



Department for
Business, Energy
& Industrial Strategy

Low Carbon Contracts Company and Electricity Settlements Company Operational Costs 2022/23, 2023/24 and 2024/25

Consultation on the Operational Cost Levies

Closing date: 3 December 2021



This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at: LCCC-ESOperationalcosts@beis.gov.uk

Contents

General information _____	4
Why we are consulting _____	4
Consultation details _____	4
How to respond _____	5
Confidentiality and data protection _____	5
Quality assurance _____	5
List of acronyms _____	6
Introduction _____	7
Budget proposals for the Low Carbon Contracts Company and Electricity Settlements Company _____	7
Consultation questions _____	8
What happens next? _____	8
Part 1: Low Carbon Contracts Company and Electricity Settlements Company operational costs – background information _____	10
Overview _____	10
Governance _____	12
The Operational Cost Levies _____	13
Key assumptions underpinning cost estimates _____	14
Non-Operational Cost Levy funded schemes _____	15
Part 2: The Companies' estimated costs for 2021/22 _____	17
Low Carbon Contracts Company _____	17
Electricity Settlements Company _____	27

General information

Why we are consulting

This consultation document seeks views on the proposed 2022/23, 2023/24 and 2024/25¹ operational cost budgets, resulting levies for the Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC), and changes to legislation.

Consultation details

Issued: 5 November 2021

Respond by: 3 December 2021

Enquiries to:

Email: LCCC-ESCOperationalcosts@beis.gov.uk

Consultation reference: Consultation on the Operational Cost Levies

Audiences:

The Government welcomes views from anyone with an interest in the policy area. We envisage that the consultation will be of interest to licensed electricity suppliers in Great Britain; generators; consumer groups; CfD delivery bodies and other stakeholders with an interest in the energy sector.

Territorial extent:

The CfD scheme applies in the UK but does not currently operate in Northern Ireland. This consultation therefore applies to Great Britain only.

¹ The financial year runs from 1 April – 31 March.

How to respond

Respond online at: <https://beisgovuk.citizenspace.com/clean-electricity/operational-cost-budgets-levy-rates-lccc-esc-21-22>

or

Email to: LCCC-ESCOperationalcosts@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation. If you wish to respond but are unable to do so online because of difficulties with accessibility, please contact us on 020 7215 5000.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

List of acronyms

Acronym	
AO	Accounting Officer
BEIS	Department for Business, Energy and Industrial Strategy
BECCS	Bioenergy with Carbon Capture and Storage
CCUS	Carbon Capture Use and Storage
CfD	Contract for Difference
CM	Capacity Market
CPI	Consumer Prices Index
DfE	Department for the Economy
DPA	Dispatchable Power Agreement
ESC	Electricity Settlements Company
LCCC	Low Carbon Contracts Company
MWh	Megawatt-hour
10 SC	10 South Colonnade
OBR	Office of Budget Responsibility
TWh	Terawatt-hour

Introduction

Budget proposals for the Low Carbon Contracts Company and Electricity Settlements Company

1. Currently, the operational costs of the Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC) are entirely recovered through levies on electricity suppliers as set out in legislation ('the regulations'^{2,3}). The Energy Act 2013 requires that we consult before making any regulations to amend the levies. In legislation, the levy relating to ESC is called the 'settlement costs levy', and the levy relating to LCCC is called the 'operational costs levy'. The references in this consultation to 'operational costs levy' cover both levies for simplicity.
2. This consultation seeks views on the proposed operational costs for LCCC and ESC funded via these levies and resulting levy rates for the 2022/23, 2023/24 and 2024/25 financial years.
3. The operational costs for these years, which are based on estimated costs (including applicable depreciation) are £24.210m in 2022/23, £26.978mm in 2023/24 and £29.051m in 2024/25 for LCCC, and £6.954m in 2022/23, £7.382 m in 2023/24 and £7.734m in 2024/25 for ESC.
4. We estimate that the total impact of LCCC and ESC operational costs on household electricity bills over the period (2022/23 to 2024/25) will be below £50p a year (£, nominal⁴).
5. The consultation document is split into the following sections:
 - Part 1 sets out LCCC's and ESC's functions and describes their governance structures, the assumptions underlying the operational costs, and the timing for collecting the levies.
 - Part 2 sets out LCCC's estimated operating costs for 2022/23 to 2024/25 and electricity demand in Great Britain over each levy year. These estimates allow a £/MWh levy rate to be calculated for inclusion in the amending regulations. It also sets out ESC's estimated operating costs for 2022/23 to 2024/25 for inclusion in the amending regulations.

² Regulation 23 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended).

³ Regulation 9 of the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended).

⁴ The bill impact of LCCC and ESC operational costs is estimated by assuming that such costs faced by electricity suppliers are spread evenly across electricity sales. This provides a £/MWh cost which is multiplied by estimated average household consumption to calculate the bill figure.

-
6. A list of consultation questions is set out below and responses are invited from all interested parties by 3 December 2021. Details on how to respond can be found on page 5.

Consultation questions

Consultation questions	
1.	Do you have any comments on LCCC's estimated operational costs set out in this consultation document?
2.	Do you have any comments on the forecast electricity demand from which the £/MWh levy rates for LCCC are derived?
3.	Do you have any comments on ESC's estimated operational costs set out in this consultation document?

What happens next?

