LOW CARBON
CONTRACTS COMPANY
POWERING NET ZERO

# ACCELERATING THE TRANSITION TO NET ZERO

**Annual Report and Accounts**
for Low Carbon Contracts Company Ltd

**2023/24**

# Contents

**02** Highlights for 2023/24

**06** Chair's foreword

**07** Chief Executive's statement

**09** Strategic report

**10** Our portfolio

**63** Environment report

**65** Board of directors

**66** Directors' report

**68** Corporate governance report

**77** Remuneration report

**81** Independent auditor's report

**90** Financial statements

**119** Glossary

# Highlights for 2023/24

## Delivering excellence

### CONTRACTS SIGNED

92 Allocation Round 5 contracts successfully brought into the portfolio

### SATISFACTION

84% Satisfaction score from our stakeholders

### SCALABILITY

Developed bespoke forecasting system for cost effective scalability

## Enhanced advisory services

### KNOWLEDGE

Sharing knowledge at UK events and internationally

### CONTRACT DESIGN

Key partner to DESNZ on contract design for new and existing schemes

### COLLABORATION

Collaborating with DESNZ Review of Electricity Market Arrangements (REMA) team to shape key aspects of the review

# Highlights for 2023/24

## New business delivery

### APPOINTMENT

**Designated as the Low Carbon Hydrogen Agreement counterparty and settlement provider January 2024**

### VALUE

**Harnessing synergies between schemes to build value for money into our contract management system 'Zero'**

### GROWTH

**Broad scheme pipeline across low carbon electricity, hydrogen and carbon capture technologies**



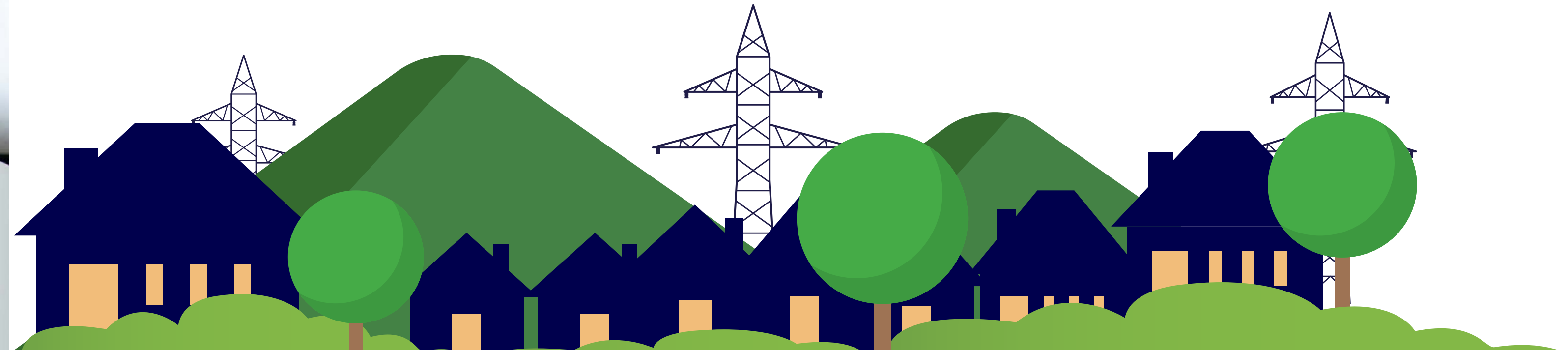
# Key Outcomes 2023/24[1]

| Scheme | Outcomes | Total payments made under scheme | Total annual cost (including operational cost levies) | Operational costs as a percentage of total annual cost |
|---|---|---|---|---|
| **CfD** | 22.2TWh of low-carbon power produced.<br><br>Approximately 2.3m tonnes equivalent of avoided $CO_2$ [2] | £1,895.5m (total payment)<br><br>£30.8m (total receipts from generators)<br><br>£1.864m (gross cash flow) | £1,882.9m | 0.97% |
| **Capacity Market** | Availability payments made to 52.7GW of capacity for delivery year 2022/23 and 52.6GW for delivery year 2023/24 | £333.7m (for delivery year 2022/23)[3]<br><br>£690.8m (for delivery year 2023/24) | £1,031.7m | 0.6% |

1 Figures may not reconcile due to rounding.

2 Greenhouse-gas emissions avoided from the CfD portfolio, which are calculated using the actual CfD generation and DESNZ annual generation, based long-run marginal emissions factors – https://www.lowcarboncontracts.uk/data-portal/dataset/actual-cfd-generation-and-avoided-ghg-emissions

3 A Capacity Market delivery year runs from 1 October to 30 September the following year.



# Chair's foreword

## Our support enables a broadening technology mix and new low carbon contract mechanisms

**Whilst global energy markets continued to be impacted by conflicts in Ukraine and the Middle East during 2023/24, they did stabilise somewhat, albeit at an underlying higher cost that continues to affect customers who are struggling with the cost of living. In this global environment, home grown Net Zero initiatives are essential if we are to deliver secure affordable energy for customers and businesses. This theme has emerged strongly not just in the UK but around the world.**

For example, at the start of the financial year, our newly established shareholder, the Department for Energy Security and Net Zero (DESNZ), had been formed to enhance focus on the challenges of delivering Net Zero. Government had also recently published 'Powering Up Britain' as a blueprint for how the UK will continue to embrace the opportunity of expanding green energy technologies. This sentiment is echoed around the world through policies such as the US Inflation Reduction Act and the EU Green Deal Industrial Plan.

Given the scale of the global challenge, there has been an increasing interest in the UK's leading Contract for Difference (CfD) model. During the year, LCCC worked with UK partners to deliver CfD briefings to Governments in the US, Canada, China, South Korea, Malaysia, Indonesia, Singapore and Norway.

This broader knowledge sharing may help others to tackle the Net Zero challenge in their jurisdictions, and it also increases knowledge of, and confidence in, the UK CfD and energy market amongst an ever-wider pool of investors.

Locally, the CfD continued to attract a significant number of new renewable energy projects to the UK, with almost 100 new CfDs awarded through the fifth Allocation Round (AR5), including the first ever geothermal projects. Announcements for the sixth Allocation Round (AR6) demonstrate continued commitment to use of the CfD mechanism across the breadth of low carbon power technologies. To deal with this scale of growth we have automated and digitised more of our processes, making them easier for our counterparties and delivering significant efficiencies at the same time.

The success of the CfD combined with LCCC's established and enhanced capabilities, means that we are ideally placed to deliver new low carbon contract mechanisms in sectors other than renewable electricity generation. LCCC is ready to enter contracts with green hydrogen producers via the Low Carbon Hydrogen Agreement and support the new nuclear Sizewell C project under the Regulated Asset Base. We are also stepping into new roles across the Hydrogen and Carbon Capture and Storage (CCUS) ecosystems where we are leading the implementation of many new schemes. And we provide expert trusted advice and information to Government in the development of policy, business models and contracts alongside investor engagement.

Confidence and trust in LCCC is extremely high, reflected in an 84% satisfaction score in our annual stakeholder survey. This is a testament to the professionalism, hard work and dedication of our people. I would like to thank each and every one of our colleagues; it is their passion for making a better world that is driving our success.

As I enter my final year as Chair of LCCC, I am proud to look back on the achievements of the business over the last five years. Over that time LCCC has more than doubled in size, whilst increasing the volume of contracts under management by over 500%. And it shows no signs of slowing down given the pace of the UK's Net Zero ambition. Such rapid growth brings challenges, but we have the advantage of a strong shared belief in our purpose.

Finally, I want to thank my excellent non-executive Board colleagues, who drive our strategy and organisation forward through their diverse perspectives and rich experience.

**Regina Finn**
Chair

> Confidence and trust in LCCC is extremely high, reflected in an 84% satisfaction score in our annual stakeholder survey. This is a testament to the professionalism, hard work and dedication of our people.



# Chief Executive's statement

## Successful growth through digitisation

**Looking back over the last 12 months, I'm proud to say LCCC has continued to successfully deliver its strategy against a backdrop of stabilised energy markets but ongoing inflationary pressure.**

Overall, we have seen strong growth in our core CfD and Capacity Market (CM) schemes and a significant number of new decarbonisation schemes in development, working closely with government and investors to leverage the success of the CfD and apply it to new technologies such as Hydrogen and Carbon Capture, Usage & Storage. We have been growing the company quickly to meet the demands of this growth although focusing on sustainable, efficient growth. Our focus on digitisation of our processes and systems is enabling us to play our role in the larger number of contracts associated with recent CfD allocation rounds. This strategy will also hold us in good stead for our new schemes.

The challenging economic climate of the past financial year particularly impacted AR4 contracts within our portfolio. Supply chain challenges were the main cause for 19 terminations and 16 Initial Installed Capacity Estimate (IICE). Our colleagues worked tirelessly with projects to minimise the effect of unprecedented circumstances. The continued progress of many projects from AR3 and AR4 due to start generating in the next couple of years is testament to this. Two new offshore wind projects went operational this year, taking our total current generating capacity to 9.1GW.

Teams across the business collaborated to successfully deliver our role in AR5. Building on the AR4 record results, AR5 delivered a similar level with 92 new CfDs signed including almost 2GW of solar and the first geothermal projects reinforcing a rich technology mix. This increases the total portfolio we now manage to 29.5GW across 240 contracts. The operational assets generated 22.2TWh and avoided approximately 2.3m tonnes of CO2 emissions in FY23/24. This is equivalent to around 7% of UK generation or enough to power over 8 million UK homes.

Our ability to deliver our role in these annual CfD auctions, with the now much greater number of contracts per auction, has been enabled by our in-house software development teams and their digital capability. We have developed automated, digital processes and systems to manage the exchange of information with our counterparties, sign contracts and process contract milestones to complement our existing systems for payments under our core CfD scheme. I am pleased to say that we have achieved high levels of accuracy, met all regulatory deadlines, and in doing so, minimised costs to consumers and taxpayers. Our internally developed portal 'Zero' also creates a strong foundation for us to build on as new roles across Hydrogen and CCUS transition into delivery.

> Looking forward to the year ahead and beyond, we will continue our efforts to do the "day job" of our operating schemes with excellence whilst diversifying the scope of the business to further accelerate Net Zero.

We have continued to support Government with the development of policy, business models and contracts in these new areas, increasing our portfolio of new schemes notably over the last 12 months. This is a clear recognition of the excellence in our operations and advisory roles, alongside delivering value for money through synergies across our schemes, which are central principles guiding our work.

We have continued to demonstrate strong financial management during the year. LCCC has kept costs down through our investment in digital efficiencies and by recognising synergies in overheads across our growing portfolio. The number of CfDs managed by LCCC grew 45% in the financial year and LCCC has been confirmed as the counterparty or advised on a number of levy and non-levy funded schemes. Each year we return any unspent Operational Cost Levy to suppliers and this year we used £18.2m (2022/23: £13.9m) out of the £26.3m (2022/23: £23.1m) collected and so will be returning £8.2m (2022/23: £9.2m) to suppliers.

I'm particularly pleased to report that we achieved an exceptional stakeholder satisfaction score of 84% in our stakeholder survey. This is an increase of 16% compared to 2022/23 and a great achievement. This result has been accomplished in parallel with the expansion of the number and variety of our stakeholders due to growing contract volumes and new schemes. The result reflects our commitment to delivery excellence, as well as the engagement we've undertaken throughout the year to build recognition of the company, understanding of the CfD and our role in delivering Net Zero.

# Chief Executive's statement
(continued)

Our employee engagement survey also saw positive results with a 95% response rate and 78% engagement level. Although the score is lower than last year (86%), it still represents a good result for us at a time of fast growth and a lot of change. We will continue to aim for upper quartile performance in this key metric. Our people are responsible for all the value we bring as an organisation; having excellent colleague engagement is critical for our ongoing ability to deliver. This year saw the launch of our first graduate scheme as we seek to drive early careers experiences in LCCC, bringing new emerging talent through the business.

We have continued our journey to deliver more in person events, allowing employees opportunity to interact and network. We have also maintained investment in our learning and development programme and expanded into a second office location in Leeds. Our workforce covers 28 different nationalities with approximately 44% from an ethnic minority and 48% female, illustrating our commitment to diversity, equity and inclusion.

Looking forward to the year ahead and beyond, we will continue our efforts to do the "day job" of our operating schemes with excellence whilst diversifying the scope of the business to further accelerate Net Zero. We look forward to the start of our new Hydrogen and CCUS schemes with delivery of contract management activities, new data and settlement systems and development of our stakeholder base in these new sectors.

**Neil McDermott**
Chief Executive



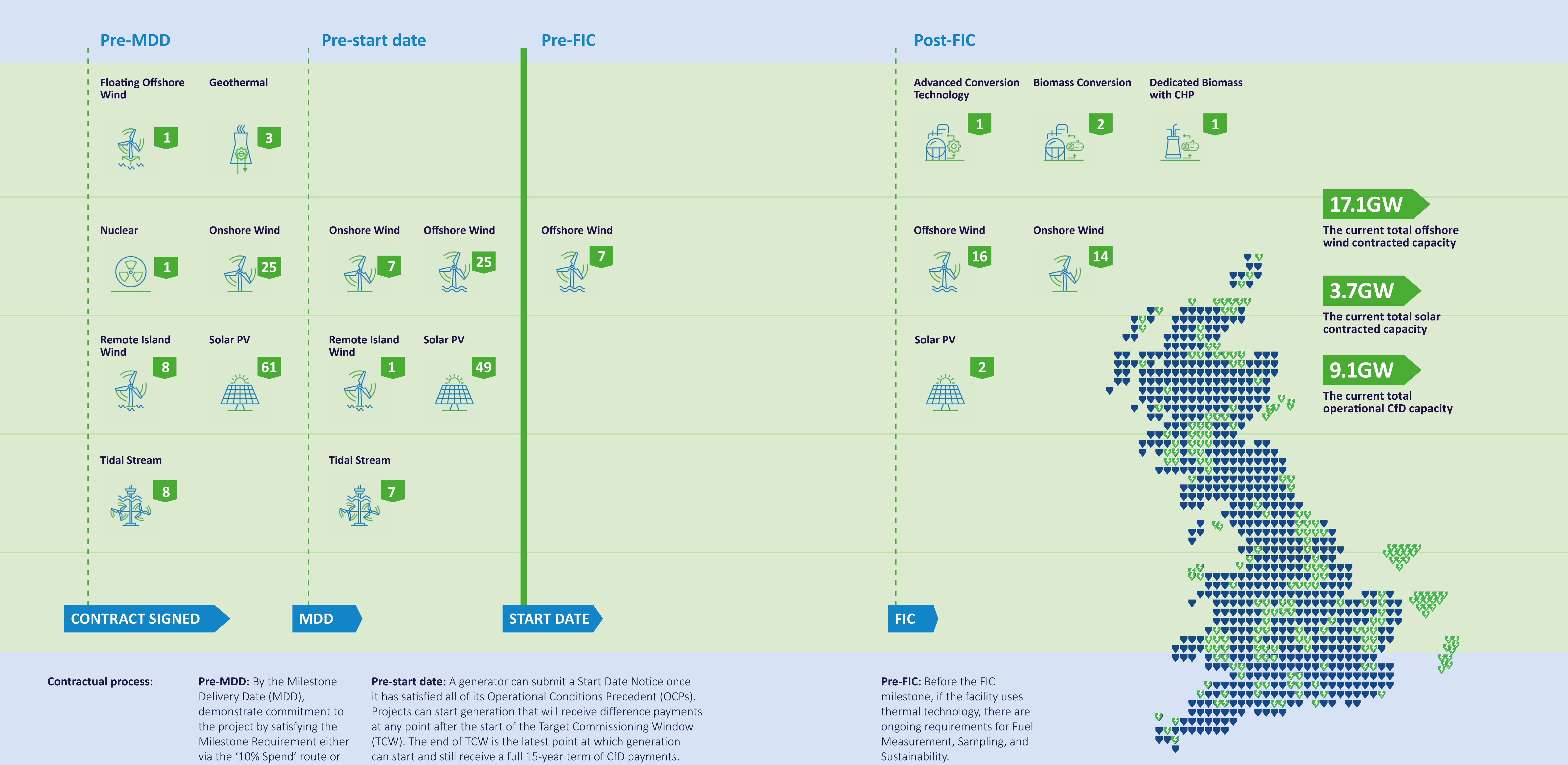
# STRATEGIC REPORT

# Portfolio view

## Progress of CfD generators as of 31st March 2023

Low Carbon Contracts Company (LCCC) is managing **240 Contracts for Difference** (CfDs) with an estimated fair value of **£89.2bn, including Hinkley Point C**. Our counterparties hold CfDs that represent around **29.5GW** of new **low-carbon capacity to be delivered by 2030.** One CfD project began its difference payments in 2023/24.

### CfD milestones




**Contractual process:**

**Pre-MDD:** By the Milestone Delivery Date (MDD), demonstrate commitment to the project by satisfying the Milestone Requirement either via the '10% Spend' route or the 'Project Commitments' route (MDD is 18 months from contract signature).

**Pre-start date:** A generator can submit a Start Date Notice once it has satisfied all of its Operational Conditions Precedent (OCPs). Projects can start generation that will receive difference payments at any point after the start of the Target Commissioning Window (TCW). The end of TCW is the latest point at which generation can start and still receive a full 15-year term of CfD payments. The contract has a Longstop Date beyond which the CfD can be terminated if the start date has not been achieved or the Final Installed Capacity (FIC) has not been declared.

**Pre-FIC:** Before the FIC milestone, if the facility uses thermal technology, there are ongoing requirements for Fuel Measurement, Sampling, and Sustainability.

# Strategic Report

## Our role in accelerating the delivery of Net Zero

**The Low Carbon Contracts Company (LCCC) is an operationally independent, not-for-profit private limited company, wholly owned by the Secretary of State for Energy Security and Net Zero (DESNZ).**[4]

The company carries out two key roles established by the Energy Act 2013 that are central to the Act's intent of "encouraging low carbon electricity generation or ensuring security of supply."[5]

- **Counterparty to Contracts for Difference** (CfDs), responsible for managing Contracts for Difference with low-carbon electricity generators under the CfD scheme, forecasting and collecting the Supplier Obligation Levy that funds CfD payments, and settling and clearing the CfDs
- **Capacity Market Settlement Body,** responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as: credit cover; meter assurance; penalties; and payments to Capacity Providers. LCCC carries out these functions on behalf of its sister company, the Electricity Settlements Company Ltd (ESC). We carry out Capacity Market settlement functions on behalf of our sister company, ESC, via a cost-sharing arrangement. ESC's role in the Capacity Market is detailed in the ESC Annual Report.

Our roles are expanding and diversifying beyond electricity in line with Government policy:

- **Counterparty to Dispatchable Power Agreement** (DPA) for Carbon Capture, Usage and Storage (CCUS), appointed by the Government in October 2021.
- **Revenue collection counterparty for nuclear Regulated Asset Base** (RAB) funding model, appointed by the Government in March 2022.
- **Counterparty for the Low Carbon Hydrogen Agreement** (the contract underpinning the Hydrogen production business model), appointed in January 2024.
- **Counterparty for both the Industrial Carbon Capture and Waste Industrial Carbon Capture Agreements.** The Government anticipates that LCCC will be the counterparty. This is subject to successful completion of administrative and legislative arrangements.
- **Counterparty to Revenue Support Agreement for Carbon Capture Transport and Storage**. The Government anticipates that LCCC will be the counterparty. This is subject to successful completion of administrative and legislative arrangements.
- **Delivery body for Hydrogen Certification.** The Government anticipates that LCCC will be the delivery body. This is subject to successful completion of administrative and legislative arrangements.

Across all LCCC roles we use the knowledge, capability and experience built up in helping shape, and in operating, the CfD to **advise Government on developing existing and new low-carbon schemes.**

To increase industry knowledge and build investor confidence in CfDs, we also **provide information about the scheme and how it is performing to the market.**

### Our guiding principle set out in our Framework Document is:

"...to maintain investor confidence in the CfD scheme and minimise costs to consumers."[4]

4 LCCC Framework Document, available at https://www.lowcarboncontracts.uk/resources/guidance-and-publications/lccc-framework-document-2023/

5 Energy Act 2013 , available at: http://www.legislation.gov.uk/all?title=Contracts%20for%20Difference%20regulations.



## Vision and Mission

### OUR VISION IS

**"...to accelerate the delivery of Net Zero"**

This reflects the need to accelerate the pace of delivery to meet the commitment to **Net-Zero emissions by 2050.** It expands our horizon beyond the electricity sector into wider decarbonisation, encompassing both our existing CfD and CM work (and the significant acceleration in progress there) and new activity.

This is a wider vision of all parts of society contributing to accelerated delivery, with LCCC's work at the forefront. Our involvement will be within the capabilities, skills and experience of our organisation and the people within it. We can add value from our unique place in the energy ecosystem: we should be able to bring forward solutions, based on our individual knowledge and collective experience, that can drive forward the achievement of Government Net Zero targets.

### OUR MISSION IS

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

This recognises our role in facilitating investment as an **operationally and private independent counterparty**, and our strengths in managing and developing new and existing schemes to do this. It also acknowledges how we use skills and experience gained in electricity to help shape new schemes outside the power sector, where such instruments are appropriate for the wider decarbonisation agenda. The phrase about the consumer reflects the importance of minimising the cost of the energy transition for everyone.

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




# Performance Against Strategy

## Strategic objectives

Our vision and mission were launched in 2021 alongside three accompanying strategic objectives that provide five-year goals for the organisation.The core activities in LCCC's existing portfolio are the two schemes that were established under the Coalition Government's Electricity Market Reform (EMR) programme – the Contract for Difference (CfD) and Capacity Market (CM). Increasingly, however, our portfolio has been growing and diversifying as we make increasing progress in line with our strategic objectives which are aimed at supporting decarbonisation in a wider range of sectors and technologies.

**The key strategic objectives against which we measure our progress are:**

### CfD and CM delivery excellence

**Ensure we deliver our existing schemes to the highest standards, increasing efficiency and effectiveness by focusing on participant satisfaction and continuous improvement.**

**Objective one** *says we want to continue to improve, deepening confidence in the schemes and reducing cost. This is our solid foundation. While the existing schemes are 'business as usual', we have to manage their change and development.*


### Enhanced advisory services

**Provide advisory services to ensure the CfD and CM remain effective, and expand these services to support the Government's wider delivery of Net zero, where separate funding is provided.**

**Objective two** *is about the expertise that enables us to advise on our existing schemes and on using low-carbon contracts elsewhere. To achieve this, we need to monitor and understand market, policy and regulatory change, including in new sectors.*

### New business delivery

**Develop an agile and dynamic business culture so we can advise on and manage new schemes, including Power CCUS CfDs. Develop our capability, resources and skills to achieve our vision and mission.**

**Objective three** *describes how we will expand our portfolio of operational schemes, and develop our existing business model to increase efficiency and so minimise cost for the consumer.*



1

# CFD AND CM DELIVERY EXCELLENCE

# CfD and CM delivery excellence

## Our key achievements in 2023/24

1

**September 2023 brought an additional 92 CfDs in the Fifth Allocation Round (AR5) as the portfolio continues to expand.**

Those contracts were predominantly solar at 1,843MW, reflecting the overall increase of solar generation across the industry, with a further 53MW of tidal capacity joining the first AR4 tidal projects, and the addition of our first three geothermal projects from United Geothermal.

LCCC and Geothermal Engineering Ltd came together to sign those first Geothermal contracts, marking another milestone in the CfD scheme.

### Allocation Round 5

Diversifying Great Britain's energy mix away from high-carbon energy has been a key aim of the CfD scheme, supporting the development of reliable and clean energy while maintaining price stability for both investors and consumers. The development of new generation capacity has also brought investment in communities due to the new power projects requiring the creation of skilled jobs and facilitating infrastructure.

A total of 92 contracts were awarded CfDs and passed their Initial Conditions Precedent (ICPs), bringing the total number of contracts under management to 240.

The addition of AR5 projects saw:

- 13.8% increase in overall CfD capacity,
- 38.7% increase in the number of CfD projects in the scheme's portfolio
- 25.7% increase in the number of unique CfD project stakeholders we engage with.

### Automating the onboarding process

Significant time and effort went on behind the scenes to update our milestone management system processes to Generators after deployment of a bespoke portal for AR4 ICPs last year. The rollout of the new Zero platform allowed for semi-automated contract generation and signature via DocuSign as well as far greater flexibility, transparency and responsiveness in processing the 92 ICPs within the contractually required window.

ICPs are the first milestone in the CfD and require Generators, within 20 business days of signing the contract, to provide specific information to demonstrate they can legally enter into a CfD and fulfil their obligations. Zero proved even more efficient and user-friendly than the previous portal, and the process was successfully completed for all contracts.

### Contract events

During 2023/24, 17 AR4 CfDs were terminated for failure to meet the Milestone Requirement (MR) by the Milestone Delivery Date (MDD). MDD occurs 18 months after the agreement between the generator and LCCC is signed. The purpose of the MDD is to satisfy LCCC that the generator is on track to complete the project to start generating low-carbon electricity, by the next milestone known as the Target Commissioning Date (TCD). Part of the reason for our role in monitoring projects through construction is that not all projects are expected to go through the entire process to generation.

A generator can achieve the MDD by providing one of two types of evidence:

1. Confirmation that 10% of the total project pre-commissioning cost has been spent, or

2. Sufficient plans and orders for material equipment have been placed.

There can be a number of reasons why generators do not pass their MR and the decision to terminate is not taken lightly. For those projects that failed their MR and subsequently had their CfDs terminated, the underlying issue related to the increase in supply chain costs making the projects financially unviable. The total capacity terminated was 2.1GW (c.18%) of the total 10.8GW awarded in AR4. 16 projects exercised their right to reduce the Initial Installed Capacity Estimate (IICE) by up to 25%, resulting in a reduction of 1.4GW (c.13%) of the total 10.8GW awarded in AR4.

***Left to right**: Ryan Law, CEO of Geothermal Engineering Neil McDermott, CEO at LCCC for the contract signing of the first Geothermal CfD awarded in AR6.*

Under the CfD, Generators have the option to reduce their IICE by up to 25% prior to the Milestone Delivery Date.

