# ENABLING A LOW-CARBON FUTURE FOR ALL

**Annual Report and Accounts**
for Electricity Settlements Company Ltd

**2021/22**

## OUR VISION

is to accelerate the delivery of Net Zero.

## OUR MISSION

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

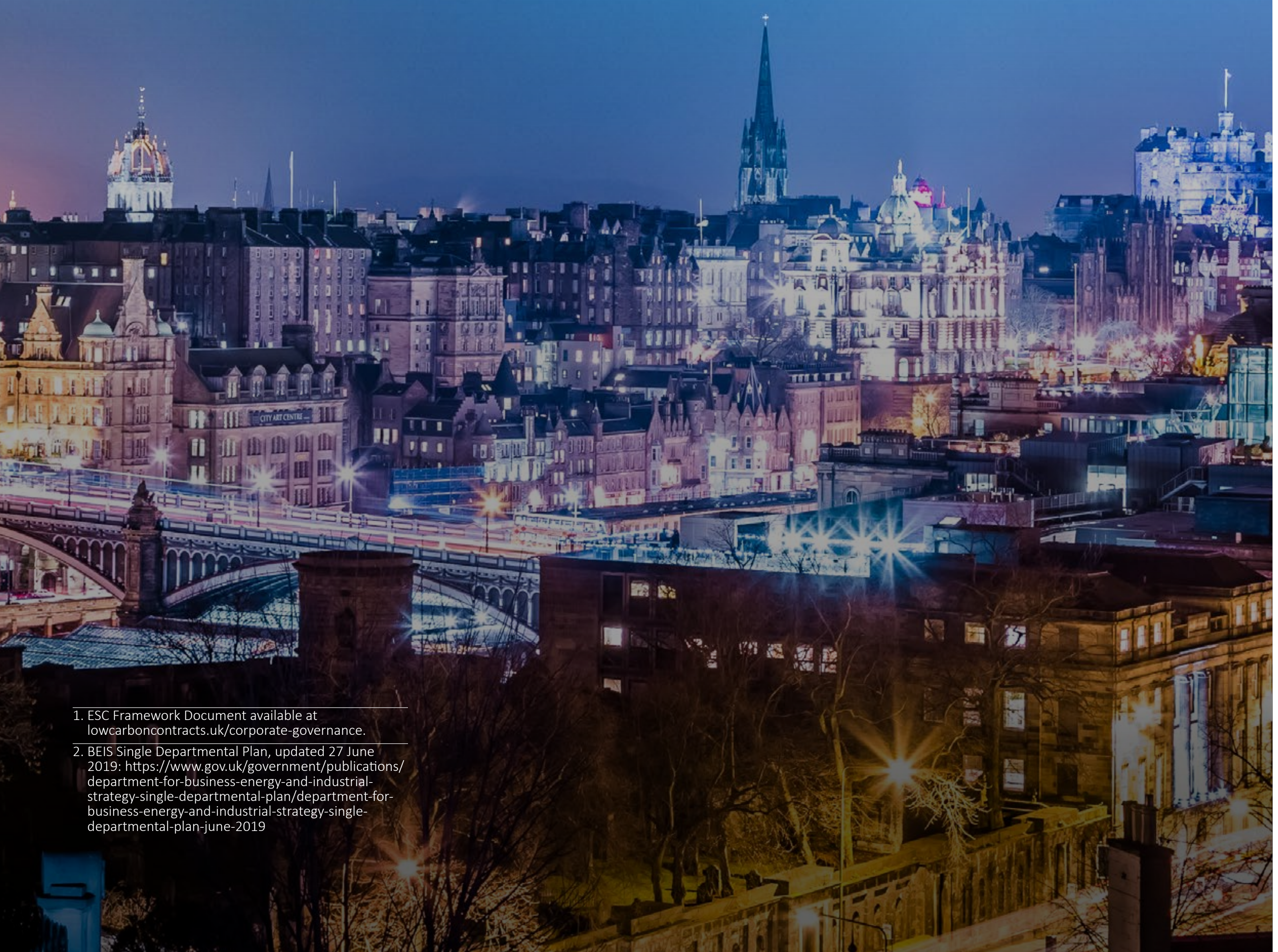
## ESC'S GUIDING PRINCIPLE

is to maintain market participants' confidence in the Capacity Market settlement process and minimise costs to consumers.[1]

**The Electricity Settlements Company (ESC) is an operationally independent, not-for-profit private company wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). The company carries out the key role of Capacity Market Settlement Body, supporting the delivery of the government's objective of "ensuring that the country can deliver its goal to provide reliable, low cost and clean energy system"[2].**

**As Capacity Market Settlement Body, ESC is responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as credit cover, meter assurance, penalties, and payments to Capacity Providers.**

* The CM formed part of the Electricity Market Reform programme which was aimed at accelerating the decarbonisation of the power sector while protecting security of supply and limiting cost to consumers. As such, the CM, while not directly aimed at reducing carbon emissions, was part of an overall package which had that aim.



1. ESC Framework Document available at lowcarboncontracts.uk/corporate-governance.
2. BEIS Single Departmental Plan, updated 27 June 2019: https://www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan-june-2019

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### DATA

**INCREASED DATA ANALYSIS TO ENABLE OPERATIONAL EFFICIENCIES** and improve the visibility of performance in the Capacity Market.

### DEMAND

**MANDATING THE SETUP** of aggregation rules before the start of the Delivery Year.

## Acting as a Trusted Advisor

### IMPROVE

**ADVISED BEIS AND OFGEM ON POLICY, REGULATION AND RULE CHANGE** using our growing analytical capability to improve the efficient operation of the Capacity Market (CM) and achievement of its policy objectives.

### RESPONSE

**WORKED CLOSELY WITH COLLEAGUES IN OFGEM ON CM RULE CHANGES** and submitting a response to their winter 2021 consultation on the Capacity Market Advisory Group (CMAG).

### ENGAGE

**ENGAGED WITH CAPACITY PROVIDERS THROUGH ESC WEBINARS** and at Delivery Partner events. New CM timeline created to help participants understand end–to-end CM actions and dependencies.

**Key**

**Capacity Market** (CM) activity

# Chair's foreword

## A HUGE RAMPING UP OF AMBITION FOR RENEWABLES AND NUCLEAR...

**Every year of my term as ESC Chair has been one where the word unprecedented could be used, but 2021/22 has gone beyond this and really has been a year like no other.**

On the one hand, there are the big trends that impact everyone: COVID-19, and the consequent supply chain disruptions; soaring inflation and a cost-of-living crisis; rocketing the energy prices; and, most recently, war in Europe. ESC has been affected by all of these. On the other hand, the drive to Net Zero and the more recent imperative to secure our energy supplies has led to a huge ramping up of ambition for renewables and nuclear, with a consequent need to find complementary and dispatchable low-carbon generators. While solar, wind and nuclear are all well-established sectors, dispatchable low-carbon technologies are more nascents and energy policy will need to evolve if they are to be incentivised. BEIS is embarking on the Review of Electricity Market Arrangements (REMA) to look at these issues.

One thing is clear: we need to be building a low-carbon power sector at pace, with investment levels beyond what we have historically seen. REMA will look at whether market reform is needed to accelerate this investment and therefore may bring forward new policies to support the deployment of the levels of dispatchable capacity needed to match the growth of variable renewables; but this could take some time. So we need to take pragmatic steps now, making the best use of the instruments we already have in place, while REMA considers any changes to wider market arrangements or system operation.

That includes the existing Capacity Market (CM), which has the potential to support the deployment of dispatchable low carbon power.

ESC is looking to deliver radical, data-driven improvements in the operation of the CM to make it more user-friendly, particularly for the smaller flexible low-carbon energy sources in the market. Automation of the Satisfactory Performance Days (SPD) reporting process is just a first step; we are planning more improvements that will make the system more accessible for new flexible technologies.

I am pleased that the team is driving to deliver these operational reforms in collaboration with the National Grid Electricity System Operator Delivery Body (DB), while also advising BEIS and Ofgem on the potential for further improvement where this may require rule or regulation changes. I want to thank everyone for their continued efforts throughout this difficult time. This includes my fellow ESC Board members, who have provided support for me and the team and shown exemplary commitment to the organisation.

**Regina Finn**
**Chair**

# Chief Executive's statement

## I LOOK FORWARD TO CELEBRATING FURTHER ADDED VALUE...

**Recent events, and in particular the invasion of Ukraine by Russia, have massively refocused energy policy onto the security and reliability of our energy supplies. As reliability of electricity is the core reason for the Capacity Market, there has been renewed focus on its use. It is a stark contrast from last year, when COVID-19 had reduced energy demand significantly.**

One way of providing assurance that the lights will stay on is to increase the procurement level for the CM auctions. This happened for the 2022 T-1 auction, to the point that more capacity was being sought than had prequalified. Consequently, this auction cleared at the maximum £75/kW for 5GW of capacity. While this is a short-term response to current concerns, in the longer term we are starting to see capacity clearing prices rise as the need for new dispatchable capacity becomes more apparent. This year's T-4 auction procured over 42GW at £30.59/kW, a significant increase on the £18/kW in last year's bidding.

Over the course of the year, ESC handled Capacity Payments totalling £856.3m, less than the £1,094.7m in 2020/21. The total net operating costs of the company for the year were £7.0m (2020/21: £7.0m), compared to the pre-approved budget of £7.5m (2020/21: £7.5m). Consequently, we will be returning £0.5m to Suppliers for 2021/22.

As the cost of the CM ramps up, it is even more vital that its operation is made more efficient and open to all capacity types, so as to increase competition in the auctions and keep downward pressure on prices. We have been using the time since the CM restart two years ago to really focus on this agenda.

A key part of this has been a programme of testing of the Stress Event processes in conjunction with our Delivery Partners, which we completed this year. This testing uncovered many issues which have been resolved, but there are still a number more, primarily concerned with the quality of the underlying data held by the Delivery Partners.

Subsequently the focus shifted onto making the data held by the DB and ESC an accurate reflection of the reality in the market, increasing the reliability of the system and opening up new possibilities for streamlining and analysis. The key step of making provision of aggregation data mandatory before the start of the Delivery Year has aided this enormously.

With this in place, we can now start on some initiatives that will make all parties' interactions with the CM easier and quicker. SPD automation is a key early win here, but other processes appear ripe for a data-led improvement.

Beyond this, however, we have a key aim around making the CM easier to navigate for flexibility options, such as Demand Side Response and a broader range of storage technologies, which will be required to complement variable renewables. Based on the evidence that our data work provides, we can begin to see how different technologies actually act in the market and how the CM may need to reflect their differences in the future. Using this knowledge, we aim to advise BEIS where there may be a case for change, and also provide information and insight to the wider market so they can act on the evidence. In this way we aim to encourage more participants into the CM, thus increasing competition and bearing down on costs. We are at an early stage of this journey, and we aim to provide advice based on hard evidence gleaned from data. I look forward to celebrating further added value from this process in next year's report.

Towards the end of the year a number of Sanctions against Russian and Belarus people and companies were introduced. ESC's Anti-financial Crime Policy & Standards was reviewed earlier in the year to include a broader list of crimes leading to a more robust KYC process and dashboard reporting, which provided swift reassurance that no direct or ultimate beneficiary owners of the CM were affected.

**Neil McDermott**
**Chief Executive**

# Strategic Report

## Our role in accelerating the delivery of Net Zero

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

- ESC is the **Capacity Market Settlement Body** responsible for **managing all financial transactions** and associated assurances under the CM scheme, such as credit cover, meter assurance, penalties, and payments to Capacity Providers.
- ESC **maintains market participants' confidence** in the CM settlement process by providing guidance and communicating regularly through bulletins and via our dedicated settlement portal

## Key outcomes in 2021/22

| Capacity Market settlement outcomes[3] | Total payments made by ESC to Capacity Providers | Total annual cost (including ESC settlement (i.e. operational) cost levy) | Operational costs as a percentage of total annual cost |
|---|---|---|---|
| Availability payments made to 22.0GW of capacity for Delivery Year 2020/21 and 48.4GW for Delivery Year 2021/22 | **£522.9m** (for Delivery Year 2020/21)[4]<br><br>**£333.4m** for Delivery Year 2021/22 from October 2021 to March 2022)[4] | **£863.2m** | **0.8%** |

3. Figures may not reconcile due to rounding.
4. A Capacity Market Delivery Year runs from 1 October to 30 September the following year.