7. We will analyse responses and produce a Government response to this consultation, which we plan to publish in early 2022. Subject to the outcome of this consultation and Parliamentary approval, we will amend the relevant legislation to enable levies to be set for 2022/23 to 2024/25.
8. If there is a material increase to the total estimated operational costs of LCCC or ESC between the publication of this consultation document and the laying of the amending regulations in Parliament, we will publish an amendment to this document. In such circumstances, responses will be required to the amended document by the latest of two weeks from publication of the amended consultation, or by the original closure date. Should there be minor adjustments to the budget during consultation or as a result of the consultation process these will be outlined in the Government response to this document.
9. We intend that, subject to the will of Parliament, the amending regulations will come into force before the beginning of the 2022/23 financial year. However, if it is not possible to complete the parliamentary process within this time period the existing levies will continue to apply until such time as the regulations are amended.
10. If the amending regulations are delayed, we would need to consider making an adjustment to the 2022/23 levy rate as set out in this consultation in order that the estimated operational costs of LCCC can be collected in full. Any necessary revision to the rate would be communicated in the Government response to this consultation. In the case of the ESC operational costs levy, we would expect to collect the difference

between the 2021/22 levy and the 2022/23 levy amount as part of the March 2023 reconciliation (as part of the revised settlement cost levy calculations set out in paragraph 8, Schedule 1 of the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended)).

Part 1: Low Carbon Contracts Company and Electricity Settlements Company operational costs – background information

Overview

11. LCCC and ESC are responsible for delivering key elements of Contracts for Difference (CfDs) and the Capacity Market (CM) schemes respectively under the Energy Act 2013. Its costs for administering these schemes under the Act are met by the operational cost levies.
12. The CfD is a contract between LCCC (as the CfD counterparty) and an eligible generator, which the CfD counterparty is required to enter into by virtue of section 10 or 14 of the Energy Act 2013. Whether a generator is eligible or not is set out in regulations. The regulations can only make provisions, which in the opinion of the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS), will encourage low carbon electricity generation to deploy. Therefore, only low carbon electricity generation will be eligible. This would include renewable generation, nuclear generation and generation using carbon capture and storage.
13. LCCC enters into and manages CfDs (including the Investment Contracts which have been transferred to it⁵) with low carbon generators, awarding top-up payments for qualifying generation. During 2022/23-2024/25 it will have particular responsibility for:
 - managing the CfD portfolio, including the Hinkley Point C nuclear CfD, to ensure all pre-generation contractual milestones (Milestone Delivery Dates, Operational and Further Conditions Precedent) are met. Ensuring that generators are fulfilling their compliance and reporting obligations, including those relating to post-commissioning fuel monitoring, sampling and sustainability, and where appropriate, handling any disputes that may arise;
 - entering into new renewable CfDs, which involves industry engagement and coordination with National Grid-ESO ahead of allocation rounds, dealing with requests for minor and necessary modifications to CfDs pre-allocation, signing and managing initial conditions precedent with successful applicants;
 - entering into Dispatchable Power Agreements (DPAs) with Power Carbon Capture, Use and Storage (CCUS) Projects. The DPA is a form of CfD and it is anticipated that LCCC will act as the counterparty for the DPA and that the DPA will be entered into following

⁵ Investment Contracts, which have been transferred to LCCC, are treated by virtue of Regulation 2(4) of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 as CfDs for various purposes. Any reference to a CfD in this document is to be treated as including any such Investment Contracts.

an applicable contract allocation or negotiation process established under the Energy Act 2013;

- potentially entering into new contracts for Bioenergy Carbon Capture, Use and Storage (BECCs) Projects, should government confirm it intends to support this technology;
- collecting from electricity suppliers the operational costs and the CfD Supplier Obligation (the levy on electricity suppliers to pay for the cost of low-carbon generation under the CfD scheme), which will involve:
 - setting the quarterly supplier obligation interim levy rate and total reserve amount;
 - collecting the supplier obligation levies, the total reserve amount and the suppliers' collateral payments;
 - providing projections for future quarterly supplier obligation interim levy rates and total reserve amounts and cash utilisation via online Levy Dashboards⁶;
 - making payments to generators as required under CfDs;
 - managing payments under the supplier obligation reconciliation process; and
 - metering verification of any private network generators that have been allocated a CfD.
- contributing to CfD and policy development:
 - supporting the ongoing review and development of existing and future CfD standard terms and conditions;
 - feeding into CfD consultations concerning potential changes to CfD structures, settlement activities, and any other related regulations; and
 - delivering revisions to the CfD settlement system to reflect policy changes, ensuring continued correct processing of transactions.
- providing supporting services to ESC, which will be reimbursed at cost.

14. ESC is responsible for all financial transactions relating to the CM, including making capacity payments to capacity providers, managing supplier credit cover and capacity providers' auction credit cover. During 2022/23-2024/25, it will have particular responsibility for:

- collecting from electricity suppliers the operational costs levy, and the CM Supplier Charge which funds capacity payments;
- making payments to capacity providers successful in capacity auctions;

⁶ <https://www.lowcarboncontracts.uk/dashboards/cfd/levy-dashboards>

-
- managing the collection, holding, monitoring and, where appropriate, refund of credit cover collected from capacity auction applicants; and
 - verifying the meter arrangements of those providers whose CM agreement is conditional on ESC approving their meter configuration.
 - contributing to CM development:
 - delivering revisions to the CM settlement system to reflect policy and rule changes, ensuring continued correct processing of transactions;
 - implementing changes to the CM settlement system arising out of CM policy development; and
 - feeding into CM consultations and calls for evidence from Government and Ofgem concerning potential changes to settlement activities and any other related regulations.