### CfD management

We have seen the CfD scheme continue to demonstrate its resilience and flexibility. In the course of the year, one new project has reached its operational milestone.

As of 31 March 2024, the total installed capacity commissioned under the CfD scheme was 9.1GW – over a third of the current total contracted pipeline. In 2023/24, the combined low-carbon electrical output under the CfD was 22.2TWh. Progress in the past year included the following:

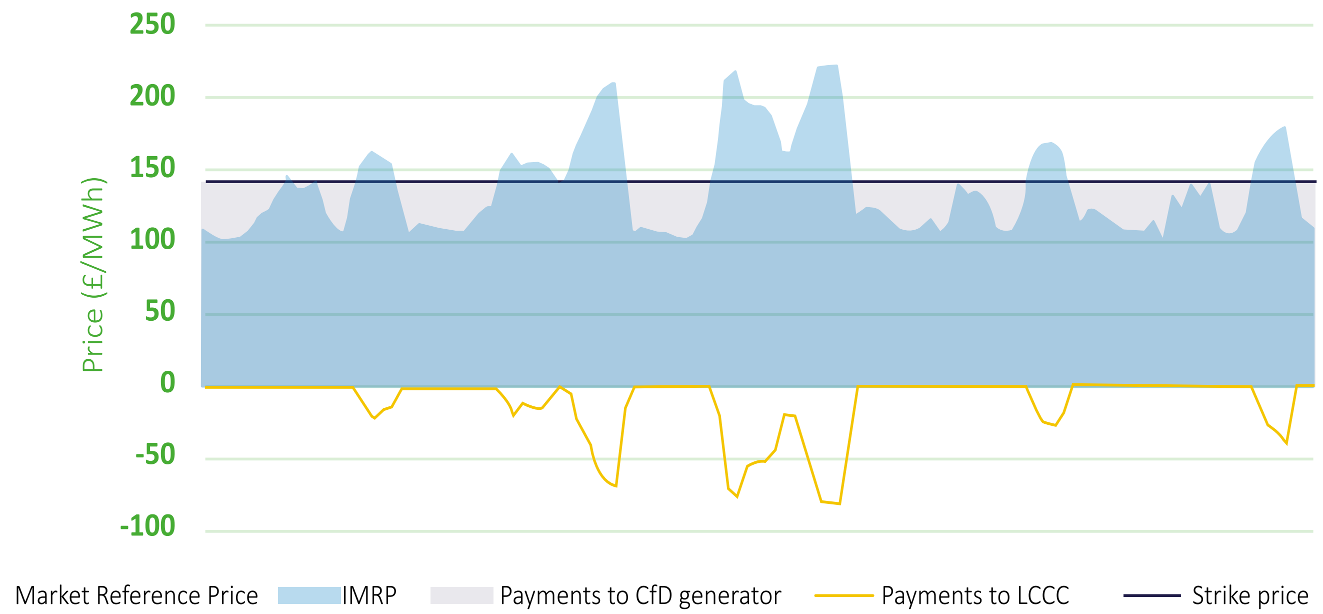
- Hornsea 2, a 1.3GW three phased Offshore Wind project off the coast of Yorkshire, achieved its CfD Start Date in March 2024. **The Hornsea 2 wind farm has been certified by the Guinness World Records as the world's "highest-capacity offshore wind farm".**
- Moray East, a 950MW Offshore Wind farm, located in the outer Moray Firth off the northeast Scotland also achieved their Start Date in March 2024. The Offshore Wind farm is 13.5 miles from the Coast.
- A total of 92 AR5 projects with the capacity of 3.6GW achieved their Initial Conditions Precedent Milestone (ICP).
- We accrued income from generators of £639.1m, an increase from the £419m accrued in the previous year.

An important part of our role is to manage extension-of-time claims applicable to CfD milestones – in relation to force majeure (FM) events, or to any failure to carry out grid reinforcement or connection works specified in the construction agreement and attributable to the facility. The economic environment impact was felt by some generators, and we invested appropriate time and resources to reach optimal solutions with our generator counterparties. By the end of the financial year, we managed to close 13 claims through accepting supporting evidence or information.

Our relationship with Hinkley Point C, one of the UK's largest infrastructure projects, has continued to evolve, with the monitoring and reporting framework established in 2018/19 remaining effective in providing timely and current information to Government stakeholders regarding progress. Last year saw Hinkley Point C achieving another major milestone with the lifting of the 750 tonne polar crane into the first reactor building, followed by closing the roof on the first reactor building with a 47m dome.

Despite the positive progress, the challenges related to the scale, complexity and nature of Hinkley Point C should not be underestimated. In January 2024, EDF SA announced that the Commercial Operation Date of Unit 1 is now expected to be further delayed, a first scenario targets operation in 2029, a second scenario sees operation in 2030 and a final unfavourable scenario sees operation in 2031 (formerly June 2027 with risk of a 15-month delay).

### CfD Payment mechanism



# CfD and CM delivery excellence

## Our key achievements in 2023/24

### Site visits

Site visits provide a great opportunity to improve our understanding of different types of technology and to discuss the challenges our operational projects face. The purpose of these visits has always been to learn, and to improve the generators' CfD journey on a day-to-day basis. In this, they are invaluable and provide an opportunity for us to understand the industrial expertise that helps to navigate each visit.

#### Walney Extension

In July 2023, Director of Scheme Delivery, James King, Head of CfD Account & Contract Management, Paul Kiddle, Lead Contract Managers, Claire Daniels and Andrew Varnava, and Contract Manager Manmeet Badh visited Orsted's Walney Extension offshore windfarm. Located in the Irish Sea off the coast of Barrow-in-Furness, with Phase 1's 47 turbines and Phase 2's 40 turbines generating 660MW of installed capacity.


***Left to right; Top row:*** *Daniel Aaron, Andrew Varnava, Claire Daniels, Manmeet Badh, Stefan Bartlett, James King, Phil de Villiers*

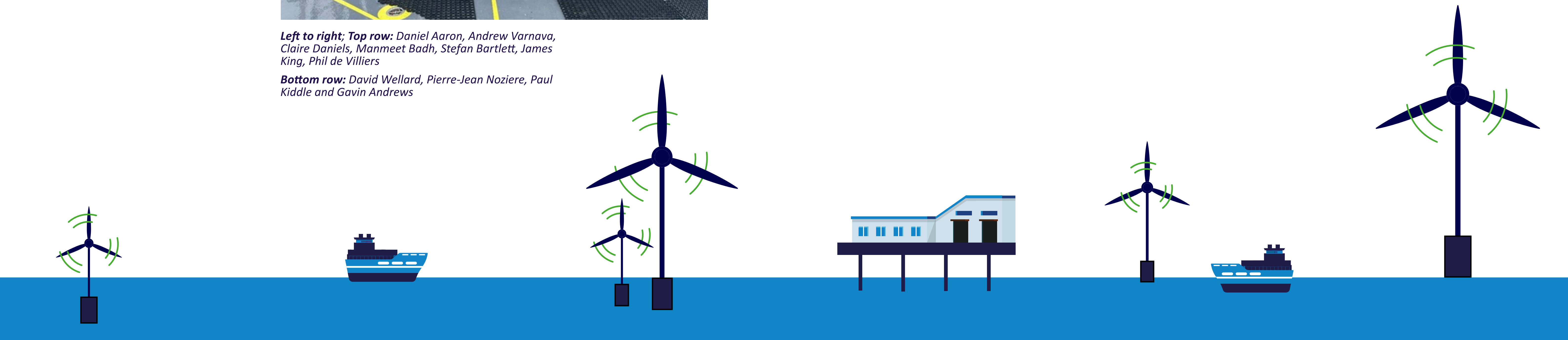
***Bottom row:*** *David Wellard, Pierre-Jean Noziere, Paul Kiddle and Gavin Andrews*

**THE PURPOSE OF THESE VISITS HAS ALWAYS BEEN TO LEARN**

#### Orkney

In September 2023 Director of Scheme Delivery, James King, Head of CfD Account & Contract Management, Paul Kiddle, Lead Contract Manager Claire Daniels and Contract Manager Fattaur Rahman visited Orkney Island in the North of Scotland to meet with Orbital Marine Power, Orkney Island Council and Magallanes Renovables. Both Orbital Marine Power and Orkney Island Council have CfD sites which are located within the Orkney Islands.

***From left to right:*** *Fattaur Rahman, James King, Alejandro Marques, Paul Kiddle, Cristina Martinez Lozano, Claire Daniels and Francisco Otero.*



# CfD and CM delivery excellence

## Our key achievements in 2023/24

### Engaging with our stakeholders

This year has been a successful and exciting time for us to engage with stakeholders against the backdrop of growth in our existing schemes as well as taking on new roles in delivering the Hydrogen, Nuclear RAB and CCUS business models. During this time, our priority has been to listen to different stakeholder views and respond by committing to increase awareness and share knowledge of our role in accelerating Net Zero and the impact it has made.

Our strategic focus areas are:

- Building relationships with our stakeholders and moving to a more proactive approach in our engagement,
- Increasing the awareness of who we are, what we do and the value we bring,
- Understanding stakeholders' needs to ensure we exceed the expectations of our stakeholders today and tomorrow and,
- Collaborating with partners on informing and advising industry and Government.

### Building relationships

Following feedback from our stakeholders, we hosted events for our generator and supplier stakeholders. The events aimed to provide stakeholders with updates on our schemes and respond to their questions around specific topics.

We welcomed AR5 generators to our in-person events in London and Edinburgh aimed at:

- Sharing an overview of the CfD with particular emphasis on key information required to complete their contract Milestone Requirement,
- Building relationships and agreeing ways of working to ensure generators are supported throughout the duration of the contract.

Both events were a huge success, with approximately 30 generators attending and providing overwhelmingly positive feedback with an NPS (Net Promoter Score) of 81.


***Fattaur Rahman**, Contract Manager at LCCC, speaking at the AR5 Generator Welcome event in London.*


***Claire Daniels**, Lead Contract Manager, speaking at the AR5 Generator Welcome event in London.*



**"Great session, clear presentation and well organised. Good opportunity to build relationships with LCCC team."**

**"Energy has been great. Really enjoyed the environment. LCCC employees were excellent."**

**"The workshop is helpful with useful information. LCCC colleagues are friendly and helpful. The workshop has great interactions with the generators."**

# CfD and CM delivery excellence

## Our key achievements in 2023/24

In February 2024, we welcomed electricity suppliers to the first in-person event in 4 years with representation from industry bodies such as Energy UK, I&C Shippers and Suppliers (ICoSS), Carbon Trust, Elexon and Cornwall Insights. The discussions focussed around:

- Understanding the challenges faced by suppliers
- Updates on our schemes
- Discussing changes in the wider industry including:
  - Nuclear RAB Levy
  - Improvements to CfD forecasting that would build greater transparency and thus reduce price risk

Representatives from the Department of Energy Security and Net Zero provided an update on their new schemes.

Supplier engagement is extremely important to us to ensure that our funding routes are secure, and well optimised to take on the additional financial transactions associated with new government led Net Zero schemes and with this we have a role to ensure these costs are fair and transparent.

2023/24 resulted in the set-up of the Supplier Operations team focussing on all funding areas and making sure we work closely with suppliers to understand their needs and how we can support them to a make positive change.

Our in-person events are welcomed by all stakeholders and are a direct result of feedback received. We will continue to host events to enhance and build relationships with our stakeholders to successfully deliver our schemes.

***Adam Williams**, Head of Policy, Regulation & Development, speaking at the AR5 Generator Event in London*

***Pictures taken at the Suppliers Event***



### Increasing awareness and understanding

Over the year, we have prioritised the feedback provided to us by our stakeholders, a key focus area has been to ensure our communications are accessible to a wider audience as we explain the complex mechanics around our schemes. Through infographics, animations and interviews we explained a variety of topics including who we are and what we do, how we forecast, what a CfD is, as well as raising visibility of the different technologies we support through our existing and new schemes.

These explainers have been welcomed by stakeholders through online engagement and positive feedback directly to us.

We have refreshed our corporate website to enable stakeholders to easily find information on our schemes and key announcements and we continue to evolve the website to ensure it provides the right information at all times.

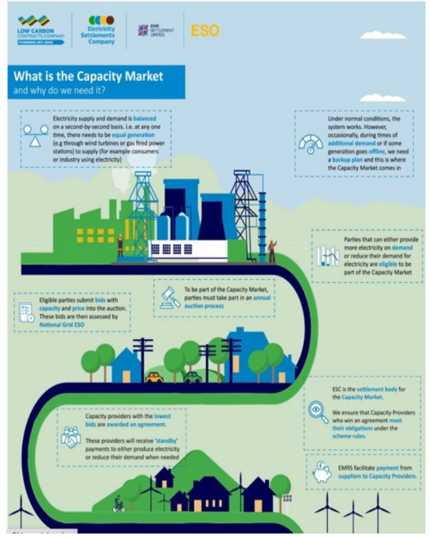
### Understanding stakeholder needs

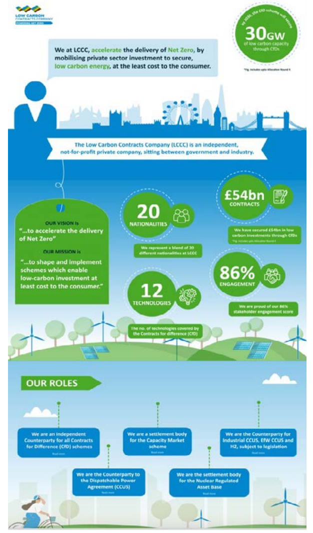
We proactively seek feedback from our stakeholders via our annual stakeholder survey, events feedback forms, and through day-to-day engagement. It is important our stakeholders receive the right level of support and information when engaging with us through our services.

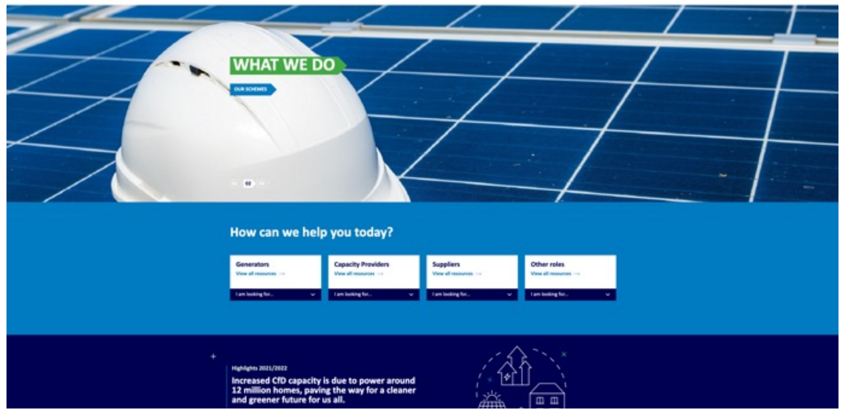
We are delighted by the results from our recent stakeholder survey, achieving an 84% satisfaction score. When asked about whether stakeholders believe we are experts in delivering electricity market schemes, 90% responded positively and 80% believe we are trusted advisors to them.

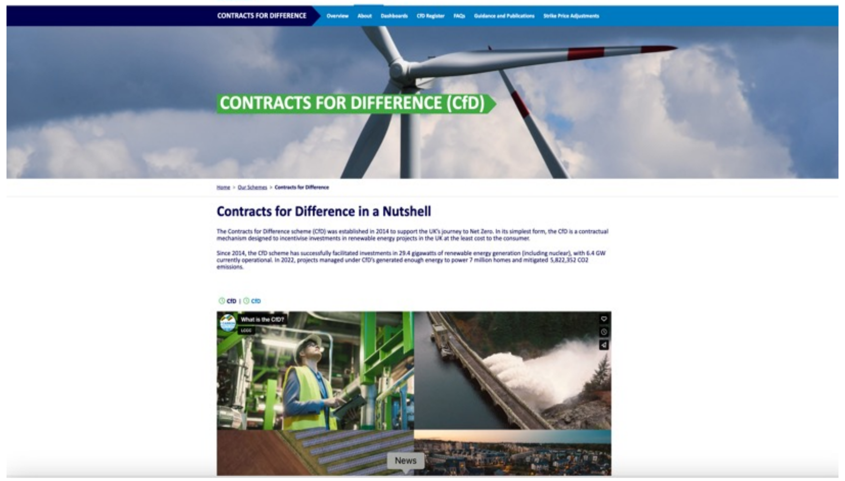
Our schemes aim to provide investor confidence, when asked 67% said we provide investor confidence, whilst 78% believe we work in a way that builds confidence in the electricity market. As we take on additional roles, we were pleased that 97% stakeholders believe we have an important role in delivering the UK's goals for secure, affordable and sustainable electricity and 97% described us as professional, approachable and honest.

Our quarterly webinars on the interim levy rate and total reserve have played an important role in gaining insights on where we can improve when providing data insights and we are pleased to have responded with changes to data and processes.



# CfD and CM delivery excellence

Our key achievements in 2023/24

1

"I would trust them to deliver a balanced briefing because they aren't a commercial participant. They're effectively a public body, which makes me more confident"

"I have confidence in them administering similar schemes in the future, as they are doing well in their current remit. They are the logical choice."

"They've held sessions to try to do teach-ins on the terms as they are now for our members. I think this has been really useful. And I think, you know, doing more of that in the future can only be a good thing"

### CfD goes global

We have collaborated with both industry and government to share the success of the CfD. This includes The Westminster Energy Environment & Transport Forum, Wind Power Finance & Investment Summit, Energy Security & Green Infrastructure Week, Global Offshore Wind, CCSA Annual Conference, Hydrogen Leaders and International Energy Week to name a few.

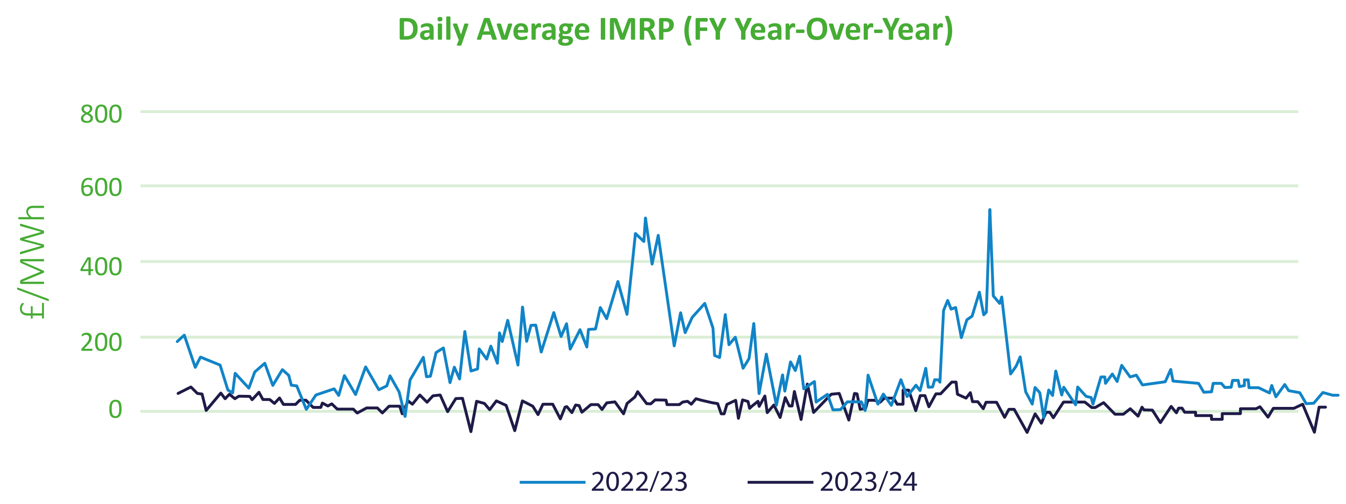
It was exciting to take the Contracts for Difference (CfD) scheme beyond the UK, sharing knowledge and advancing energy solutions in person for the first time (with the Foreign and Commonwealth Development Office) in Southeast Asia in September 2023, helping to accelerate Net Zero worldwide. In March 2024, LCCC delivered an online presentation to the annual UK-Korea Offshore Wind Industry Forum, providing an overview of the CfD scheme and explaining how floating offshore wind is now also supported under the scheme. We also provided an introduction to the CfD and also Carbon Capture Use and Storage (CCUS) and Hydrogen business models to a delegation from Malaysia.

We have continued engagement with all-party parliamentary groups that focus on the Net Zero agenda. Our aim is to engage with parliamentarians to support them with resources and information on how the CfD works, its successes and our role to better inform the debate on the energy landscape.

## Forecasting the CfD levy

2023/24 saw significantly more stable electricity markets than the prior year (see Figure 1 below), with levy rates being adjusted throughout the year to ensure sufficient cash availability without overburdening electricity suppliers. This has been the greenest year yet seen in Great Britain, with a number of records being beaten, and also seeing the total installed capacity of wind generation exceeding that of gas for the first time, underpinned by the CfD.

Significant advances in internal modelling capability have enabled our team to develop a forecasting engine that has now been deployed and will be used for levy setting and tracking during the next financial year.



# CfD and CM delivery excellence

## Our key achievements in 2023/24

### Capacity Market scheme

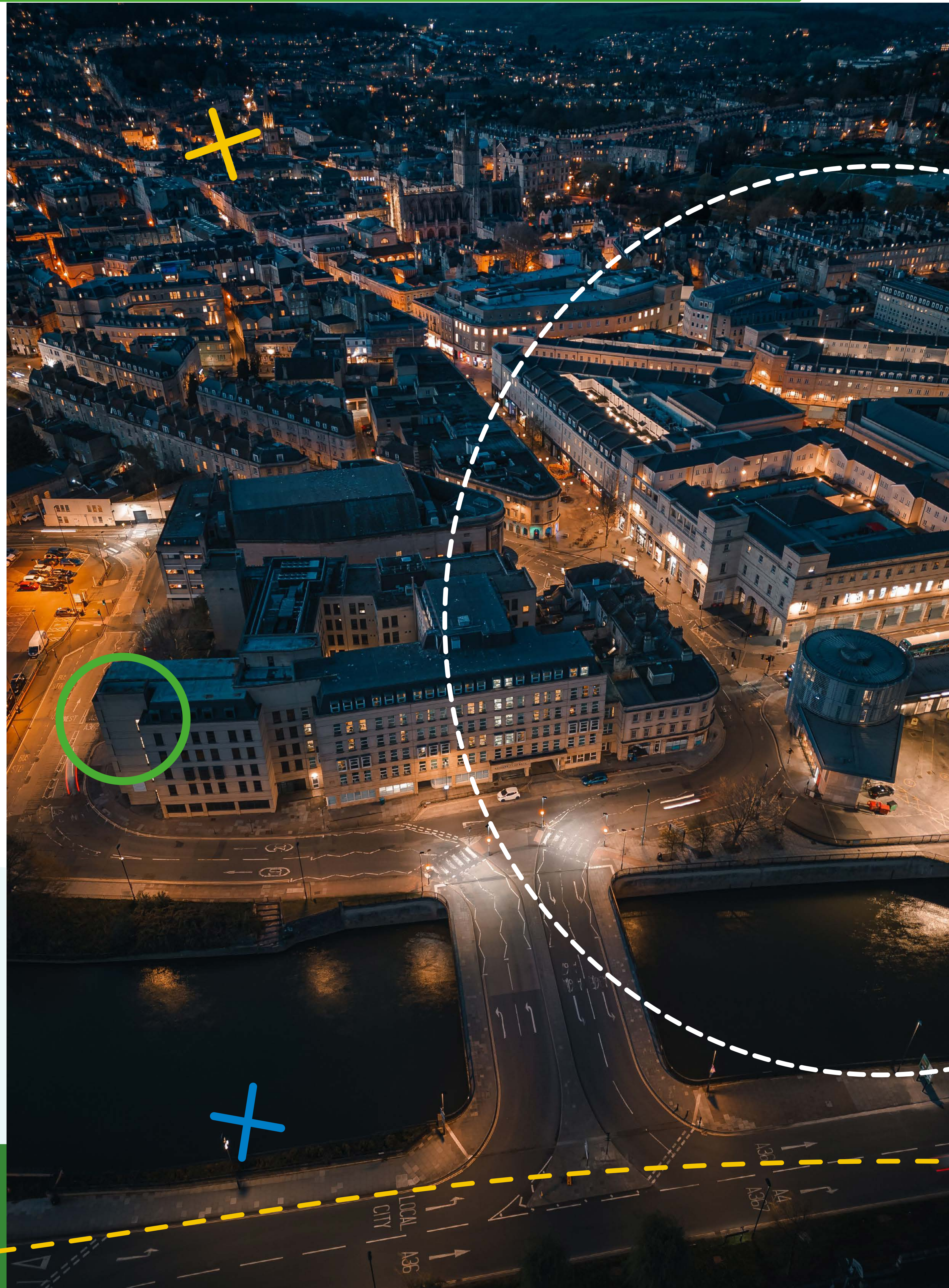
We operate the Capacity Market (CM) scheme on behalf of our sister company, the Electricity Settlements Company (ESC), which has no direct employees. The CM ensures continuity of electricity supply by making fixed payments to generators that are related to their ability to meet peak power demand. The payments are set in technology-neutral auctions one and four years ahead of each delivery year. Scheme operation is complex due to the large number of live capacity agreements (1,089 currently), and consequently large data flows.

ESC must operate this system effectively so that when 'stress events' are called, the paid-for capacity is available and the lights stay on. More detail on the functioning of the CM and our approach to it can be found in the ESC annual report, but a summary is below. Having both the CfD and CM under one roof maximises our understanding of the electricity industry and bringing synergies to our operations as a result. ESC's focus in 2023/24 has been to maximise the use of existing data to automate highly manual scheme processes and improve the overall level of data quality. This has removed administrative burdens from Capacity Providers and made the system more accessible to smaller flexibility providers. An additional benefit is that the data used in potential stress events is now validated and used appropriately.