# Performance against Strategy

## Overview of company's role

**The Electricity Settlements Company (ESC) is an operationally independent company wholly owned by the Secretary of State for BEIS, which carries out the key role of Capacity Market (CM) Settlement Body. The company's main function under the CM scheme is to perform the levy collection and settlement role set out in the CM Regulations.**

As part of this role, the company also collects credit cover provided by applicants to Capacity Auctions, pays the credit cover back to unsuccessful applicants and processes the credit cover of successful applicants in accordance with the requirements of the CM Regulations. This credit cover is intended to provide a level of security for the performance by Capacity Providers of their obligations under the CM Regulations.

In addition, as part of its role under the CM scheme, the company undertakes meter assurance activities to check that Capacity Providers are providing the capacity they are required to provide under their Capacity Agreements.

Our mission is to shape and implement schemes which enable low-carbon investment at least cost to the consumer. The table below depicts our three strategic objectives, against which our performance is measured.

**Figure 1: Our three strategic objectives**

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

## Performance overview

ESC has continued to deliver our core CM business activities in what continued to be challenging times. During COVID-19 and the energy market crisis, our focus has been to inform and support Generators and Suppliers; key initiatives we have worked on include:

- continuing to develop the data portal and the information available to our stakeholders;
- better understanding our CM stakeholders – qualitative interviews conducted as part of our annual stakeholder survey; and
- continuing to work on improvements to the settlement and wider end to end system.

We have delivered operational excellence in our settlements, with 99% of issued invoices (combined for CfD and CM), notifications and payments accurate and on time, and 100% of Requested Meter Tests completed.

# Auctions

**In February 2022, the latest CM Auctions took place and some of the key takeaways are described below.**

### T1 Auction Delivery Year 2022/23

We engaged Capacity Providers at the The T1 auction cleared at an all-time high of £75/kW/yr with a total of 4.996GW of capacity procured across 226 Capacity Market Units (CMUs). The total cost of this auction is expected to be around £375m, or an additional cost of £5 to the average household electricity bill. The table below shows the mix of capacity procured, with Battery Storage increasing to 385MW compared to 114MW procured in the T1 auction for the 2021/22 Delivery Year.

The Demand Side Response increase is aligned to our simplification and data utilisation projects which have highlighted the need to influence more change to ensure operational effectiveness and growth at a lower capacity level.

| Type of Capacity | Capacity procured |
|---|---|
| Gas | 3.385 GW |
| Demand Side Response | 0.516 GW |
| Coal (last year that is it permitted in CM) | 0.411 GW |
| Battery Storage | 0.385 GW |
| Waste | 0.101 GW |
| Pumped Storage | 0.085 GW |
| Other sources | 0.113 GW |

### T4 Auction Delivery Year 2025/26

This year's T-4 auction is another where high clearing prices were recorded. The T-4 cleared at £30.59/kW/yr, with a total of 42.364GW procured compared to a previous high of £22.50/kW/yr. This will result in a cost to the consumer of some £1.3bn, compared to £470m for the 2021/22 winter. Again, Battery Storage is the big winner in the T-4 auction, with over 1GW of capacity procured – an increase of 800MW compared to the previous T-4. The Battery Storage capacity in this year's T-4 is split across 107 CMUs, with more than 60% of this storage over two hours' duration.

| Type of Capacity | Capacity procured |
|---|---|
| Gas | 27.623 GW |
| Interconnectors | 6.966 GW |
| Pumped Storage | 2.528 GW |
| Battery Storage | 1.093 GW |
| Demand Side Response | 0.988 GW |
| Nuclear | 0.990 GW |
| Hydro | 0.842 GW |
| Waste | 0.633 GW |



# Excellent scheme delivery

## Data and performance analysis

### Capacity Market Process Reviews and Data Analysis

In managing the CM scheme, ESC's strategic intent has been to enable increased data analysis to enable operational efficiencies and improve visibility of performance in the CM. This work is the foundation for ESC's desire to better understand how best to facilitate the advancement of low-carbon and flexible technologies.

Our focus on data has enabled ESC to drive change and facilitate cost reduction, resource efficiency and increase scheme participant satisfaction. An example of this is the development of the end-to-end process reviews led by ESC with Delivery Partners; we have used performance data to improve understanding and identify process efficiencies.

Our focus has been to change within the existing CM Rules and Regulation framework, but as our data understanding and capability grow, we will also look at CM Rules and Regulations that may require refinement in a maturing scheme and with a wider view.

We continue to implement change to reduce costs, support security of supply and work with the Government, Ofgem and Delivery Partners to assist with future Net Zero Benefits.

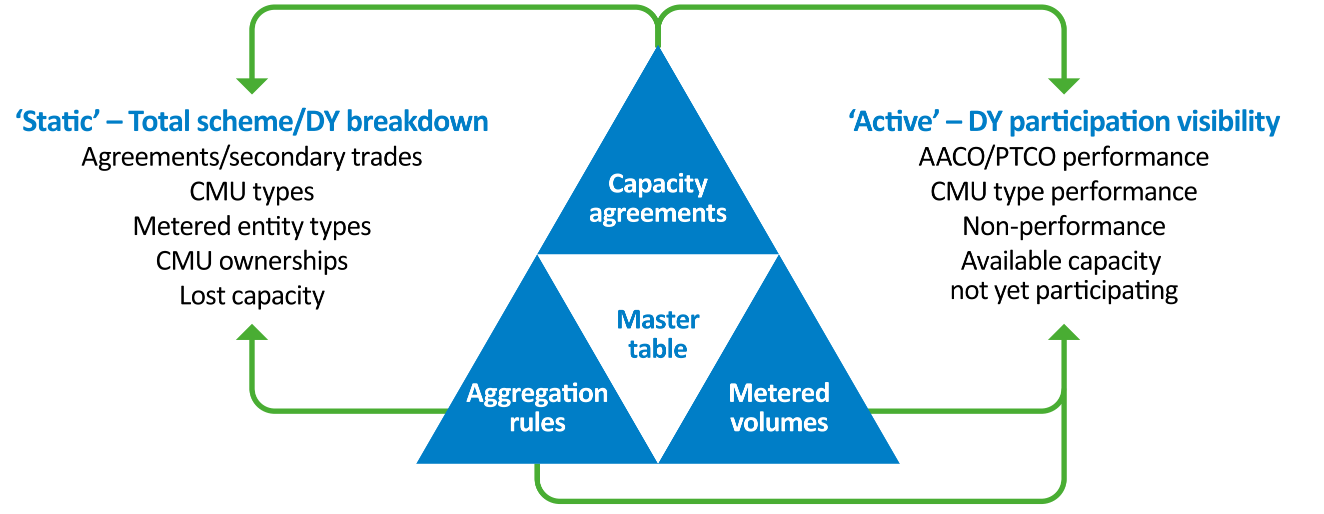
### The journey so far

In 2020, we decided not to repeat the mock Stress Event process, which was set up to validate if a real Stress Event would work. Instead, we set up an internal testing process to stress-test multiple scenarios rather than one public test, and ensure that fixes were put in place if issues were identified.

In early 2021, ESC led on an internal Stress Event testing programme looking at the interfaces between the delivery and settlement bodies, highlighting the need to ensure increased assurance daily at a component level (BMUs, MPANs etc). This work was the start of our new data programme.

In 2021/22 a key focus has been increased data availability, accuracy and utilisation. Aligned to our Delivery Excellence strategic objective, ESC has developed an analytical tool to enable the interpretation of performance at multiple levels.

**Figure 2: Data journey**




This was born from the learnings from our Stress Event testing programme. The data set-up in the CM needs to be scrutinised at the lowest level and frequently to ensure the complex and moving parts fit seamlessly together.

Our challenge was to ensure that these moving parts were validated more regularly and root cause fixes put in place across the Delivery and Settlement Body.

The Stress Event testing highlighted and confirmed our understanding that preparation cannot be just at a mock event or to simply wait for a Stress Event to happen.

The day–to-day running of the CM is unaffected by the majority of these moving parts because payments are at a Capacity Agreement level or a CMU.

We also identified a significant amount of manual work that created dissatisfaction across multiple parties so, evolving from the Stress Event testing, we identified several opportunities all related to this lowest level of component data.

# Excellent scheme delivery

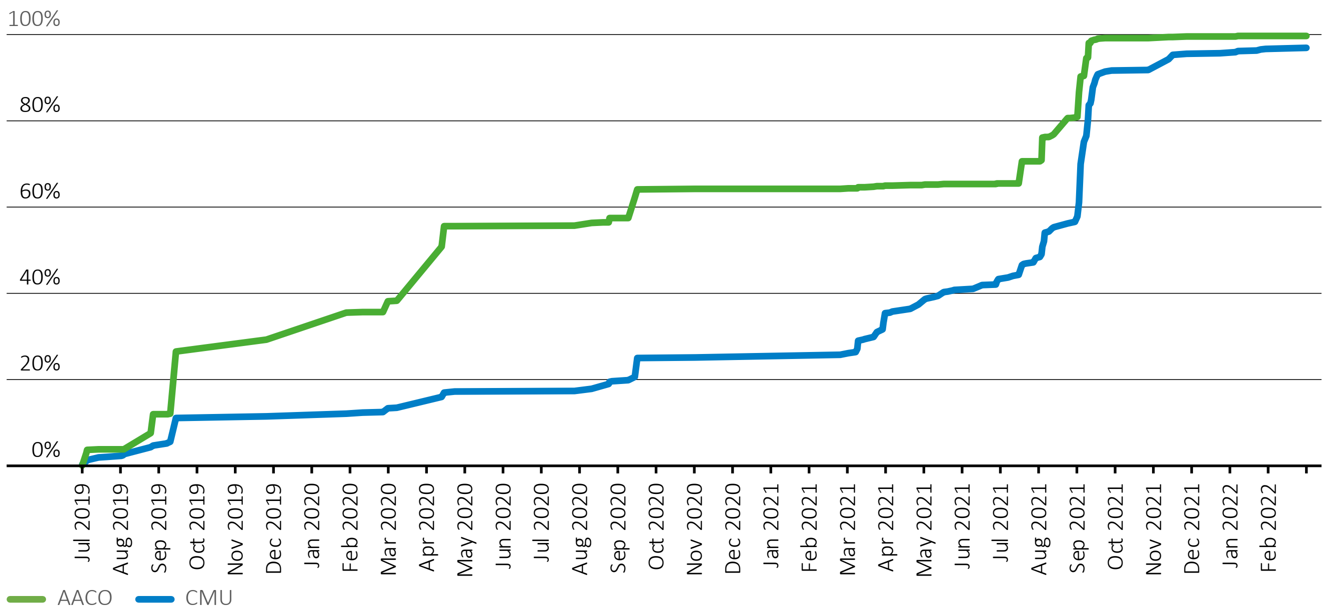
## Important Steps

The Stress Event testing programme highlighted the need to develop our data capability, but it also highlighted the need to think differently about data usage and timings. Multiple problems can be solved at the same time rather than reactively managing them individually.

One of the most important changes was mandating the setup of aggregation rules before the start of the Delivery Year. Our focus shifted to the numbers that were delivered by Capacity Providers and therefore the accuracy of our data on day 1 (which could have been the first data of a Stress Event) as can be seen in the diagram above; this became equally as important as the metered data itself.

This was a success and Capacity Providers delivered as per the request, meaning we could not only mitigate the single biggest risk from the Stress Event testing programme, but we could increase our ability to utilise the data.

**Figure 3: Metering Aggregation Rule submission: 2021/22 Delivery Year**




A secondary benefit from the aggregation rule delivery was the impact it could have on the Satisfactory Performance Day (SPD) process. We quickly realised that with access to the data and managing the moving parts, we could automate this process and ensure greater visibility of Capacity Provider performance.