Governance

15. LCCC and ESC are private limited Companies wholly-owned by the Secretary of State for Business, Energy and Industrial Strategy. The Companies have day-to-day operational independence, subject to certain limited exceptions which require shareholder consent. The relationship between the Companies and the shareholder is set out in separate Framework Documents⁷.
16. Both documents contain a guiding principle. This requires that, in carrying out its activities, LCCC should seek to maintain investor confidence in the CfD regime and ESC should seek to maintain market participants' confidence in the CM settlement processes. The guiding principle also requires both Companies to minimise costs to consumers.
17. As Government-owned Companies, LCCC and ESC are also subject to the Government's framework for managing public money⁸.
18. The Accounting Officer (AO) of BEIS is accountable to Parliament for the performance of the two Companies alongside the Chief Executive Officer of LCCC and ESC, who is the AO for these Companies. Two Shareholder Representative Directors sit on the Board of both Companies.

⁷ The Framework Documents are published on the Companies' website – see <https://lowcarboncontracts.uk/corporate-governance>. The LCCC document is available at: <https://lowcarboncontracts.uk/sites/default/files/publications/Low%20Carbon%20Contracts%20Company%20Framework%20Document%20-%20August%202014%20-%20Signed.pdf> and the ESC document is available at: <https://lowcarboncontracts.uk/sites/default/files/publications/Electricity%20Settlements%20Company%20Framework%20Document%20-%20August%202014%20-%20Signe...pdf>

⁸ Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

The Operational Cost Levies

19. The operational cost levies of LCCC and ESC have been designed so that the methodology of payment calculation and the frequency of payment are consistent with the principal supplier obligations for the CfD regime and the CM.

Low Carbon Contracts Company

20. The operational cost levy rate is calculated by dividing LCCC's proposed annual budget by the total forecast electricity demand for the corresponding financial year, as set out in Part 2 below.
21. The operational cost levy will be collected alongside the principal supplier obligation (the interim levy) in the same daily invoice using the same settlement system. The Settlement Service Provider (EMR Settlements Ltd, a wholly-owned subsidiary of Elexon) administers the collection process on LCCC's behalf.
22. Since the operational cost levy rate is based on estimates of LCCC's operating costs and the overall electricity supplied in the corresponding period, the amount collected is unlikely to match actual expenditure. Any surplus recorded at year-end will be reimbursed to suppliers in accordance with the Regulations⁹. In the event of a forecast deficit, Government will in the first instance require LCCC to manage its costs within its available budget, including re-prioritising spend where possible. Government may also increase the levy rate in-year if there is a significant discrepancy between projected levy income and estimated expenditure which LCCC can justify but cannot manage. To do so, it would be necessary first to consult publicly, as any change to the levy rate would require amending legislation. Where appropriate, and solely at its discretion, BEIS can provide the Company with budget and grant-in-aid to cover any levy deficit or justifiable unplanned expenditure.

Electricity Settlements Company

23. The total amount levied on suppliers will be equal to the budget included under Regulation 9 in the Electricity Capacity (Supplier Payment etc.) Regulations 2014, as amended. Operational costs will be budgeted, and the levy set, for the financial year. The initial monthly amount charged to suppliers will be proportionate to their share of the total electricity supplied during the previous winter's 'period of high demand' (4 to 7pm on working days between November and February inclusive). Suppliers' shares of the levy are then revised after 16 March to reflect actual supply data relating to the 'period of high demand' for the current levy period (for example, for the 2022/23 levy, gross demand 4 to 7pm on working days between November 2022 to February 2023).
24. The Settlement Service Provider administers the collection process on behalf of ESC.

⁹ Contracts for Difference (Supplier Obligation) Regulations 2014

-
25. In the event that the total amount of levy collected exceeds ESC's actual operational costs, the surplus at year-end will be reimbursed to suppliers. As with LCCC, where there is a deficit, Government will in the first instance require ESC to manage its costs from within its own budget, including re-prioritising spend where necessary. Government may also seek to increase the levy in-year if there is a significant discrepancy between projected levy income and estimated expenditure which ESC can justify but cannot manage. Again, it would be necessary to consult on, and obtain Parliamentary approval for, any change in the levy. Where appropriate, and solely at its discretion, BEIS can provide the Company with budget and grant-in-aid to cover any levy deficit or justifiable unplanned expenditure.
26. Details of the operational expenditure for both LCCC and ESC are published in their annual report and accounts, which are audited by the National Audit Office and made available on the Companies' website¹⁰.

Key assumptions underpinning cost estimates

27. The cost estimates presented in this consultation document are underpinned by a number of assumptions, which are subject to some uncertainty. In setting the budget, a balance must be struck between ensuring that the Companies have sufficient resources to perform their role effectively, while minimising:
- the risk of over collection (notwithstanding that any surplus will be reimbursed to suppliers); and
 - the uncertainty that could be caused for suppliers by the need to change the levy rate in-year.

LCCC key assumptions

28. LCCC currently manages 69 CfDs to which it is a direct counterparty (including the nuclear CfD for Hinkley Point C).
29. The proposed budget includes some provision to manage potential additional CfDs that would result from further CfD allocation rounds.