ESC's development of a Mock Stress Event report, replicating the Stress Event calculations involved in a System Stress Event and issuing Capacity Market Unit (CMU) reporting to Capacity Providers, went live in November 2023. This is a replacement of the Mock Stress Event activities that have been previously performed. There have been several benefits to automating this process, Capacity Providers are now able to determine if their initial position had a Stress Event occurred and validate their CMUs' status, ensuring data accuracy aligns with our information and informing of any issues. ESC have also raised Capacity Provider knowledge and awareness for a set of calculations that are only used during a Mock System Stress Event which last occurred in 2021.

Data quality initiatives and Satisfactory Performance Day (SPD) and Extended Performance automated process first deployed in 2022 are now operational for their second delivery year and have had positive impacts. ESC has seen a year-on-year reduction in data quality issues being responsible for CMUs not completing SPDs, an increased number of CMUs passing prior to the SPD window closing and a reduction in CMU suspensions. Through an increased focus on where issues with data exist, we can see improved levels of data quality which reduces the additional resources required for Delivery Partners and Capacity Providers to resolve issues.

The Settlement Body has worked with the EMR Delivery Body (EMR DB) to define and deliver integrated CM processes. This year we have engaged with the Capacity Market Advisory Group (CMAG) and jointly recommended a transfer of roles and responsibilities from the EMR DB to the CM Settlement Body for Metering, Aggregation and DSR Component reallocation processes. We will continue this work for other scheme processes with the aim to remove complexities in data transfer, reduce system interface inconsistencies and provide more clarity and visibility on process roles and responsibilities for Capacity Providers.



# ENHANCED ADVISORY SERVICES

2

# Enhanced advisory services

## Our role in Net Zero as a trusted advisor to Government

2

**The Net Zero challenge will require the decarbonisation of much of the wider economy, going well beyond our original footprint within the electricity sector.**

This challenge has led the Government to build on the success of the Contracts for Difference (CfD) scheme. The CfD is a private law contract that has successfully brought in a wide range of investors and has enabled a growing and diverse renewable technology energy mix.

The Government regards us as a key trusted advisor, seeking our guidance and independent advice, as the CfD counterparty, on:

- policy proposals to decarbonise a range of sectors of the economy
- drafting those proposals into a contract
- business model design
- how to operationalise and implement schemes, including financial settlement, forecasting and levy collection.

This advice has been sought across an increasing number of policy areas and has been vital in ensuring these complex policy instruments can be delivered quickly, are at least cost to the consumer and are operationally deliverable. Given our experience in implementing schemes, we were able to advise on the deliverability of various options and their impact on market operation and sentiment. Our advisory services have continued to expand this year, and while they have generally led to additional new roles, we are not limited to providing advice on schemes that have the potential to offer an implementation or delivery body role.

### CfD

We have been supporting DESNZ on evolving the CfD which has been instrumental in the successful signing of 92 contracts in AR5 and the ongoing delivery of AR6. We have also contributed to the development of the Sustainable Industry Rewards proposal, which will provide additional revenue support, through a top-up to offshore wind developer CfD payments to developers who invest in the economic, social, and environmental sustainability of their supply chains as part of their CfD. Furthermore, we have supported the development of the hybrid metering proposals for the AR7 DESNZ consultation, which could utilise metering to enable more innovative business models for the co-location of assets with the CfD generation.

We have also supported DESNZ in the iteration of contract design, including guidance for reducing barriers to co-location with batteries and developing an AR7 consultation to further reduce metering related barriers to co-location more broadly. By capitalising on our contractual experience and our wider commercial insights, we aim to ensure contractual provisions are as simple and clear as possible, striking a balance between policy objectives for value for money, an appropriate level of risk being held by the projects, and a proportional contractual burden on counterparties and LCCC.

Another example is the future-proofing of contracts against industry changes and to support carbon removal technologies needed to meet Net Zero. For instance, advising on development of a carbon CfD to support GGR and power BECCS deployment to leverage the development of negative emissions (credit) markets which could result in additional revenue streams. We have been advising on how to track and take into account these revenues in the simplest way possible. The aim is to ensure value for money for consumers and taxpayers, attract private investment into carbon removal sectors, and ensure appropriate incentivisation for projects to participate in negative emissions markets.

### Electricity market design

We are advising on issues relevant to the CfD and CM schemes which are set out in the Government's second consultation on the Review of Electricity Market Arrangements (REMA).

Over the past year, we have also supported the Offshore Transmission Network Review (OTNR), led by DESNZ and Ofgem. The OTNR will allow the offshore energy sector to transition at the pace required to deliver Net Zero and allows the potential for exciting new arrangements in the CfD scheme, such as Multi-Purpose Interconnectors. We have been contributing our expertise in the operation of the CfD and how it could interact with new network arrangements.

Finally, we are also supporting the energy industry by starting to transition our settlement system to align with Ofgem's Market-wide Half-hourly Settlement programme. This will ensure we are taking the lead with industry standards while also delivering consumer and technological benefits to the wider economy.

### Dispatchable Power Agreement (DPA)

The DPA is a private law contract developed by DESNZ to incentivise private-sector investment in natural gas fired power generation plants that can deploy conventional technology alongside industrial-scale carbon-capture plants, to capture the waste CO2 normally emitted during the electricity-production process. The DPA will incentivise so-called 'mid-merit' operation, after lower cost and lower carbon generators like wind or nuclear but before higher carbon unabated thermal generation plant. This will provide flexible low-carbon power for energy security, essential to decarbonising the electricity grid by 2035. The DPA will form the contractual relationship between generators and LCCC, in much the same way as the low-carbon electricity CfD does.

As the designated counterparty to this new contract, we have been advising on detailed terms as DESNZ prepares to negotiate the first Power CCUS contracts. Our role has been vital in ensuring contracts are both workable and fair. The projects that form the Track-1 Project Negotiation List include Net Zero Teesside Power Limited, aiming to be one of the first commercial scale gas-fired power stations with carbon capture.

### Industrial Carbon Capture (ICC) and Waste ICC agreements

The ICC and Waste ICC agreements are also private law contracts that seek to incentivise a range of industries such as cement, refining, chemicals and energy from waste, to deploy carbon-capture technology that will capture CO2 emissions for geological storage, instead of emitting to the atmosphere. Though the agreements are based on the CfD, there are several differences, including payments being based on tonnes of CO2 captured and stored. These agreements will form the contractual relationship between emitters and LCCC.

We have been advising Government on the detailed terms of the ICC/Waste contracts. In March of 2023, there were several ICC and Waste ICC projects on the Track-1 Project Negotiation List across both the East Coast Cluster and the HyNet Cluster covering industrial emitters like cement and lime manufacturers, Hydrogen production, and waste processing.

### Revenue Support Agreement for CO2 Transport and Storage

The Revenue Support Agreement (RSA) is a mechanism intended to provide mitigation against demand-related risk of shortfall in actual revenues earned by Transport & Storage Companies (T&SCo) for carbon and hydrogen. The RSA will allow a T&SCo to recover a shortfall in its Allowed Revenue or – where the first user is delayed in joining the T&S network – unavoidable operating expenditure and allowed cost of debt.

LCCC will act as the RSA counterparty, subject to parliamentary approval of the relevant secondary legislation following the Energy Act 2023 and implementation of the RSA counterparty designation process. In the event of a shortfall, we will evaluate evidence and calculations submitted by the T&SCo, make arrangements for the collection of money from the Treasury and make payment to the T&SCos. Our experience as settlement body for the CfD and CM has been vital in ensuring the comprehensive design of this scheme is viable and achievable. Our work on the RSA has informed further engagement with DESNZ regarding the development of a revenue support model for the transport of Hydrogen.

### Nuclear Regulated Asset Base (RAB)

The Nuclear Energy (Financing) Act 2022 makes provision for the implementation of a Regulated Asset Base (RAB) funding model to finance new nuclear energy generation projects. The Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023 made under the powers in Part 2 of the Act, set out the detailed mechanics of how the revenue stream would operate under the model.

In March 2022, LCCC were named as the settlement agent for the RAB scheme and over the past year we have been implementing the requisite operational processes in anticipation of the Final Investment Decision for Sizewell C, later in 2024. The Nuclear RAB scheme builds on our experience of levying funds from suppliers to pay for the CfD and CM.

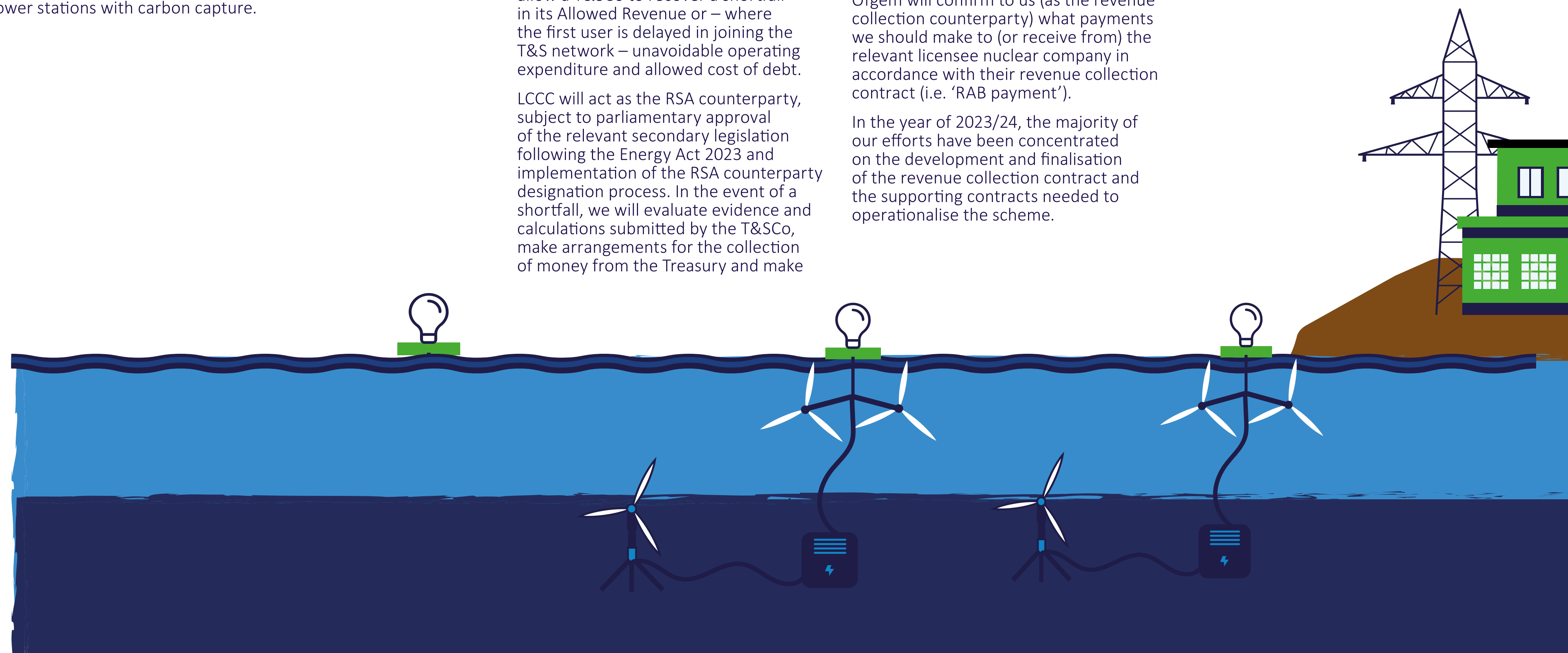
We will perform the role of revenue collection counterparty, channelling funds between electricity suppliers and relevant licensee nuclear companies. Ofgem will confirm to us (as the revenue collection counterparty) what payments we should make to (or receive from) the relevant licensee nuclear company in accordance with their revenue collection contract (i.e. 'RAB payment').

In the year of 2023/24, the majority of our efforts have been concentrated on the development and finalisation of the revenue collection contract and the supporting contracts needed to operationalise the scheme.

### Low Carbon Hydrogen Agreement (LCHA)

The Low Carbon Hydrogen Agreement, the contract underpinning the Hydrogen Production Business Model (HPBM) is a private law contract between hydrogen producers and the Counterparty LCCC. The objective of the Hydrogen Production Business Model is to incentivise the production and use of low carbon hydrogen. The contract offers both price and volume support across a range of hydrogen production pathways, including electrolytic and CCUS-enabled Hydrogen ('green' and 'blue' Hydrogen). Producers will need to meet the UK Low Carbon Hydrogen Standard (LCHS) to qualify for support.

We have been involved in the development of this business model from the outset, advising on key design elements such as the variable premium payment mechanism. As Government has sought to accelerate the delivery of hydrogen, we have also been advising on the detail of the contract. LCCC were designated Counterparty to the Hydrogen Production Business Model in January 2024. The results of the first Electrolytic Hydrogen Allocation Round (HAR1) were announced by the Government on 14 December 2023, with 11 projects totalling 125MW from across the UK entering into the final stage of negotiations, following which LCCC will be directed to offer contracts.



**APPROXIMATELY 2.3M TONNES EQUIVALENT OF AVOIDED CO2 FROM THE CFD PORTFOLIO**

# Enhanced advisory services

## Our role in Net Zero as a trusted advisor to Government

2

### Hydrogen Certification

LCCC has been named by DESNZ as the preferred UK LCHS Certification and issuing body.[6] This represents a diversification in our capabilities and role in leading the UK's decarbonisation journey. Certification is a low cost means of underpinning investor confidence in low-carbon hydrogen through objective data reporting and verification.

We have been working with DESNZ to develop and implement the scheme and have contributed to policy design including the scope of a mass balance chain of custody, monitoring and reporting frameworks and interactions with international certification schemes. Key to delivery of the scheme, and at the forefront of both policy and implementation decisions, is the procurement of an automated data collection and certification management system. This system will enable enhanced data sharing across multiple parties within one eco-system, underpinning guarantee of origin of Low Carbon Hydrogen.

### Power Bioenergy with Carbon Capture and Storage (BECCS)

The Power BECCS model is at the forefront of the UK's efforts to harness negative emissions technologies, with the potential to significantly contribute to Government's Net Zero by 2050 target. This model, underpinned by a 'dual CfD' structure for both electricity and carbon, is designed to incentivise the generation of renewable energy while capturing CO2, aiming to deploy ambitious contributions toward the UK's Nationally Determined Contribution (NDC) target by 2050 and the Sixth Carbon Budget (2033-37).

We have supported DESNZ on the development of this business model, drawing on our deep knowledge of CfD-backed business models and commercial expertise. Participating in regular working groups with DESNZ, We have been advising on key design elements such as the payment mechanism including in relation to the treatment of negative emissions and reference prices, and sustainability criteria.

### Greenhouse Gas Removals (GGR)

The GGR Business Model is a key component of the UK's strategy to develop scalable solutions for engineered greenhouse gas removal, essential for offsetting emissions from hard-to-decarbonise sectors. With a vision to deploy potentially 75-81 MtCO2/year of engineered removals by 2050, this model is poised to create new jobs and economic opportunities while contributing significantly to the UK's Net Zero targets.

We have supported DESNZ on the development of the GGR business model, participating in regular working groups with DESNZ, and advising on key design elements, reporting and verification requirements and other contractual mechanisms that offer viable operational delivery in this emerging sector. We have also been supporting DESNZ on business model stakeholder engagement activities.

### Further advisory areas

As outlined above, our extensive experience in the delivery of CfD based and new schemes consistently positions the business as independent, trusted advisors to government. Over the past year we have leveraged operational expertise to advise on the design and development of the proposed Hydrogen storage business model and Hydrogen transport Revenue Support Mechanism. In addition, our teams continue to engage and advise government across a number of areas including Hydrogen to Power, Sustainable Aviation Fuels and Long Duration Electricity Storage.

6 UK LCHS Certification and issuing body: https://www.gov.uk/government/consultations/uk-low-carbon-hydrogen-certification-scheme



# New business delivery

## LCCC's role as a counterparty and settlement agent

3

### LCCC is growing rapidly

LCCC's implementation portfolio and pipeline has potential new schemes grown significantly in recent years.

The success of the CfD as a mechanism for achieving the UK's Net Zero ambitions means its use continues to expand beyond low-carbon electricity. In addition, our performance and expertise has resulted in DESNZ identifying LCCC as the preferred or designated counterparty or settlement agent for several new schemes.

The delivery of these schemes furthers low-carbon energy generation goals as well as enabling the establishment of two key low-carbon markets central to the UK's Net zero strategy:

1. Carbon Capture, Usage and Storage (CCUS), and

2. Low-Carbon Hydrogen.

Taking on a number of roles relating to the CCUS and Hydrogen ecosystems enables us to leverage our capabilities, knowledge and experience as well as achieve delivery synergies which benefit the market and ultimately create value for money for consumers. We are proud to play a critical role in building these nascent markets.

As noted in the previous section, we have supported and will continue to support the development and implementation of these schemes through advisory work to DESNZ. We also have a strong pipeline of active and emerging opportunities which we will continue to support at the request of DESNZ, in line with our Framework Document.

### We continue to evolve our ways of working to enable growth and agility

With the award of implementation funding from the Government, we have continued to grow dedicated teams to ensure the successful delivery of systems and contracts for the schemes we have been designated to administer and manage.This includes the establishment of our Business Development team and a New Schemes Portfolio team to enable us to maintain strategic oversight of our growing portfolio of work.

Given this rapid growth and significant pipeline of opportunities, we have strengthened our governance around the assessment and approval of new schemes, to ensure that we take on the right things, at the right times, and ultimately set each scheme up for success. We have also integrated our implementation portfolio and pipeline management to ensure a more comprehensive and structured approach to our growth. Key principles of our business development approach are:

1. **Strategic alignment** - ensuring we take on new schemes that align with our Net Zero ambitions and effectively leverage our capabilities.

2. **Business readiness** and due diligence – identifying operational requirements, impacts on our people and broader portfolio, and implementation risks.

3. **Team engagement** and visibility – ensuring shared awareness of what might be coming, and when, so teams can proactively manage the change impacts.

We continue to invest in a number of cross functional enabling capabilities to support efficiencies and delivery excellence through our growth journey – such as the development of our Tech Hub and investment in our Head End System (HES). The HES will act as a central repository for all metered and self-submitted data to ensure a consistently managed stream of validated and formatted data to perform our functions in an accurate, timely and low cost way. We have created strong digital foundations for contract management, settlement services and data management of our new schemes.

Though this period of growth is exciting and meaningful, each new scheme has significant change impacts on our people and operations – and we know we will need to continue to monitor progress closely. People leadership, cross-functional communication, employee wellbeing and engagement remain our priority– and we were pleased to see these positively reflected in our People Survey results.

Finally, we have a number of focus areas going forward, which include the development of a more proactive business development strategy, and a number of indicators to guide the pace of change of our growth alongside continuing to refine our operating model.

### Spreading the message – engaging new stakeholders

As our portfolio diversifies, so do our stakeholders across new sectors. In preparation for implementing new roles, we have been contacting key new stakeholders to raise awareness of our new roles and to learn about their challenges and how we can support them through the scheme milestones. Key targets have been industry trade bodies, such as UK Steel, CCSA, Hydrogen UK, Energy UK; industry including the Crown Estate, UKIB to name a few; and project developers who potentially could be our counterparties.

Key activities this year have included teach-in sessions on the LCHA with Industry Bodies, Investors and Developers including the 11 projects announced by the Government as part of the first Hydrogen Allocation Round (HAR1). We have also held bespoke teach-in sessions on the CfD and future schemes to a variety of stakeholders including Energy UK, Santander, Standard Chartered Bank, think tanks and Brookfield.

LCCC colleagues across the business have also participated in various industry conferences in relation to the LCHA, DPA and ICC contracts, such as the UK CCUS & Hydrogen Decarbonisation Summit and the CCSA Annual Conference. Many of which we were invited to speak at raising our profile as a counterparty and strengthening the overall message from the Government. Our new business team has also undertaken site visits, such as a trip to see Keadby Power Station in Doncaster.

**Note**: Where we are named as Counterparty but not yet designated, the role is subject to the successful completion of administrative and legislative arrangements.

### A summary view of LCCC's portfolio and new roles

| | |
|---|---|
| **Existing schemes in delivery** | • Contracts for Difference |
| | • Capacity Market |
| **New schemes in the implementation phase (and LCCC's role)** | • Dispatchable Power Agreement: Counterparty and settlement agent – DESNZ named LCCC as the preferred Counterparty in the April 2022 business model summary and consultation paper. LCCC are designated via the Energy Act 2013 legislation. |
| | • Regulated Asset Base for New Nuclear: Revenue collection counterparty – Designated 6th June 2022. |
| | • Industrial/Waste Carbon Capture: Counterparty and settlement agent – DESNZ named LCCC as the preferred counterparty in the December 2022 business model summary, and LCCC is expected to be designated during 2024. |
| | • Low Carbon Hydrogen Agreement (LCHA): Counterparty and settlements agent – Designated in January 2024. LCCC will soon be directed to offer contracts with hydrogen projects located across the UK, which were announced by the Government on 14 December 2023. |
| | • Hydrogen Certification: Delivery body – DESNZ named LCCC as the preferred delivery body in the October 2023 DESNZ consultation response. |
| | • Revenue Support Agreement for Carbon Capture Transport & Storage: Counterparty and settlement agent – DESNZ named LCCC as the preferred counterparty in the June 2023 business model update. Secondary legislation is intended to be passed and LCCC to be designated during 2024. |
| **Active opportunities we are advising on and / or assessing through internal governance processes** | • Hydrogen Gas Shipper Levy |
| | • Hydrogen Storage |
| | • Hydrogen Transport |
| | • Power Bioenergy with Carbon Capture (BECCS) |
| | • Engineered Greenhouse Gas Removals |
| **Further examples of potential emerging opportunities** | • Long Duration Electricity Storage |
| | • Sustainable Aviation Fuels |
| | • Hydrogen to Power |
| | • Competitive Allocation Models – H2, DPA, CCUS |

# OUR PEOPLE

# Our People

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

During 2023/24, we have developed a Culture Book. This replaces our Employee Handbook. It articulates our culture and values as well as outlining the key touchpoints in the employee lifecycle from onboarding to offboarding – the employee value proposition. We have also extensively updated and refreshed the People Policies previously embedded into the Employee Handbook. These are now standalone documents which provide guidance and clarity for both managers and employees around key People processes.

## Attraction and retention

We continue to develop our employer brand to attract the right talent into the organisation. Our philosophy is to offer everyone in our company the opportunity to develop and grow. We recognise this can be challenging in a small company and this is why we have taken steps to ensure we continue to develop career paths for our people through talent mapping, succession planning and creating job families to provide opportunities for development, growth and progression. In the previous year, we invested heavily in our talent acquisition function, which has supported the continuing growth in 2023/24. With this investment our headcount grew to 200 employees. The average time to hire was 39 days, which is below the target 49 days we set for all recruitment.

## Graduate scheme

With the continuing growth of the company, we recruited 4 graduates for the newly launched graduate scheme to develop an internal pipeline of talent to support the future growth of LCCC. The graduates are undertaking rotations across 4 Business Units: CfD, Bespoke and New Schemes, Operations Hub and Strategy & Development. The graduate scheme provides the opportunity to accelerate learning for early career colleagues to build their industry knowledge and skills.

## Rewarding our people

Innovation is central to our company, and we encourage our people to contribute new ideas and solutions for continuous improvement and to enhance our Expert Advisory status both internally and externally. Throughout 2023/24, we have recognised and celebrated those employees who have innovated across the company and demonstrated our values. We have continued this in our monthly All-staff meetings and annual Values Recognition Awards. Colleagues and managers also have the opportunity to recognise and reward colleagues via the WOW points recognition scheme and the shout outs on the People First HR portal. We have continued our internal change programme focussing on creating an organisational structure which is agile and provides opportunities for development and internal progression as LCCC continues to grow. This helps the business to respond to our stakeholders in a rapidly changing environment, now and in the future. We regularly salary benchmark our reward structures against the market to ensure we are a fair employer, while at the same time operating to appropriate company and individual performance measures.

## Our workforce

Our highly skilled workforce is one of our key strengths, and we want to be a place where people feel engaged and inspired to be their best. Our five values sit at the heart of this, to enable a culture that will achieve our strategic objectives. During 2023/24, we employed 200 permanent employees and fixed-term employees. With continued growth of our business operations, we have filled 117 vacancies this year (temporary and permanent), which include 26 internal promotions and lateral moves.

## Employee engagement

The most recent employee-engagement survey was conducted in February 2024. We have maintained a high response rate of 95% following headcount growth since 2023 and changes to team and Directorate structures have meant that our employees, both existing and new joiners, are experiencing and adapting to an evolving Company environment.

In 2023 the engagement score peaked at 86%. This year it has dropped back to match the 2022 score of 78%, which remains aligned to the external benchmark for similar sized companies.

Our employees continue to recognise that LCCC is a good place to work:

- 92% said they resonate with the purpose of LCCC, which is 30% higher than the external benchmark.
- 91% said they care about the future of LCCC.
- 89% said their manager treats them fairly and with respect.

The highest scoring questions which remain well above the external benchmark are:

- 75% said they have the right opportunities to grow and develop which is 16% above the external benchmark.
- 78% said they have the opportunity to take part in training and development they need to do their jobs which is 13% above the external benchmark.
- 70% said the Senior Leadership Team make the effort to listen to staff which is 12% above the external benchmark.

Specific changes which have been implemented and made a positive impact since the 2023 survey include: more internal communication on actions taken in response to employee feedback such as employee wellbeing and greater access to the Senior Leadership Team.

Insights from the survey data reveal that areas to address are: revisiting and embedding the organisational values into the company culture; improving cross functional communication and collaboration; continuing to build SLT to employee connection.

## Our values


## Investing in our people – LCCC, a learning organisation

We empower our people to develop themselves and their teams, providing tools to boost career development and growth. As a learning organisation, we support staff in developing their skills and capabilities. In our recent engagement survey, 75% of employees agreed they have the right opportunities to learn and grow at work.

In 2023/24, we built on our learning and development curriculum, continuing to give our people the business and industry-sector skills they need. LinkedIn Learning was a good source of knowledge for us, with 4,327 learning videos viewed by over 150 active users. 350 learning requests were also processed to accommodate individual learning needs and requirements. In addition, we have developed a new learning and development strategy in preparation for FY 2024/25. The new strategy advocates the importance of personal development plans and the 70/20/10 approach to learning. A number of L&D roadshows were run across Q4 2023/24, inviting all employees to find out more about the new strategy as well as give them an opportunity to provide input and ask questions.