## Streamlining the Satisfactory Performance Day process

To validate a CMU's ability to deliver their Auction Acquired Capacity Obligation (AACO), there is a requirement for all CMUs to nominate three SPDs to be checked by the EMR Delivery Body through its portal.

To reduce operational burden on Capacity Providers, ESC has developed an SPD pass report, meaning Capacity Providers will not have to submit dates on the EMR DB as their CMUs are automatically awarded an SPD pass report when the data shows they have exceeded their AACO.

This report went live on 31 March for 90% of the CM. The 10% is split into 2 main camps:

1. 99% of the aggregation rules isn't 100%, issues have remained which could not be fixed through automated checks. Plus, there are examples where data flows have not been set up. If we cannot see the data, we cannot automate. This is a new priority for the coming year.
2. DSR is predicated on a baseline; with the current rules, it is impossible to predict when a DSR provider will set a baseline to automate the validation. This is another priority for the coming year: we see this as a blocker for DSR growth because of the administration, plus it is difficult to understand delivery.

There are some more complex scenarios which have also been communicated and ESC welcomes any feedback on this initiative, which we have run without requiring rule changes.

The key window historically has been in April for submissions and we wanted to go-live quickly, rather than wait until next October, to ensure lessons learned could be implemented for the next Delivery Year.



## Next Steps

Our data utilisation programme will advance through the next year, we are looking at several projects where we believe we can improve the running and the quality of data. Examples include:

1. DSR baselining, test and performance days
2. Secondary trading, data visibility to replace lost capacity
3. Industry registers assessment, determines integrity and gaps
4. CMU performance in peak periods
5. CM dashboard and portal access to widen visibility
6. Missing and manual data.

National Grid Delivery Body Portal V2 is important to the ongoing performance of the CM. We have started delivering process reviews prior to any further change to ensure we understand the need and can support them to deliver a better solution.

ESC is keen to ensure prioritisation of change so the focus is on the right changes. Our starting point as previously detailed was Stress Events, aggregation rules and Satisfactory Performance Days. Examples of what we will be looking at next to pre-align to portal delivery:

- Metering Assurance and Meter Tests
- Data submission to Delivery Partners
- Delivery assurance review and simplification

## The future vision

To make the CM scheme work as effectively as possible, we are promoting simplification and prioritisation 'no regrets' solutions within the current framework, which will help attract the wider forms of lower carbon capacity needed to close the looming capacity gap. ESC is advocating for these solutions and will use our improved analytical capability to provide evidence to enable developments, be it in the CM or wider. None of this precludes wider reform that may emerge from the REMA process but is aimed at making what exists work better in the short to medium term.

Visibility of the technology type, fuels, set-up and performance is important to truly understand the impact on the looming capacity gap caused by retirement of older large generators. The risks that changing technologies with vastly different set-ups and revenue streams create are important to prepare for, and we are working to improve this visibility and to ensure that the correct incentives and/or penalties are in place.

## Open data

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

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

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

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

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

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

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

## Change delivery

Over the course of the year, we delivered 28 system, process and/or service improvement changes. Of these changes, 24 were targeted at improving the overall service delivered through our settlement system, with a mixture of front-end and back-end improvements. In addition, we have supported National Grid software releases through this period.

## Regulatory system and process changes

CM changes for the period include BSC modification P399, which resulted in the need to update some of the data input interfaces to continue to support the CfD and CM schemes.

## Service improvement changes

The underlying hosting infrastructure has been modernised and improved with future resilience in mind. Improvements have been made to the Energy Intensive Industry exemptions processes.

The main CM service improvement processes regarding the Auction Acquired Capacity Obligation and associated meter data have been improved. Additional data validation has been put in place with National Grid to improve data quality. CPI annual adjustments for T-4 agreements have now been automated.

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

## Settlement system enhancements

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

## Engaging with our stakeholders

Over the last year, we have engaged with stakeholders by hosting webinars focusing on providing updates to the CM scheme and how to utilise data to improve scheme requirements. We want to further engage with Capacity Providers to gather views and support for our simplification and automation agenda.

We are pleased that, when asked in our annual stakeholder survey, 67% of Capacity Providers are satisfied with the performance of the LCCC/ESC's functions under their Capacity Agreement.

5 https://www.lowcarboncontracts.uk/data-portal/

# Excellent scheme delivery

(Continued)

This year, we conducted qualitative interviews with some of our Capacity Providers to better understand how we support them. The interviews concluded that there is desire to engage more with us, whether it be understanding Capacity Providers' expectations for the future or working with them to prepare for future risks. We are working on an engagement plan as a result of the feedback received.

### Sharing knowledge

This year, we have been building on our successes from last year by making data more accessible to stakeholders. The data portal was introduced in December 2020, providing downloadable data to stakeholders. In addition, we have introduced the 24-month cost projection for the CM.[6]

The CM timeline was launched in early 2021 and allows Capacity Providers to identify upcoming CM activities and display high level information, such as the relevant CM Delivery Partner(s) and links to useful guidance, working practices and materials.

Figure 4: Capacity Market Timeline


6. www.lowcarboncontracts.uk/data-portal/

# Advisory Services

**We have used our experience in settling the CM in advising Ofgem on the set-up and governance arrangements for its proposed Capacity Market Advisory Group (CMAG) in 2021/22. ESC has worked closely with colleagues in Ofgem on CM Rule changes and submitted a response to Ofgem's winter 2021 consultation on the CMAG. Ofgem published its Call for Input seeking industry stakeholder views on establishing the CMAG in January 2022.**

We have also supported BEIS in its policy development thinking through our attendance of the monthly CM Policy Board which is chaired by BEIS and attended by ESC, NGESO and Ofgem. One of the outcomes of this engagement was the CM Call for Evidence, in which ESC was able to support the development of BEIS policy proposals.

ESC also attends the Regulatory Change Advisory Board (RCAB) on a quarterly basis where it is joint Chair with NGESO. The role of RCAB is to plan and deliver CM policy and rule changes through a coordinated process and system change programme with prioritisation agreed between BEIS, Ofgem, NGESO and ESC.

# Financial Overview

### Capacity payments

The total amount of capacity payments in the financial year was £856.3m (2020/21: £1,094.7m).

The Delivery Year for the CM runs from 1 October to 30 September of each year.

The capacity payments for each Delivery Year are summarised in the table below, by reference to each financial year.

| Capacity Market Delivery | FY 2021/22 | FY 2020/21 |
|---|---|---|
| T-1 Capacity Auction 2018/2019 | nil | £0.4m |
| T-4 Capacity Auction 2018/2019 | £16.3m | nil |
| T-1 Capacity Auction 2019/2020 | nil | £1.2m |
| T-4 Capacity Auction 2019/2020 | £15m | £404.1m |
| T-1 Capacity Auction 2020/2021 | £0.4m | £0.5m |
| T-4 Capacity Auction 2020/2021 | £538.7m | £688.5 |
| T-1 Capacity Auction 2021/2022 | £55.1m | nil |
| T-4 Capacity Auction 2021/2022 | £230.8 | nil |
| **Total** | **£856.3m** | **£1,094.7m** |

TThe company obtains the funds to make payments to Capacity Providers by charging electricity Suppliers as set out in the CM Regulations, with Suppliers being obliged to pay their charges within five working days of receipt of an invoice from the company. The company does not, however, under the CM Regulations, make capacity payments until 33 working days after the end of the relevant delivery month. This provides protection for the company against cashflow timing issues.

Suppliers must lodge credit cover as security against their failure to pay amounts for which they are liable. Where the credit cover is called upon and proves insufficient to cover the amount due from a particular supplier, the shortfall is "mutualised" between the remaining Suppliers (i.e. the remaining Suppliers had to make up the shortfall between them). As at 31 March 2022, the company held £18.3m in supplier credit cover (2020/21: £27.8m). During the year, £23.3m of supplier charge was mutualised to other Suppliers (2020/21: £6.1m), this increase is due to the high energy prices forcing Suppliers into administration.

The CM also places financial obligations on Capacity Providers. If a Capacity Provider does not provide the capacity required, it may, in accordance with the CM rules and regulations, be obliged to pay a penalty to the company. Where the company receives penalty monies from Capacity Providers, it pays these monies to Suppliers. There may also be circumstances where a Capacity Agreement is terminated pursuant to the CM rules. Where the company receives termination fees, these amounts are passed on to the Government's Consolidated Fund via BEIS and Treasury.

### Operational costs

The day-to-day operational costs of the company are funded by Suppliers under the annual fixed 'settlement' or operational costs charges set by the Supplier Payment Regulations. The amount set out in the Supplier Payment Regulations is amended by Parliament, after public consultation, to reflect the company's required operational costs for the relevant financial year. The amount is then divided between Suppliers and charged to them in accordance with their market share.

The total settlement costs charges for 2021/22 were fixed at £7.472m, for 2022/23 they're set at £6.954m, for 2023/24 £7.382m, and for 2024/25 £7.734m. The company has delivered its operational role within the budget set by the operational costs levy for 2021/22.

The company applies robust financial management in order to ensure that its collection of the settlement costs levy is carried out in good time in order to meet its commitments to Capacity Providers.

The company shares resources with LCCC, which are paid for by LCCC with the proportion of the costs related to the CM being recharged to ESC, as further set out in note 2.6 to the financial statements.

The total net operating costs of the company for the year were £7.0m (2020/21: £7.0m). As a result of its strong financial performance over the financial year, the company will return £0.5m to Suppliers for 2021/22 (2020/21: £0.5m).

### Post balance sheet events

There are no post balance sheet events to be recognised or disclosed.

### Significant accounting matters and key judgements in the financial statements

There are no other significant accounting estimates and key judgements to be recognised or disclosed.



# Viability Statement

The Directors have assessed the viability and prospects of the company over the next three years. In doing so the Directors have undertaken a robust assessment of the company's current position, the emerging and principal risks faced by it and the potential impact of these risks on the future prospects and development of the company (including those that would threaten the company's business model, future performance, solvency or liquidity). The Directors consider the company to be viable for at least three years, up to March 2025, as the company has approved budgets for 2022/23, 2023/24 and 2024/25.

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

As part of the strategic planning process and in assessing viability, the Directors have considered the regulatory and legal environment within which the company operates, and do not foresee any changes that will significantly affect the finances of the company within the viability period of three years referred to above. The Directors have also carefully considered the way in which the company manages its principal risks and have assessed the potential financial impact of the principal risks identified, and do not feel that these risks will bring into question the company's viability. A significant risk that has been under review by the Directors, when making their assessment of the company's viability, is the impact of the fluctuating prices situation in the energy market, due to geopolitical events, that is currently impacting Suppliers and has forced some into administration. The rate of collections, recovery of levy and the mutualisation are continually being monitored to mitigate any potential risk. In the event of a supplier failure, the company firstly draws upon credit cover, which in the majority of cases is sufficient to cover any shortfall. After that, there are processes laid down in the regulations to ensure any shortfalls can be met through mutualisation between the remaining Suppliers.

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

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

**£7.0M**

**The total net operating costs of the company for the year were £7.0m**

**£856.3M**

**The total amount of capacity payments in the financial year was £856.3m**

# Risk Management – principal risks and uncertainties

Part of the Internal Audit programme in 2021/22 involved a review of Joint Assurance, which assessed the cross-cutting CM risks across ESC, EMRS, and National Grid ESO. This has resulted in the development of a wider risk management approach, outlining the assurance activities in each organisation. This will be used to assess risk interdependency and actions to take forward over the next two years to improve cross-scheme risk management and agree on mutually beneficial process outcomes. This has represented a significant step forward in risk management for ESC, as some of the existing risks have been dependent on how processes are managed externally. Actions will be reported through the appropriate governance mechanisms (e.g. Audit and Risk Committees) to ensure these are tracked to completion and deliver improved outcomes.