ESC key assumptions

30. ESC manages credit cover pre-and post-auctions and capacity payments commencing 1 October every year resulting from two annual auctions a year (a T-1 auction one year ahead of delivery and a T-4 auction four years ahead of delivery). As the number of

¹⁰ The 2020/21 Annual Report and Accounts are available at: <https://www.lowcarboncontracts.uk/annual-reports>

applicants for the two annual auctions carries on increasing, there will be increasing meter assurance activity required for those providers whose capacity agreement is conditional on ESC approving their meter configuration.

Inflation assumption

31. In previous budgets the assumption used for inflation has been low, reflecting economic conditions at that time. However, as the global economy reopens in the wake of the COVID-19 pandemic UK inflation has risen significantly, moving from 0.8% at the start of the UK vaccination programme in December 2020 to 3% by August 2021.¹¹ Whilst this upward trajectory is not expected to continue it may do so and this is a risk beyond the control of LCCC and ESC.
32. To mitigate the risk of having to rely on BEIS for cash flow, we believe it is prudent to include an assumption of 5% for inflation in the proposed budgets. In the event that inflation is lower than 5%, it is expected that this will result in funds being returned to suppliers at the end of the financial year in accordance with the regulations, where these are not needed to cover unforeseen costs that may arise.
33. BEIS and LCCC will revisit the rate of inflation incorporated into the proposed budget in the new year taking into account the latest inflation forecasts published by the Office of Budget Responsibility (OBR). If the OBRs forecasts suggest inflation will be lower than 5% during the budget period, the proposed budgets will be lowered accordingly and set out in the Government Response to this consultation in early 2022. If the forecasts are significantly higher than 5%, BEIS will consider if the budgets need to be increased to reflect this and whether or not a short consultation is required to seek stakeholder views.

Non-Operational Cost Levy funded schemes

34. Over the course of the budget period, LCCC may become responsible for administering new schemes that are not funded by the operational costs levies. These schemes could include administering contracts for industrial carbon capture projects, low carbon hydrogen projects and other forms of low carbon projects, such as nuclear.
35. It is anticipated these new schemes would be funded by the exchequer or by levies on consumers' energy bills. However, policy development for these new schemes is evolving and Government has not yet taken final decisions. Consequently, the budget set out in this consultation, and the associated operational cost levy rates, do not account for the impact that these new schemes may have on the operational cost budgets.
36. However, if LCCC were to become responsible for administering these new schemes,

¹¹ Consumer Price Inflation series, ONS:
<https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

subject to any Government decisions and Parliamentary approval that may be required, this would allow operational costs to be shared across those schemes funded by the operational cost levies and these new schemes, spreading cost overheads over more activity. This in turn would create economies of scale in shared functions such as finance and legal. Eventually, this would reduce LCCC and ESC's operational costs for their administration of the CfD and CM schemes.

Part 2: The Companies' estimated costs for 2021/22

Low Carbon Contracts Company

37. The total estimated budget for the Low Carbon Contracts Company for 2022/23 is £24.210m, representing a £3.474m increase on the £20.736m budget for 2021/22. The total estimated budget for 2023/24 is £26.978m, representing a £2.768m increase on 2022/23, and for 2024/25 £29.051m, representing a £2.074m increase on 2023/24.
38. In percentage terms, these increases are in line with those seen in previous years and lower than the 19% increase seen between the 2020/21 budget and the 2021/22 budget.¹² If the UK is to meet its legally binding net zero target, further deployment of low carbon electricity will be required. Despite a growing portfolio, with CfDs under management expected to increase by 400% over the budget period, operational costs are expected to fall both per contract and by overall generation capacity.
39. The increase in budget over the budget period is largely a result of increases in payroll costs needed to manage the growth in CfDs under management and to enable LCCC to develop and manage its support for new low carbon technologies in the form of Power CCUS and BECCS.
40. Where it is possible to keep operational costs flat or reduce them without compromising scheme delivery, LCCC has taken steps to do so. For example, LCCC has invested in bringing certain skills in-house to reduce professional fees, such as website management and developing forecasting models in house, which combined with other actions is expected to produce efficiency savings in professional fees of £1.1m (before contingent allowance for Northern Ireland, inflation and BECCs/DPA) during the budget period.
41. In addition, increased productivity in contract management is expected to result in 10 fewer contract managers being recruited to manage the expected increase in CfDs than would be needed without these productivity gains. Settlement service and contractor costs are broadly flat and ring-fenced contingencies for legal disputes and any reduction in volume of electricity supplied have been kept entirely flat over the budget period.
42. An indicative breakdown of the total estimated operational costs for 2022/2023 to 2024/25 is provided in Table 1, together with comparative figures for the 2021/22 budget.
43. Further information can be found below on the areas of spend.

¹² The LCCC operational costs budget increased by 85% between 2014/15 and 2015/16, reflecting set up costs, by 18% between 2015/16 and 2016/17, by 4% between 2016/17 and 2017/18, by 12% between 2017/18 and 2018/19, by 3% between 2018/19 and 2019/20, by 3% between 2019/20 and 2020/21, and by 19% between 2020/21 and 2021/22. The proposed budget set out in this consultation would see the budget increase by 17% between 2021/22 and 2022/23, by 11% between 2022/23 and 2023/24, and by 8% between 2023/24 and 2024/25.

