relates to credit cover provided by the capacity providers.

12. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
	£
Ordinary share capital issued and fully paid:	
As at 26 March 2014	–
Ordinary share capital issued £1 each	1
As at 31 March 2015	1

13. Trade and other payables

	2015
	£'000
Trade payables	27
Due to a related party	52
Bid bond collateral	3,337
Accruals and other payables	83
	3,499

Bid bond collateral relates to credit cover provided by the capacity providers.

Bid bonds will be held by the company until one of the following triggers set out in the Electricity Capacity (Payment) Regulations 2014 occurs:

- the capacity auction is delayed;
- the potential capacity provider notifies that it no longer intends to bid in the capacity auction;
- the capacity auction takes place and the potential capacity provider does not win a capacity agreement; and
- the capacity provider demonstrates capacity in the manner required by the above regulations.

14. Borrowings

	2015
	£'000
Working capital loan	655

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 settlement costs levy. The loan is interest free and will be repaid during 2015.

15. Finance lease obligations

	2015
	£'000
Less than 1 year	331
Between 1 and 5 years	1,766
Greater than 5 years	110
As at 31 March 2015	2,207

The finance lease obligation is held in respect of the settlement system asset which has been funded by DECC through EMR Settlements Ltd, a wholly owned subsidiary of ELEXON Ltd.

16. Related-party transactions

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

	Services from related parties £'000	Amounts owed to related parties £'000
Entities with significant influence:		
DECC	2,207	655
LCCC	336	52

Services from LCCC comprise of shared costs of premises, staff and directors payroll costs, IT infrastructure and use of assets which are incurred in the first instance by LCCC but are then recharged at an agreed percentage to the company based on an estimated usage of those services. Services received from DECC relate to the receipt of the settlement system in the form of a finance lease arrangement.

17. Financial assets and liabilities

Financial assets

	Note	2015 £'000
Cash and cash equivalents	11	3,470

Financial liabilities

	Note	2015 £'000
Trade payables	13	3,499
Borrowings	14	655
Finance lease obligations	15	2,207
Total financial liabilities		6,361
Total Current		4,485
Total non-current		1,876
Total financial liabilities		6,361

Glossary

Balancing and Settlement Code (BSC)	This code* is a legal document which defines the rules and governance for the balancing mechanism and imbalance settlement processes of electricity in Great Britain. (* https://www.elexon.co.uk/bsc-related-documents/)
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.
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 providers provide capacity under either a capacity agreement or a Transitional Arrangement agreement.
Demand Side Response (DSR)	DSR helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the “demand side”) in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. DSR is seen as having the potential to help to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.
EMR	Electricity Market Reform (see inside front cover)
EMR Settlements Ltd	EMR Settlements Ltd is a wholly owned subsidiary of ELEXON Ltd and is the settlement services provider.* ESC and LCCC have entered into a contract with EMR Settlement Company Ltd has under which this company will provide settlement services and provide and manage the operation of the EMR settlement system. (*EMRS website: https://emrsettlement.co.uk/)
Meter assurance	Under the Capacity Market, capacity providers with complex or non-BSC metering arrangements need to undergo metering checks in accordance with ESC meter standards guidance. (https://www.electricitysettlementscompany.uk/)
Settlement services provider	The settlement services provider on behalf of ESC undertakes billing and invoice activities relating to payment and settlement under the Capacity Market scheme. (see EMR Settlements Ltd)
Settlement system	The settlement system used to settle all monies collected from suppliers to make payments to CFD generators and Capacity Market providers, and to settle all monies collected from generators and Capacity Market providers which are payable to suppliers.
Transitional Arrangements	Transitional Arrangements run by National Grid (as System Operator) are aimed at addressing electricity demand at times of high peak (see page 5 for more details).
Transitional Auctions	Transitional Auctions are one year ahead auctions for DSR (see page 5 for more details).



Visit
[www.lowcarbon
contracts.uk](http://www.lowcarboncontracts.uk)
for more
information

© Electricity Settlements Company Ltd

Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX
www.lowcarboncontracts.uk

Company registered number: **8961281**