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

The risk management framework has continued to develop in 2021/22, with Strategic Risk workshops held during July 2021 to undertake a 'blank page' review of the strategic risks. This was partly done as a periodic refresh, but also to reflect the embedding of our strategy and growth ambitions – this has significantly changed our risk landscape. A more concise Strategic Risk Register was developed, which now has more direct alignment to our strategy and to operational risk registers. This also involved resetting our risk appetite in relation to these areas and the identification of thematic actions across different risks.

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

The company's approach to risk management is further detailed in the Corporate Governance Report on page 29. The assessment of the company's most significant principal risks considered by the Board and the corresponding mitigating controls are set out below.

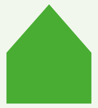
## Strategic Risks

Our overall risk landscape continued to evolve in 2021/22, particularly given the changes in the wider energy market and our growth strategy. Our refreshed Strategic Risk Register reflects changes in how some of these risks are managed, as well as further emphasis on opportunities and efficiencies. We have also been mindful of external risks, with a view of assessing how we can improve our visibility on risk areas that we are unable to directly manage. We have also been reviewing how we can develop new areas of business and how we manage the associated risks/ opportunities.

A summary of key risk activity and movement since March 2021 is provided below; where appropriate, a risk trend is provided, although due to the refresh of the Strategic Risk Register, the wording of these risks has changed in most cases. Further mitigations are in progress to ensure risks are managed in line with risk appetite, with target scores and timescales captured in the assessment of the risk.

| RISK | SUMMARY | RISK TREND (SINCE MARCH 2021) |
|---|---|---|
| **Stakeholder Reputation**<br>Our stakeholders may lose confidence in our ability to deliver existing work or to take on new schemes. We may also miss opportunities to enhance our reputation with stakeholders.<br><br>We may not be able to effectively maintain/ demonstrate our operational independence due to taking on new areas of work. | • This risk was reviewed as part of the Strategic Risk workshop, with a new assessment of impact and likelihood. There has also been a general increase in the risk due to the activities in new schemes and the wider geopolitical situation.<br>• The Director of Strategy left during the financial year. While recruitment is ongoing, this has affected our overall capacity for stakeholder engagement.<br>• This area of risk also reflects the opportunities that are inherent in how we manage our stakeholder reputation. For example, we will face increased reputational risk as we commit to new areas of work, although effective delivery will potentially enhance our overall reputation and improve confidence. | |
| **Funding**<br>Our funding arrangements may restrict us in terms of how we operate. This could affect our ability to effectively deliver new schemes and reduce our flexibility as an organisation.<br><br>There may be issues with the sustainability of our funding approach in the longer term. | • This was a newly identified risk from the Strategic Risk refresh, reflecting the potential risk of restrictions on how funding is used, particularly in terms of scheme management.<br>• This also brings in a longer-term focus on how schemes will be funded in the future, linking closely to the new Institutional Landscape risk.<br>• As per the previous risk, there are inherent opportunities within this risk area too, linked to how we are structured and how we manage our funding to pursue longer-term objectives. | NEW RISK IN 2021/22 |
| **Institutional Landscape**<br>There may be wider changes in LCCC's role, resulting from changes in political prioritisation (eg outcomes of the HMT Net Zero review), as well as positive or negative impacts from the wider macroeconomic situation.<br><br>There is a risk that LCCC's operating model (eg CfDs) is not perceived to be viable in the longer term. This may present a risk to our core objectives but may also present opportunities for how we support Net Zero. | • This was a newly identified risk from the Strategic Risk refresh, reflecting on our wider institutional landscape, our strategy, and our ambitions.<br>• We completed an external review of, and held a Board session on, this area and how this interacts with our organisational strategy. We will review our institutional landscape on an annual basis to continue to assess risks and opportunities.<br>• There is a degree of scalability associated with this area in terms of what new schemes are managed, balanced against the delivery of existing schemes. During a year, there has been an upturn in risk likelihood due to the medium to long term impact of external geopolitical activity. | NEW RISK IN 2021/22 |

# Risk Management – principal risks and uncertainties (Continued)

| RISK | SUMMARY | RISK TREND (SINCE MARCH 2021) |
| --- | --- | --- |
| **External Market**<br>We are unable to anticipate and respond effectively to the competition, the complexity and volume of change in the market. There is wider structural market change (eg market consolidation, merchant capacity in renewables) that provides us with opportunities. | • There have been significant challenges within the energy sector in 2021/22, particularly in terms of market price increases and the recent impact of geopolitical activity. We have continued to work closely with stakeholders to manage the impacts, as well as understanding how this affects our existing internal activities (eg settlements). This has resulted in an increase in the overall risk environment.<br>• We have also continued to engage strategically with our existing stakeholders to explore and manage change to the CfD and Capacity Market, as well as being responsive to wider market change.<br>• Internally, we have further developed our Insights programme driven by our Policy and Advisory team, aimed at influencing public debate and our positioning as key advisors on CCUS. |  |
| **Scheme Management and Delivery**<br>We are unable to effectively deliver our obligations on existing schemes due to growing complexity of the schemes and our stakeholder interactions.<br><br>We do not have adequate systems or processes in place to effectively deliver new schemes. | • This risk was refreshed during 2021/22 to focus on our wider scheme management and delivery, rather than just the CfDs, as per the previous risk.<br>• This reflects the changes in volume on our existing schemes as we prepare for further CfD Allocation Rounds, as well as the potential for additional complexities within the Capacity Market.<br>• This also encompasses wider risks of scheme fraud and error.<br>• We also need to effectively implement new schemes, ensuring we have the right systems and processes in place. During 2021/22, a programme has been established, with workshops held to map out the risks and opportunities. | **NEW RISK IN 2021/22** |

| RISK | SUMMARY | RISK TREND (SINCE MARCH 2021) |
| --- | --- | --- |
| **Settlements**<br>Our business model, systems architecture, and controls may not be fit for future, resulting in inefficiencies and late/ missed delivery of change. We are not effectively aligned with our external stakeholders to deliver an efficient and cost-effective settlements process. | • While this risk has had a moderate increase following the Strategic Risk refresh – reflecting the increasing complexity of the settlements process- it has remained relatively stable risk overall. There are significant strategic and the financial implications for the company if this risk was to materialise. Effective management of this risk is also dependent on the inputs from different external stakeholders.<br>• During 2021/22, we have completed a review of the longer-term options for settlements, as well as the implementation of a Joint Assurance Framework with external bodies to provide a wider view of scheme risk. |  |
| **Cyber and Information Security**<br>We are subject to a cyber-security incident, resulting in potential disruption to business operations, data loss, financial loss and reputational damage.<br><br>There is a cyber-security incident at a key stakeholder or within our supply chain, resulting in loss of our data, our wider reputation or confidence in the schemes. | • Following an Internal Audit review of the area in early 2021/22, a plan of action was agreed to continue development of our cyber- security capability. This has included the implementation of programmes to monitor internal and external threats, as well as risks, within our supply chain.<br>• Overall risk has decreased since last year, reflecting the work undertaken. However, given wider geopolitical risks at present, there is an increased likelihood of external cyber-attacks. These are under continuous monitoring. |  |

# Risk Management – principal risks and uncertainties (Continued)

## POSITIVE ASSURANCES WERE PROVIDED ACROSS KEY BUSINESS ACTIVITIES

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

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

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

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

Alongside the core assurance reviews, there was also significant advisory input during the year. This reflected the changes to the work environment alongside a programme of internal change. Areas of advisory work included the office move, managing residual COVID-19-related impacts, assessing stakeholder risk, and our business agility project. Improvement actions were highlighted within individual reviews and positive assurances were provided across key business activities. Follow-up of previous actions raised also noted a continued positive trend towards improving timeliness of responses and the consideration of risk exposure by the business, indicating an improvement in risk maturity.

N. McDermott

Signed on behalf of the Board

**Neil McDermott**
**Chief Executive**
**13 June 2022**

**ASSURANCE**

**Areas of advisory work included the office move, managing residual COVID-19-related impacts, assessing stakeholder risk, and our business agility project.**

# Environment Report

**The company does not have any employees and its role is performed by LCCC on its behalf. The company accordingly does not itself have any direct Scope 1, Scope 2, or Scope 3 emissions. The company is, however, committed to ensuring its sustainability objectives and works closely with LCCC in relation to environmental matters. Reference is made to the Environment Report in the LCCC Annual Report for further details.**



# Board of Directors

This was the Board as at 10 June 2022, with the changes during the year shown on page 32.

**Regina Finn**
**Board Chair**

Nomination Committee (Chair)
Remuneration Committee (member)

**Neil McDermott**
**Chief Executive Officer**

**George Pitt**
**Chief Financial Officer**

**Amanda Aldridge**
**Non-Executive Director**

Audit, Risk & Assurance Committee (Chair)

**Declan Burke**
**Non-Executive Director**

Remuneration Committee (member)

**Steph Hurst**
**Non-Executive Director**

Audit, Risk & Assurance Committee (member)

**Helen Lamprell**
**Non-Executive Director**

Remuneration Committee (member)

**Maxine Mayhew**
**Senior Independent Director**

Nomination Committee (member)

**Gerard McIlroy**
**Non-Executive Director**

Audit, Risk & Assurance Committee (member)

**Chris Murray**
**Non-Executive Director**

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

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

# Directors' Report

## THE BOARD IS RESPONSIBLE FOR THE STRATEGY AND DIRECTION OF THE COMPANY

**The Directors present their Annual Report on the affairs of the company, together with the financial statements and Auditors' Report for the year ended 31 March 2021. The company's registered number is 08818711.**

### Board

The Board is responsible for the overall strategy and direction of the company. Details of the Board's composition are set out on pages 27, 32 and 33.

### Directors and corporate governance

Full details of the Directors and corporate governance matters are set out on pages 26 to 37.

### Position of the company

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

### Employees

The company does not have any employees and its role is performed by LCCC on its behalf. LCCC recognises that the commitment of its highly skilled and experienced workforce is key to the efficient and effective delivery of the company's functions and the achievement of its strategic objectives.

### Environment

Details are set out in the Environment Report on page 22.

### Payment to Suppliers

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

### Charitable and political contributions

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

### Results and dividends

The company has prepared its 2021/22 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2022 are set out on pages 44 to 57.

The company is a not-for-profit company, with the payments it makes to CfD generators being matched or 'counterbalanced' by the Supplier Obligation Levy it collects from Suppliers. The company's other costs (being its operational costs) are funded by the operational cost levy referred to on page 14. Any operational costs levy collected that exceeds the company's requirement is refunded to Suppliers. This refund is recognised through the financial statements and matched with the income collected. On this basis, the financial results for the year reflect a neutral profit position, ie nil profit-nil loss. Consequently, the company does not pay a dividend.

For a more detailed review of the results for the year and a more detailed explanation of the accounting profit, see pages 44 to 57 of the financial statements, and the Strategic Report on pages 6 to 20.

### Directors' third party indemnity provisions

The Directors have been granted an indemnity against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving this Directors' Report.

### Going concern

The Directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements therefore continue to be prepared on a going concern basis. The basis of this view is outlined in more detail in note 2.2 to the financial statements.

### Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

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



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

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

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

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

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

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

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

### Auditors

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

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

By order of the Board

A Sandle

**Allison Sandle**
**Company Secretary**
**13 June 2022**

# Corporate Governance Report

**I am pleased to present our Corporate Governance Report for the year, which describes our Board's general approach to corporate governance and how the UK corporate governance code is applied within the company. The Board believes that good corporate governance underpins the delivery of the company's strategy and objectives and is committed to ensuring that high standards of corporate governance are maintained throughout the company.**

During the year we have carried out internal reviews of how we perform our Board duties, details of which are presented in the report below. We also continued to engage with our shareholder, and with key stakeholders and the wider industry, using remote technology.

I would like to thank all Board members for their support to me, and for their dedication and commitment over the year. My particular thanks go to Tony Bickerstaff, our former Chair of ARAC, who has been with the company since the beginning and has been a valued member of the Board, who retired in October 2020. My thanks also to Simon Orebi Gann, who retired from the Board in November 2020. In addition, I am delighted to welcome Maxine Mayhew, Gerard McIlroy and Helen Lamprell, who joined the Board during 2021/22.