Table 1:

Description	Budgeted costs – 2021/22 £000s	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2024/25 £000s
Payroll Costs	7,567	11,502	12,926	13,800
Professional and Legal Fees	4,515	4,079	4,877	5,216
Settlement Service	3,503	3,435	3,597	3,692
Other costs	1,424	1,855	1,945	2,090
Legal Disputes Contingency	3,000	3,000	3,000	3,000
Demand Contingency	1,500	1,500	1,500	1,500
IT Costs	716	729	902	1,009
Premises Costs	715	469	617	795
Contractor Costs	198	225	192	201
Depreciation	391	148	270	827
Recharge to ESC	(2,793)	(2,731)	(2,848)	(3,079)
Total	20,736	24,210	26,978	29,051

Payroll costs

44. Based on an average of 133 employees plus 6 Board members, estimated payroll costs for 2022/23 are £11.502m. A breakdown of the costs is included in Table 2. Estimated payroll costs are £3.935m higher than those budgeted for in 2021/22. This is due to 30 new roles and the full year impact of staff recruited part way through financial year

2021/22. Where LCCC staff perform functions on behalf of ESC, payroll costs will be recharged to ESC accordingly.

45. LCCC has budgeted for 30 additional staff to enable the company to manage the significant expected increase in CfDs that will be signed in future allocation rounds and to accommodate CM development. This includes support for contract management capacity as well as support for data, analytics and procurement.
46. LCCC has budgeted for 12 additional staff over the remainder of the budget period. This takes the expected overall headcount to 145 employees by 2024/25.
47. Whilst LCCC is classified as a public sector organisation, its staff are not Civil Servants and so they have separate terms and conditions, pay and benefit packages.
48. The Company's organisational structure has been designed to ensure that LCCC has the optimal structure for undertaking expected operational activities in an efficient way. Senior salaries have been benchmarked against organisations carrying out similar activities and against other relevant Government arm's length bodies. In accordance with Government rules, any pay that is above the Prime Minister's salary is cleared by BEIS Ministers and HM Treasury Ministers.

Table 2:

Description	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2020/21 £000s
Gross salary costs ¹³	8,286	9,319	9,939
Employers' National Insurance	1,229	1,391	1,494
Employee benefits ¹⁴ , bonus ¹⁵ and pension ¹⁶	1,987	2,216	2,367
Total	11,502	12,926	13,800

¹³ Includes Board costs.

¹⁴ Includes life assurance, private medical cover, personal accident and income protection insurance.

¹⁵ The amount budgeted is based on bonuses of up to 20% salary for Executive Directors, up to 15% for other staff. Bonus payments will be subject to staff meeting agreed performance criteria and approved by Remuneration Committee.

¹⁶ The pension employer contribution rate is 10% for Executive Directors and 8% for other staff.

Professional and legal fees

49. The total cost of professional and legal fees has been estimated at £4,079m for 2022/23, increasing to £5,216m by 2024/25. The budget for professional and legal fees over 2022/23 to 2024/25 reflects the existing portfolio of CfDs and the potential increase in the number of CfDs under management over the period following further allocation rounds. In addition, a significant increase in activity related to CCUS and BECCS and year on year inflationary increases are also expected. Costs associated with professional services and legal fees are incurred to support effective management of CfDs and other compliance activity (see Table 3).
50. Events requiring professional fees include planned events such as facilities reaching contractual milestones, and generator driven events such as approvals of changes to Fuel Monitoring Sampling and Sustainability plans from thermal generators, or handling force majeure or qualifying change in law claims.
51. It should be noted that a contingent figure of £0.4m per annum has been included under professional services and legal fees in the event that LCCC is required to undertake work to include Northern Ireland in future CfD allocation rounds. See paragraphs 79-81 for further details. It should also be noted that a contingency for legal disputes was included under professional and legal fees in the 2021/22 budget but this forms its own line item in the proposed budgets set out in this consultation (see paragraphs 60-61).

Table 3:

Description	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2024/25 £000s
Professional services and legal fees	2,527	2,717	3,089
Technical advice	1,001	1,543	1,378
Audit, assurance and compliance	370	391	413
Fuel monitoring, sustainability, metering	182	226	335
Total	4,079	4,877	5,216

Settlement Service

52. Estimated total operational costs related to the settlement system are set out in Table 4 below. These costs relate to the daily collection of the operational cost levy and principal supplier obligation and making payments to generators under CfDs. Audit and assurance costs include the costs of the provision of meter verification services for any private network generators that may be offered a CfD. Meter assurance services will be undertaken by the Settlement Services Provider as Metering Agent using a sub-contractor.
53. There is a continued requirement for changes to the settlement system which includes changes associated with CfD allocation rounds, the impact of code changes on the settlement system and operational improvements. Despite this, the budget for settlement services has reduced by £0.02m between 2021/22 and 2022/23 and rises by less than assumed inflation in subsequent years. This has been achieved through team restructuring and less reliance on external contractors. The Company has budgeted £3.435m in 2022/23, £3.597m in 2023/24 and £3.692m in 2024/25 split between resource and other third party spend for settlement services.

Table 4:

Description	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2024/25 £000s
Resource and sub-contractors	1,860	1,912	1,999
Other third party and Assurance costs	1,575	1,685	1,693
Total	3,435	3,597	3,692

Other costs

54. Other costs include stakeholder engagement and communications, training, travel and subsistence, printing and stationery, recruitment fees, insurance, bank charges, and subscriptions.
55. Insurance is procured on a commercial basis, using an insurance broker engaged under the Crown Procurement framework. The level of cover reflects the activity that LCCC expects to be undertaking over the budget period.
56. The insurance market has hardened over the course of 2020 and 2021 as the market reacted to risks such as increased claims resulting from the Covid-19 pandemic, in

particular, claims related to the financial lines and cyber markets. LCCC expects to pay a greater premium for its insurance cover over the budget period as the market is expected to remain challenging going forward. The level of cover LCCC requires will be kept under review in case savings can be found.