## Equity, Diversity and Inclusion (EDI)

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

We are committed to helping everyone be at their best by creating a sense of belonging and valuing the individuality and uniqueness of each colleague. We want our people to feel they can be themselves at work. As we continue to grow, we continue to embed and harness diversity and inclusion in all areas of our practice. This year, we have sought to create a more diverse and inclusive culture by defining what inclusive leadership means at LCCC and rolling out inclusive culture training across the business with a focus on bias, equality and fairness.

As at 31 March 2024, we had 28 different nationalities represented by our employees, and an even wider range of backgrounds, skills and experience. Approximately 43.5% of our staff are from an ethnic minority background which is a 5.5% increase from 2023. Approximately 47.5% of our staff are female, a significant increase of 9.5% from 2023; 33% of our senior leadership team are female; 50% of our Board members are women, which remains unchanged from 2022/23. We are proud to have such a diverse workforce and continue to actively support diversity and inclusion in our business to ensure we have the right people, with the right skills in the right roles.


*Our Learning and Development Strategy*

## Gender and ethnicity pay reporting

While we are proud of our record on diversity, we are committed to further improving the gender and ethnicity balance across our business. We also voluntarily report on our gender and ethnicity pay practice in support of, and using a methodology similar to, UK Government reporting requirements that look at the differences in hourly pay between men and women and between ethnic minorities and white employees.

The median pay gap is calculated by finding the exact middle point between the lowest and highest paid male in the business and the lowest and highest paid female (by hourly pay). The two figures are then compared. The mean pay gap is calculated by adding up the hourly pay of all the women in the business and dividing by the number of women. We then do the same sum for men and compare the two figures.

**It is important to remember, although the workforce has grown rapidly since last year it remains a smaller workforce (less than 250 employees), so small changes in male or female and ethnic or white minority employee distributions can still have a significant impact on the pay gaps. Once LCCC reaches a headcount of 250 employees, the company will be required to report and publish gap statistics on the company website in line with the Equality Act.**

# Our People

### Gender pay gap

The data is correct as of 31 October 2023.

The mean gender pay gap has decreased by 3.9% to 17.7% in favour of males, since April 2023. The median pay gap decreased by 0.1% in favour of males since April 2023.

The gender pay gap is due to LCCC employing a lower proportion of females in senior roles and a higher proportion in entry level, lower to middle paid positions. Progress has been made since April 2023, when 80% of roles in the top half of the organisation were held by males, this figure decreased to 68% by October 2023. This is a result of the increase in females into the upper middle quartile, specifically at the Senior Heads of Team, Heads of Teams and Lead levels. There are now 3 male and 2 female Senior Heads of Teams compared to April 2023, when the group was all male. There have been 2 females appointed to Heads of Teams, increasing the total to 3. 5 females have been appointed to Lead level roles which has improved the gender balance meaning that there are 8 females at Lead levels compared to 10 males. These appointments have resulted in a decrease in the overall gender pay gap.

A more balanced distribution will result in the gap closing. Overall, while LCCC's pay gaps remain higher than the sector mean, it is lower than the sector median.

### Ethnicity pay gap 2023

The data reported is correct as of 31 October 2023.

LCCC's ethnicity distribution shows that 59% of the workforce was from a white background, 40% was from an ethnic minority background, and 1% did not declared their ethnicity.

Our ethnicity pay gap has been affected by two key trends:

(i) an increase in the workforce at the entry and junior levels and

(ii) changes in ethnicity balance at the more mid-senior levels.

Between April and October 2023, we successfully increased the number of ethnic minority employees in higher positions and this has led to the falling pay gap in that period. The mean ethnicity pay gap decreased from 24.2% to 18.4% and the median from 14.7% to 13.6%.

Whilst the company is pleased by this progress in representation and advancement, most higher paid positions in the top half of the company are still held by white employees and the ethnicity pay gap will endure if this remains the case.

### How are we addressing the pay gaps

To help address the pay gaps we continue to focus on developing internal talent which has led to 18 promotions (up to 31 October 2023), of which 8 were female and 10 were colleagues from ethnic minority backgrounds. We are also harnessing female talent across the business through the Women in STEM network group.

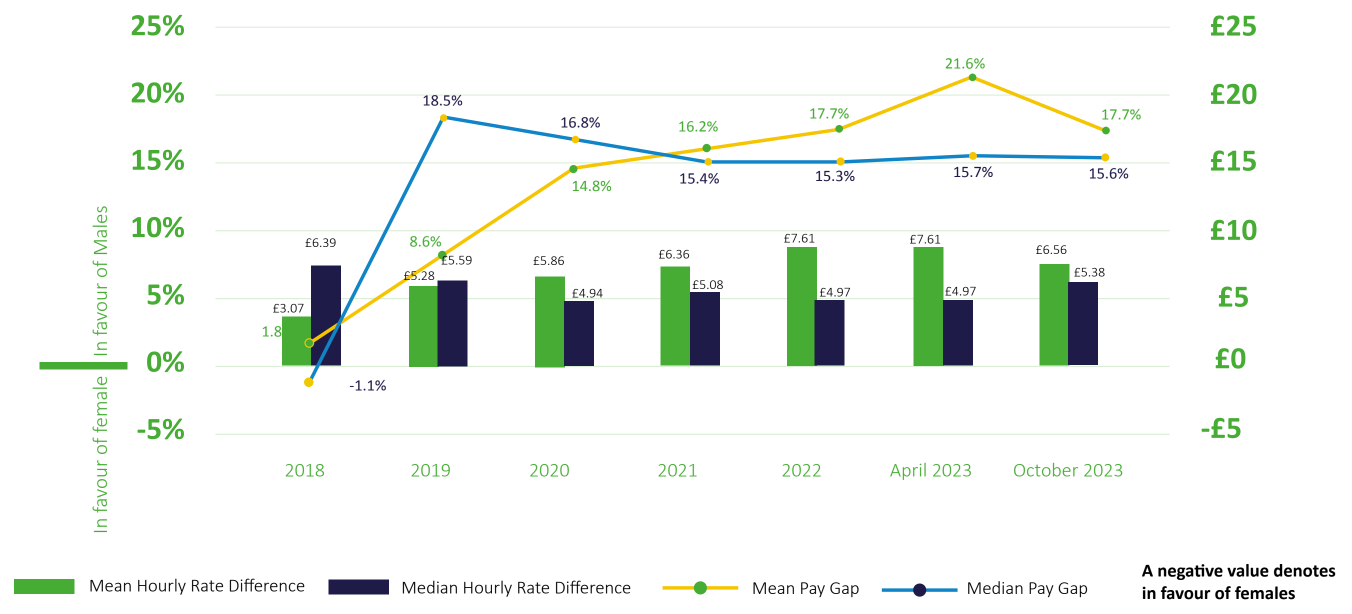
### Corporate social responsibility

We are committed to having a positive impact in the communities where we work and live. Through our company volunteering scheme, we encourage staff to support a charity or community group of their own choice, or to support our charity partner, Renewable World (RW), which tackles poverty through renewable energy. The LCCC IT team sold old IT devices for re-use and donated the proceeds of £1,050 to RW. The IT team also donated 6 devices directly to a charity for re-use.

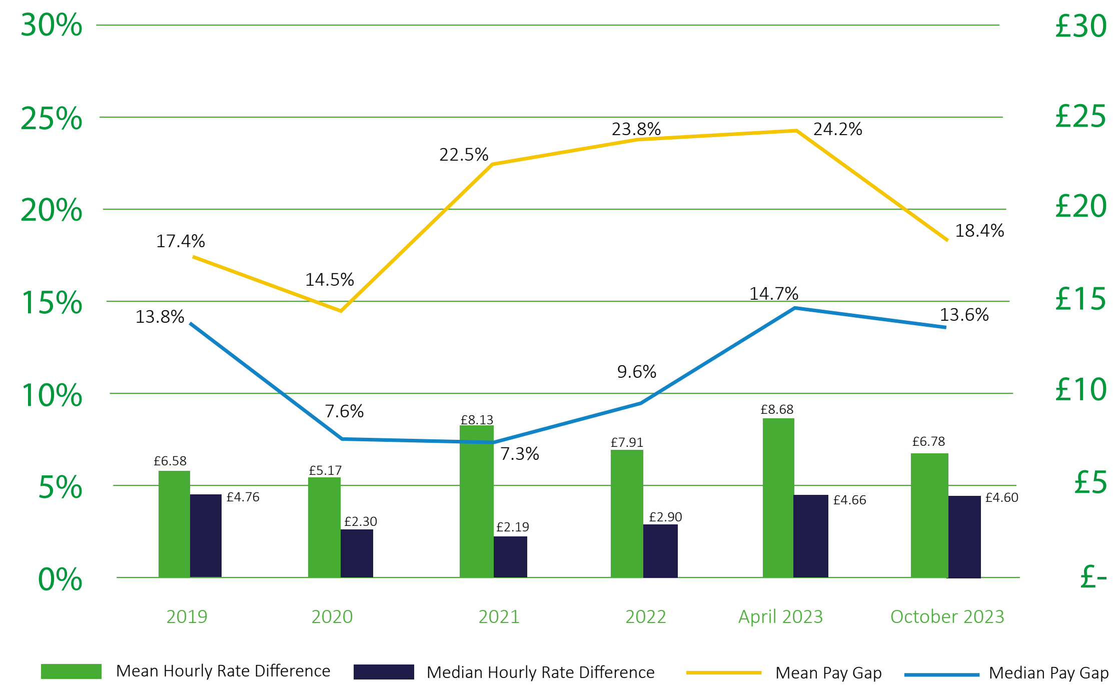
In addition, over the year, colleagues donated their time and resources to initiatives by other not for profit organisations such as:

- setting up libraries and reading rooms to support the education of disadvantaged children in Kenya, India and Nepal;
- donating blood plasma to help make life saving medicine to treat rare immune diseases via an NHS programme;
- supporting the Gardening Community team at the Westway Trust, near Grenfell, by weeding and preparing large flowerbeds for 1000 plants to be planted;
- sorting and preparing surplus food for delivery by the Felix Project. A charity which enables food that cannot be sold to be provided to the most vulnerable in our society (food waste causes between 8 and 10% of emissions responsible for global warming).
- delivering a Masterclass ("Preparing for Work") and conducting face-to-face mock job interviews for students from disadvantaged backgrounds at Barking and Dagenham College Rush Green Campus, to help prepare them for summer internships.

## Gender Pay Gap Trend




## Ethnicity Pay Gap Trend



# PERFORMANCE OVERVIEW

# Performance overview

## Key Performance Indicators (KPIs)

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

- **Value for Money**: opex and capex budget management; levy performance.
- **Stakeholders:** performance against an index derived from results of our annual stakeholder survey; engagement activity and performance against a behavioural indicator score for key stakeholder groups.
- **Operations:** delivery of our contract-management obligations (including management of non-standard requests); accuracy and timeliness of CfD and Capacity Market settlement invoices and notifications; time, budget and benefit management of internal change projects; meeting of AR4 and AR5 deadlines; performance of the settlements effectiveness index.
- **People:** employee engagement, as evidenced by our annual survey; delivery of activity identified by an independent review.

We also deliver **strategic initiatives** represented by the fifth business dimension – Development. In 2023/24 we worked on three areas:

- **Delivering operational excellence** (Project Zero for contract management process automation, settlement system foundations for new schemes, enhanced policy advisory functions).
- **Information, insight and intelligence** (elevating our data and forecasting management).
- **Future proofing the business** (developing our people, office plan for growth, refreshed impact assessment framework for new schemes).

Our performance against the metrics described above is summarised in the table below. The only KPI with a red status is "% of Change Portfolio projects with 'green' closure status". The KPI was updated for 23/24 to make it more challenging. Previously it only measured performance against a deadline i.e. time, whereas in 23/24 it considered cost and quality factors as well. Although it measures outcomes, the intent when designing the tougher KPI was to improve how outcomes are achieved so lessons can be learned in readiness for increasing complexity of projects within our portfolio associated with delivery of new schemes. It has led to the refinement of gateway reviews and resourcing so we are well prepared for future change delivery.



**45%**

**the number of CfDs managed by LCCC grew in the financial year and LCCC has been confirmed as the counterparty or advised on a number of levy and non-levy funded schemes.**

# Performance overview

## Key performance indicators (KPIs)

| Strategy dimension | Performance measures | Result against target |
|---|---|---|
| **Value for Money** | Operating costs actuals variance to first forecast of the financial year (excl. disputes and demand contingencies, and adjusted by events beyond company control) | Target: ≤7%<br>Result: 5% |
| | Capital costs actuals absolute variance to first forecast of the financial year<br>(Subject to DESNZ maintaining capex funding as required/requested, and adjusted by events beyond company control including scope change required by DESNZ) | Target: ≤20%<br>Result: 4% |
| | Levy performance – assessment of delivery excellence, flexibility and innovation in our forecasting | Target: 100%<br>Result: 100% |
| **Stakeholders** | Stakeholder satisfaction index | Target: ≥80%<br>Result: 84% |
| | Percentage of key stakeholder groups engaged with | Target: ≥75%<br>Result: 68% |
| | Top Down Net Promoter Score/ Behavioural Indicator score from key stakeholder groups | Target: ≥8<br>Result: 9.07 |
| **Operations** | % of LCCC's (response) notices for standard contractual processes delivered within the contractual timescales | Target: 100%<br>Result: 100% |



| Strategy dimension | Performance measures | Result against target |
|---|---|---|
| **Operations** | % of LCCC's responses for non-standard requests from CfD generators delivered as per 'case manager' agreed plan, unless delays are due to actions or omissions of the generator or any other third parties | Target: ≥90%<br>Result: 100% |
| | % of Change Portfolio Projects with a 'green' closure status | Target: ≥75%<br>Result: 57% |
| | % of LCCC's contractual deadlines met (AR4 and AR5 – MDD, M&N process, contract signing, and ICPs; all new business contract milestones) | Target: 100%<br>Result: 100% |
| | Settlements effectiveness index – timely and accurate invoices/ payments | Target: ≥99%<br>Result: 100% |
| **People** | % employees engaged as per annual staff survey | Target: ≥85%<br>Result: 78% |
| | Delivery of actions from the People Partners Review – Culture Book and accompanying HR policy update | Target: 100%<br>Result: 100% |
| **Development** | Delivering operational excellence | Target: 100%<br>Result: 100% |
| | Information, insight and intelligence | Target: 100%<br>Result: 100% |
| | Future proofing the business | Target: 100%<br>Result: 98% |

# Financial overview

LCCC is the counterparty to – and is responsible for managing – a large number of long-term CfDs. We fund the payments we make to CfD generators by collecting levies from suppliers. LCCC have been confirmed as counterparty for DPA and Hydrogen Production Business Models and revenue collection counterparty for Nuclear RAB by the Department for Energy Security and Net Zero (DESNZ). LCCC advise Government on a number of other schemes in relation to the drive towards Net Zero.

### CfD Generator payments

We pay CfD generators when the market reference price for electricity is lower than the contractual strike price applicable to the relevant generator. If the reference price is higher than the strike price, the CfD generator pays us the difference. The market dynamics shifted considerably in 2023/24 with electricity wholesale prices easing, as shown by the changing cash flows to or from generators. The total amount of net payments we made to CfD generators for electricity generated in the 2023/24 financial year was £1,864m (2022/23: £16.4m). As the market price exceeded some strike prices this financial year, the total amount of receipts from CfD generators in the 2023/24 financial year was £30.8m (2022/23: £677.4m), while we took £1,895.5m (2022/23 £668.8m) from suppliers.

We obtain the funds we need to make CfD generator payments from a levy we collect from suppliers. We forecast how much money we will need to make these payments and then levy suppliers for these funds under the CfD (Electricity Supplier Obligations) Regulations 2014 (as amended) ('Supplier Obligation Regulations').

The main levy relating to CfD generator payments is called the Interim Levy Rate (ILR) and is set quarterly, three months in advance of the quarter. Suppliers are obliged to pay us a daily amount equal to their eligible demand multiplied by the ILR. This amount is invoiced each working day and must be paid by the suppliers within five working days of receiving an invoice. We, on the other hand, have 28 calendar days to make the payments due to generators (thereby providing a positive cash flow due to timing). We can also issue an 'in-period adjustment' notice, requiring additional funding if it becomes clear that the amount to be collected under the ILR is likely to be insufficient (or to reduce the amount of the ILR if it is clear that there will be an over-collection).

In addition to the ILR, we collect a quarterly reserve, known as the Total Reserve Amount (TRA). This helps provide reassurance that we will have enough money to make CfD generator payments on time. The TRA is the amount we calculate we need to provide a 19 in 20 probability of being able to make all the required CfD generator payments during the relevant quarter, taking into account forecasting uncertainties such as electricity prices.

At the end of each quarter, we calculate the difference between the total net payment to generators and the total amount collected from suppliers under each of the ILR and the TRA. We then return any 'excess' collected to suppliers or, in the case of the ILR, request additional funds if the payment made to the generators in the quarter is higher than the ILR collected. As of 31 March 2024, £103.8m was receivable from suppliers (2022/23: £31.0m payable) as part of the quarterly reconciliation. TRA due to be returned to suppliers is £467.2m (2022/23: £450.4m). Subsequent to the financial year ended 31 March 2024, the unused TRA and the Supplier Obligation Levy payable will be reconciled based on the cash payments received from generators in the next quarter.

We collect credit cover from suppliers for 21 days of ILR payments to protect against supplier default. As of 31 March 2024, we held £58.4m (2022/23: £48.4m) of credit cover.

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

### Operational costs (schemes under Energy Act 2013)

Our day-to-day operational costs are funded by suppliers under the 'operational costs levy' set out in the Supplier Obligation Regulations. The Supplier Obligation Regulations are amended by Parliament, after public consultation, to update the operational costs levy rate applicable to the relevant financial year. The operational costs levy for 2023/24 has been set at £0.0994/MWh (which represents an expected budget for operational costs of £27.0m based on the estimated volume of eligible electricity demand in Great Britain in the financial year).

The operational costs levy for 2024/25 has been set at £0.1089/MWh (which represents an expected budget for operational costs of £29.1m)

**Delivery years, budgets, and levy rate**

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

The total operational costs levy collected depends on the actual volume of gross electricity demand. The amount collected for 2023/24 was £26.3m (2022/23: £23.2m). This compares with a net operating cost of £18.2m (2022/23: £13.9m). As a result of operational costs being lower than budget and the higher operational costs levy collected, £8.2m of the total operational costs levy is being refunded to suppliers (2022/23: £9.2m).

We apply robust financial management to ensure our commitments are managed within both our budgeted levels of spend and the timing of the collection of our operational costs levy.

At the same time, there has also been a contribution to our lower cost base as we did not need to use our budgeted MWh electricity volume contingency of £1.5m. This contingency protects us against a potential shortfall should the volume of electricity demand (that is, the electricity actually supplied in the year) be less than that estimated when the operational costs levy was set. This is necessary as the operational cost budget is collected on a fixed £/MWh basis and, if MWh volumes of electricity supplied fall, the level of operational costs levy income collected will also fall.

We share resources, such as office accommodation, with ESC. We pay for these, with the proportion of the costs relating to the Capacity Market being recharged to ESC, as further set out in note 2.5 to the financial statements.

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

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

### Valuation of CfDs (excluding Hinkley Point C)

The estimated net discounted value of CfD transactions we may be required to pay out over the life of a standard CfD (normally 15 years) is £32.6bn (2022/23: £24.9bn). Of our total portfolio of CfDs, £2.9bn (2022/23: £2.6bn) is the value for those expecting to pay us over their standard life, and £35.5bn (2022/23: £27.5bn) for those where we will pay the generator. The decrease in liability is primarily due to a lower discount rate, changes in the short- and long-term outlooks for electricity prices and the termination of some AR4 contracts. The actual cash payments made to generators over the life of the contracts will vary, depending on various key matters, such as projected wholesale electricity prices, commissioning dates for generation and the average load factor for each generator. Further details relating to the treatment of the valuation of CfDs are set out in note 23 of the financial statements.

### Valuation of Hinkley Point C CfD

We entered into the Hinkley Point C CfD on 29 September 2016. This project has a maximum lifetime generation cap of 910TWh. The duration of Hinkley Point C's CfD is, at 35 years, more than double the length of other CfDs we enter into (normally 15 years).

The estimated discounted value of payments we may be required to pay out over the life of the contract is £56.5bn (2022/23 £59.6bn). The reduction in liability from 2022/23 is primarily due to lower discount rate, delay in HPC expected start date and the increased probability that Sizewell C will be constructed. The status of Sizewell C is relevant because a clause in the contract provides a downward Strike Price adjustment if Sizewell C is constructed.

# Financial overview
(continued)

## Viability statement

Our directors have assessed our viability and prospects over the next three years. In doing so, they have undertaken a thorough assessment of our current position, the emerging and principal risks we face, and the potential impact of these risks on our future prospects and development (including those that would threaten our business model, future performance, solvency or liquidity). The directors consider our company to be viable for at least three years up to March 2026.

The operational costs levy is set for the current year (to March 2025). This is part of a three-year budget (2023/24, 2023/24 and 2024/25) that was publicly consulted on and came into full legal effect (The Electricity Supplier Payment (Amendment) Regulations 2022) on 1 April 2022.[7] Beyond March 2025, in the absence of any further amendment to the regulations, the prevailing operating costs levy rate will continue.

The financial arrangements relating to our company minimise the risk of being unable to meet our liabilities. As set out in the Financial Overview, we are not obliged to make payments to generators and suppliers unless and until we have the funds to do so, and the annual budget for our operational costs will roll forward each year until the passing of regulations sets a new budget. We also apply prudent financial management and robust financial forecasting and cash-flow procedures to ensure our operating costs are covered by our operational costs levy.

In addition to the operational cost levy, HMT and DESNZ have agreed future Grant in Aid funding in principle, and the exact amount is confirmed on an annual basis during business planning.

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

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

7 www.legislation.gov.uk/uksi/2022/401/pdfs/uksi_20220401_en.pdf



# Risk management – risks affecting the delivery of our objectives

The Board formally reviews the material risks facing LCCC and ensures we are appropriately managed by the Senior Leadership Team (SLT), 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 our risk-management framework, with oversight of the overall effectiveness of the risk-management programme being delegated to the Audit, Risk and Assurance Committee. We have an Assurance and Risk function to provide assurance over controls, including those to mitigate key risks. Assurance and Risk co-ordinates risk-management activity across our company, with regular sessions held by SLT 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.

Our risk-management framework has continued to develop in 2023/24, with Strategic Risk Workshops held during August. This was partly done as a periodic refresh, but also to reflect the embedding of our strategy and growth. Additionally, the Strategic Risk Register was reviewed and revised post the annual Board strategy day held in February 2024 to ensure it reflected the current direction of the business. We have also re-introduced quarterly SLT reviews of the Strategic Risk Register that commence in May 2024.

At operational level, risk management is continuing to be enhanced with updating of the operational registers and further development of an enterprise risk approach, including clear escalation points and operational interdependencies. Risk appetite is now a more active measure, as we seek to differentiate between the risks and opportunities in how we deliver our strategy. Our approach to risk

management is further detailed in the Corporate Governance Report on pages 68 to 76. The assessment of the most significant principal risks considered by the Board are set out below.