**Regina Finn**
**Chair**

## Background to the company

The company was established by the Secretary of State for Business, Energy and Industrial Strategy to be the Capacity Market Settlement Body. The Secretary of State is the sole shareholder of the company.

While the company was set up as an operationally independent 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.

Accordingly, the company, both as an independent private company and as an entity having responsibilities for the administration of public monies, adopts the highest standards of governance and works to the highest standards of probity. The company recognises the importance of operating with regularity and propriety, the need for effectiveness and prudence in the administration of public resources and the need to secure value for public money. 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.[7]

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

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

### Framework Document

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

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

The limitations on the company's independence are those which are either:

- common to government-owned entities and necessary to satisfy government and parliamentary budgeting and accountability requirements; or
- provide the shareholder with specific controls in respect of policy implementation matters 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 states 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.

7. The 7 Principles of Public Life, available at https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

### UK corporate governance code

The company is required by the Framework Document to comply with the UK corporate governance code as it applies to small, quoted companies (other than Section E relating to relations with shareholders) or specify and explain any non-compliance in its Annual Report. The company additionally believes that the adoption of the UK corporate governance code is important as a means of recognising and embedding best practice in corporate governance.

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

### Role of the Board

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

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

The Board establishes the values, culture, ethics and standards of the company and sets the framework for prudent and effective controls, which enables risk to be assessed and managed. The Board has delegated authority to its committees to carry out the tasks defined in the committees' Terms of Reference. The committees are (i) the Audit, Risk and Assurance Committee and (ii) 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 Chair, the Senior Independent Director and up to two shareholder-nominated Directors.

Regina Finn is the current Chair of the Board and Maxine Mayhew is the current Senior Independent Director on 13 August 2020.

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

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

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

Neil McDermott, the Chief Executive, was appointed as a director on 22 July 2014. George Pitt was appointed Chief Financial Officer on 13 August 2020.

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

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

The details of all Board members, any changes in the year and attendance at Board meetings are listed on page 33. All Directors, with the exception of the shareholder-nominated Directors, have written terms of appointment. These terms of appointment are available for inspection at the company's registered office during normal business hours.

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

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

New Directors receive an induction programme and additional training that is tailored to their individual needs.

### Board changes

Reference is made to the table on page 32.

# Corporate Governance Report
(Continued)

## Board governance
The Board meets sufficiently regularly to discharge its duties effectively, generally meeting several times per year (with additional ad hoc meetings as required).

The Board met six times in 2021/22 and also held a separate strategy meeting in February 2022.

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

- Business performance and oversight – including receiving regular updates during the year on how the business is performing against its business plan, budget, strategic priorities and KPIs.
- Strategy and progress – participated in the annual strategic workshop, also attended by senior management, to set a new long-term strategy. This meeting was preceded by a series of strategic workshops with external speakers that aimed to identify key risks and opportunities. The Board also reviewed the results of the annual industry stakeholder survey and the learnings from that survey and received strategy updates during the course of the year.
- Risk and opportunity – reviewed the principal risks faced by the company and the actions being undertaken to mitigate against these risks, including in relation to cyber and information security.
- Audit and Annual Report – reviewed the Annual Report and considered matters such as the re-appointment of the external auditors.
- Governance and compliance – reviewed the results of an independent annual Board evaluation and internal committees' evaluation. Further information about the evaluation process can be found on pages XX.
- Capacity Market – oversight and consideration of issues relating to the Capacity Market.
- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.

The Chair has held a meeting with the non-Executive Directors without the executives being present. The non-Executive Directors, led by the current and former Senior Independent Director, have met without the Chair and Executive Directors being present to discuss matters such as the appointment of the Chair and/or Executive Directors. Details of the Directors' interests are recorded in a register maintained by the company and reviewed at each Board meeting. The company has procedures in place to ensure that any actual or potential conflicts of interest are appropriately declared and managed. Directors are required to declare any actual or potential conflict of interest to the Board and to the Company Secretary as soon as they arise. No such conflicts of interest were identified in the financial year 2021/2022.

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

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

- setting and approving the company's strategy;
- responsibility for the leadership of the company;
- approving the financial statements;
- approving (subject to shareholder consent) the annual business plan and budget;
- monitoring and overseeing risk management, financial reporting and the system of internal control;
- oversight of the company's operations;
- approving of financial commitments over specified monetary thresholds;
- setting the Terms of Reference for the Board committees.

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

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

### The Chief Executive:
- fulfils his responsibilities as Accounting Officer.[8]
- leads the Executive Team in the day-to-day running of the company.
- makes and executes operational decisions.
- iImplements the strategy agreed by the Board.
- ensures delivery within the annual budget.
- ensures appropriate internal controls and risk management processes are in place.
- maintains the appropriate dialogue with the Chair and the Board.
- facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities.
- ensures the values of the company are embedded within its operations and staff culture.

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

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

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

A self-assessment questionnaire was issued to all Board members set against six key parameters:
- strategic leadership,
- performance management,
- clarity of roles and responsibilities,
- operating effectively as a Board,
- managing relationships with stakeholders and partners; and
- building, developing and evaluating the Board.
- The independent external facilitator then interviewed each of the Board members separately to evaluate the responses to the questionnaire. This was followed by the attendance and observation of a Board meeting to assess whether the outcomes questionnaire and interviews were reflected in practice.

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

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

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

## Audit, Risk & Assurance Committee
At year end, the membership of this Committee comprised four non-Executive Directors, namely Amanda Aldridge (Chair), Steph Hurst, Gerard McIlroy and Chris Murray.

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

The Committee met three times in the financial year 2021/22, with meetings in May 2021, October 2021 and January 2022, with one ad-hoc approval by email in November 2021. The Chief Executive (as Accounting Officer), Chief Financial Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and external auditors attended each meeting. The Accounting Officer, Chief Financial Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and the external auditors have access to the Chair of the Committee outside formal Committee meetings. The Head of Assurance & Risk and the external auditors each separately meet informally with the Committee in advance of every scheduled Committee meeting.

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

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

# Corporate Governance Report
(Continued)

The Committee has reviewed arrangements by which personnel are able, in confidence, to raise concerns about possible improprieties in matters of financial reporting or other matters.

The Committee applies an External Auditor Independence Policy to safeguard auditor objectivity and independence where the company's auditors have provided non-audit services. The external auditor has not provided any non-audit services in the financial year.

In the financial year, the Committee discussed the following matters:

- Status of any Significant Accounting Estimates, Judgements and Special Issues
- External Auditor's Report
- Committee Annual Report on Activities to the Board
- Annual Report – Governance Statement, Accounts Recommendation and Report Process
- Internal Audit Charter – Annual Review
- Appointment of external auditors and letters of engagement
- External audit plan
- Risk Deep Dive – Settlements
- Internal Audit Activity, Strategy and Plan
- Information Security update
- Committee Annual Evaluation
- Review of the Delegated Authority Framework
- Review of the ARAC Terms of Reference
- Risk Management Reviews and Risk Register Updates
- Letters of representation

The minutes of the meeting are circulated to the Board.

There were no significant issues considered by the Committee in relation to the financial statements in respect of accounting treatments.

The company's main risks and related mitigating actions are set out on pages XX to XX of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There was one whistleblowing concern raised in the last year. This has been investigated in accordance with the company's whistleblowing process and reported directly to the Chair of the Audit, Risk and Assurance Committee. The concern was not upheld.
The re-appointment of the external auditor was approved by the Board in December 2021 upon the recommendation of the Committee. The Committee, in recommending the re-appointment, and the Board in approving the re-appointment, took into account the fact that the Framework Document stated the strong presumption that the company would appoint the National Audit Office (NAO) as its auditor and also that shareholder consent was required for the appointment of any external auditor. It also noted the significant benefits of appointing the NAO based on value for money, the potential synergies with BEIS's audit requirements and the NAO's understanding of both the complex environment within which the company operates and the wider government and public sector context.

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

## Nomination Committee

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

All members of the Nomination Committee (other than the Chair) are independent non-Executive Directors. The Committee met three times during the year, in July 2021, December 2021 and March 2022. No member of the Committee attended an agenda item in respect of which they had a personal interest or were discussed or appraised.

The Committee's responsibilities include:

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

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

- composition of the Board and balance of skills required
- recruitment of Directors and Board appointments
- Committee appointments and ratifications
- succession planning
- review of the Terms of Reference
- review of results of the Committee annual evaluation
- review of the independence and time commitment of non-Executive Directors
- review of the Directors' Register of Interests
- review of the Directors' Register of Conflicts.

The minutes of Committee meetings are circulated to the Board.

# Corporate Governance Report
(Continued)

## Board and Committee membership

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

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

### Board and Committee meetings

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

## Member attendance record during 2021/22

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

* Resigned part way through the year.
** Nominated part way through the year

# Corporate Governance Report

(Continued)

## Relations with shareholder and stakeholders

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. There are two shareholder-nominated Directors. The company has also engaged in regular communication with industry and other stakeholders, including through stakeholder engagement events, the annual stakeholder survey, regular newsletters and via its website. As a non-traded entity, the company does not propose to have an annual general meeting.

## Maintenance of a sound system of internal control

The Board has overall responsibility for the company's risk management and system of internal controls and for reviewing their effectiveness. While retaining overall responsibility, the Board has established a clear organisational structure and well-defined delegated accountabilities for more regular and granular review of the effectiveness of the company's risk management framework to the Audit, Risk and Assurance Committee and Executive Team.

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

## Control and assurance environment

- The Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and, where possible, to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The Audit, Risk 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 XX to XX).
- 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 management framework

- The identification, mitigation and continual monitoring of significant business risks is the responsibility of senior management. The company's strategic risk register is kept under regular review by the Senior Management Team and reported to the Board and Audit, Risk and Assurance Committee, with the top strategic risks and emerging risks receiving particular attention. Strategic risk is also discussed and monitored by the relevant Heads of Teams to ensure there is alignment and escalation of operational risk where appropriate. Operational risk registers are also maintained to identify local and emerging risks, allocating responsibility for appropriate monitoring and the implementation of mitigating controls. Risk management processes are incorporated into the company's management and governance systems at all levels and form a part of the company's day-to-day operations.
- The Audit, Risk and Assurance Committee formally reviews the risk position at each scheduled meeting (in 2021/22, in May 2021, October 2021 and January 2022) and is updated on any significant risk matter which falls outside its formal review cycle. The Committee considers the risk appetite of the company in relation to the principal risks and receives a Completion Report relating to the actions being undertaken to minimise and mitigate risk items.
- The Board reviews the strategic risk register twice per year (in 2020/21, in June 2021 and December 2021). The reports to the Audit, Risk and Assurance Committee and the Board include a report from management on the status of the risk management and internal control, significant failings or weaknesses identified during the period (if any) and any actions taken to remedy any significant weaknesses (if relevant). The Board has reviewed the risk framework, with the assistance of the Audit, Risk and Assurance Committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed Risk Report on pages 16 to 20.

## Internal audit

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

## Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the Board.
- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability to ensure that a robust and prudent annual budget is prepared which also ensures cost control and value for money for consumers. The draft budget, which can be for a single or multi-year, is reviewed by the Board, then submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently, the settlement costs levy, which funds the company's budget, is laid before Parliament in the form of regulations.
- The company operates robust financial management processes to ensure that it manages within its operational budget so as not to exceed the settlement costs levy.
- An update on the company's progress, financial performance, budget forecasts and results is reported in the Management Information Report submitted to each board meeting.
- Senior management meet regularly with the Chief Executive and Chief Financial Officer to discuss business progress. Management accounts are reviewed regularly.
- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.
- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "Managing Public Money".[9]

## Operational

- The Senior Management Team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the Senior Executive Team.
- The Chief Executive and the Executive Team meet with appropriate regularity with the shareholder and other stakeholders.
- The Settlement team and other functional Teams work closely together to ensure the appropriate interfaces and communication in relation to Capacity Agreement settlement and metering assurance, with the governance, internal decision making and critical processes being documented.
- The company reports on its significant matters relating to its operational activities at each Board meeting.
- The Board decides on matters falling within the schedule of reserved matters (e.g. financial commitments over the specified threshold) or otherwise raised to it for decision.