57. LCCC has successfully used online events to maintain communications with stakeholders during the Covid-19 pandemic, which have proven popular and allowed for savings on costs associated with hiring buildings for face-to-face meetings. Costs for hosting face to face meetings are expected to be approximately half of those budgeted for in 2021/22 in each year of the budget period as more meetings and conferences are hosted online.
58. Recruitment fees and training costs over the budget period are expected to increase significantly compared to 2021/22 driven by the increase in headcount.
59. Costs for stationery, printing, postage, hardware, subscriptions and bank charges remain broadly flat over the budget period. Travel costs are expected to decrease significantly in 2022/23 compared to the 2021/22 budget and then remain broadly flat over 2023/24 to 2024/25, reflecting expected lighter travel than pre-covid times.

Legal Disputes Contingency

60. As LCCC signs more CfDs and projects with signed agreements start to build out, there is an increased risk of legal dispute. Taking into account costs of previous disputes and the increased risk of a dispute(s) arising in the future, a ring-fenced contingency of £3m was included in the 2021/22 budget. A contingency of £3m per annum has been retained over the budget period.
61. In the event that a legal dispute(s) does not arise, the funds levied to cover this contingency will be returned to suppliers at the end of the relevant financial year.

Demand Contingency

62. As LCCC's operational cost levy is based on a £/MWh rate, its levy funding will vary with the amount of electricity actually supplied. A £1.5m contingency was therefore included in its 2021/22 budget (under 'other costs') to cover any reduction in volume of electricity supplied (e.g. due to warm weather).
63. To mitigate the risk of having to rely on BEIS for cash flow, a contingency of £1.5m has been retained in each year of the budget period. In the event that electricity demand is higher than expected the funds levied to cover this contingency will be returned to suppliers at the end of the relevant financial year.

IT costs

64. IT costs are broadly flat in 2022/23 compared to 2021/22 despite an increase in staff requiring equipment. LCCC have moved to a cloud-based licence agreement. As headcount increases, licences are required for new users, increases in general system server usage and inflation. Costs in 2022/23 are offset by savings obtained from moving to the cloud and subsequent growth driven by increase in headcount.

Premises Costs

65. LCCC relocated from Fleetbank House, Blackfriars, to 10 South Colonnade (10 SC), Canary Wharf in August 2021. The total premises costs of the rental agreement at 10 SC is £38k per month, which is inclusive of rent, council tax and service charge (which includes heating, water and power supply).
66. Premises costs in 2021/22 reflected the cost of relocating from Fleetbank House to 10SC and are significantly higher than those expected in 2022/23. Costs are expected to rise in 2023/24 to 2024/25 due to the need for more desks. As headcount increases it is assumed, after factoring in flexible working, that 10 extra desks will be needed in 2023/24 and an additional 10 desks in 2024/25.

Contractor Costs

67. LCCC has sought to keep costs to a minimum by only employing contractors where doing so is more economical than employing full or part time staff. Contractors are expected to be needed over the budget period to cover peaks in workload and to provide cover for maternity leave, shared parental leave and for unforeseen events.

Depreciation

68. These charges relate to the assets LCCC has purchased, or will purchase, using loan funding provided by BEIS, such as the IT hardware and the development and build of the settlement system for CfDs. The cash collected through the levy for depreciation will be repaid to the Department in accordance with relevant loan agreements.
69. Depreciation costs are expected to fall significantly between 2021/22 and 2022/23 due to the planned expiry of existing projects. Costs are then expected to rise significantly in 2024/25 due to the development of a new settlement system that will cover existing and new CfDs, existing and new CM agreements, and new CCUS and BECCS contracts.
70. In addition, a rebuild of LCCC's in-house forecasting tool and replacement of other IT systems is planned in stages over the budget period. Depreciation on each stage will contribute to the increase in depreciation costs over the budget period.

Electricity Settlements Company cost recharge

71. To maximise efficiencies in the operation of LCCC and ESC, ESC contributes at cost for its use of shared facilities, back-office functions and the staff it requires for its corporate functions and operational activities. The contribution that LCCC expects to apportion to ESC is netted off against LCCC's estimated budget, see Table 1. The recharge agreement is explained in more detail under ESC costs (see paragraphs 95-97).

Dispatchable Power Agreement

72. LCCC was named by BEIS as a potential counterparty for the DPA in December 2020.¹⁷ Activity to date has involved LCCC acting in an advisory capacity to BEIS, with examples including assisting BEIS in drafting the indicative Head of Terms for the DPA. A contingent figure of £0.2m was included in the 2020/21 budget to enable LCCC to undertake this and other associated work.
73. Over 2022/23 to 2024/25, it is anticipated that activity will move beyond providing advice and ramp up, with LCCC taking the necessary steps to implement the DPA as the counterparty to this new form of CfD. Activity will be driven by the need to manage the contracts, once signed, and to implement the very different scheme for payments. LCCC will need to hire additional staff to facilitate contract management of the DPA, adapt their existing settlement service to include new information flows associated with CCUS projects (e.g. gas and CO2 metered data), and they will need an allowance for professional fees to buy in expertise that the company does not currently have.
74. To enable LCCC to manage DPA contracts, £2.066m has been included in the operational costs budget in 2022/23, £2.210m in 2023/24 and £2.797m in 2024/25. Costs fall mainly into payroll and professional and legal fees with smaller amounts falling into other lines items covering shared services between the schemes LCCC is expected to operate over the budget period (e.g. premises, IT costs etc). It should be noted that these are the total estimated costs of the DPA scheme. Inclusion of the DPA scheme alongside other schemes managed by LCCC and ESC will result in costs for services shared with other schemes being spread over more activity. This is expected to result in economies of scale that will result in budget savings for shared services.
75. To keep costs to consumers associated with LCCC administration of the DPA to a minimum, LCCC anticipates it will develop a standardised framework for such contracts, which will result in economies of scale depending on how many contracts are signed. Synergies across the schemes LCCC is expected to manage during the budget period, including Industrial CCUS, may also deliver material savings. However, it should be noted this is dependent on the development of BEIS policy regarding new schemes like Industrial CCUS and the will of Parliament, who will in the future consider legislation underpinning some of these schemes. Therefore, these potential savings cannot be guaranteed at this time.