## Strategic risks

Our overall risk landscape continued to evolve in 2023/24, 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. A summary of key risk activity and movement since April 2023 is provided below; where appropriate, a risk trend is provided. 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 management – risks affecting the delivery of our objectives (continued)

| Risk | Mitigations | Risk trend |
|---|---|---|
| **Stakeholder Reputation**<br>Our stakeholders may lose confidence in our ability to deliver existing work or to take on new schemes.<br>We may also miss opportunities to enhance our reputation with stakeholders<br>Reputational Risk | • Key stakeholders have been identified, Behavioural Indicator Survey taking place after every meeting.<br>• Regular dialogue with stakeholders on changes via workshops or events.<br>• Early stakeholder engagement and training on the schemes for new entrants via Trade Bodies and counterparties.<br>• Action plans in place following annual stakeholder survey results.<br>• Event feedback to improve event offering.<br>LCCC / ESC experts engaged to support operational and advisory work.<br>• Senior engagement plan with Chair / CEO via the Shareholder programme. | |
| **Operational Cost 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>There may be issues with the sustainability of our funding approach in the future.<br>Financial Risk | • External commitments are not made without funding being in place for the lifetime of the contract.<br>• Regular re-forecasting during the financial year to ensure overall envelope is adequate.<br>• Three-year budgeting and business planning process is now undertaken at a "whole company" level with the ability to split and isolate workstreams between CfD, Capacity Market and "other" operational funding.<br>• Shared costs are allocated according to broad use, and base operational costs levies are set on the assumption that alternative scheme funding & activity are not undertaken.<br>• Monitoring forecast for 25/26 across both levy and Grant In Aid funded schemes and the interrelationships between them. | |
| **Scheme Funding**<br>Where schemes are not directly linked to the ability to raise funds via a levy, LCCC may not be seen as an investible counterparty. In turn this could undermine investor confidence, cross contaminating levy funded schemes<br>Ultimately the decision to invest in a project underpinned by an LCCC contract is for the counterparties, however LCCC plays a key role in ensuring that new schemes are well designed.<br>Financial Risk | • "ICCUS / RSA – Current proposal for a Secretary of State Direct Agreement is equivalent to a Parent Company Guarantee.<br>• Green Hydrogen scheme – early projects are relatively small, and work is progressing towards a green hydrogen levy." | Newly formed Risk |
| **Managing Current & Future Growth**<br>LCCC is experiencing a period of change and growth in both the number of colleagues joining the organisation, as well as the expansion in its existing schemes, new schemes it is implementing, and the opportunities arising through the business development pipeline.<br>Reputational Risk | • Clear CEO objectives and effective cascading mechanism.<br>• Effective company scorecard and governance arrangements.<br>• Current governance arrangements and focus to ensure growth/change is managed; Change Committee, New Schemes Portfolio Board.<br>• Strategic Assessment Framework – being utilised across the business.<br>• Business development process matured and being deployed. | |
| **Changes Within External Landscape**<br>We are unable to anticipate and respond effectively to the competition, the complexity and volume of change in the market.<br>There is wider structural market change (e.g. market consolidation, merchant capacity in renewables) that provides us with opportunities<br>Reputational Risk | • Continued relationship development with key DESNZ policy makers, leading to LCCC / ESC enhancing its "trusted advisor" objective.<br>• Continued operational and strategic dialogue with Ofgem, DESNZ and National Grid re: volume and complexity of change | |

# Risk management – risks affecting the delivery of our objectives (continued)

| Risk | Mitigations | Risk trend |
|---|---|---|
| **Changes Within External Landscape** (continued)<br>We are unable to anticipate and respond effectively to the competition, the complexity and volume of change in the market.<br>There is wider structural market change (e.g. market consolidation, merchant capacity in renewables) that provides us with opportunities.<br>Reputational Risk | • Awareness of market change through liaison with external stakeholders.<br>• Political engagement has enhanced, increasing awareness of LCCC / ESC and the current/future schemes it operates, ensuring that LCCC / ESC are consulted on any prospective policy decisions.<br>• Enhanced reporting from "Policy & Regulation" Team to ensure there is awareness at SLT and across the organisation. | |
| **Organisational Model**<br>We are unable to attract, engage and retain talent and high potential, future proofing the organisational design.<br>We do not actively review and adapt our workforce plan based upon future state, whilst proactively managing individual and organisational development.<br>Through organisational growth we fail to provide role clarity, spans of control and delegated levels of authority.<br>Delivery Risk | • Continual skills gap analysis, capabilities assessment and workforce planning.<br>• Training and Development skills matrix review<br>• Current organisation model which is scalable<br>• Engagement with external provider to advise on changes | |

| Risk | Mitigations | Risk trend |
|---|---|---|
| **Scheme Management & Delivery**<br>Our business model, systems architecture, and controls may not be fit for future, resulting in inefficiencies and late / missed delivery of change.<br>We are not effectively aligned with our external stakeholders to deliver an efficient and cost-effective settlements process.<br>Delivery Risk | • Staff recruitment, training & development, with capability assessment, gap analysis, development plans, coaching and mentoring.<br>• Significant guidance, precedents, and processes to guide the team, capture and retain corporate memory, knowledge sharing / dissemination to reduce key person dependency.<br>• Stakeholder Mapping and Engagement Plans.<br>• Internal / external legal & technical advice<br>• Ongoing monitoring of CFD activity<br>• Active participation in DESNZ Fraud and Error Working Group.<br>• Whistleblowing hotline | |
| **Settlements**<br>We are unable to anticipate and respond effectively to the competition, the complexity and volume of change in the market.<br>There is wider structural market change (e.g. market consolidation, merchant capacity in renewables) that provides us with opportunities. | • Documented governance arrangements with EMRS.<br>• Performance reporting from EMRS.<br>• Strategic dialogue with Ofgem, DESNZ and National Grid re: volume and complexity of change<br>• Joint Assurance framework between LCCC / ESC, EMRS and National Grid.<br>• Engagement with DESNZ at all levels to ensure confidence of delivery timelines and business model changes. | |

# Risk management – risks affecting the delivery of our objectives (continued)

| Risk | Mitigations | Risk trend |
|---|---|---|
| **People**<br>We do not have the sufficient capacity and / or capability to deliver our Strategy. We also may miss opportunities due to delays in obtaining the right skills.<br>We may also fail to sufficiently engage existing staff within the context of business change, resulting in below par performance, disengagement and a potential loss of skills and knowledge through attrition.<br>**People Risk** | • Wide recruitment panel to provide resilience in the recruitment process.<br>• Insights from employee engagement surveys leading to development of action plans.<br>• Annual and periodic salary benchmarking to remunerate to market conditions.<br>• Business wide succession planning to ensure we have people to fill critical roles when these occur.<br>• Code of Conduct and Values.<br>• Workforce Planning linking to strategic direction and needs. | |
| **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>There is a cyber security incident at a key stakeholders or within our supply chain, resulting in loss of our data, our wider reputation or confidence in the schemes<br>**Information Risk** | • Awareness through annual training<br>• Email encryption by exception and Microsoft Office 365 encryption<br>• Microsoft Security Suite for wider software, aligning to ndustry standards<br>• Firewalls, IT security policy, Patching reports, Annual penetration testing, Cyber Essentials Plus accreditation<br>• Data Protection Officer and Data Protection processes<br>• Software to monitor internal activities, RiskExchange to monitor supplier risks.<br>• Disaster Recovery plan, process, and testing. | |



## Effectiveness of our risk management and internal controls

The Head of Assurance and Risk provides an annual report and opinion on our systems of governance, risk management and control, based on the work undertaken during the year, knowledge of the business environment, and the work of other assurance providers (e.g. the National Audit Office). The Head of Assurance and Risk leads on each internal audit review, with co-sourced support from Evelyn Partners, as well as the NCC Group for specialist assurance on cyber security.

Key areas reviewed in 2023/24 include:

- Company Scorecard
- Employee Handbook
- New Business Development
- Digital Development Project Management
- Settlement Scheme – CfD
- Stakeholder and Communications
- User Access

Signed on behalf of the Board

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

11 July 2024




# Environment Report

LCCC is in the ninth year of capturing and reporting the carbon emissions from our activities. We remain committed to minimising the environmental impact of our activities and improving the transparency and accuracy of our emissions reporting performance.

During the 2023/24 financial year, we have continued our rapid level of employee growth – rising from 140 employees as of 1 April 2023 to 200 as of 31 March 2024. This growth is expected to continue for the foreseeable future.

As a result of this increase, office and desk space has increased to accommodate for greater employee numbers. Our hybrid working model has remained the same as previous years post-covid, with employees working in the office a minimum of two times a week, and the remaining days working from home or out meeting stakeholders – the increase in employees has resulted in increased teleworking emissions. However, our combined location and market based average emissions per employee reduced by 5% from FY22/23 to 23/24.

On 1 March 2024 we also opened a second office in Leeds, due to the office only being occupied for three weeks this financial year we have omitted the emissions in this year. Full annual emissions will be included in the 2024/25 report.

## Scopes 1, 2 and 3 Greenhouse Gas (GHG) Emissions

The table below shows a breakdown of our emissions in tonnes of carbon dioxide equivalent, by scope and activity, for the 2023/24 reporting year. The emissions are compared against the previous financial year and against baseline which is the 2017/18 reporting year.

We have followed the principles of emissions reporting as described in the GHG Protocol, streamlined energy and carbon reporting (SECR) and NAO Good practice in annual reporting guidance.

**Breakdown of emissions, by scope and activity, for 2023–24**

| Scopes: | 2017/18 FY | 2022/23 FY | 2023/24 FY | % change against 2022/23 | % change against baseline |
|---|---|---|---|---|---|
| **Scope 1: direct emissions** | | | | | |
| Gas consumption | 35.78 | 0.37 | 0.86 | 133% | -98% |
| **Scope 2: indirect emissions** | | | | | |
| Electricity consumption – Location Based method | 89.45 | 17.40 | 25.84 | 48% | -71% |
| Electricity consumption – Market Based method | 89.45 | 0.00 | 0.00 | 0% | -100% |
| **Scope 3: upstream emissions** | | | | | |
| Waste & Water Disposal | 1.56 | 0.13 | 0.09 | -30% | -94% |
| Business Travel | Data not recorded | Data not recorded | 5.21 | N/A | N/A |
| Teleworking | Data not recorded | 47.70 | 57.96 | 22% | N/A |
| Videoconferencing | Data not recorded | 5.47 | 5.34 | -2% | N/A |
| **Total Scope 1, 2 & 3 emissions (Location Based)** | **126.79**[8] | **65.609**[9] | **89.96** | **37%** | **-29%** |
| **Total Scope 1, 2 & 3 emissions (Market Based)** | **126.79** | **48.20** | **64.12** | **33%** | **-49%** |

8, 9 Data revised

# Environment Report
(continued)

Emissions from our direct activities reported under Scope 1 and Scope 2 (location-based method) emissions account for 30% of our GHG emission. The reminder of our emissions come from upstream Scope 3 emissions – the majority of which comes from teleworking emissions.

Total emissions for the financial year 2023/24 were 37% higher than the previous year due to more complete data for Scope 3 emissions being available. In 2023/24, we have reduced our emissions by at least 29% compared to the baseline, even with incomplete Scope 3 emissions recorded for the baseline thanks to decreases in Scope 1 and Scope 2.

Scope 1 emissions from the use of gas in office buildings was 133% more in 2023/24 than the previous year and 98% less than the baseline year. Scope 2 emissions from the use of electricity in the office building was 47% more than the previous year and 71% less than the baseline. The increases observed from 2022/23 to 2023/24 can be explained by the increase in personnel and floor space that we occupy in our current building.

The decrease of our scope 1 and 2 emissions from the baseline are due to the changing of main office location to 10 South Colonnade (10SC), where the building manager is committed to reducing the energy usage and carbon related emissions – so far the overall building reductions have been met by procuring 100% renewable electricity, increasing waste and water disposal efficiencies and replacing gas heating with electric heating.

10SC is a newer and more efficient building that uses significantly less energy. The building is better insulated, has more efficient space and water heating and has sensor taps reducing water usage. The building has a green roof which helps regulate temperature, manage rainwater, and improve air quality. There are also plans to add solar panels to the roof which will generate power for heating, cooling, and lighting the building.

They also plan to provide sub-metering for each occupant, upgrade all lighting to LEDs and dimming solutions, install solar PV on the roof to provide renewable electricity directly to the building and fully degasify the building by installing heat pumps to provide hot water.

***Note*** – Energy and water usage, as well as waste production volumes are calculated for the entirety of 10SC and then each occupants' contributions are apportioned by the floor area (square metres) that they occupy. We remain committed to working with and encouraging landlords to implement sub-metering to all floors in the building to obtain more accurate consumption data.

## Home Working and Digital Communications

From April 2023 to March 2024, our employee numbers rose from 141 to 199, increasing the total number of working from home hours by at least 49,000. The table below shows the homeworking emissions from office electrical equipment and winter heating using the EcoAct[10] base case methodology, GHG conversion factors published by the Department for Energy Security and Net Zero[11] and internal FTE and working hours data. We have assumed that all employees work from home 3 days a week and provide heating for two thirds of the time. Summer cooling has not been included, as although it is not known if any employees have air conditioning at home, it is uncommon in the UK and is therefore assumed that they do not.

**Home working and digital communications**

| | Working hrs | tCO2e p.a. |
|---|---|---|
| Office equipment | 173,655 | 5.46 |
| Heating energy | 173,655 | 52.50 |

Despite the importance of using digital technologies to reduce travel and therefore limit emissions, we recognise that our use of online platforms and data generates its own indirect emissions. This is the fourth year that we have included emissions from videoconferencing in our scope 3 reporting acknowledging the importance of including all emissions because of our activities. These emissions have been calculated using Microsoft Teams data[12] and an independent 2020 study[13]. As our employees have continued the transition to a collaborative hybrid working model, in person meetings have reduced total video conferencing hours and in turn we continue to see a decrease in emissions relating to videoconferencing.

## Digital Clean

In May 2023, we ran an in-house document management project competition encouraging employees to review OneDrive documents and E-mails and delete them if no longer needed. With emissions for sending, receiving, and storing an email averaging 4g CO2e[14], the aim of this activity was to award those that removed the greatest Megabytes of files and emails, in turn reducing company emissions from the storage of documents and emails that no longer serve a purpose. The scheme was a remarkable success, with a total of 66Gb of unwanted data being removed from our storage accounts, equivalent to 1 metric tonne of CO2.

## Travel emissions

Business emissions have been accounted for the period November 2023 – March 2024 for all rail, air and hotel stays for business purposes. In the 2024/25 report we plan to have a complete dataset for the financial year and report on employee commuting emissions to ensure that the complete picture of travel emissions is recorded and assessed.

*Source methodology and assumptions: EcoAct Homeworking emissions whitepaper.*

10 Source methodology and assumptions: EcoAct Homeworking emissions whitepaper.
11 GHG conversion factors 2023, DESNZ and BEIS https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023
12 Estimation methodology: Monthly averages determined by available MS Teams data – from August 2020 to date (February 2021)
13 Carbon emissions factor – 150gCO2e / hr Zoom use: Researchers from Purdue University, Yale University and the Massachusetts Institute of Technology (2020)
14 B. Panchal, J. Patel, K. Vachhrajani, A. Gantara, A. Chhaya, and V. Thakkar, "Survey on Carbon Dioxide Emissions Through Email Conversion", sms, vol. 15, no. 01, p. ., Jan. 2023.



# Board of directors

This was the Board as at 11 July 2024, with the changes during the year shown on page 73.

**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 and Assurance Committee (chair)*

**Dan Osgood**
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 and Assurance Committee (member)*
*Remuneration Committee (member)*

**Jo Coleman**
Non-Executive Director

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

# Directors' report

## The Board is responsible for the overall 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 2024. The company's registered number is 08818711.

### Board

The Board is responsible for the overall strategy and direction of the company. Details of the Board's composition are set out on page 73.

### Directors and corporate governance

Full details of the directors and corporate governance matters are set out on pages 79 to 80.

### 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 recognises that the commitment of its highly skilled and experienced workforce is key to the efficient and effective delivery of the company's functions and the achievement of its strategic objectives. Further information is set out in the Strategic Report. The company's employee numbers (including executive directors but excluding non-executive directors and secondees) as at 31 March 2024 were 200.

### Environment

Details are set out in the Environment Report on pages 62 to 64.

### 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 2023/24 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2024 are set out on pages 90 to 118.

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) relating to schemes within Energy Act 2013 are funded by the operational cost levy referred to on pages 52 to 53. 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. LCCC receives grant in aid from DESNZ to fund schemes not covered by the operational cost levy which is equal to the costs allocated to the schemes. On this basis the financial results for the year reflect a neutral profit position, i.e. nil profit-nil loss. Consequently, the company does not pay a dividend.

For a more detailed review of the results for the year and a more detailed explanation of the accounting profit, see pages 90 to 118 of the financial statements, and the Strategic Report on pages 9 to 51.

### Directors' third-party indemnity provisions

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

### Going concern

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



### Directors' responsibilities statement

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

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

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

### Auditors

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

The company's 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 and Assurance Committee consider the performance of the auditors and assess their reappointment on an annual basis. A resolution to reappoint the auditors will be considered and proposed at the relevant time.

By order of the Board .

**Allison Sandle**
Company Secretary

11 July 2024

# Corporate governance report

## I am pleased to present our corporate governance report for the year

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

I would like to thank all Board members for their support, dedication and commitment over the year.

**Regina Finn**
**Chair**

### Background to the company

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

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

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

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

### Framework Document

The company's main governing documents are its Articles of Association and its Framework Document. The Framework Document[15], which establishes the fundamental relationship between the shareholder and the company, is published on the company's website to provide transparency of the relationship.

A new version of the Document was agreed this year, bringing our governance up to date and gearing up for future growth.

The Framework Document reflects the basic tenet that functional independence is compatible with financial oversight of an arm's length body by its sponsor 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
- Designed to provide the shareholder with specific controls in respect of policy implementation matters relating to CfDs. Essentially, these specific controls are matters for which shareholder consent is required, mainly in relation to material change to the CfDs.

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

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

15 Framework Document can be found at Low Carbon Contracts Company Framework Document | Low Carbon Contracts Company.



### UK Corporate Governance Code

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

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

### Role of the Board

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

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

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

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

(i) The Audit, Risk and Assurance Committee;

(ii) The remuneration committee; and

(iii) The nomination committee.

The written terms of reference of each committee are available on the company's website.

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

### Composition of the Board

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

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

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

The shareholder nominated directors at year end (and currently) are Steph Hurst and Dan Osgood whose appointment on 6 November 2023 replaced Declan Burke who resigned on 10 July 2023, all of whom were civil servants employed by DESNZ. The shareholder nominated directors are appointed 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 in accordance with the Governance Code on Public Appointments (Cabinet Office, December 2016) under which there is a strong presumption that no individual should serve more than two terms or serve in any one post for more than ten years.

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

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

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

The details of all Board members, any changes in the year and attendance at Board meetings are listed on pages 73 to 74. 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.

# Corporate governance report
(continued)

## Board changes

Reference is made to the table on page 73.

## 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 seven times in 2023/24, in June 2023, July 2023, October 2023, December 2023, February 2024 and March 2024 with one ad-hoc Board meeting in August 2023. The Board also held a separate strategy meeting in January 2024.

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

- Review of Declarations of Directors Interests
- Review of Board and Committee reports/minutes of meeting
- Approval of the company scorecard, mid-year performance update and results
- Approval of Annual Reports and Accounts and Letters of Representation
- Approval of CEO Objectives
- Approval of delegated authority for executing key contracts
- Approval of re-appointment of external auditors
- Approval of the 2024/25 Strategy and strategic initiatives
- Annual review of the Schedule of Board Reserved Matters
- Annual review of the of division of responsibilities between Chair & CEO
- Annual review of Board Schedule of Decisions
- Annual Board evaluation results and review of previous actions arising
- Annual review of the industry stakeholder survey
- Annual risk review
- Annual review of the staff engagement survey and recruitment updates
- Annual cybersecurity and data protection updates
- Review of the Business Plan
- Review of culture and equality, diversity and inclusivity, including recommendations
- Review of Communication and Stakeholder Strategy plan
- Updates on Scheme Delivery and new schemes
- Insurance renewal
- Deep Dives on new schemes and the Low Carbon Hydrogen Agreement in addition to external guest speakers on industry specific topics
- Environmental, Social and Governance review

The Chair has held meetings with the non-executive directors without the executives being present. The non-executive directors, led by the current Senior Independent Director, have met without the Chair and executive directors being present.

Details of the directors' interests are recorded in a register maintained by the company and reviewed by the Board at each Board meeting. The company has procedures in place to ensure that any actual or potential conflicts of interest are appropriately declared and managed. Directors are required to declare any actual or potential conflict of interest to the Board and to the Company Secretary as soon as they arise. No such conflicts of interest were identified in the financial year 2023/2024.

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

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

- Setting and approving the company's long term strategic aims and objectives
- Responsibility for the leadership of the company, values and standards
- Approving the financial statements
- Approval of proposed annual operating costs levy budget
- Approving (subject to shareholder consent) the annual business plan and budget
- Monitoring and overseeing risk management, financial reporting and the system of internal control
- Oversight of the company's operations
- Approving financial commitments over specified monetary thresholds
- Decisions on extension of the company's activities into new business or geographic areas
- Deciding on specified important CfD matters
- Setting the terms of reference for the Board committees

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

### The Chair:

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

### The Chief Executive:

- Fulfils his responsibilities as Accounting Officer[16]
- Leads the executive team in the day-to-day running of the company
- Makes and executes operational decisions
- Implements the strategy agreed by the Board
- Ensures delivery within the annual budget
- Ensures appropriate internal controls and risk management processes are in place
- Maintains the appropriate dialogue with the Chair and the Board
- Facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- Ensures the values of the company are embedded within its operations and staff culture

### The Senior Independent Director:

- Works alongside the Chair and provides a sounding Board for the Chair
- Is available as an intermediary to other directors when necessary
- Leads the meeting(s) with the other non-executive directors without the Chair being present, including to appraise the performance of the Chair

### Non-executive directors:

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

## Board evaluation

The Board undertakes an annual formal and rigorous evaluation of its own performance and that of its committees and individual directors. The UK Corporate Governance Code recommends that Boards should be evaluated externally once every three years, the last independent Board evaluation was concluded in March 2022 and recommendations arising from the evaluation have been actioned. Recommendations from the annual internal Board evaluation review has been evaluated and are being actioned.

The committees also each separately undertake an internal annual evaluation process. The evaluation review in 2023/24 was undertaken by use of a focussed questionnaire for and eaĔch committee, with the results being discussed by the Board and the committees.

The committee evaluation process concluded that the committees are working cohesively and effectively, are performing their role in a proper, good and appropriate manner and that there is strong corporate governance in place.

The Chair 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 and Assurance Committee

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

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

The committee met four times in the financial year 2023/24, with meetings in June 2023, September 2023 , and twice in February 2024.

The Chief Executive (as Accounting Officer), Chief Financial Officer, Head of Assurance & Risk, Company Secretary and external auditors attended each meeting, and have access to the chair of the committee outside formal committee meetings. The Head of Assurance & Risk and the external auditors each separately meet informally with the committee at the end 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

16 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)

- Reviewing external auditor independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken
- Reporting to the Board on how it has discharged its responsibilities
- Undertaking an evaluation of its own performance.

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

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

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

- Status of any Significant Accounting Estimates, Judgements and Special Issues
- External Auditor's Report
- External audit plan
- Policy for maximum term of External Audit Lead
- Report on Activities of the Audit Committee during the year
- Annual Report planning
- Annual Report – Governance Statement and Accounts Recommendation
- Internal Audit Charter – Annual Review
- Internal audit strategy, plan and activity update
- Review and update of Financial Delegated Authority
- Joint Assurance Framework update
- Committee Annual Evaluation
- Review of the ARAC Terms of Reference
- Review of Whistleblowing Policy and Procedure
- Review of schedule of decisions
- Risk Management Reviews and Risk Register Updates
- Risk deep dives on organisational model and stakeholder reputation
- Letters of Representation
- Accounting Officer Letters

The minutes of the meeting are circulated to the Board.

The company's main risks are set out on pages 12 to 51 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). We have received two whistleblowing submissions to our dedicated portal. Both cases were investigated fully by our dedicated Whistleblowing officer, neither of the submitted cases were upheld.

The re-appointment of the external auditor was approved by the Board in December 2023 upon the recommendation of the committee. Due to timing differences with the ARAC meetings and receiving the NAO 23/24 audit fee quote, it was not possible to receive approval from the ARAC prior to the Board meeting on 5 December 2023. The Board approved the re-appointment, taking 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 DESNZ's audit requirements and the NAO's understanding of both the complex environment within which the company operates, as well as the wider Government and public sector context.

The committee assessed the effectiveness of the external audit process.

## Nomination Committee

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

All members of the Nomination Committee are independent non-executive directors.

The committee met three times during the year, in August 2023, November 2023 and March 2024. 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 and committees 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
- Undertaking an annual evaluation of its own performance.

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

- Board composition, size and diversity of the Board including a review of skills;
- Committee membership and tenure;
- Board, executive directors and senior leadership succession planning and training;
- Recruitment process and approvals for succession
- Review independence and time commitment of non-executive directors;
- Review of the Nomination Committee Terms of Reference; and
- Committee annual evaluation and review of previous evaluation actions arising.

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

## Remuneration Committee

The membership and responsibilities of this committee are described in the Remuneration Report at pages 78 to 80.

## Board and Committee Membership

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

**Board and committee membership**

| Director | Role | Board | Audit, Risk and Assurance Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Amanda Aldridge | Non-executive director | App. 02/04/2020 | App. 02/04/2020 | | |
| Declan Burke* | Non-executive director | App. 29/01/2020<br>Res. 10/07/2023 | | | App. 29/01/2020<br>Res. 10/07/2023 |
| Regina Finn | Chair | App. 02/09/2019 | | App. 04/10/2019 | App. 04/10/2019 |
| Steph Hurst | Non-executive director | App. 29/01/2020 | App. 29/01/2020 | | |
| Helen Lamprell | Non-executive director | App. 19/01/2021 | | | App 29/07/2021 |
| Maxine Mayhew | Senior Independent Director | App. 13/08/2020 | | App. 01/10/2020 | |
| Neil McDermott | Chief Executive | App. 22/07/2014 | | | |
| Gerard McIlroy | Non-executive director | App. 27/10/2020 | App. 03/12/2020 | | App. 06/10/2023 |
| Chris Murray | Non-executive director | App. 26/06/2018 (extended on 19 January 2021 for a further three years effective from 25 June 2021) | App. 18/07/2018 | App. 03/12/2020 | App. 18/07/2018 |
| George Pitt | Chief Financial Officer | App. 13/08/2020 | | | |
| Dan Osgood | Non-executive director | App. 06/11/2023 | | | App. 06/11/2023 |

## 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.

*Resigned part way through year

# Corporate governance report

(continued)

**Member attendance record during 2023/24**

| | Board | Audit, Risk & Assurance Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| **Number of meetings** | **7** | **4** | **3** | **3** |
| Amanda Aldridge | 6 | 4 | | |
| Declan Burke | 0* | | | 1 |
| Gerard McIlroy | 7 | 4 | | 1* |
| Regina Finn | 7 | | 3 | 3 |
| Steph Hurst | 6 | 4 | | |
| George Pitt | 7 | | | |
| Maxine Mayhew | 5 | | 3 | |
| Helen Lamprell | 7 | | | 3 |
| Neil McDermott | 7 | | | |
| Chris Murray | 7 | 4 | 3 | 3 |
| Dan Osgood | 3** | | | 1** |

*Resigned part way through year

**Appointed part way through the year

## Relations with shareholder and stakeholders

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. There are two shareholder nominated directors.

The company has also engaged in regular communication with industry and other stakeholders, including by stakeholder engagement events, annual stakeholder survey, regular newsletters and via its website.

As a non-traded entity, the company does not propose to have an annual general meeting.

## Maintenance of a sound system of internal control

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

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

## Control and assurance environment

- The Board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and, where possible, to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The Audit, Risk and Assurance Committee assists the Board in discharging its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 71 to 72).
- 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 2023/24, in June 2023, September 2023 and twice in February 2024) 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 a year (in 2023/24, in June and December 2023). 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 55 to 61

## 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.

## Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the Board.
- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability, to ensure that a robust and prudent annual budget is prepared, which also ensures cost control and value for money for consumers. The draft budget, which can be for a single year or multi-year, is reviewed by the Board, subsequent to which it is submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget. Subsequently the operational costs levy which funds the company's budget is laid before Parliament in the form of regulations.
- The company operates robust financial management processes to ensure that it manages within its budget so as not to exceed the operational costs levy.
- An update on the company's progress, financial performance, budget forecasts and results are 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"[17].