## Procurement

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

## Legal and compliance

- There is a system for monitoring and embedding compliance, including by company policies and procedures, as well as training and guidance to support compliance (eg relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.
- The company expects the highest standards from all personnel and its supply chain.
- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.[10]

## 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; and
- uses internal and external audit to improve its internal controls and performance.

## Insurance

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

**Neil McDermott**
**Chief Executive and Accounting Officer**
**13 June 2022**

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

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

# Remuneration Report

The company's registered number is 08961281.

## Employees

The company does not have any employees. The company performs its functions through LCCC.

## 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 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" arrangements described in note 2.6 to the financial statements.

## Non-executive director fees

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

Levels of remuneration for the remunerated non-Executive Directors reflect the time, commitment and responsibilities of the role. The levels also reflect the advice on remuneration for the independent non-Executive Directors (other than the Chair) and benchmarking information provided in 2014 by Odgers Berndtson (independent recruitment consultancy) as supplemented by advice in 2019 by Korn Ferry (independent recruitment consultant). Advice on remuneration and benchmarking was refreshed with GatenbySanderson for the appointment of the Chair and Senior Independent Director, and Korn Ferry for the appointment of all other Directors.

No director is involved in deciding his or her own individual remuneration.

For reasons of synergy, operational efficiency and cost effectiveness, the Board of Directors of the company and LCCC are identical. As the fees paid to the remunerated non-Executive Directors relate to work for both companies, these fees are paid by LCCC, with a fair and properly allocated amount (generally 20%) being "recharged" by LCCC to the company under the "recharge" arrangements described in note 2.6 to the financial statements. This allocation is illustrated in the table on below. These fees (paid by LCCC with the relevant recharge to the company) are the only form of remuneration received by the remunerated non-Executive Directors.

## Non-Executive Directors' Remuneration (audited)

| Name | 2021/22 fees[11] | Principal positions held elsewhere at 31 March 2022 |
|---|---|---|
| Amanda Aldridge | 20% of £30,000<br><br>2020/21: 20% of £27,436[12] | • LCCC – non-executive director<br>• Headlam Group plc – non-executive director<br>• Impact Healthcare REIT plc – non-executive director<br>• The Brunner Investment Trust plc – non-executive director<br>• St Francis College Trust – director and trustee |
| Anne Baldock | 20% of £2,756[13]<br><br>2020/21: 20% of £31,417[14] | • LCCC – non-executive director<br>• East West Railway Company Limited – non-executive director<br>• Electricity North West Limited – non-executive director<br>• Restoration and Renewal Delivery Authority Ltd – director<br>• 175 Greyhound Road Residents Ltd – director<br>• Submarine Delivery Agency |
| Tony Bickerstaff | £Nil<br><br>2020/21: 20% of £15,738[15] | • Costain Group Plc – group finance director until 30/11/2020<br>• LCCC – non-executive director<br>• Wincanton Plc – director<br>• Renown Investments (Holdings) Limited – director<br>• County and District Properties Limited – director |
| Declan Burke | £Nil (shareholder-nominated director – civil servant) | • BEIS – director, Nuclear Projects and Development<br>• LCCC – non-executive director |
| Regina Finn | £25,000<br><br>2020/21: £25,000 | • LCCC – Chair<br>• Places for People Group Ltd – non-executive director<br>• Places for People Homes Ltd – non-executive director<br>• Places for People Living + Ltd – non-executive director<br>• Places for People Ventures Ltd – non-executive director<br>• Places for People Ventures Operations Ltd – non-executive director<br>• Lucerna Partners Ltd – director<br>• Chorus Homes Group Ltd – non executive director<br>• Chorus Homes Ltd – non-executive director<br>• Cotman Housing Association Ltd – non-executive director<br>• Derwent Housing Association – non-executive director |

11. This column shows the only form of remuneration that each Non-Executive Director receives from ESC. ESC pays 20% to reimburse LCCC under the recharge arrangements with LCCC (other than in respect of Regina Finn, and Anne Baldock where the amount relating to ESC is as stated) – see note 2.6 to the financial statements.
12. 6 months pro rata (2 April – 30 September 2020) at £25,000 and 6 months pro rata (1 October – 31 March 2021) at £30,000.
13. Pro rata (1 April – 21 May 2021) at £25,000.
14. 8 months pro rata (1 April – 30 November 2020) at £30,000 and 4 months pro rata (1 December – 31 March 2021) at £25,000. Includes £5k per annum supplemental addition to director's fee, back dated to 1 September 2019 for chair of the Remuneration Committee.
15. 6 months pro rata (1 April – 2 October 2020) at £31,000.

## Non-Executive Directors' Remuneration (audited) continued

| Name | 2021/22 fees[11] | Principal positions held elsewhere at 31 March 2022 |
|---|---|---|
| George Pitt | N/A | • LCCC – Chief Financial Officer and director<br>• Pitt Consulting Ltd – director |
| Steph Hurst | £Nil (shareholder-nominated director – civil servant) | • BEIS – Director, Energy Efficiency and Local Directorate<br>• LCCC – non-executive director |
| Neil McDermott | N/A | • LCCC – Chief Executive and director |
| Chris Murray | 20% of £30,000<br><br>2020/21: 20% of £26,628[16] | • LCCC – non-executive director<br>• APX3 Limited – director<br>• West Transmission Limited – director<br>• Belfast Gas Transmission Limited – director<br>• Mutual Energy Limited – director<br>• Premier Transmission Limited – director<br>• Moyle Interconnector Limited – director<br>• LOROS Commercial Innovations Limited – director<br>• LOROS (Leicestershire Hospice) – trustee<br>• Water Resources South East – chair |
| Simon Orebi Gann | Nil<br><br>2020/21: 20% of £15,353[17] | • LCCC – non-executive director<br>• Aspen Technology Inc (NASDAQ: AZPN) – USA – non-executive director<br>• Market Operator Services Ltd – non-executive director<br>• Treasury/Cabinet Office Major Programmes Review Group – independent panel member |
| Maxine Mayhew | 20% of £35,000<br><br>2020/21: 20% of £22,167[18] | • LCCC – non-executive director<br>• Hopkinsons of Lymm Limited – director<br>• Cranfield University – Independent Council Member<br>• Biffa Waste Services Limited – director<br>• Biffa Municipal Limited – director<br>• Biffa Environmental Municipal Service Limited – director<br>• Company Shop Limited – director |
| Gerard McIlroy | 20% of £25,000<br><br>2020/21: 20% of £10,801[19] | • LCCC – non-executive director<br>• WTL Holdings Ltd – director<br>• West Transmission Limited – director<br>• Moyle Energy Investments Ltd – director<br>• West Transmission Financing plc – director<br>• Moyle Interconnector Limited – director<br>• Moyle Interconnector (Financing) plc – director<br>• Moyle Holdings Limited – director<br>• Mutual Energy Limited – director<br>• Premier Transmission Limited – director<br>• Premier Transmission Holdings Limited – director<br>• Premier Transmission Financing plc – director<br>• Interconnector Services (NI) Limited – director<br>• Belfast Gas Transmission Limited – director<br>• Belfast Gas Transmission Holdings Limited – Director<br>• Belfast Gas Transmission Financing plc – director<br>• Northern Ireland Gas Transmission Holdings Limited |
| Helen Lamprell | 20% of £25,000<br><br>2020/21: 20% of £5,032[20] | • LCCC – non-executive director<br>• Employers Initiative on Domestic Abuse – director<br>• Aveva Solutions Ltd – General Counsel and Company Secretary<br>• Aveva Group Plc – General Counsel and Company Secretary |

16. 8 months pro rata (1 April – 30 November 2020) at £25,000 and 4 months pro rata (1 December 2020 – 31 March 2021) at £30,000.
17. 8 months pro rata (1 April – 11 November 2020) at £25,000.
18. 8 months pro rata (13 August – 31 March 2021) at £35,000.
19. 6 months pro rata (27 October – 31 March 2021) at £25,000.
20. 3 months pro rata (19 January – 31 March 2021) at £25,000.

# Independent Auditor's Report

## to the sole shareholder of Electricity Settlements Company Ltd

### Opinion on financial statements

I have audited the financial statements of the Electricity Settlements Company Ltd ("the company") for the year ended 31 March 2022 which comprise the company's:

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

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

In my opinion the financial statements:

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

### Opinion on regularity

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

### Basis for opinions

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

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

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

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

**Framework of Authorities**

| | |
|---|---|
| **Authorising legislation** | • Energy Act<br>• Companies Act |
| **Parliamentary authorities** | • Capacity Market Rules<br>• Electricity Capacity Regulations 2014 |
| **Shareholder, HM Treasury and related authorities** | • Articles of Association<br>• Framework Document between the Secretary of State for the Department for Business, Energy and Industrial Strategy and the company<br>• Managing Public Money and Cabinet Office spending controls (to the extent that they are applicable to the company) |

### Conclusions relating to going concern

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

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

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

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

- there is a minimal cash flow risk arising from the company's role as settlement body for the Capacity Market as a result of the statutory 'pay when paid' mechanism; and
- there are options available to the company to mitigate forecast operating cash flow and funding shortfalls.

The assertions made by management are consistent with my review of the capacity market regulations and the company's framework agreement with the Department for Business, Energy and Industrial Strategy.

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

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

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

### Overview of my audit approach

#### Key audit matters

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

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

I did not identify and key audit matters throughout the course of my audit. The areas of focus were discussed with the Audit, Risk and Assurance Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 29.

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

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

### Application of materiality

#### Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

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

| | |
|---|---|
| **Materiality** | £17.2 million |
| **Basis for determining materiality** | Approximately 2% of gross expenditure of £863 million (2020-21, 2% of gross expenditure) |
| **Rationale for the benchmark applied** | In my professional judgement, the users of the financial statements are most interested in gross expenditure, comprising operating costs and capacity market payments, on the basis that these are the costs which fall to energy suppliers and ultimately bill payers. |

# Independent Auditor's Report

## to the sole shareholder of Electricity Settlements Company Ltd (Continued)

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

**Other Materiality Considerations**
As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

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

**Error Reporting Threshold**
I agreed with the Audit, Risk and Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit, Risk and Assurance Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements. There were no unadjusted misstatements or disclosure matters to report.

### Audit scope

The scope of my audit was determined by obtaining an understanding of the company and its environment, including the entity-wide controls, and assessing the risks of material misstatement.

### Other Information

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

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

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

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

I have nothing to report in this regard.

### Opinion on other matters prescribed by the Companies Act 2006

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

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

- the Strategic Report and the Directors' Report been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- Information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

### Matters on which I report by exception

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

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company; or
- I have not received all of the information and explanations I require for my audit.

### Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified [set out on page 24];
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate [set out on page 15];
- Directors' statement on fair, balanced and understandable [set out on page 25];
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out on page 34];
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems [set out on page 34]; and
- The section describing the work of the Audit, Risk and Assurance Committee [set out on page 29].

### Responsibilities of the Directors for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

**Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud**
In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the company's accounting policies.
- Inquiring of management, the company's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the company's controls relating to the company's compliance with the Companies Act 2006, Managing Public Money, Capacity Market rules and the Electricity Capacity Market Regulations 2014;
- discussing among the engagement team and involving relevant internal specialists, including IT auditors, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

# Independent Auditor's Report

## to the sole shareholder of Electricity Settlements Company Ltd (Continued)

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

I also obtained an understanding of the company's framework of authority as well as other legal and regulatory frameworks in which the company operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations I considered in this context included Companies Act 2006, Managing Public Money, Energy Act 2013, Capacity Market rules and Electricity Capacity Market Regulations 2014.

