



Department for
Business, Energy
& Industrial Strategy

COMPENSATION FOR THE INDIRECT COSTS OF FUNDING THE RENEWABLES OBLIGATION AND SMALL SCALE FEED-IN-TARIFFS

Guidance for applicants

Revised June 2017

1. Introduction

1. The UK government is committed to reducing carbon emissions in a way that is consistent with meeting legally binding targets – a reduction of greenhouse gas emissions by at least 80% by 2050. This requires a transformation of the UK economy, including the energy market, while keeping energy costs down for business and consumers, and maintaining competitiveness.
2. A key element of the government’s approach to decarbonising energy is policies designed to incentivise generation of electricity from renewable sources. Specifically the government has put in place the Renewables Obligation (RO) and the Small Scale Feed In Tariff (FITs) schemes to incentivise renewable energy supplied through the National Grid.
3. However, the government recognises that, in the short to medium term, the resulting increase in retail electricity prices risks reducing the competitiveness of the UK’s most electricity-intensive businesses where they are operating in internationally competitive markets.
4. As a result of this the government has committed to implement compensation for the impact of renewables policy on the costs of electricity for the most electricity intensive industries in line with the European Commission’s guidelines on State aid for environmental protection and energy 2014-20.
5. A consultation on the proposal for providing relief for electricity intensive industries for the indirect costs of renewables policy was held between 31st July and 24th October 2014. The purpose of the consultation was to seek views on the proposed eligibility and design of the scheme. The government published a response to the consultation on the 19th January 2015.
6. This guidance sets out how businesses can claim compensation for the indirect costs of funding the Renewables Obligation (RO) and Small Scale Feed In Tariffs (FITs).

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2. Eligibility

7. There are two steps to assessing whether a business is eligible to claim compensation for the indirect costs of funding the RO/FITs –
 - The business must manufacture a product in the UK within an eligible sector (defined by 4-digit NACE code) – the “sector level test”.
 - The business must pass a 20% electricity intensity test – the “business level test”.
8. In this guidance “business” (or the “applicant”) refers to the legal entity manufacturing a product in the UK within an eligible NACE code. This will typically be a business registered at Companies House.

2.1 Eligible Sectors (NACE codes version 2.0)

9. The European Commission provided framework guidance to EU Member States through the Guidelines on State aid for environmental protection and energy 2014-2020¹ (referred to in this guidance as the Environment and Energy State Aid Guidelines or EEAG). This set out which sectors (by 4-digit NACE code) could be eligible for compensation.
10. To ensure that support is targeted at those most at risk, we further limited eligibility to those sectors which are electricity intensive and subject to international competitive pressures using UK specific data from the Annual Business Survey. To be eligible, sectors must also have a trade intensity of at least 4% and an electricity-intensity of at least 7%.
11. The list of eligible sectors applies to compensation for the indirect costs of funding both the RO and the FITs schemes. Applicants will need to establish that they manufacture a product (as defined at the 8-digit prodcom level) in the UK which falls within one of the eligible 4-digit NACE codes in Table 1 or Table 2². If a business does not manufacture a product in one of these sectors it will not be eligible. Businesses that sell or resell eligible products without having manufactured them are not eligible.

Table 1. The list of eligible sectors

NACE code (v2.0)	Description
0510	Mining of hard coal
0811	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
0899	Other mining and quarrying n.e.c.

¹ [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628\(01\)](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628(01))

² The first 4 digits of an 8-digit prodcom code represent the sector of a product.