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

# Corporate governance report
(continued)

## Operational

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

## Procurement

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

## Legal and compliance

- There is a system for monitoring and embedding compliance, including by company policies and procedures as well as training and guidance to support compliance (e.g. relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.
- The company expects the highest standards from all employees and supply chain.
- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.[18]

## Treasury management

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

## Insurance

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

**Neil McDermott**
**Chief Executive and Accounting Officer**

11 July 2024

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



# Remuneration report

## Remuneration committee

At year end, this committee comprised Chris Murray (Chair), Regina Finn, Gerard McIlroy, Helen Lamprell and Dan Osgood (shareholder nominated director).

The Framework Document requires that one shareholder nominated director should be a member of the committee. The committee consists of a majority of independent non-executive directors.

The responsibilities of the committee include:

- Setting the overall remuneration policy for the company.
- Setting the conditions of employment, including levels of salary and pension arrangements for executive directors and senior management, but subject to the shareholder's consent being necessary to the remuneration or material variation to the remuneration of any executive director or employee whose salary is equal to or higher than the threshold set in Cabinet Office Senior Pay Approvals guidance in respect of senior pay.
- Recommending the level of remuneration of the non-executive directors to the Board, but subject to the shareholder's consent being necessary to the remuneration or material variation to the remuneration of any director.
- Ensuring that the remuneration package for employees and salary levels are appropriately benchmarked and structured as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company.
- Review and approve any disclosure the Company or group is required to make in respect of pay gaps or disparity.
- Undertaking an evaluation of its own performance.
- Setting approach in respect of executive directors and other appropriate senior employees accepting non-executive appointments outside the Company to avoid conflicts of interest.

During the period the committee met three times (May, October and February) and discussed the following matters:

- Recruitment and retention
- Company performance including internal audit assessment
- Proposal of 2024/25 company scorecard
- Staff salary benchmarking and employee pay award proposal
- Senior leadership team pay award proposals
- Review of non-executive director salaries
- Staff Annual Incentive Scheme Award proposals
- Proposals for In-year Recognition Awards
- Senior leadership team annual incentive scheme award proposals
- CEO Objectives
- Equity, diversity and inclusion report
- Pay and benefits reward review
- Three Year Review of Remuneration Policy
- Annual review and proposed changes of committee Terms of Reference
- Committee Annual Evaluation

The minutes of each meeting are circulated to the Board.

## Directors and senior management remuneration

Advice on remuneration for the executive directors and senior management team was obtained from Green Park who are currently retained as one of the company's panel of recruitment consultants to provide assistance to the company in the recruitment of non-executive directors and senior executive staff. Green Park has no other connection with the company.

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

Public sector reporting bodies have a good practice requirement to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. An annualised figure has been used to better reflect contractual salary. The annual remuneration of the highest paid director is £350,158 (2022/23: £307,152).[19] In 2023/24 this is 5.2 times the median remuneration of the company's workforce (2022/23: 5.1) which is £62,000 (2022/23: £60,227).[20] No employees receive salary in excess of the highest paid director.

## Procedures for developing policy and determining remuneration

The committee has responsibility for setting the compensation arrangements for the Board and the executive directors. It also sets the broad framework for employee remuneration and benefits. The committee has access to the information it requires and has the authority to obtain the advice of external advisors.

The committee assesses where to position the company in respect of remuneration matters relative to other companies and the requirements of the company's business and operations. The company undertakes an annual benchmarking of employee salaries.

The committee is required under its Framework Document to comply with rules relating to the level of director and staff remuneration. The shareholder's consent is required to any increase in excess of the level specified in these rules.

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

20 It should be noted that while the median calculation for 2023/24 includes all salary, performance bonuses and benefits payable to staff members, not all staff members will receive a bonus. The reason for this is that a number of staff members may not have been with the company for the qualifying period or may have given notice and are no longer employed prior to year-end. It is also true that staff who are not considered to have met performance requirements will not receive a bonus.

# Remuneration report
(continued)

### Statement of remuneration policy

The remuneration policy is to:

- Offer a suitable package to attract, motivate people with the skills and attributes to deliver LCCC's business goals, while recognising the unique nature of the organisation and the requirements of its shareholder in accordance with the Framework Document;
- Help mitigate the business risks associated with poor performance, market movements and employee turnover by being competitive in the market;

Ensure incentive plans are linked to company and individual performance to encourage high performance from staff employees both at an individual and team level. A range of methods are used to ensure that the levels of compensation are appropriately benchmarked against external organisations.

### Pay review

After carefully considering the performance of the executive directors and other staff, the range of salaries offered to other staff and relevant market reference points including inflation, the committee approved a general pay review increase of 5% for all staff with the exception of executive directors who received 4% effective from 1 April 2024 with the specific amount to be awarded dependent on the company's remuneration policy and/or other approvals. The company obtains the consent of the shareholder prior to the implementation of any increase which would be above the level specified in the Framework Document.

### Executive directors

The remuneration of the executive directors (being the Chief Executive and Chief Financial Officer) has been designed to promote the long-term success of the company. Their respective earnings in the financial year consisted of a base salary plus taxable benefits (for example permanent health insurance, private medical cover (Chief Executive only) and life assurance); a defined contribution pension scheme; and an incentive bonus. The bonus links corporate and individual performance with an appropriate focus on delivery targets and the balance between short- and long-term elements. The committee, based on an assessment of individual and company performance against key objectives, agreed a bonus for 2023/24 (paid in mid-2023/24) for the Chief Executive and the Chief Financial Officer. The details of these bonuses are set out below.

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

## Executive Directors' Remuneration (audited)

| Name | 2023/24 Salary | 2023/24 Performance Related Pay (Bonus) | 2023/24 Ex-gratia/ special payment | 2023/24 Taxable Benefits | 2023/24 Pension Payments | 2023/24 Total |
|---|---|---|---|---|---|---|
| **Neil McDermott** | 2023/24: £ 261,957 | 2023/24: £48,400 | 2023/24: £nil | 2023/24: £10,475 | 2023/24: £26,196 | 2023/24: £347,028 |
| | 2022/23: £249,483 | 2022/23: £45,877 | 2022/23: £nil | 2022/23: £11,792 | 2022/23: £24,948 | 2022/23: £332,100 |
| **George Pitt** | 2023/24: £174,233 | 2023/24: £30,701 | 2023/24: £ nil | 2023/24: £570 | 2023/24: £17,423 | 2023/24: £222,927 |
| | 2022/23: £158,250 | 2022/23: £27,645 | 2022/23: £ 11,500 | 2022/23: £963 | 2022/23: £15,825 | 2022/23: £214,183 |

As performance-related incentive bonuses are only approved for payment and paid in the year following the year to which they relate, any bonus relating to 2023/24 is not paid until mid-2024/25. Such bonuses are £50,254 for Neil McDermott and £33,425 for George Pitt.

### Non-executive director fees

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

Levels of remuneration for the remunerated independent non-executive directors reflect the time commitment and responsibilities of the role and remain unchanged. and reflect the advice on remuneration for directors and benchmarking information provided by Green ParkThe shareholder nominated (or "governmental") directors are not paid by the company.

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



## Non-Executive Directors' Remuneration (audited)

| Name | 2023/24 Fees[21, 22] | Principal positions held elsewhere at 31 March 2024 |
|---|---|---|
| **Amanda Aldridge** | £30,000 plus £185.57.30 in relation to expenses<br>2022/23: £30,000 | • ESC – non-executive director<br>• Staffline Group Plc – non-executive director<br>• Impact Healthcare REIT plc – non-executive director<br>• The Brunner Investment Trust plc – non-executive director<br>• The Letchworth Garden City Educational Trust (Formerly St Francis College Trust) – director and trustee |
| **Regina Finn** | £100,000 (including £12,000 relating to ESC) plus £2,247.10 in relation to expenses<br>2022/23: £100,000 (including £12,000 relating to ESC) plus £443 in relation to expenses | • ESC – non-executive director<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<br>• Motor Fuel Group Ltd – non-executive director<br>• National Grid Electricity Distribution Plc – chair of independent scrutiny panel |
| **George Pitt** | N/A | • ESC – Chief Financial Officer and director<br>• Pitt Consulting Ltd –director |
| **Steph Hurst** | £nil (shareholder nominated director – civil servant) | • Department of Energy Security and Net Zero – Deputy Director, Net Zero Buildings: Domestic |
| **Neil McDermott** | N/A | • ESC – Chief Executive and director<br>• Department for Science, Innovation and Technology (DSIT) Investment Committee – Independent Member |
| **Chris Murray** | £30,000 plus £4,965.53 in relation to expenses<br>2022/23: £30,000 | • ESC – non-executive director<br>• APX3 Limited – director<br>• LOROS Commercial Innovations Limited – director<br>• LOROS (Leicestershire Hospice) – trustee<br>• Water Resources Southeast – chair<br>• Multiple Sclerosis Society – non-executive director<br>• MSS (Trading) Limited – director<br>• Northern Powergrid Limited – chair of independent stakeholder panel |
| **Maxine Mayhew** | £35,000 plus £3,028.48 in relation to expenses<br>2022/23: £35,000 plus £2,206 in relation to expenses | • ESC – non-executive director<br>• Biffa Waste Services Limited – director<br>• Biffa Municipal Limited – director<br>• Biffa Environmental Municipal Service Limited – director<br>• Company Shop Limited – director |

21 This column shows the only form of remuneration that each non-executive director receives from LCCC. LCCC receives 12% of the directors' fees from ESC under its re-charge arrangements with ESC (other than in respect of Regina Finn where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

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

# Remuneration report
(continued)

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

| Name | 2023/24 Fees[21, 22] | Principal positions held elsewhere at 31 March 2024 |
|---|---|---|
| **Gerard McIlroy** | £25,000 plus £1,891.30 in relation to expenses<br>2022/23: £25,000 plus £5,738 in relation to expenses | • ESC – 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<br>• PRISMA European Capacity Platform GmbH – non-executive director<br>• Moyle Holdings No.2 – director |
| **Helen Lamprell** | £25,000<br>2022/23: £25,000 | • ESC – non-executive director<br>• Employers Initiative on Domestic Abuse – trustee<br>• Aveva Solutions Limited – Director<br>• Aveva Group Limited – General Counsel and Co Sec |
| **Dan Osgood** | £nil (shareholder nominated director – civil servant) | • Department of Energy Security and Net Zero – Director, Energy Markets & Analysis (also responsible for Electricity Security Policy, Capacity Market and Review of Electricity Market Arrangements<br>• ESC – non-executive director |

21 This column shows the only form of remuneration that each non-executive director receives from LCCC. LCCC receives 12% of the directors' fees from ESC under its re-charge arrangements with ESC (other than in respect of Regina Finn where the amount relating to ESC is as stated) – see note 2.5 to the financial statements.

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



# Independent auditor's report
To The Sole Shareholder Of Low carbon Contracts Company Ltd

## Opinion on financial statements

I have audited the financial statements of Low Carbon Contracts Company Ltd ("the company") for the year ended 31 March 2024 which comprise the company's:

- Statement of Financial Position as at 31 March 2024;
- 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 2024 and of the profit 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 (UK) (ISAs (UK)), applicable law and Practice Note 10 *'Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)'.* 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 am independent of the company in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

| Framework of Authorities | |
|---|---|
| **Authorising legislation** | • Energy Act 2013 and Energy Act 2023<br>• Contracts for Difference (Counterparty Designation) Order 2014<br>• Companies Act 2006 |
| **Parliamentary authorities** | • Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 |
| **HM Treasury and related authorities** | • Articles of Association<br>• Framework Agreement between the company and the Secretary of State for Energy Security and Net Zero<br>• Managing Public Money and Cabinet Office spending controls (to the extent they are applicable to the company under the Framework Agreement) |

# Independent auditor's report

To the sole shareholder of Low carbon Contracts Company Ltd (continued)

## 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 directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- reviewing the provisions of the legislation under which the company collects the levies it uses to fund operational and contracts for difference (CfD) scheme costs;
- considering the internal business planning and forecasting process relevant to operating costs; and
- obtaining and reviewing evidence of the funding arrangements agreed with the Department for Energy Security and Net Zero for the new schemes beginning after 1 April 2024.

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

- there is minimal cash flow risk arising from the company's role as counterparty to CfDs as a result of the statutory 'pay when paid' mechanism; and
- there are funding options available to the company to meet their obligations as they fall due.

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

In relation to the entity's reporting on how they have 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 directors 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 judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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

This is not a complete list of all risks identified though the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed relating to the company's payments to generators, which I identified as a significant risk due to the high value of payments. I have also not included information relating to the work I have performed in response to the presumed risk of management override of controls which I identified as a significant risk in accordance with the requirements of ISA (UK) 240 *The Auditor's Responsibility Relating to Fraud in Financial Statements*. For both areas, my work has not identified any matters to report.

The key audit matters 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 90 to 118.

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

- I identified a significant risk (which I did not consider to be a key audit matter) in relation to the completeness of CfDs, including the completeness of accounting for modifications to or disposals of CfDs. This risk was identified due to the signing of new material contacts in Allocation Round 5, and following higher levels of terminations of early-stage contracts in Allocation Round 4. My work in this area has not identified any matters to report.

**Fair Value of Contracts for Difference**

### Description of risk

The company accounts for Contracts for Difference (CfDs) as financial instruments measured at fair value through profit or loss. As disclosed in note 23 to the financial statements:

- Management has estimated the total (net) fair value of CfDs (excluding the Hinkley Point C CfD) to be -£32,625 million at 31 March 2024. This includes 30 CfDs with a total estimated fair value of +£2,900 million that were assessed as having a positive fair value at the reporting date and 208 CfDs with a total estimated fair value of -£35,525 million that were assessed as having a negative fair value at the reporting date.
- The Statement of Financial Position recognises, as an asset or liability, the change in the assessed fair value of CfDs since their initial recognition (adjusted for the amortisation of the 'day one' deferred measurement difference and any payments to/from generators). Management has recognised financial liabilities and financial assets arising from CfDs (excluding the Hinkley Point C CfD) of -£16,146 million and +£4,617 million respectively at 31 March 2024.
- Management has estimated the fair value of financial liabilities arising from the Hinkley Point C (HPC) CfD to be -£56,525 million at 31 March 2024, of which -£5,699 million has been recognised in the Statement of Financial Position as a change in the assessed fair value of the CfD since its initial recognition, with the remainder continuing to be deferred.

As disclosed in notes 4.1, 4.2 and 23.4 to the financial statements:

- The company determines the fair value of CfDs using an income (discounted cash flow) approach which requires the company to estimate future payments which the company will make to, or receive from, generators. These payments are calculated for each unit of electricity generated as the difference between the contractual strike price and the wholesale price of electricity. The fair value model requires the company to estimate future electricity wholesale prices and forecast electricity generation volumes.
- The forecasting of wholesale electricity prices requires making assumptions regarding significant unobservable inputs including: future electricity demand; future commodity prices; future government policy; and the development and deployment of electricity generation technologies. The company has used an independent industry recognised wholesale electricity price series for their CfD valuations.

Choice of future electricity price series is the most sensitive assumption in the CfD model. Disclosures showing the sensitivity of the valuation of CfDs to choice of price series are included in note 23.5.

- The forecasting of future electricity generation volumes involves making certain material assumptions with regards to significant model inputs including:
  - For the HPC CfD, the forecast HPC generation schedule. The company has used the generation profile provided by NNB Generation Company (HPC) Limited.
  - For the HPC CfD, the estimated start dates for reactors one and two of the Hinkley Point C power station. This is a material assumption with a large degree of uncertainty around the outcome of future events. The currently estimated start dates for both HPC reactors means that generation is expected to fall outside of their respective Target Commissioning Windows, resulting in contract erosion. Disclosures showing the sensitivity of the valuation of the HPC CfD to the estimated start date are included in note 23.5.
  - For all CfDs excluding the HPC CfD, the estimated power output of each generation project, described in the model as a "load factor". This is a less uncertain, but still materially sensitive assumption. Disclosures showing the sensitivity of the valuation of the standard CfDs to changes in load factor are included in note 23.5.
- Additionally, the HPC CfD includes a clause which adjusts the contractual strike price if a CfD in relation to Sizewell C is entered into before the reactor one start date. The company is therefore required to estimate the likelihood of this occurring. The company has assessed this likelihood at 75% in March 2024, increased from 50% in March 2023.
- The forecast cash flows are discounted using a real discount rate based on the HM Treasury nominal rate adjusted by OBR CPI inflation forecasts.

I have assessed the fair value measurement of the company's CfDs to be an area of significant risk for my audit due to: the sensitivity of the fair value estimate to input or calculation error; the degree of estimation uncertainty inherent in forecasting electricity generation volumes and wholesale electricity prices into the late 2030s (for CfDs excluding the HPC CfD) and into the 2060s (for the HPC CfD); and the subjectivity involved in selecting the most appropriate assumptions, including highly uncertain assumptions around the occurrence of future events such as the HPC and Sizewell C start dates, that conform to the principles of fair value.

The fair value estimate is particularly sensitive to certain inputs, the most significant of which is the price series used to forecast future electricity prices. Additionally, various assumptions within the forecasting model are subject to material uncertainty, particularly assumptions around future nuclear generation. The uncertainties inherent in determining the fair value of CfDs are further discussed in the disclosures made in note 23.4 and 23.5 to the financial statements.

# Independent auditor's report

To the sole shareholder of Low carbon Contracts Company Ltd (continued)

| Fair Value of Contracts for Difference (continued) | |
|---|---|
| **How the scope of my audit responded to the risk** | I assessed the design and implementation of the company's controls over the valuation of CfDs. This included both the controls operated by the company's shared service provider, EMRS, over the completeness and accuracy of generation data used in management's model, and the controls operated by the company over the governance of changes to the model and selection of assumptions. I found that controls are appropriately designed and implemented.<br>I assessed the accuracy of management's model through independent reperformance. I found that management's model accurately calculated the CfD valuation using the model inputs and assumptions.<br>To gain substantive assurance over management's estimates for the HPC CfD and for other CfDs I reviewed the appropriateness of the forecast future cashflows estimated by management, including consideration of management bias in selecting inputs and assumptions. To support this, I:<br>• Verified contractual inputs, including the initial recognition of new Allocation Round 5 contracts, back to source documentation.<br>• Assessed the accuracy of management's model through independent reperformance, utilising our in-house modelling experts.<br>• Assessed and challenged, in consultation with independent industry experts:<br>— The reasonableness of the future electricity market price model input;<br>—the reasonableness of generation estimates, including the forecast HPC generation schedule, and assumptions around the load factors of standard CfDs; and\<br>—the reasonableness of the company's assumptions around the HPC start date and the likelihood of the occurrence of the Sizewell C strike price adjustment.<br>• Evaluated the accuracy and sufficiency of CfD disclosures, including sensitivity disclosures.<br>**Key observations**<br>I am satisfied that the CfD model contains materially accurate inputs and that the model has calculated the valuation appropriately.<br>Following my review of the assumptions underpinning the fair value model, I am content that management has made a reasonable estimate, within a material range of estimation uncertainty. I am content that, alongside the associated sensitivity analysis disclosed, management's valuation is fairly presented and disclosed. |

## Application of materiality

### Materiality

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

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

| | Overall financial statement materiality | Lower materiality threshold for account balances and transaction streams not connected to the valuation of the Contracts for Difference and to support my opinion on regularity |
|---|---|---|
| **Materiality** | £1,000 million | £39 million |
| **Basis for determining materiality** | Materiality has been set with reference to the fair value of the CfDs at the reporting date. The chosen materiality is approximately 1% of the disclosed CfD fair value.<br>Given the range of uncertainty around the valuation of the CfDs, a higher materiality threshold may be acceptable to users of the accounts, however I have applied this lower threshold in the context of the impact of the deferral of 'day one' losses which results in amounts less than the total estimated fair value being recognised on the company balance sheet. In my professional judgement, the users of the financial statements could reasonably expect a precision of at least +/- £1 billion on the balances recorded in the primary statements. | Approximately 2% of the combined value of gross operating expenditure and payments to CfD generators. |
| **Rationale for the benchmark applied** | I chose the estimated fair value of the CfDs as the overall account materiality benchmark because I consider it to be of principal interest to users of the financial statements as the company's primary objectives is to manage CfDs. | I determined that for financial statement components unconnected with the valuation of CfDs, misstatements of a lesser amount than overall financial statement materiality could influence the decisions of users of the accounts. |

### Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2023-24 audit (2022-23: 75%). In determining performance materiality, I considered the low level of uncorrected misstatements identified in the previous period.

### Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs 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 to support my opinion on regularity and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that 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 £300k, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit, Risk and Assurance Committee would have decreased the fair value of CfD liabilities by £46 million.

# Independent auditor's report

To the sole shareholder of Low carbon Contracts Company Ltd (continued)

## 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 the 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.

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 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 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- 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 the 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; or
- 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
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the 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 parent company.

## 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 Code 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 66;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate – set out on page 54;
- Directors' statement on fair, balanced and understandable – set out on page 67;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks – set out on page 75;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems – set out on page 75; and
- The section describing the work of the audit committee – set out on pages 71 to 72.

## Responsibilities of the Directors for the financial statements

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

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the company from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, which includes the Remuneration Report, in accordance with the Companies Act 2006; and
- 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 has no realistic alternative but to do so.

# Independent auditor's report

To the sole shareholder of Low carbon Contracts Company Ltd (continued)

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

My responsibility is to audit and report on the financial statements in accordance with the applicable law and International Standards on Auditing (UK) (ISAs (UK)).

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

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

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

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

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

- considered the nature of the sector, control environment and operational performance including the design of the company's accounting policies and performance incentives.
- inquired 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 on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of 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 compliance with the Companies Act 2006, Managing Public Money, the Energy Act 2013, the Energy Act 2023, the Contracts for Difference (Counterparty Designation) Order 2014, and the Contracts for Difference (Energy Supplier Obligations) Regulations 2014.
- inquired of management, the company's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud.
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

I obtained an understanding of the company's framework of authority and other legal and regulatory frameworks in which the company operates. I focused 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 the Companies Act 2006, Managing Public Money, the Energy Act 2013, the Energy Act 2023, the Contracts for Difference (Counterparty Designation) order 2014, the Contracts for Difference (Energy Supplier Obligations) Regulations 2014 and employment law.

### Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed 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;
- I enquired of management, the Audit, Risk and Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made on 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 communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members 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 sufficient appropriate audit evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 I identify during my audit.

S Hussain

**Samad Hussain**
**(Senior Statutory Auditor)**

17 July 2024

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


90 Statement of comprehensive income for the year ended 31 March 2024

91 Statement of financial position as at 31 March 2024

92 Statement of changes in equity for the year ended 31 March 2024

93 Statement of cash flows for the year ended 31 March 2024

94 Notes to the financial statements for the year ended 31 March 2024


# Statement of comprehensive income

## for the year ended 31 March

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Other income | 6 | 25,685 | 18,713 |
| Supplier Obligation Levy | 24 | 5,652,571 | (13,490,767) |
| Fair value movement of CfDs | 23.1 | (5,652,571) | 13,490,767 |
| Staff costs | 7 | (14,635) | (10,245) |
| Depreciation | 9,10 | (496) | (287) |
| Amortisation | 11 | (60) | (60) |
| Other operating costs | 8 | (10,494) | (8,121) |
| **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 96 to 118 form part of these accounts.



# Statement of financial position

## as at 31 March

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 308 | 195 |
| Right-of-use assets | 10 | 3,533 | 1,930 |
| Intangible assets | 11 | 2,052 | 619 |
| Contracts for Difference | 23.1 | 4,616,532 | 6,130,441 |
| Supplier Obligation Levy | 24 | 17,228,658 | 13,440,833 |
| **Total non-current assets** | | **21,851,083** | **19,574,018** |
| **Current assets** | | | |
| Operational costs levy receivable | 13 | 2,432 | 1,957 |
| Supplier Obligation Levy receivable | 12 | 172,435 | 249,291 |
| Trade and other receivables | 14 | 4,965 | 2,269 |
| Cash and cash equivalents | 15 | 457,075 | 334,717 |
| **Total current assets** | | **636,907** | **588,233** |
| **Total assets** | | **22,487,990** | **20,162,252** |
| **Current liabilities** | | | |
| Operational costs levy payable | 16 | (8,172) | (9,187) |
| Supplier Obligation Levy and generators payments payable | 17 | (567,748) | (527,231) |
| Trade and other payables | 18 | (61,667) | (51,754) |
| Loans and borrowings | 19 | (250) | (211) |
| Lease liabilities | 20 | (325) | (157) |
| **Total current liabilities** | | **(638,162)** | **(588,540)** |
| **Non-current liabilities** | | | |
| Contracts for Difference | 23.1 | (21,845,189) | (19,571,274) |
| Deferred Income | 18 | (691) | – |
| Loans and borrowings | 19 | (533) | (573) |
| Lease liabilities | 20 | (3,290) | (1,740) |
| Provisions | | (125) | (125) |
| **Total non-current liabilities** | | **(21,849,828)** | **(19,573,712)** |
| **Total liabilities** | | **(22,487,990)** | **(20,162,252)** |
| **Net assets** | | **–** | **–** |
| **Shareholders' equity and other reserves** | | | |
| Share capital | 25 | – | – |
| Retained earnings | | – | – |
| **Total equity** | | **–** | **–** |

The notes on pages 96 to 118 form part of these accounts.
The financial statements were approved by the Board of directors on 10 July 2024 and signed on its behalf on 11 July 2024 by:

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

**George Pitt**
**Chief Finance 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 2022** | **–** | **–** | **–** |
| Share capital issued | – | – | – |
| Total comprehensive income for the year | – | – | – |
| **As at 31 March 2023** | **–** | **–** | **–** |
| Share capital issued | – | – | – |
| Total comprehensive income for the year | – | – | – |
| **As at 31 March 2024** | **–** | **–** | **–** |

As at 31 March 2024 the company has one authorised ordinary share, issued and fully paid.
The notes on pages 96 to 118 form part of these accounts.