### Audit response to identified risk

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

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

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

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

### Other auditor's responsibilities

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

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

Susan Clark

**Susan Clark**
**(Senior Statutory Auditor)**
**13 June 2022**

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

# Financial statements and notes to the accounts





# Statement of comprehensive income for the year ended 31 March

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Other income | 6 | 863,238 | 1,101,894 |
| Other operating costs | 7 | (863,238) | (1,101,894) |
| **Profit for the year** | | – | – |
| **Other comprehensive income for the year** | | – | – |
| **Total comprehensive income for the year** | | – | – |

All operations are continuing operations.

The notes on pages 49 to 57 form part of these accounts.

# Statement of financial position

## as at 31 March

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 8 | – | 248 |
| **Current assets** | | | |
| Levy and capacity payments receivable | 9 | 7,880 | 11,918 |
| Prepayments | | 74 | 156 |
| Cash and cash equivalents | 10 | 181,648 | 334,372 |
| **Total current assets** | | **189,602** | **346,446** |
| **Total assets** | | **189,602** | **346,694** |
| **Current liabilities** | | | |
| Levy and capacity payments payables | 11 | (142,307) | (273,421) |
| Trade and other payables | 12 | (47,295) | (72,980) |
| Lease liabilities | 13 | (0) | (293) |
| **Total current liabilities** | | **(189,602)** | **(346,694)** |
| **Non-current liabilities** | | | |
| Lease liabilities | 13 | – | – |
| **Total non-current liabilities** | | – | – |
| **Total liabilities** | | **(189,602)** | **(346,694)** |
| **Net assets** | | – | – |
| **Shareholders' equity and other reserves** | | | |
| Share capital | 14 | – | – |
| Retained earnings | | – | – |
| **Total equity** | | **–** | **–** |

The notes on pages 49 to 57 form part of these accounts.

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

N.McDermott

**Neil McDermott**
Chief Executive Officer

**George Pitt**
Chief Financial Officer

# Statement of changes in equity

## for the year ended 31 March

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

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

The notes on pages 49 to 57 form part of these accounts.

# Statement of cash flows

## for the year ended 31 March

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | – | – |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Amortisation of intangible assets | 8 | 248 | 509 |
| Working capital adjustments: | | | |
| Decrease/(increase) in levy and capacity payments receivables | 9 | 4,038 | 254 |
| Increase in prepayments | | 82 | (123) |
| Increase in levy and capacity payments payables | 11 | (131,114) | 74,492 |
| Increase in trade and other payables | 12 | (25,685) | 17,060 |
| **Net cash inflow from operating activities** | | **(152,431)** | **92,192** |
| **Cash flows from financing activities** | | | |
| Repayment of lease liabilities | 13 | (293) | 507) |
| **Net cash outflow from financing activities** | | **(293)** | **(507)** |
| **Net increase in cash and cash equivalents in the year** | | **(152,724)** | **91,685** |
| Cash and cash equivalents at the beginning of the year | | 334,372 | 242,687 |
| **Cash and cash equivalents at the end of the year** | **10** | **181,648** | **334,372** |

The notes on pages XX to XX form part of these accounts.



# Notes to the financial statements

## for the year ended 31 March 2022

### 1. Authorisation of financial statements

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

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

#### 1.1 Principal activities

The company has been established to act as the Settlement Body for the Capacity Market. The company will also undertake such other activities that the board considers to be consistent with the company's functions, duties, obligations and constitution.

### 2. Accounting policies

#### 2.1 Basis of preparation

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

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

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

The Capacity Regulations as identified below are defined hereafter as the "Regulations":

i. The Electricity Capacity Regulations 2014 as amended;
ii. The Electricity Capacity (Supplier Payment etc.) Regulations 2014 as amended.

#### 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 costs requirements for each financial year;
iii. has considered the potential impact of credit risk and liquidity risk detailed in note 3; and
iv. is exposed to minimal cash flow risk through Capacity Market transactions as a result of the statutory 'pay when paid' mechanism explained below.

The day to day operational costs of the company are funded by electricity suppliers under the Capacity Market "settlement costs levy" which is set by the Regulations.

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

The directors 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 BEIS to support an in-year adjustment to the applicable levy rate. Such an adjustment would be subject to public consultation and the making of new regulations in accordance with the same process that has applied to the setting of the annual settlement costs levy. The company can also request a working capital loan from BEIS if there is a shortfall in its operating cash flow.

The requirement to pay capacity payments to Capacity Providers is set out in the Regulations. The payments to be made to Capacity Providers are funded by suppliers under the Regulations. It should be noted that the Regulations 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).

A significant risk is the impact of the fluctuating prices situation in the energy market due to geopolitical events, that is currently impacting suppliers and has forced some into administration. The rate of collections, recovery of levy and the mutualisation are continually being monitored to mitigate any potential risk. In the event of a supplier failure, the company firstly draws upon credit cover, which in the majority of cases is sufficient to cover any shortfall. After that, there are processes laid down in the regulations to ensure any shortfalls can be met through mutualisation between the remaining suppliers. An additional risk that continues to be monitored by directors is the impact of Covid-19. As the company's operational costs are funded by electricity suppliers through the settlement costs levy, it was identified there is increased risk, as many suppliers have faced significant uncertainty regarding the level of electricity demand. This risk has been continually monitored during the year. The directors believe that, as a result of, the option to request a working capital loan from BEIS, and the potential for requesting BEIS to support an in-year adjustment to the applicable settlement costs levy rate, the company is able to mitigate this risk.

#### 2.3 Settlement costs levy income

Under the Regulations, 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 has been set for the next year. Any surplus at the year-end is reimbursed to suppliers by issuing credit notes against the following year's levy and is classified as part of levy and capacity payments payables within current liabilities.

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

ESC continues to apply its accounting policy of recognising the income to match operational costs which follows the IFRS Conceptual Framework for Financial Reporting

The settlement costs levy is collected through monthly invoices. The settlement services provider, EMRS, administers the collection process.

# Notes to the financial statements

## for the year ended 31 March 2022 (Continued)

### 2.4 Capacity Market supplier charge income

Capacity Market supplier charge income relates to the charges which electricity suppliers are required to pay under the Regulations to meet the cost of funding capacity payments. Under the Regulations, the company is entitled to collect the Capacity Market supplier charge before making capacity payments. The total amount of the Capacity Market supplier charge is set before the start of the delivery year based on suppliers' forecasts. The Capacity Market supplier charge is re-determined in monthly and yearly reconciliations. Re-determination of the Capacity Market supplier charge takes the following into account:

i. Transition from forecast to actual meter data; and
ii. Adjustments to capacity payments payable.

Any surplus Capacity Market supplier charge at the year-end is classified as part of levy and capacity payments payables within current liabilities.

### 2.5 Capacity payments

Capacity payments are payments to the Capacity Providers under the Regulations for their commitment to meet a capacity obligation during a delivery year. Total capacity payments are based on the capacity cleared price achieved in the auction in respect of which the Capacity Agreement was awarded. Capacity payments are split into 12 monthly payments which are weighted to reflect the seasonal variation of electricity demand in Great Britain during a year.

Following a transmission system stress event, Capacity Providers may be eligible for additional payments or subject to financial penalties, depending on whether they exceed their capacity obligations (over-deliver) or fail to meet them (under-deliver).

### 2.6 Recharges

The company is recharged a proportion of costs which it shares with Low Carbon Contracts Company Ltd (LCCC). LCCC is a sister arm's length body owned by the Secretary of State for Business, Energy and Industrial Strategy and is responsible for acting as the counterparty to Contracts for Difference (CFDs). 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 staff costs, shared IT infrastructure and the use of shared resources and facilities.

The recharge also includes costs incurred on those activities that 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 undertakes 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 and LCCC are part of the same VAT group, therefore no VAT is charged on costs recharged by LCCC. The company's income is outside the scope of VAT so it will be unable to recover its input VAT on any of its expenditure.

### 2.7 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.

### 2.8 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.

#### 2.8.1 Classification

Financial assets are classified and measured at amortised cost.

#### 2.8.2 Recognition and measurement

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

The only financial asset held by the company at the reporting date is cash and cash equivalents.

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

### 2.9 Financial liabilities

#### 2.9.1 Recognition and measurement

Financial liabilities are classified, at initial recognition, as other liabilities (i.e. lease liabilities, borrowings and payables as appropriate).

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

#### 2.9.1.2 Other financial liabilities

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

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

#### 2.9.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

### 2.10 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 accumulated impairment losses (if any). Intangible assets have finite lives and are amortised over their useful economic life, or assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

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

Intangible assets are amortised over the following periods:

| | Years |
|---|---|
| Settlement System | 5 |
| Other IT Software | 5 |

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

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

### 2.11 Leases

#### 2.11.1 Company as a lessee

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

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

#### 2.11.2 Measurement of leases liabilities

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

#### 2.11.3 Measurement of right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, adjusted for any lease payments made at or before the commencement date, and increased for any initial direct costs. Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.
Right-of-use assets are amortised to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The amortisation starts at the commencement date of the lease.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 2.12.

### 2.12 Impairment of non-financial assets

Intangible assets are only subject to amortisation to the extent that they are available for use. Assets, which are not available for use, are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, the company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.
If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

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

### 2.13 Provisions

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

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

### 2.14 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.

### 2.15 Bid bond collateral

In order to enter Capacity Market auctions, applicants must lodge bid bond collateral with the company where, on Prequalification Results Day, those applicants receive a notice from National Grid, as transmission System Operator, that states Prequalification of their Capacity Market Unit(s) is conditional on providing bid bond collateral.

Bid bond collateral will be held by the company until one of the following triggers set out in the Regulations occurs:

- the relevant Capacity Market auction is delayed;
- the potential Capacity Provider notifies that it no longer intends to bid in the relevant Capacity Market auction;
- the Capacity Market auction takes place and the potential Capacity Provider does not win a Capacity Agreement; or
- the Capacity Provider demonstrates capacity in the manner required by the Regulations.

Bid bond collateral may not be returned to the Capacity Providers if the Capacity Agreement is terminated.

# Notes to the financial statements

## for the year ended 31 March 2022 (Continued)

When a Capacity Agreement is terminated, either a termination fee becomes payable or bid bond collateral is drawn down. These amounts are passed onto the Government's Consolidated Fund via BEIS and are not included in the statement of comprehensive income.

## 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. 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 assumptions and estimation uncertainties at the reporting date are not deemed to have a significant risk of resulting in a material adjustment to the carrying amounts of the assets and liabilities in the next financial year. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

### 4.1.1 Estimating useful lives and residual values of intangible assets

At each reporting 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 statement of comprehensive income and the asset's carrying amount.

### 4.2 Significant judgement

Management has made the following judgement in applying the company's accounting policy:

### 4.2.1 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 (i.e. only pay when paid) and the Capacity Provider delivers the required capacity in line with the capacity arrangements. As a result no provision is raised in the statement of financial position and Capacity Agreements are not classified as financial instruments because the company's role is driven by statute rather than contract.

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

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

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

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

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

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

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

## 6. Other income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Settlement costs levy income | 7,487 | 7,502 |
| Less: amount repayable to suppliers | (536) | (518) |
| **Net settlement costs levy income** | **6,951** | **6,984** |
| Capacity Market supplier charge income | 856,264 | 1,094,737 |
| Late payment interest | 23 | 173 |
| **Other income** | **863,238** | **1,101,894** |

## 7. Other operating costs

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Capacity payments | 856,264 | 1,094,737 |
| Operational settlement costs | 3,748 | 3,689 |
| Costs recharged by LCCC | 2,793 | 2,793 |
| Amortisation | 249 | 509 |
| Legal, professional and consultancy | – | 14 |
| Auditor's remuneration | 37 | 37 |
| Miscellaneous costs | 147 | 115 |
| **Other operating costs** | **863,238** | **1,101,894** |

Auditor's remuneration represents audit fees of £31K (2021: £31K) excluding VAT. The fees shown in the table above are VAT inclusive.

The Delivery Year for the Capacity Market runs from 1 October to 30 September of each year.