NACE code (v2.0)	Description
1106	Manufacture of malt
1310	Preparation and spinning of textile fibres
1320	Weaving of textiles
1395	Manufacture of non-wovens and articles made from non-wovens, except apparel
1610	Sawmilling and planing of wood
1621	Manufacture of veneer sheets and wood-based panels
1712	Manufacture of paper and paperboard
1722	Manufacture of household and sanitary goods and of toilet requisites
1920	Manufacture of refined petroleum products
2011	Manufacture of industrial gases
2013	Manufacture of other inorganic basic chemicals
2014	Manufacture of other organic basic chemicals
2015	Manufacture of fertilisers and nitrogen compounds
2016	Manufacture of plastics in primary forms
2017	Manufacture of synthetic rubber in primary forms
2060	Manufacture of man-made fibres
2221	Manufacture of plastic plates, sheets, tubes and profiles
2222	Manufacture of plastic packing goods
2311	Manufacture of flat glass
2313	Manufacture of hollow glass
2314	Manufacture of glass fibres

NACE code (v2.0)	Description
2319	Manufacture and processing of other glass, including technical glassware
2320	Manufacture of refractory products
2331	Manufacture of ceramic tiles and flags
2332	Manufacture of bricks, tiles and construction products, in baked clay
2349	Manufacture of other ceramic products
2351	Manufacture of cement
2352	Manufacture of lime and plaster
2399	Manufacture of other non-metallic mineral products n.e.c.
2410	Manufacture of basic iron and steel and of ferro-alloys
2420	Manufacture of tubes, pipes, hollow profiles and related fittings, of steel
2431	Cold drawing of bars
2432	Cold rolling of narrow strip
2434	Cold drawing of wire
2442	Aluminium production
2443	Lead, zinc and tin production
2444	Copper production
2445	Other non-ferrous metal production
2451	Casting of iron
2452	Casting of steel
2453	Casting of light metals
2454	Casting of other non-ferrous metals
2611	Manufacture of electronic components

NACE code (v2.0)	Description
2720	Manufacture of batteries and accumulators

12. The EEAG also allows EU Member States to provide aid for the indirect costs of funding renewables to energy intensive businesses from typically non energy intensive sectors. This is in recognition that not all sectors are homogeneous in their composition.
13. In line with paragraph 10 above, the UK government also narrowed sector eligibility for this sector list using Annual Business Survey data on trade intensity and electricity-intensity of the sector. Eligible sectors have a trade intensity of at least 4% and an electricity-intensity of at least 7%. Table 2 below outlines eligible typically non-energy intensive sectors.

Table 2. The list of eligible sectors based on the European Commission list of trade intensive sectors

NACE code (rev2.0)	Description
0812	Operation of gravel and sand pits; mining of clays and kaolin
1012	Processing and preserving of poultry meat
1091	Manufacture of prepared feeds for farm animals
1391	Manufacture of knitted and crocheted fabrics
1393	Manufacture of carpets and rugs
1396	Manufacture of other technical and industrial textiles
1399	Manufacture of other textiles n.e.c.
1419	Manufacture of other wearing apparel and accessories
1431	Manufacture of knitted and crocheted hosiery
1439	Manufacture of other knitted and crocheted apparel
1511	Tanning and dressing of leather; dressing and dyeing of fur
1629	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials
1721	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard

NACE code (rev2.0)	Description
1724	Manufacture of wallpaper
2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres
2219	Manufacture of other rubber products
2229	Manufacture of other plastic products
2344	Manufacture of other technical ceramic products
2362	Manufacture of plaster products for construction purposes
2365	Manufacture of fibre cement
2592	Manufacture of light metal packaging
2732	Manufacture of other electronic and electric wires and cables
2891	Manufacture of machinery for metallurgy

2.2 The Business Level test

14. The purpose of the business level test is to ensure that the schemes target only those businesses where aid is most needed, i.e. those put at a significant competitive disadvantage from bill payers' support for renewable energy.
15. Businesses must pass the test to demonstrate they are electricity intensive and are likely to face a significant competitive disadvantage.
16. In order to satisfy the business level test, businesses will need to show that their implied mean electricity costs amount to 20% of their mean Gross Value Added (GVA)³.
17. GVA excludes items which are "extraordinary". In line with general accounting procedures on extraordinary expenditure, we define an extraordinary item as something which is highly unusual or infrequent in nature and not related to the ordinary and typical operating activities of the business.
18. Eligibility will be assessed using data based on the applicant's financial year. If applicable, the accounts on which data has been based must have been submitted to Companies House to allow verification. A business cannot apply with fewer periods of