# Statement of cash flows

## for the year ended 31 March

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | – | – | |
| *Adjustments to reconcile profit for the year to net cash flows:* | | | |
| **Reversal of non-cash incomes and expenses:** | | | |
| Movement in supplier obligation levy | 24 | (5,652,571) | 13,490,767 |
| Fair value movement of CfDs | 23.1 | 5,652,571 | (13,490,767) |
| Depreciation of property, plant and equipment | 9, 10 | 496 | 287 |
| Loss on disposal of property, plant and equipment | | – | 65 |
| Amortisation of intangible assets | 11 | 60 | 60 |
| Increase in deferred income | 18 | 691 | – |
| *Working capital adjustments:* | | | |
| (Increase)/Decrease in operational costs levy receivable | 13 | (475) | 10 |
| Decrease/(Increase) in Supplier Obligation Levy receivable | 12 | 76,856 | (130,961) |
| (Increase) in trade and other receivables | 14 | (2,696) | (1,766) |
| (Decrease) in operational costs levy payable | 16 | (1,015) | (1,987) |
| (Decrease) in Supplier Obligation Levy and generators payments payable | 17 | 40,517 | 4,180 |
| Increase in trade and other payables | 18 | 9,913 | 34,843 |
| **Net cash inflow from operating activities** | | **124,347** | **(95,268)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 9 | (235) | (176) |
| Purchase of intangible assets | 11 | (1,494) | (490) |
| **Net cash outflow from investing activities** | | **(1,729)** | **(667)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from loans and borrowings | 19 | 171 | 665 |
| Repayment of loans and borrowings | 19 | (172) | (141) |
| Repayment of lease liabilities | 20 | (259) | (257) |
| **Net cash inflow/(outflow) from financing activities** | | **(260)** | **267** |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents in the year** | | **122,358** | **(95,668)** |
| Cash and cash equivalents at the beginning of the year | | 334,717 | 430,385 |
| **Cash and cash equivalents at the end of the year** | 15 | **457,075** | **334,717** |

The notes on pages 96 to 118 form part of these accounts.

# Notes to the financial statements

for the year ended 31 March

## 1. Authorisation of financial statements

The financial statements of Low Carbon Contracts Company Ltd (the "company'') for the year ended 31 March 2024 were approved and authorised for issue in accordance with a resolution of the Board on 11 July 2024.

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 (SoS) for Energy Security and Net Zero (the "shareholder") making it the company's ultimate controlling party. In FY 2022-2023, there was a reorganisation of Government departments, with the change from SoS for Business, Energy & Industrial Strategy (BEIS) to SoS for Department of Energy Security and Net Zero (DESNZ), among others.

### 1.1 Principal activities

The company has been established to act as the counterparty for Contracts for Difference (CfDs). In the financial year, the company has continued to provide advisory and implementation work on a number of low carbon energy schemes including Industrial Carbon Capture (ICC), Low Carbon Hydrogen Agreement (LCHA), Direct Power Agreement (DPA), Bioenergy with Carbon Capture and Storage (BECCS) , Revenue Support Agreement (RSA), Hydrogen/Natural Gas Levy, Hydrogen Certification and nuclear Regulated Asset Base model (RAB). The company will also undertake such other activities that the Board considers to be consistent with the company's functions, duties, obligations and constitution.

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

## 2. Accounting policies

### 2.1 Basis of preparation

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

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

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

### 2.2 Going concern

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

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

i. applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its operational costs levy and the Supplier Obligation Levy;

ii. undertakes a robust and detailed annual business planning and budgeting process to establish its operational cost requirements for each financial year; and

iii. has considered the potential impact of credit risk and liquidity risk detailed in note 3.

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

The operational costs levy is reset by new amending Regulations and has currently been set to March 2025. In the absence of new regulation, the levy would continue at the same amount as the most recent regulation enabling the company to continue operating.

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

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

LCCC's responsibilities have extended into new schemes, with these operational and capital costs being funded by non-repayable grants from DESNZ. These schemes are currently in advisory and implementation phase and with no settlements in the financial year.

### 2.3 Operational costs levy income

Under the Regulations, the company is entitled to recover its operational costs through the operational costs levy (for delivering CfD schemes) on suppliers referred to above. The levy rate charged is based on the company's budget and the total forecast electricity demand for the financial year. The rate set for the 2023/24 operational costs levy was £0.0994/MWh and was apportioned to suppliers based on the actual electricity they supply in the levy year from 1 April 2023 to 31 March 2024. The operational cost levy has also been set for 2024/25 at £0.1089/MWh.

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

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

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



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

### 2.4 Total Reserve Amount and Interim Levy Rate payment

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

a) an Interim Levy Rate, charged on a daily basis at a fixed £/MWh rate on electricity supplied each day across each levy quarter; and

b) a Total Reserve Amount which is a lump sum 'reserve' payment made in respect of each levy quarter at the start of the quarter.

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

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

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

c) the estimated income to be received by the company from CfD generators in the quarter;

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

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

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

a) the total amount payable to the generators, less

b) the Total Reserve Amount and Interim Levy Rate payment for that period.

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

If electricity prices are such that there is an aggregate amount expected to be paid by generators such that LCCC will have sufficient funds during the quarter, then the Interim Levy Rate is set to zero and funds returned to suppliers during the quarterly reconciliation.

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

a) estimated payments that the company will need to make to CfD generators in respect to generation during the quarter.

b) estimated income expected to be received by the company from CfD generators in respect of the quarter; and

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

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

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

### 2.5 Recharges

ESC is a sister company, also owned by the Secretary of State for Energy Security and Net Zero, which is responsible for managing the Capacity Market settlement process. In order to maximise operational cost efficiency, the company provides certain services to ESC and makes certain payments on its behalf. Typically, this includes common costs such as staff costs, shared IT infrastructure and the use of shared resources and facilities. The recharge includes costs incurred on those activities which allow ESC to perform its functions in relation to the Capacity Market. Shared overheads are allocated across all schemes for which the company is responsible for.

This recharge is based on an estimate of the time the company's employees will spend on ESC activities during the relevant financial year, together with an appropriate allocation of overhead costs (including rent, service charges, IT infrastructure support and telephony) and a use of asset charge. It also includes a proportion of the salaries of the Board members who divide their time between the two companies. The company undertakes these activities on behalf of ESC and the ESC Board retains responsibility and accountability for the quality and cost of services provided by the company.

The company and ESC are part of the same VAT group; therefore no VAT is charged on recharge income. The company's income is outside the scope of VAT, so it will be unable to recover its input VAT on any of its expenditure.

### 2.6 Government grants

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

### 2.7 Financial assets

#### 2.7.1 Classification

Financial assets are classified and measured at amortised cost with the exception of financial assets arising from CfD financial instruments (see note 2.9.1.1).

#### 2.7.2 Recognition and measurement

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

#### 2.7.3 Impairment of financial assets

*2.7.3.1 Assets carried at amortised cost*

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

#### 2.7.4 Cash and cash equivalents

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

Supplier's credit cover is established to ensure the LCCC's ability to receive payments in case of any non-payment

# Notes to the financial statements

for the year ended 31 March (continued)

by the Supplier. If a Supplier fails to pay the full invoiced amount, EMRS on behalf of LCCC, will draw down on their credit cover. A corresponding payable is then recorded to indicate the amounts due to suppliers if the Credit Cover is not used. Credit Cover is not used to protect the non-payment of the Operational Costs Levy and Late Payment Interest.

### 2.8 Determination of fair value of financial instruments

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

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

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

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

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

### 2.9 Recognition and measurement of financial assets & liabilities

#### 2.9.1 Initial Measurement

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

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

Financial assets arising from financial instruments are classified, at initial recognition, as financial assets at fair value through profit or loss (FVTPL).

#### 2.9.2 Subsequent measurement

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

*2.9.2.1 Financial liabilities (and assets) at fair value through profit or loss (FVTPL)*

Financial liabilities (and assets) at fair value through profit or loss include financial liabilities (and assets) designated upon initial recognition (i.e., when the company becomes party to the contract and the recognition criteria is met, or at a later date if the recognition criteria is subsequently met) as at fair value through profit or loss.

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

*Contracts for Difference (CfDs)*

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

CfDs are being accounted for as derivates, hence they are classified as FVTPL and are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

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

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

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

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

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

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

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

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

#### 2.9.2.2 Other financial liabilities

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

#### 2.9.3 Derecognition of financial liabilities

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

### 2.10 Property, plant and equipment

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

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

**Assets are depreciated over the following periods:**

| | Years |
|---|---|
| Leasehold improvements | 5 |
| IT equipment | 3 |
| Furniture and Fittings | 10 |

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

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

| | Months |
|---|---|
| London Office building & related facilities – 50 desks | 131 |
| London Office building & related facilities – 60 desks | 108 |

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

### 2.11 Intangible assets

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

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

**Intangible assets are amortised over the following periods:**

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

### 2.12 Leases

#### 2.12.1 Company as a lessee

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

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

#### 2.12.2 Measurement of lease liabilities

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

#### 2.12.3 Measurement of right-of-use assets

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

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

### 2.13 Impairment of non-financial assets

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

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

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.

# Notes to the financial statements

for the year ended 31 March (continued)

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

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

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

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

As of 31 March 2024, the company has only one provision, which is for dilapidation. The dilapidation provision relates to a future liability for dilapidation costs for its leased premises at 10 South Colonnade. The company is required, at the expiry of the lease term, to return the premises to their previous state and condition, including removing any furniture and fittings installed by the company. In accordance with IAS 37 a provision has been created for the relevant estimated future costs. However, due to the immaterial impact of discounting over the lease period, discounting has not been applied.

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

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

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

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

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

(ii) Supplier Obligation Levy receivable (reported as a current asset i.e. receivable in less than one year); and

(iii) Supplier Obligation Levy payable (reported as a current liability i.e. payable within one year).

Supplier Obligation Levy balances are not treated as financial assets or liabilities as they arise from statutory provisions, rather than contractual. Each of the separately reported elements is described in more detail below.

2.19.1 Supplier Obligation Levy
The Supplier Obligation Levy, reported as a non-current asset, is recognised in the statement of financial position to reflect the company's right to benefit from the obligations of electricity suppliers under the Regulations to make payments to the company in order for the company to then settle the related CfDs. The other side of this asset entry is recognised as "other income" and is classified as Supplier Obligation Levy in the statement of comprehensive income. This receivable is measured as equal and opposite to the CfD fair value movement recognised in the statement of financial position as a noncurrent liability under the heading 'Contracts for Difference' (the corresponding entry to the CfD fair value movement also being to the statement of comprehensive income). Where CfDs are in a net asset position, the supplier obligation levy is recognised as a non-current liability. This results in the company's statement of comprehensive income remaining neutral to the impact of the CfD valuation movements and remaining consistent with the company's role as defined by the Regulations.

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

2.19.3 Supplier Obligation Levy payable
The Supplier Obligation Levy payable, reported as a current liability, is recognised in the statement of financial position to reflect the actual amounts owed to suppliers in respect of over-collection of the Interim Levy Rate and Total Reserve Amount at the reporting date. This situation occurs where the estimated payments to be made by suppliers under the Regulations in respect of the Interim Levy Rate and Total Reserve Amount are reconciled to the actual payments which should have been made by suppliers and a difference arises. The over-collection will be returned to suppliers through issuing a credit note after the reporting date which will then be used to offset any subsequent collection of the Total Reserve Amount for future quarterly obligation periods. To the extent that the subsequent quarterly payments owed by suppliers are below the level of the credit note issued, then a cash refund will be made by the company.

2.19.4 Generators payments payable
The generators payments payable is the amount owed to the electricity generators in response to the supply of low carbon electricity in accordance with CfDs and is classified under current liabilities in the statement of financial position.

## 3. Financial risk management

### 3.1 Financial risk management and financial risk factors

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

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

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

(i) price risk;

(ii) inflation risk; and

(iii) interest rate risk.

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

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

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

3.1.3 Maturity profiles
Maturities of finance liabilities are provided in the following table:

| | <1 year £'000 | 2–5 years £'000 | >5 years £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 31 March 2023** | | | | |
| Contracts for Difference | (178,429) | 1,252,113 | 18,497,590 | 19,571,274 |
| Trade and other payables[23] | 51,273 | – | – | 51,273 |
| Loans and borrowings | 211 | 428 | 145 | 784 |
| Lease liabilities | 157 | 536 | 1,204 | 1,897 |
| **Total** | **(126,788)** | **1,253,077** | **18,498,939** | **19,625,228** |
| **As at 31 March 2024** | | | | |
| Contracts for Difference | 1,484,737 | 5,211,103 | 15,149,350 | 21,845,189 |
| Trade and other payables | 61,229 | – | – | 61,229 |
| Loans and borrowings[24] | 250 | 388 | 145 | 783 |
| Lease liabilities | 325 | 1,595 | 1,695 | 3,615 |
| **Total** | **1,546,541** | **5,213,086** | **15,151,190** | **21,910,817** |

Contracts for Difference amounts are based on the carrying values of CfD financial liabilities. Note 23 provides disclosures relating to the fair value of the CfDs.

23 In previous year the trade and other payables amount was mistyped as 51 instead of 51,273. This has now been corrected. It has no impact on any other calculations in the 2022-23 financial statements.

24 All figures in above table beyond the first year are discounted, except for loans and borrowings, as the impact of discounting on these items is negligible.

# Notes to the financial statements

for the year ended 31 March (continued)

## 4. Critical accounting judgements, estimates and assumptions

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

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

### 4.1 Estimates

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

#### 4.1.1 Valuation of CfD liabilities and assets

The fair value of the unquoted CfD contracts is calculated using the income approach (discounted cash flow model) and represents the company's best estimate of the payments which the company will be committed to make or payments receivable from generators, if and when the generators supply low carbon electricity in accordance with their contractual terms. Annual cash flow is estimated as strike price minus forecast reference price, multiplied by estimated eligible generation volume. The series of periodic net operating expense is then discounted using a real discount rate based on the HM Treasury nominal rate of 2.05% adjusted by the latest OBR CPI inflation forecasts for each modelled year.

The valuation requires management to make certain assumptions about the model inputs, including cash flows, the discount rate, credit risk and volatility. Significant inputs are disclosed in note 23.

One of the key inputs into the cash flow model is the estimate of future electricity prices which is derived by applying certain inputs and assumptions such as overall electricity demand, commodity prices, carbon prices, government policy, technology, and deployment of new generating capacity. Most commercial and public sector modelling of the electricity system for long term forecasting takes a very similar approach, but the detailed assumptions and methodology may differ. Given the complexity, range of possible inputs, and long-term nature of the modelling, and also to some extent the iterative relationship between the expectations of overall system cost and long-term demand (especially industrial demand), long-term system forecasts are not generally seen as a single "most likely" outcome with degrees of uncertainty either side. In fact, there are multiple sets of inputs that are internally consistent, and credible. Often a set of these inputs will be used as a "scenario," and multiple deliberately different scenarios are used to illustrate different possible futures when undertaking long-term forecasting. The range of uncertainty can be significant when forecasting (as illustrated in note 23.5) but does not necessarily mean that an individual scenario is not reasonable. The company has used an independent industry recognised price series for the CfD valuation at 31 March 2024. The independent industry recognised price series applied was not an outlier of other industry recognised price series.

#### 4.1.2 HPC Strike price adjustment

The HPC CfD contract contains a clause which states that if a CfD in relation to Sizewell C is entered into before the reactor one start date then the applicable strike price will be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh. There have been legal developments around RAB and Government investment during the year and management recognise that the likelihood of Sizewell C entering in to a CfD is greater than the prior year. Management have taken a view that Sizewell C is more likely to occur however recognise there is still significant uncertainty and have recognised 75% of the strike price adjustment in the valuation.

### 4.2 Significant judgement

#### 4.2.1 Fair value measurement of Hinkley Point C CfD

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

The Hinkley Point C CfD duration is more than double (35 years) the length of other CfDs (15 years) entered into by the company. This has made it considerably more challenging for management to provide a reliable single point fair value estimate for Hinkley Point C CfD, however in recent years (since 2019/20), the availability of third-party price forecasts has improved to the extent that LCCC has been able to recognise Hinkley Point C in a similar manner to other CfDs.

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

The fair value of the CfDs, disclosed in note 23, is derived at initial recognition based on the valuation technique that uses data other than from observable sources. In accordance with IFRS 9, the measurement of CfDs in the statement of financial position therefore includes an adjustment to defer the difference between the fair value at initial recognition and the transaction price of nil.

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

#### 4.2.3 Supplier Obligation Levy

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

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

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

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

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

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

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods.

The following amendments are effective for the annual periods beginning on or after 1 January 2024, However, they do not apply to the company as it does not engage in these transactions:

- Amendment to IFRS 16 Leases on sale and leaseback explaining how to account for a sale and leaseback after the date of the transaction.
- Amendment to IAS 1 Non-current liabilities with covenants clarifying how conditions must be complied within twelve months after the reporting period affect the classification of a liability.
- Amendment to IAS 7 and IFRS 7 Supplier finance requiring disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

The following new IFRS sustainability disclosure standards effective for reporting periods beginning on or after 1 January 2024, not mandatory for adoption. LCCC has chosen not to adopt these standards.

- IFRS S1, 'General requirements for disclosure of sustainability-related financial information – This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across value chain.
- IFRS S2, 'Climate-related disclosures – This standard sets out requirements to disclose information about climate-related risks and opportunities.

The following amendment is effective for the annual periods beginning on or after 1 January 2025. However, it does not apply to LCCC as company does not engage in foreign currency transactions:

- Amendments to IAS 21 – Lack of Exchangeability: impacting when company has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose.

# Notes to the financial statements

for the year ended 31 March (continued)

## 6. Other income

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Operational costs levy income | 26,343 | 23,153 |
| Less: expected refund to suppliers | (8,172) | (9,187) |
| **Net operational costs levy income** | **18,171** | **13,966** |
| Grant Income | 5,453 | 2,988 |
| Recharges to ESC (refer to note 19) | 1,918 | 1,748 |
| Recharges to DESNZ (refer to note 19) | 147 | 72 |
| Late payment interest | (4) | (61) |
| **Other income** | **25,685** | **18,713** |

Grant income relates to Government Grant received to fund advisory and implementation work on Industrial Decarbonisation and Hydrogen Revenue Support Scheme (IDHRS) Business model (Industrial Carbon Capture and Storage and Blue/Green Hydrogen). The grant is non-repayable and recognised in the Statement of Changes in Income to match against costs incurred.

## 7. Staff costs

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Wages and salaries (including secondees) | 11,866 | 8,342 |
| Social security costs | 1,281 | 964 |
| Agency and contracted staff costs | 594 | 321 |
| Defined contribution pension plans | 894 | 618 |
| **Staff costs** | **14,635** | **10,245** |

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

| | 2024 number | 2023 number |
|---|---|---|
| Permanent staff | 171 | 107 |
| Agency and contracted staff | 11 | 10 |
| **Total** | **182** | **117** |

The remuneration of directors and the disclosure of the highest paid director are included in the Remuneration Report on pages 77 to 80.

## 8. Other operating costs

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Operational settlement costs | 3,528 | 3,018 |
| Legal, professional and consultancy | 2,943 | 2,075 |
| IT support, telephony and maintenance | 1,707 | 1,252 |
| Insurance | 621 | 556 |
| Premises costs | 341 | 362 |
| HR and Finance costs | 539 | 403 |
| Subscriptions | 138 | 60 |
| Events & Premises | 172 | 35 |
| Travel & Subsistence | 130 | 84 |
| Other costs | 157 | 86 |
| Auditor's remuneration | 218 | 190 |
| **Other operating costs** | **10,494** | **8,121** |

Auditor's remuneration represents audit fees of £182k (2023: £159k) excluding VAT. The fees shown in the table above are VAT inclusive.

## 9. Property, plant and equipment

| | IT equipment £'000 | Furniture and fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **As at 31 March 2022** | **246** | **75** | **321** |
| Additions during the year | 176 | – | 176 |
| Disposals during the year | (1) | (75) | (76) |
| **As at 31 March 2023** | **421** | **–** | **421** |
| Additions during the year | 235 | – | 235 |
| Disposals during the year | – | – | – |
| **As at 31 March 2024** | **656** | **–** | **656** |
| | | | |
| **Depreciation** | | | |
| **As at 31 March 2022** | **154** | **5** | **158** |
| Charge for the year | 73 | 6 | 79 |
| Disposals during the year | – | (11) | (11) |
| **As at 31 March 2023** | **226** | **–** | **226** |
| Charge for the year | 122 | – | 122 |
| Disposals during the year | – | – | – |
| **As at 31 March 2024** | **348** | – | **348** |
| | | | |
| **Net book value as at 31 March 2023** | **195** | **–** | **195** |
| **Net book value as at 31 March 2024** | **308** | – | **308** |

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

# Notes to the financial statements

for the year ended 31 March (continued)

## 10. Right-of-use assets

| | Office building & related facilities (50 desks) £'000 | Office building & related facilities (60 desks) £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **As at 31 March 2022** | **2,277** | **–** | **2,277** |
| Additions during the year | – | – | – |
| Disposals during the year | – | – | – |
| **As at 31 March 2023** | **2,277** | **–** | **2,277** |
| Additions during the year | – | 1,977 | 1,977 |
| Disposals during the year | – | – | – |
| **As at 31 March 2024** | **2,277** | **1,977** | **4,254** |
| **Depreciation** | | | |
| **As at 31 March 2022** | **139** | **–** | **139** |
| Charge for the year | 208 | – | 208 |
| Disposals during the year | – | – | – |
| **As at 31 March 2023** | **347** | **–** | **347** |
| Charge for the year | 209 | 165 | 374 |
| Disposals during the year | – | – | – |
| **As at 31 March 2024** | **556** | **165** | **721** |
| | | | |
| **Net book value as at 31 March 2023** | **1,930** | **–** | **1,930** |
| **Net book value as at 31 March 2024** | **1,721** | **1,812** | **3,533** |

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Interest expense on lease liabilities[27] 50 desks | 17 | 19 |
| Interest expense on lease liabilities[27] 60 desks | 51 | – |
| Depreciation expense on right-of-use assets – 50 desks | 208 | 208 |
| Depreciation expenses on right-of-use assets – 60 desks | 165 | |
| Total cash outflow relating to leases – 50 desks | **158** | **257** |
| Total cash outflow relating leases – 60 desks | **101** | **–** |

In accordance with IFRS 16 Office building and related facilities are deemed to be a right-of-use asset. Other expenditure recognised in the year in respect of leases (i.e. short term and leases of low value items) is deemed immaterial. None of LCCC's property leases include variable terms.

27 Interest on right of use asset included in miscellaneous costs.

## 11. Intangible assets

| | Settlement System £'000 | Other IT software £'000 | Software under development £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| **As at 31 March 2022** | **1,877** | **1,293** | **–** | **3,170** |
| Additions during the year | – | – | 490 | 490 |
| **As at 31 March 2023** | **1,877** | **1,293** | **490** | **3,661** |
| Additions during the year | – | – | 1494 | 1,494 |
| **As at 31 March 2024** | **1,877** | **1,293** | **1,984** | **5,154** |
| **Amortisation** | | | | |
| **As at 31 March 2022** | **1,877** | **1,105** | **–** | **2,982** |
| Charge for the year | – | 60 | – | 60 |
| **As at 31 March 2023** | **1,877** | **1,165** | **–** | **3,042** |
| Charge for the year | – | 60 | – | 60 |
| **As at 31 March 2024** | **1,877** | **1,225** | **–** | **3,102** |
| | | | | |
| **Net book value as at 31 March 2023** | **–** | **128** | **490** | **619** |
| **Net book value as at 31 March 2024** | **–** | **68** | **1,984** | **2,052** |

The original settlement systems are fully amortised, however they are still in use. LCCC has spent operational costs on the system to update for regulation changes and followed a continuous improvement mindset which has prolonged the life of the asset. Given the work undertaken and the scale of task to replace the settlement system, it is expected the settlement system will be used until at least 2026.

The additions in the current year relate to the ongoing multi-year internal build of a user interface platform (Zero) and new settlements systems, and development of the new levy forecasting model.

## 12. Supplier Obligation Levy receivable

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Interim Levy Rate accruals | 118,916 | 59,520 |
| Interim Levy Rate receivable | 53,519 | 189,771 |
| **Total Supplier Obligation Levy receivable** | **172,435** | **249,291** |

The Interim Levy Rate receivable reflects the amounts owed by suppliers to fund the necessary payments to generators under the CfDs. Unutilised Total Reserve Amount due to be returned to suppliers, as disclosed in note 17, is £388.2m (2022/23: £424.0m).

# Notes to the financial statements

for the year ended 31 March (continued)

## 13. Operational costs levy receivable

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Operational costs levy receivable | 573 | 519 |
| Operational costs levy accrued | 1,859 | 1,438 |
| **Total operational costs levy receivable** | **2,432** | **1,957** |

## 14. Trade and other receivables

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Prepayments | 737 | 645 |
| Due from DESNZ | 3,991 | 1,624 |
| Due from ESC | 237 | – |
| **Total trade and other receivables** | **4,965** | **2,269** |

## 15. Cash and cash equivalents

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Cash at bank | 398,685 | 286,271 |
| Suppliers' credit cover | 58,390 | 48,446 |
| **Total cash and cash equivalents** | **457,075** | **334,717** |

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and suppliers' credit cover as stated above. Cash at bank includes cash of £364.4m relating to unutilised Total Reserve Amount received from suppliers to cover the shortfall in Supplier Obligation Levy. Total Reserve Amount and Supplier Obligation Levy included within cash at bank in prior year amounted to £238.6m. Suppliers' credit cover is a restricted cash balance and relates to credit cover provided by the electricity suppliers.

## 16. Operational costs levy payable

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Operational costs levy payable | 8,172 | 9,187 |
| **Total operational costs levy payable** | **8,172** | **9,187** |

## 17. Supplier Obligation Levy and generators payments payable

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Generators payment payable | 108,822 | 54,878 |
| Total Reserve Amount payable | 388,227 | 424,049 |
| Generators payment accrual | 70,699 | 48,304 |
| **Total Supplier Obligation Levy and generators payments payable** | **567,748** | **527,231** |

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

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

## 18. Trade and other payables

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Current:** | | |
| Suppliers' credit cover | 58,017 | 48,273 |
| Accruals | 2,055 | 1,713 |
| Other taxation and social security | 439 | 304 |
| Trade payables | 226 | 481 |
| Due to ESC | 930 | 983 |
| | **61,667** | **51,754** |

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Non-Current:** | | |
| Deferred income | 691 | – |
| **Total trade and other payables** | **62,358** | **51,754** |

The deferred Government grant income is related to Grant in aid received for the development of intangible assets (Settlement systems and Platforms for managing schemes) which will be recognised in line with amortisation as per IAS 38.