The capacity payments for each Delivery Year (DY) are summarised in the table below:

| Capacity Market Payments | FY 2021/22 £m | FY 2020/21 £m |
|---|---|---|
| T-1 Capacity Auction DY 2018/19 | nil | 0.4 |
| T-4 Capacity Auction DY 2018/19 | 16.2 | nil |
| T-1 Capacity Auction DY 2019/20 | nil | 1.2 |
| T-4 Capacity Auction DY 2019/20 | 15.0 | 404.1 |
| T-1 Capacity Auction DY 2020/21 | 0.4 | 0.5 |
| T-4 Capacity Auction DY 2020/21 | 538.7 | 688.5 |
| T-1 Capacity Auction DY 2021/22 | 55.1 | nil |
| T-4 Capacity Auction DY 2021/22 | 230.8 | nil |
| **Total** | **856.3** | **1,094.7** |

Capacity payment expenses for the 2018/19 Delivery Year were recognised in the prior year due to the suspension of the Capacity Market.

# Notes to the financial statements

## for the year ended 31 March 2022 (Continued)

### 8. Intangible assets

| | Settlement System £'000 | Other IT Software £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| As at 31 March 2020 | 2,538 | 15 | 2,553 |
| Additions during the year | – | – | – |
| As at 31 March 2021 | 2,538 | 15 | 2,553 |
| Additions during the year | – | – | – |
| **As at 31 March 2022** | **2,538** | **15** | **2,553** |
| **Amortisation** | | | |
| As at 31 March 2020 | 1,782 | 14 | 1,796 |
| Charge for the year | 508 | 1 | 509 |
| As at 31 March 2021 | 2,290 | 15 | 2,305 |
| Charge for the year | 248 | – | 248 |
| **As at 31 March 2022** | **2,538** | **15** | **2,553** |
| Net book value as at 31 March 2021 | 248 | – | 248 |
| **Net book value as at 31 March 2022** | **–** | **–** | **–** |

The company leases the settlement system from BEIS. The settlement system went live in September 2016. The lease term is 5 years which is the period over which the asset will be amortised.

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

### 9. Levy and capacity payments receivable

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Capacity Market supplier charge | 615 | 10,521 |
| Capacity providers receivable | 5,047 | 231 |
| Termination charges receivable | 2,079 | 1,089 |
| Settlement costs levy | 139 | 77 |
| **Total levy receivable** | **7,880** | **11,918** |

Capacity Market supplier charge receivable relates to unpaid Capacity Market supplier charge invoices (i.e. suppliers ceased trading). Balance recoverable through the mutualisation process.

### 10. Cash and cash equivalents

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash at bank | 132,745 | 261,431 |
| Bid bond collateral | 30,652 | 45,170 |
| Suppliers' credit cover | 18,251 | 27,771 |
| **Total cash and cash equivalents** | **181,648** | **334,372** |

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, suppliers' credit cover and bid bond collateral as stated above. Suppliers' credit cover and bid bond collateral are restricted cash balances and relate to credit cover provided by the Capacity Providers and electricity suppliers. No interest is earned on suppliers' credit cover and interest earned on bid bond collateral is returned to the Capacity Providers.

### 11. Levy and capacity payments payables

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Capacity payments | 109,673 | 224,607 |
| Capacity Market supplier charge | 28,280 | 46,234 |
| Settlement costs levy | 2,092 | 1,341 |
| Termination charges payable | 2,261 | 1,239 |
| **Total levy and capacity payments** | **142,307** | **273,421** |

Capacity payments payables are the amounts due to the Capacity Providers under the Regulations for their commitment to meet a capacity obligation during a delivery year. Total capacity payments are based on the capacity cleared price achieved in the auction that the Capacity Agreement was awarded.

The settlement costs levy payable relates to the difference between the operational costs which have been collected from electricity suppliers during 2021/22, based on estimated spend for the year, and the operational costs actually incurred during the year. The difference is refunded to suppliers in the following financial year.

The Capacity Market supplier charge payable relates to the difference between Capacity Market supplier charges which have been collected from electricity suppliers during the 2020/21 financial year, based on estimated payments to the Capacity Providers, and the actual payments made during the year. The difference is refunded to suppliers in the following financial year.

Termination charges payable relate to the relevant charges receivable, when a Capacity Agreement is terminated, that are payable to the Government's Consolidated Fund.

### 12. Trade and other payables

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Bid bond collateral | 28,983 | 45,169 |
| Suppliers' credit cover | 18,252 | 27,771 |
| Accruals and other payables | 60 | 40 |
| **Total trade and other payables** | **47,295** | **72,980** |

Bid bond collateral relates to credit cover provided by the Capacity Providers.

# Notes to the financial statements

## for the year ended 31 March 2022 (Continued)

### 13. Lease liabilities

| | £'000 |
|---|---|
| As at 31 March 2020 | 800 |
| Repayment of lease liability | (507) |
| As at 31 March 2021 | 293 |
| Repayment of lease liability | (293) |
| **As at 31 March 2022** | **–** |

Maturity analysis:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Less than 1 year | – | 293 |
| Between 1 and 5 years | - | - |
| **As at 31 March** | **–** | **293** |

The lease liability is held in respect of the settlement system right-of-use asset which has been funded by BEIS through EMRS, a wholly owned subsidiary of ELEXON Limited.

### 14. Share capital

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

### 15. 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 by related parties £'000 | Amounts owed to related parties £'000 |
|---|---|---|---|
| **Entities with significant influence:** | | | |
| **2021** | | | |
| LCCC | 2,793 | – | – |
| BEIS | – | – | 293 |
| **2022** | | | |
| LCCC | 2,793 | – | – |
| BEIS | – | – | – |

Services from LCCC comprise 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 to the company based on the estimated usage of those services. Amounts owed to BEIS relate to the lease liability in respect of the settlement system asset.

### 16. Financial assets and liabilities

| **Financial assets** | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Cash and cash equivalents | 10 | 181,648 | 334,372 |
| **Total financial assets** | | **181,648** | **334,372** |

| **Financial liabilities** | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Trade and other payables | 12 | 47,295 | 72,980 |
| Lease liabilities | 13 | – | 293 |
| **Total financial liabilities** | | **47,295** | **73,273** |
| Total current | | 47,295 | 73,273 |
| Total non-current | | – | – |
| **Total financial liabilities** | | **47,295** | **73,273** |

### 17. Events after the reporting period

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

# Glossary

| Acronym | Description |
|---|---|
| **BEIS** | Department for Business, Energy and Industrial Strategy. |
| **BSC** | Balancing and Settlement Code (BSC) is a legal document which defines the rules and governance for the balancing mechanism and imbalance settlement processes in respect of the wholesale electricity market in Great Britain. Find it at: https://www.elexon.co.uk/bsc-and-codes/ |
| **Capacity Agreement** | A capacity agreement is a regulatory and rule based arrangement between National Grid, as System Operator, and a successful applicant in a Capacity Market auction. The capacity agreement provides a regular retainer payment to the successful applicant or "Capacity Provider". |
| **Capacity Auction** | At a Capacity Auction, applicants who offer the lowest bid can win a capacity agreement. A Capacity Auction relates to delivery of capacity approximately four years ahead (T-4). For instance, the capacity agreements resulting from the 2014 T-4 Capacity Auction will require capacity to be delivered in the Delivery Year commencing 2018/19. |
| **Capacity Market** | The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded capacity agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity Providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions. |
| **Capacity Market Regulations** | Capacity Market Regulations means the Electricity Capacity Regulations 2014 (as amended) and the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended). |
| **Capacity Market Settlement Body** | Means the entity appointed under the Capacity Market Regulations 2014 to obtain supplier charges and make capacity payments and to have overall accountability and control of the Capacity Market settlement process. |
| **Capacity Market Stress Event** | A System Stress Event that has occurred at least four hours after a Capacity Market Notice has been issued and post-event analysis by NG ESO has confirmed that a System Stress Event has occurred. |
| **Capacity Provider** | A capacity provider is the holder of a capacity agreement with National Grid (as System Operator). Capacity Providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand side reductions (Demand Side Response). Capacity Providers provide capacity under either a capacity agreement resulting from a Capacity Market auction or from a Transitional Arrangement Auction. |
| **Delivery Partners** | Organisations involved in delivering the Capacity Market, namely ESC, and (EMR) Delivery Body, Electricity System Operator, National Grid, and Ofgem. |
| **Delivery Year** | This is a defined term within the Capacity Market rules referring to the obligation period of a capacity agreement being 1 October to 31 March of the following year. |
| **Demand Side Response** | Demand Side Response helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the "demand side") in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. Demand Side Response is seen as having the potential to help to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation. |
| **ECJ** | Means the General Court of the Court of Justice of the European Union. The General Court annulled the relevant scheme Approval on 15 November 2018 (Case T–793 14). |
| **EMRS** | EMR Settlement Ltd (EMRS) is a wholly owned subsidiary company of ELEXON Ltd.* It is the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (*ELEXON website: www.elexon.co.uk/) |
| **Energy Data Taskforce** | The Energy Data Taskforce was established by government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency. |
| **ESC** | Electricity Settlements Company Ltd. |

| Acronym | Description |
|---|---|
| **ESO** | The Electricity System Operator (ESO), a ring-fenced part of National Grid, includes the 'EMR Delivery Body', which manages CFD and Capacity Market auctions |
| **LCCC** | Low Carbon Contracts Company Ltd. |
| **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. Find it at https://www.electricitysettlementscompany.uk |
| **Ofgem** | Office of Gas and Electricity Markets, a non-ministerial government department and an independent national regulator. |
| **Review of Electricity Market Arrangements (REMA)** | BEIS is undertaking REMA with NGESO and Ofgem to assess the needs for longer term reform to GB electricity market design to achieve net zero, security of supply and efficient energy system operation goals by 2035. This will have potential implications for EMR schemes and new schemes to be managed by LCCC. |
| **Scheme Approval** | State aid approval (SA.35980) granted by the European Commission in July 2014 for the main Capacity Market scheme. |
| **Secretary of State** | Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder. |
| **Settlement system** | The settlement system used to settle all monies collected from suppliers to make payments to Capacity Market providers, and to settle all monies collected from Capacity Market providers which are payable to suppliers (or, in the case of the termination payments, to BEIS). |
| **Standstill** | Means the situation affecting the Capacity Market as a result of the annulment of the relevant scheme Approval on 15 November 2018. The full operation of the Capacity Market therefore could not take place during the Standstill Period, and the Capacity Market was termed in "standstill" for this period. |
| **Standstill Period** | Standstill Period means the period beginning on 15 November 2018 and ending on (as further described in the Supplier Payment Regulations). |
| **Standstill Regulations** | Refers to the Electricity Capacity (No. 1) Regulations 2019, http://www.legislation.gov.uk/uksi/2019/862/contents/made |
| **State aid** | State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition in the European Union. |
| **Supplier Payment Regulations** | Supplier Payment Regulations means the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended), including as amended by the Electricity Capacity (No. 1) Regulations 2019). http://www.legislation.gov.uk/uksi/2014/3354/contents/made<br><br>Also amended by the Electricity Supplier Payments (Amendments) Regulations 2021 https://www.legislation.gov.uk/ukdsi/2021/9780348219296 |
| **System Operator** | Organisation licenced by Ofgem to operate the GB electricity system, a role currently held by National Grid Plc. The electricity System Operator's current responsibilities include balancing the electricity system, running electricity capacity auctions, coordinating and administering aspects of industry rules and codes and supporting efficient transmission network development. |
| **Voluntary Supplier Arrangement** | Voluntary Supplier Arrangement means the arrangement provided by ESC under which it will accept and hold payments made, on a voluntary basis, by suppliers during the Standstill Period. All such payments are made by suppliers and received and held by ESC on the basis of the terms and conditions published by ESC and in accordance with the new Capacity Market regulations. |

# Management Committee

This was the Management Committee
as at 10 June 2022.

**Neil McDermott**
**Chief Executive Officer**

**Allison Sandle**
**General Counsel**
**& Company Secretary**

**Cynthia Duodu**
**Director of People**
**& Organisational Development**

**George Pitt**
**Chief Financial Officer**

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