Bioenergy with Carbon Capture and Storage

76. Policy development for BECCs is at an earlier stage compared to the DPA but it is possible that LCCC may act as the counterparty for BECCs contracts within the budget period. Although a final decision has not been taken, potentially BECCs contracts could be entered into following an applicable contract allocation or negotiation process established under the Energy Act 2013. Were BEIS to move forward with this option,

¹⁷ Carbon capture, usage and storage (CCUS): business models (BEIS), December 2020:
<https://www.gov.uk/government/publications/carbon-capture-usage-and-storage-ccus-business-models>

LCCC would need to undertake activity to prepare for acting as the counterparty during the budget period, the cost of which would be a legitimate use of Operational Cost Levy income as some element of the BECCs support would be via a CfD.

77. Activity would include supporting BEIS in developing the contract and LCCC designing changes to their settlement system, activities which would be ancillary to LCCC's role as CfD counterparty. LCCC estimates this work would add £0.985m to the operational cost budget in 2022/23, £1.404m in 2023/24 and £1.857m in 2024/25. As with the DPA, costs fall mainly into payroll and professional and legal fees with smaller amounts falling into other line items covering shared services between the schemes LCCC is expected to operate over the budget period. Again, it should be noted that these are the total estimated costs of the BECCs scheme. Inclusion of the BECCs scheme alongside other schemes managed by LCCC and ESC would result in costs for services shared with other schemes being spread over more activities. This is expected to result in economies of scale that will result in budget savings for shared services.
78. Again, as with the DPA, synergies across the schemes LCCC are expected to manage during the budget period may produce material savings. For example, changes that would need to be made to the settlement system for the DPA, such as CO2 metered data, would also be applicable to BECCs. However, it should again be noted that this is dependent on the development of BEIS policy and, therefore, these potential savings cannot be guaranteed at this time.

Northern Ireland Contracts for Difference

79. Provisions relating to the CfD scheme within the Energy Act 2013 extend to Northern Ireland but to date projects in this region have not competed in allocation rounds. BEIS and the Department for the Economy (DfE) are considering how Northern Irish projects could be enabled to compete in future allocations rounds. Were BEIS and DfE to move forward with this option, some preparatory work would be required on the part of LCCC over the budget period, the cost of which would be a legitimate use of Operational Cost Levy because the provisions in the Energy Act relating to the CfD extend to Northern Ireland.
80. The work involved would include LCCC designing changes to their settlement system, activities that would be ancillary to LCCC's role as CfD Counterparty. LCCC estimates that this would add up to £0.4m per annum to LCCC's operational costs over the budget period. This contingent figure has been included in the budget above under "Professional Services and Legal Fees". Were it to be needed, however, it would be spread over a number of line items, such as payroll and contractor costs as well as fees.
81. In the event that work in relation to Northern Ireland joining the CfD scheme does not materialise during the budget period, any funds collected for this work will be returned to electricity suppliers.

Low Carbon Contracts Company Levy rate

82. LCCC's operational cost levy is calculated on the basis of a gross electricity demand projection. For 2022/23, LCCC expects to use a projected gross demand of 279.73 TWh to calculate the levy rate, for 2023/24 277.80 TWh, and for 2024/25 275.12 TWh. This forecast of gross electricity demand is based on a dedicated forecast model developed by LCCC. The model uses statistical techniques taking into account trends in electricity demand and embedded generation¹⁸; it also considers the long-term variability of weather.
83. A breakdown of the estimated operating costs, forecast electricity demand and corresponding operational cost levy rate for each year is provided in Table 5.

Table 5:

Year	Estimated costs £000s	Forecast Electricity Demand (TWh)	Levy rate (if applied from 1 April each year) (£/MWh)
2022/23	24,210	279.73	0.0865
2023/24	26,978	277.80	0.0971
2024/25	29,051	275.12	0.1056

84. As set out previously, if it is not possible to complete the parliamentary process in time for the levy for 2022/23 to come into force by 1 April 2022, the current rate will continue to apply until such time as the regulations are amended.
85. If the amending regulations are delayed, in order that the estimated operational costs of LCCC can be collected in full, we would need to consider making an adjustment to the 2022/23 levy rate. Any necessary revision would be communicated in the Government response to this consultation.

Consultation questions	
1.	Do you have any comments on LCCC's estimated operational costs set out in this consultation document?
2.	Do you have any comments on the forecast electricity demand from which the £/MWh levy rates for LCCC are derived?

¹⁸ Embedded generation is generation that is connected to the distribution network rather than the transmission grid.