# Notes to the financial statements

for the year ended 31 March (continued)

## 19. Loans and borrowings

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Current:** | | |
| Grant in aid capital loan | 250 | 211 |
| | | |
| **Non-current:** | | |
| Grant in aid capital loan | 533 | 573 |
| **Total loans and borrowings** | **783** | **784** |

DESNZ provide LCCC with a grant in aid capital loan which provides LCCC cash for capital purchases whilst recognising the expense over the asset's useful life. The grant in aid capital loan from DESNZ is repayable in line with the depreciation over the useful life of the relevant asset.

## 20. Lease liabilities

| | Office building & related facilities (50 desks) £'000 | Office building & related facilities (60 desks) £'000 | Total £'000 |
|---|---|---|---|
| **As at 31 March 2022** | **2,154** | **–** | **2,154** |
| Repayment of finance lease obligations | (257) | – | (257) |
| **As at 31 March 2023** | **1,897** | **–** | **1,897** |
| Additions during the year – 60 desks | – | 1,977 | 1,977 |
| Disposals during the year | (158) | (101) | (259) |
| **As at 31 March 2024** | **1,739** | **1,876** | **3,615** |

| **Lease Liability Ageing** | **£'000** |
|---|---|
| Less than 1 year | 157 |
| Between 1 and 5 years | 536 |
| Greater than 5 years | 1,204 |
| **As at 31 March 2023** | **1,897** |
| Less than 1 year | 325 |
| Between 1 and 5 years | 1,595 |
| Greater than 5 years | 1,695 |
| **As at 31 March 2024** | **3,615** |
| | |
| Current | 157 |
| Non-current | 1,740 |
| **As at 31 March 2023** | **1,897** |
| Current | 325 |
| Non-current | 3,290 |
| **As at 31 March 2024** | **3,615** |

In the current year, 60 desks were added to the 10SC building, leading to separate lease liability calculations under IFRS 16. Lease modifications are treated as separate leases if they increase the scope and consideration. DESNZ uses discount rates from the Public Expenditure System (PES) paper, with rates changing from 0.95% to 3.51% between leases. As a result, lease liabilities for the additional desks are computed using the new rate, while those for existing desks are based on the old rate, ensuring separate presentation.

## 21. Related party transactions

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

| | Services to related parties £'000 | Services from related parties £'000 | Amounts owed by related parties £'000 | Amounts owed to related parties £'000 |
|---|---|---|---|---|
| Entities with significant influence: | | | | |
| **2023** | | | | |
| DESNZ | 3,060 | – | 1,611 | 846 |
| ESC | 1,748 | – | – | 983 |
| **2024** | | | | |
| DESNZ | 5,600 | – | 3,991 | 1,550 |
| ESC | 1,918 | – | 237 | 930 |

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

Services to DESNZ includes costs for advisory work and implementation for ICC and Hydrogen business models totalling £5,453k (2023: £2,988k), £84k (2023: £69k) relating to the development of a Regulated Asset Base (RAB) model to fund the provision of new nuclear energy infrastructure projects and £63k (2023: £10k) in relation to the development of Greenhouse Gas Removal (GGR).

Amounts owed to DESNZ include the grant in aid capital loan £783k (2023: £784k) (refer to note 19), deferred income amounting to £75k (2023: £30k) and lease liability relating to the settlement system asset totalling £691k (2023: £nil).

### 21.1 Compensation of key management personnel of the company

Key management personnel include executive directors, and their compensation is disclosed in the Remuneration Report on pages 77 to 80.

## 22. Financial assets and liabilities

| Financial assets | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Contracts for Difference | 23 | 4,616,532 | 6,130,441 |
| Trade receivables | 14 | 4,228 | 1,623 |
| Cash and cash equivalents | 15 | 457,075 | 334,717 |
| **Total financial assets** | | **5,077,835** | **6,466,781** |
| | | | |
| Total current | | 461,303 | 336,340 |
| Total non-current | | 4,616,532 | 6,130,441 |
| **Total financial assets** | | **5,077,835** | **6,466,781** |

# Notes to the financial statements

for the year ended 31 March (continued)

| Financial liabilities | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Contracts for Difference | 23 | 21,845,190 | 19,571,274 |
| Trade and other payables | 16 | 61,229 | 51,450 |
| Loans and borrowings | 17 | 783 | 784 |
| Lease liabilities | 20 | 3,615 | 1,896 |
| **Total financial liabilities** | | **21,910,817** | **19,625,404** |
| | | | |
| Total current | | 61,804 | 51,818 |
| Total non-current | | 21,849,013 | 19,573,587 |
| **Total financial assets** | | **21,910,817** | **19,625,404** |

## 23. CfDs

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

As at 31 March 2024 the company was counterparty to 240 contracts, including Hinkley Point C.

In 2022/23, high market prices caused a number of CfDs to move to an asset position. This is reflected in the presentation on the primary statements and through note 22 where the CfD portfolio is split between assets and liabilities. The "Measurement differences relating to day one recognition" presented in note 23.1 and the "Movement in deferred measurement differences" presented in note 23.2 are added together to give the total valuation presented in the "Reconciliation of CfDs" within note 23.3.2.

### 23.1 Measurement differences relating to day one recognition

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

The following table presents the carrying amount of the liability/asset on the SOFP. The balance is calculated using fair value movement, amortisation of deferred initial values and payments. CfDs excluding HPC are split between assets and liabilities based on the carrying amount of the CfD at year end. If a CfD has transferred from liability to asset (or vice versa), a reclassification line is included in the table below.

| | CfDs exc. HPC (Liabilities) £'000 | CfDs exc. HPC (Assets) £'000 | HPC CfD (Liabilities) £'000 | Total £'000 |
|---|---|---|---|---|
| **CfD liability as at 31 March 2022 recognised in the statement of financial position** | **17,025,698** | **(675,980)** | **10,598,325** | **26,948,043** |
| Liability / Asset reclassification | (3,965,043) | 3,965,043 | – | – |
| Remeasurement of the CfD liability | (3,101,163) | (9,908,039) | (1,860,821) | (14,870,023) |
| Payments to the CfD generators | (170,369) | 153,926 | – | (16,443) |
| Deferred difference recognised during the year | 1,044,647 | 334,609 | – | 1,379,257 |
| **CfD liability as at 31 March 2023 recognised in the statement of financial position** | **10,833,770** | **(6,130,441)** | **8,737,504** | **13,440,833** |
| Liability / Asset reclassification | (1,700,191) | 1,700,191 | – | – |
| Remeasurement of the CfD liability | 7,400,003 | (204,161) | (3,038,677) | 4,157,165 |
| CFD liability released relating to terminated contracts | (4,469) | (316,598) | – | (321,067) |
| Payments to the CfD generators | (1,822,356) | (42,390) | – | (1,864,746) |
| Deferred difference recognised during the year | 1,439,606 | 376,867 | | 1,816,473 |
| **CfD liability as at 31 March 2024 recognised in the statement of financial position** | **16,146,363** | **(4,616,532)** | **5,698,827** | **17,228,657** |

During the year, the net movement of £5,653m (2022/23: –£13,491m) in the fair value of CfDs is recognised in the statement of comprehensive income. In the CfD portfolio, HPC is disclosed separately given materiality and CfDs excluding HPC are split between assets and liabilities. The aggregation of HPC liability (£5,698,827k) and CfDs excluding HPC liability (£16,146,363k) is £21,845,189k (2023: £19,571,274k). On the statement of financial position.

### 23.2 Movement in deferred measurement differences

The table below shows the movement in deferred measurement differences. The CfDs (excluding HPC) are split between losses and gains based on the amount deferred at initial recognition.

| | CfDs exc. HPC (Losses) £'000 | CfDs exc. HPC (Gains) £'000 | HPC CfD £'000 | Total £'000 |
|---|---|---|---|---|
| **Deferred measurement differences as at 31 March 2022** | **19,841,707** | **(9,560)** | **50,826,301** | **70,658,448** |
| Measurement differences deferred during the year (AR4) | 2,048,329 | (262,411) | – | 1,785,918 |
| Deferred measurement differences recognised during the year | (1,370,920) | – | – | (1,370,920) |
| Measurement differences recognised relating to terminated CfDs | (8,337) | – | – | (8,337) |
| **Deferred measurement differences as at 31 March 2023** | **20,510,779** | **(271,972)** | **50,826,301** | **71,065,109** |
| Recognition of AR5 | 2,673,793 | – | – | 2,673,793 |
| Deferred measurement differences recognised during the year | (1,495,407) | – | – | (1,495,407) |
| Measurement differences recognised relating to terminated CfDs | (346,949) | 25,882 | | (321,067) |
| **Deferred measurement differences as at 31 March 2024** | **21,342,216** | **(246,089)** | **50,826,301** | **71,922,428** |

### 23.3 Fair value measurement of CfDs

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

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

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

#### 23.3.1 Fair value of CfDs (fair value through profit and loss)

The following table provides an analysis of financial instruments which are measured subsequent to initial recognition at fair value. The split between losses and gains is based on valuation based on the full life of the contract. They are grouped into input levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 31 March 2022** | **–** | **–** | **97,591,407** | **97,591,407** |
| Losses | – | – | 87,103,654 | 87,103,654 |
| Gains | – | – | (2,597,714) | (2,597,714) |
| **As at 31 March 2023** | **–** | **–** | **84,505,940** | **84,505,940** |
| Losses | – | – | 92,051,033 | 92,051,033 |
| Gains | – | – | (2,899,947) | (2,899,947) |
| **As at 31 March 2024** | **–** | **–** | **89,151,086** | **89,151,086** |

# Notes to the financial statements

## for the year ended 31 March (continued)

### 23.3.2 Reconciliation of CfDs

The following table shows the impact on the fair values of CfDs, classified under level 3, by using the assumptions described below. The split between losses and gains is made on the valuation of the full life of the contracts.

| | CfDs exc. HPC (Losses) £'000 | CfDs exc. HPC (Gains) £'000 | HPC CfD £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 31 March 2022** | **36,166,932** | **(153)** | **61,424,626** | **97,591,406** |
| Gain / Loss reclassification | (2,143,833) | 2,143,833 | – | – |
| Change in fair value during the year | (7,506,933) | (5,502,269) | (1,860,821) | (14,870,023) |
| Measurement differences deferred during the year (AR4) | 1,025,042 | 760,876 | – | 1,785,918 |
| Payments to the CfD generators | (16,443) | – | – | (16,443) |
| CfDs terminated in prior year | 15,084 | – | – | 15,084 |
| **As at 31 March 2023** | **27,539,849** | **(2,597,714)** | **59,563,805** | **84,505,940** |
| Gain / Loss reclassification | (115,249) | 115,249 | – | – |
| Change in fair value during the year | 7,368,268 | (172,426) | (3,038,677) | 4,157,165 |
| Measurement differences deferred during the year (AR5) | 2,673,793 | – | – | 2,673,793 |
| CfDs terminated in year | (76,011) | (245,056) | – | (321,067) |
| Payments to the CfD generators | (1,864,745) | – | – | (1,864,745) |
| **As at 31 March 2024** | **35,525,905** | **(2,899,947)** | **56,525,128** | **89,151,086** |

### 23.3.3 CfD (excluding HPC) summary

The table below summarises the CfD portfolio and illustrates the movement between the recognition of gains and losses. The table excludes terminated CfDs and HPC. It includes one CfD held at nil value in gains at 31 March 2024 which was terminated in April 2024.

| | Number of CfDs | Fair value at initial recognition £'000 | Fair value at 31 March 2024 £'000 | CfD Asset/ Liability in the statement of financial position £'000 | Unamortised deferred difference at reporting date £'000 |
|---|---|---|---|---|---|
| CfDs assessed as gains at initial recognition | 11 | (202,734) | (487,548) | (284,814) | (202,734) |
| CfDs assessed as losses at initial recognition | 19 | 1,575,856 | (2,412,399) | (3,988,255) | 1,575,856 |
| ***CfDs assessed as gains at 31 March 2024*** | ***30*** | | | | |
| CfDs assessed as gains at initial recognition | 9 | (37,795) | 38,749 | 76,544 | (37,795) |
| CfDs assessed as losses at initial recognition | 199 | 26,963,347 | 35,487,156 | 15,726,356 | 19,760,798 |
| ***CfDs assessed as losses at 31 March 2024*** | ***208*** | | | | |
| **Total** | **238** | **28,298,674** | **32,625,958** | **11,529,831** | **21,096,126** |

### 23.4 Key inputs and underlying assumptions for CfDs

#### 23.4.1 Estimated future forecast wholesale electricity prices

Forecast wholesale electricity prices used to estimate the fair value of CfDs are derived from an independent price series. Energy price series estimates the wholesale price by:

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

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

The forecast trajectory of electricity prices is uncertain. In the valuation, management has used an industry recognised independent price series which is not an outlier. The internal model used to calculate the fair value has been updated for short-term prices, installed capacities, TLM, and load factors.

In the valuation, the wholesale price has been reduced to reflect the price the wind generator is likely to receive. Additionally, wholesale electricity forward prices have been used for the liquid trading horizon (covering the nearest 2 years period). On windy days, the price that wind generators receive is likely to be reduced.

#### 23.4.2 Estimated future wholesale electricity generation

*23.4.2.1 Transmission Loss Multiplier (TLM)*

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

*23.4.2.2 Start date*

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

The estimated start dates for reactor one and reactor two of the Hinkley Point C project are 1 June 2029 and 1 June 2030, respectively. The TCW for reactor one is 1 May 2025 to 30 April 2029. The TCW for reactor two is 1 November 2025 to 31 October 2029.

Given the length of time until the estimated start date there remains a degree of uncertainty and significant change to the start date will change the timing of future cash flows and have a material impact on the discounted fair value.

The HPC start date utilised is the projects view and the basis of the schedule they are utilising. An EDF SA press release in January 2024 included further unfavourable scenarios seeing operations not start until 2030 or 2031 if certain risks materialise, it is currently not possible to reasonably estimate if these will occur. These scenarios are included in the sensitivity analysis in note 23.5.

*23.4.2.3 Installed Capacity*

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

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

*23.4.2.4 Load Factor*

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

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

#### 23.4.3 Strike price

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

The relevant strike price is specified in each CfD and is not intended to change for the duration of the project, other than through indexation to CPI and certain network charges, or in the event of certain qualifying changes in law. The strike price used in the valuation of the CfDs is the 2024/25 strike price and reflects the CPI rate for January 2024, in line with the requirements of the CfD contract.

The announcement made by Ofgem in April 2022 stating that from the 1st April 2023 generators will no longer pay BSUoS charges has been incorporated into the strike price forecast as at the 31st March 2024.

If a Contract for Difference (or equivalent support) in relation to Sizewell C is entered into before the reactor one start date, then the applicable strike price shall be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh. There have been legal developments around RAB and Government investment during the year and management recognise that the likelihood of Sizewell C entering into a Contract for Difference (or equivalent) is greater than the prior year. Management have taken a view that the Sizewell C is more like to occur than not and have recognised 75% of the strike price adjustment, using £90.25/MWh (2022/23 – £91.00/MWh) in the valuation. The impact of the strike price adjustment crystalising either way is included in the sensitivity analysis in note 23.5.

# Notes to the financial statements

for the year ended 31 March (continued)

23.4.4 Equity gain share for Hinkley Point C
The equity gain share mechanism consists of two separate components: (i) a mechanism to capture gains above specified levels where the Hinkley Point C project outperforms relative to the original base case assumptions; and (ii) a mechanism to capture gains above specified levels arising from the sale of equity and economic interests (direct or indirect) in the Hinkley Point C project.

In each case, as and when the Internal Rate of Return (IRR) thresholds are reached:

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

No adjustment to the valuation has been made for equity gain share on the grounds that none of the conditions outlined above have been met and it is currently not possible to reasonably estimate if they will be met in the future.

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

Reducing the strike price will reduce the amounts paid out to NNB Generation Company under the CfD will reduce and hence the benefit of the lower construction costs is shared between NNB Generation Company and ultimately consumers. There is, however, no similar upward adjustment if the construction cost of Hinkley Point C is over budget.

No adjustment to the valuation has been made for construction gain share on the grounds that there has not been any construction gain share during the year and none is forecast to occur in the future.

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

No adjustment to the valuation has been made for OPEX reopener on the grounds that the opex reopener dates have not been reached yet and there is no evidence that original assumptions are invalid.

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

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

In line with 2022/23, LCCC has this year derived a real discount rate from the HM Treasury nominal discount rate of 2.05% adjusted by the latest CPI inflation forecasts for each modelled year, given that the strike price is indexed to CPI, resulting in the following real discount rates:

| | |
|---|---|
| **2024/25** | 0.49% |
| **2025/26** | 0.44% |
| **2026/27** | 0.38% |
| **2027/28 and thereafter** | 0.05% |

For future year-on-year comparability we include an undiscounted valuation of the CfDs to compare with table 23.3.2:

| | CfDs exc. HPC £'000 | HPC CfD £'000 | Total £'000 |
|---|---|---|---|
| **As at 31 March 2021** | **38,864,510** | **61,221,251** | **100,085,761** |
| **As at 31 March 2022** | **34,843,617** | **58,381,214** | **93,224,831** |
| **As at 31 March 2023** | **25,626,931** | **60,424,228** | **86,051,159** |
| **As at 31 March 2024** | **33,002,777** | **57,716,392** | **90,719,169** |

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

| | Favourable/ (unfavourable) HPC CfD £'000 | Favourable/ (unfavourable) other CfDs £'000 | Favourable/ (unfavourable) Total impact £'000 |
|---|---|---|---|
| **Change in fair value of CfDs if:** | | | |
| Highest price third party series | 29,525,000 | 46,608,000 | 76,133,000 |
| Lowest price third party series | (18,373,000) | (27,727,000) | (46,100,000) |
| Discount rate of 3.5% | 29,099,247 | 5,817,970 | 34,917,217 |
| 2022/23 Discount rate | (198,746) | 597,568 | 398,821 |
| Undiscounted | (1,191,000) | (377,000) | (1,568,000) |
| **Specific to Other CfDs:** | | | |
| 2% more load factor | - | (652,427) | (652,427) |
| 4% more load factor | - | (1,304,855) | (1,304,855) |
| 2% less load factor | - | 652,427 | 652,427 |
| 4% less load factor | - | 1,304,855 | 1,304,855 |
| Estimated Commissioning Date moves backward by one year | – | (831,236) | (831,236) |
| Generation starts at the earliest possible date | - | 496,247 | 496,247 |
| **Specific to HPC CfD:** | | | |
| 10% less load factor | 5,652,513 | - | 5,652,513 |
| Generation cap | (528,119) | | (528,119) |
| Generation start date delayed one year from estimated start date | 1,520,553 | - | 1,520,553 |
| Generation start date delayed two years from estimated start date | 3,076,809 | - | 3,076,809 |
| Sizewell C strike price adjustment (100%, £3) | 913,517 | - | 913,517 |
| Sizewell C strike price adjustment (0%, £nil) | (2,740,551) | - | (2,740,551) |

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

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

| | Fair value of CfDs £'000 | Valuation technique | Significant unobservable input | Range min-max | Units |
|---|---|---|---|---|---|
| 2021 | 88,930,047 | DCF | Electricity prices | 24.62–77.77 | £/MWh |
| 2022 | 97,951,406 | DCF | Electricity prices | 37.84–244.00 | £/MWh |
| 2023 | 84,505,940 | DCF | Electricity prices | 39.07–141.35 | £/MWh |
| 2024 | 89,151,086 | DCF | Electricity prices | 25.54 – 78.94 | £/MWh |

# Notes to the financial statements

for the year ended 31 March (continued)

### 24. Supplier Obligation Levy

| | £'000 |
|---|---|
| **As at 31 March 2022** | **26,948,043** |
| Levy receivable recognised against remeasurement of CfD liability | (14,870,023) |
| Supplier Obligation Levy received during the year, net of repayable | (16,443) |
| Amortisation charge during the year | 1,379,257 |
| **As at 31 March 2023** | **13,440,833** |
| Levy receivable recognised against remeasurement of CfD liability | 4,157,165 |
| Levy receivable derecognised relating to terminated contracts | (321,067) |
| Supplier Obligation Levy received during the year, net of repayable | (1,864,745) |
| Amortisation charge during the year | 1,816,473 |
| **As at 31 March 2024** | **17,228,658** |

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

### 25. Share capital

| | Number |
|---|---|
| **Authorised shares** | |
| Ordinary share capital £1 each | 1 |
| | |
| **Ordinary share capital issued and fully paid:** | **£** |
| As at 31 March 2022 and 31 March 2023 | 1 |
| Share capital issued during the year | – |
| **As at 31 March 2024** | **1** |

### 26. Events after the reporting period

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



# Glossary

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

# Glossary
(continued)

| | |
|---|---|
| **DDM (or Dynamic Despatch Model)** | The long term forecast of wholesale electricity prices is derived from the Dynamic Dispatch Model. The DDM was developed by DESNZ (formerly) BEIS to inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment (the figures for Great Britain are modelled out to 2050). |
| **Delivery Partners** | CfD Delivery Partners are organisations involved in delivering the CfD. The CfD Delivery Partners are LCCC Ofgem and the EMR Delivery Body of National Grid ESO. |
| **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. |
| **DESNZ** | Department for Energy Security and Net Zero. |
| **ECJ** | Means the General Court of the Court of Justice of the European Union. The ECJ on 15 November 2018 (Case T–793 14) annulled the main State aid approval granted by the European Commission for the Capacity Market scheme. |
| **EMRS** | EMR Settlement Ltd (EMRS) is a wholly owned subsidiary company of ELEXON Ltd. It is the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (ELEXON website: www.elexon.co.uk/) |
| **Energy Data Taskforce** | The Energy Data Taskforce was established by Government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency. |
| **ESC** | Electricity Settlements Company Ltd. |
| **ESO** | The Electricity System Operator (ESO), a ring-fenced part of National Grid which performs the functions of the 'EMR Delivery Body', in relation to CfD and Capacity Market auctions. |
| **FiDeR** | See Investment Contracts. |
| **FIC** | Final Installed Capacity. |
| **Interim Levy Rate** | Under the Supplier Obligation Levy, electricity suppliers make pre-payments consisting of a unit cost fixed Interim Levy Rate, charged at a daily £/MWh rate to fund the cost of CfD generation payments. The Interim Levy Rate is set by LCCC every quarter, one quarter in advance, based on an estimate of the payments that will need to be made in respect of CfD generation in that quarter. |
| **Investment Contracts** | Investment Contracts are an earlier (April 2014) version of CfDs entered into by the Secretary of State in mid-2014 pending the full establishment of the CfD scheme and of LCCC. The Secretary of State has transferred these contracts to LCCC. The contracts are also known as the Financial Investment Decision enabling Renewables (or FiDeR). |
| **Market reference price** | The market reference price is a proxy for the average market price relating to the electricity sold by the generator. |
| **Milestone Requirement** | The CfD requires generators to demonstrate that, by the "Milestone Delivery Date" set out in their CfD, they have made a significant financial commitment to and are progressing the construction of their project (i.e. new generation plant). This date is 12 months from the date of entry into the CfD agreement. Generators demonstrate this requirement by providing LCCC with evidence that they either have spent 10% of the project cost or have entered into contracts committing to expenditure and development of the project. |
| **Operational Conditions Precedent** | Operational Conditions Precedent is a significant milestone under the CfD. Generators are required to satisfy certain commissioning and other requirements in order to achieve their CfD start date and be eligible for CfD payments (i.e. they must achieve their Operational Conditions Precedent). In particular, as part of their requirements, projects are required to be able to achieve a minimum 80% of their installed capacity (or expected Facility generation) referred to in the relevant generator's application for a CfD. |
| **REMA** | Review of Electricity Market Arrangements, a programme of policy development by DESNZ to fully align market arrangements with the need to decarbonise the power sector. |
| **Secretary of State (SoS)** | Means the Secretary of Department of Energy Security and Net Zero, our shareholder. |
| **Standstill Period** | Means the period beginning on 15 November 2018 and ending on the date on which the deferred capacity payment trigger event or the agreement termination trigger event occurs (as further described in the relevant Capacity Market regulations). |
| **State aid** | State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition in the European Union. |
| **Supplier Obligation Levy** | Electricity suppliers are required under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended) to fund the CfD payments made by LCCC to generators. |
| **Supplier Obligation Regulations** | The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014, the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 and related amending regulations which govern the rules for the management of the Supplier Obligation Levy. |
| **System Operator** | Organisation licenced by Ofgem to operate the GB electricity system; a role currently held by National Grid Plc. The electricity SO's current responsibilities include balancing the electricity system, running electricity Capacity Auctions, coordinating and administering aspects of industry rules and codes and supporting efficient transmission network development. |
| **Total Reserve Amount** | The amount the company determines is needed for there to be a 19 in 20 probability of it being able to make all the CfD generation payments required during that quarter, having regard to:<br>• the amount of Interim Levy Rate payments which it expects to collect from suppliers during the quarter;<br>• the likelihood of any supplier failing to make payments during the quarter; and the estimated income to be received by the company from CfD generators in the quarter; and<br>• the estimated amount of electricity to be supplied by suppliers in the quarter and the estimated amount the company will need in the quarter to pay CfD generators. |

# Senior Leadership Team

**LCCC provides:**

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

This was the Senior Leadership Team as at 11 July 2024

**Neil McDermott**
Chief Executive Officer

**Allison Sandle**
General Counsel & Company Secretary

**Bridget Hodgson**
Interim Chief People Officer

**George Pitt**
Chief Financial Officer

**Andrew Deeley**
Director of Strategy & Development

**James King**
Director of Scheme Delivery

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