Electricity Settlements Company

86. The total estimated budget for the Electricity Settlements Company for 2022/23 is £6.954m, representing a £0.518m decrease on the £7.472m budget for 2021/22. The total estimated budget for 2023/24 is £7.382m, representing an increase of £0.428m on the budget for 2022/23, and for 2024/25 £7.734m, representing an increase of £0.352m on 2023/24.
87. Since the 2021/22 budget was prepared, ESC has maintained its delivery of the CM despite the challenges raised by the COVID-19 pandemic. During this period, ESC has focused on streamlining processes and providing increased public data regarding the CM. A new metered data portal for capacity providers was launched to improve visibility of Stress Events, 'Satisfactory Performance Day' and Demand Side Response tests. In addition, the CM projection dashboard was introduced in response to feedback received from electricity suppliers.
88. It is expected that the CM will grow considerably over the budget period, both in terms of overall capacity and the number of agreements managed. The exact number and nature of capacity providers expected will depend on the development of policy by BEIS, but ESC expect growth to c.1000 CM Agreements over the budget period, a 50% increase on current numbers. In addition, over the same period, change in the design of the CM is anticipated to adapt the scheme to a Net-Zero power sector, which will drive greater change for ESC.
89. To manage the challenges raised by the expected growth and evolution of the CM whilst delivering value for money for consumers, ESC has conducted an end-to-end review of the operation of the market. This review has identified opportunities to simplify and rationalise that will save money towards the end of the budget period and beyond. In turn, this has allowed ESC to keep its proposed budget for 2022/23 to 2024/25 largely flat compared to the 2021/22 budget.
90. A breakdown of the estimated operational costs for 2022/23 to 2024/25 is provided in Table 6, together with comparative figures for the 2021/22 budget. The subsequent paragraphs provide an explanation for each row of Table 6.

Table 6:

Description	Budgeted costs – 2021/22 £000s	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2024/25 £000s
Professional Fees	64	160	168	246
Settlement Service	4,242	3,828	4,065	4,059
Depreciation	250	70	110	130
LCCC Recharge	2,793	2,731	2,848	3,079
Other Costs	123	165	191	220
Total	7,472	6,954	7,382	7,734

Professional fees

91. The budget is required for external audit fees and ad-hoc consultancy.

Metering and Settlement Services

92. The costs of providing the metering and settlement services, as set out in Table 7, include the estimated cost of:

- administering and monitoring bid bonds and collateral;
- making payments in respect of CM auctions;
- collecting ESC's operational costs levy for 2022/23, 2023/24 and 2024/25; and
- audit and assurance, including the verification of meter arrangements for providers whose capacity agreements are conditional on ESC approving their metering configuration and external audit costs for the operational settlement services.

93. The budget for these services is mainly flat over the budget period.

Table 7:

Description	Estimated costs – 2022/23 £000s	Estimated costs – 2023/24 £000s	Estimated costs – 2024/25 £000s
Resource and subcontractors	2,218	2,331	2,328
Other third party and Assurance costs	1,610	1,734	1,731
Total	3,828	4,065	4,059

Depreciation

94. Expected annual depreciation charges of £0.070m in 2022/23, £0.110m in 2023/24 and £0.130m in 2024/25 are included in the operational cost budget. These charges relate to the assets ESC has purchased, or will purchase, using loan funding provided by BEIS, such as the IT hardware and the development and build of the settlement system for the CM. The charges that are collected to cover depreciation costs will be paid to BEIS in the year that it is collected.

Low Carbon Contracts Company cost recharge

95. In order to reduce costs as far as possible, ESC will continue to share services and back-office functions with LCCC and so has no employees of its own. Under this arrangement, ESC pays LCCC to provide the functions it requires. This cost is based on an estimate of the time LCCC employees will spend on ESC activities during the levy year, together with an appropriate allocation of overhead costs (including rent, service charges, IT infrastructure, telephony support and other non-core assets). For core systems which are shared between LCCC and ESC, and where the capital expenditure has been initially funded through LCCC, a charge for the use of these assets will be made to ESC based on a notional depreciation charge. The recharged costs also include a proportion of corporate service costs, legal and professional fees, and the salaries of the ESC Board members. Although LCCC undertakes corporate activities on behalf of ESC, the ESC Board retains responsibility and accountability for the quality and cost of services provided.

96. This approach avoids ESC replicating functions that LCCC already has in place. LCCC must therefore have sufficient capacity over the budget period to ensure ESC has the necessary resources to perform all of its functions in relation to the CM and fulfil its purpose and activities under the shareholder framework document and the relevant legislation.

97. For 2022/23 LCCC and ESC have agreed a recharge of £2.731m, for 2023/24 £2.848m and for 2024/25 £3.079m, which will be payable by ESC in monthly instalments. In general, this amount will remain fixed and will not be subject to amendment. However, if actual costs prove to be materially in excess of the estimated costs, LCCC will be entitled to amend the level of recharge accordingly. If costs prove to be materially less than estimated, resulting in actual cost savings to LCCC, the amount payable by ESC would be reduced accordingly.

Other costs

98. In addition to the above, there are a number of other directly charged costs which ESC will incur. These relate primarily to the annual audit fee for the completion of the statutory annual report, stakeholder management and ESC-specific assurance activity.

Consultation questions

- | | |
|----------|--|
| 3 | Do you have any comments on ESC's estimated operational costs set out in this consultation document? |
|----------|--|

This consultation is available from: www.gov.uk/beis

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.