³ GVA is defined as earnings before interest, taxes, depreciation and amortisation (EBITDA) and staff costs including employers' pension and national insurance contributions.

data than exist i.e. it is not permissible to exclude a year to ensure eligibility. The relevant period (reference period) for businesses is as follows:

- For businesses with three or more years of published annual accounts where the first financial year commenced on or after the 1st January 2012, the relevant period will be the three most recent consecutive years for which there are annual accounts.
 - For businesses with two years of published annual accounts where the first financial year commenced on or after the 1st January 2012, the relevant period will be those two years.
 - For businesses with one year of published annual accounts where the first financial year commenced on or after the 1st January 2012, the relevant period will be that one year.
 - A business that does not have any annual accounts and has been trading for 21 months or less can also apply. The relevant period in this circumstance will be the period for which they have been carrying out a specified activity and have financial data in the 12 months prior to making an application (which must be at least six months). Such businesses will need to supply a copy of the annual accounts to BEIS within 30 days of the accounts being finalised.
 - Businesses are not eligible until they have at least two financial quarters worth of data.
19. For the purposes of the 20% test, the UK government will calculate costs and GVA at the aggregate “business” level i.e. the whole legal entity. To allow comparison across years the government will deflate all GVA figures to 2012 prices using the GDP Deflator. Electricity consumption will be multiplied by a baseline electricity price in 2012 prices to produce the implied cost of electricity.
20. We cannot consider overseas electricity consumption when assessing whether a business is eligible and we cannot compensate electricity associated with non-UK production. Therefore a legal entity which has used overseas electricity in its application will not be eligible for compensation.
21. For sectors identified as eligible due to high electricity intensity (set out in Table 1) business electricity consumption will be the total (grid and non-grid) electricity consumed by the business during the reference period.
22. For trade intensive sectors that are not typically energy intensive but nonetheless may have some electricity intensive businesses (set out in Table 2), in line with the EEAG, business electricity consumption will be based on energy efficiency benchmarks if they become available⁴. These benchmarks are intended to represent the most efficient process for the manufacture of that specific product and are based on production tonnage. Please refer to Annex A for further details of how benchmarks may be applied.

⁴ A non-exhaustive list of the European Commission’s electricity consumption efficiency benchmarks for products covered by the NACE codes can be found here:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:387:0005:0013:EN:PDF>

Box 1 – Electricity Cost Impact calculation

To calculate the electricity cost impact (which must be higher than or equal to 20%) we use the following formula:

$$\frac{BEP \times BEC}{BGVA}$$

BEP (Baseline Electricity Price):

- In calculating eligibility at both sector and business level the UK government uses a Baseline Electricity Price (BEP) to allow fair comparison across sectors and businesses.
- The BEP is the price that, in the opinion of the Secretary of State, reflects the electricity price paid by businesses which carry out specified activities, in the most recent calendar year for which information is available⁵, expressed in pounds per megawatt hour and adjusted for inflation in accordance with a measure of inflation determined by the Secretary of State so as to reflect prices in the calendar year beginning with 1st January 2012. It is based on the industrial electricity price in the Energy and Emissions Projections publication⁶. Currently this is from 2015 and, once deflated to 2012 prices using the most recent GDP deflator published by HMT using figures from the Office of Budgetary Responsibility and the Office of National Statistics⁷, is £79.01/MWh.
- We will update this guidance when this changes.

BEC (Baseline Electricity Consumption for Business) = For those businesses who only produce products from Table 1, or produce products from Table 2 that do not have available energy efficiency benchmarks, the BEC will be calculated as the amount of electricity consumption in the UK for the business from any source of generation over the reference period as outlined above at paragraph 18.

For those businesses who produce products from Table 2 that do have available energy efficiency benchmarks, the BEC will be based on these benchmarks (please refer to Annex A for more information on energy efficiency benchmarks).

BGVA (Baseline GVA for Business) = The GVA for the business over the reference period as outlined above and deflated to 2012 figures. Any periods with negative GVA / GVA below £1 will be treated as having an aggregate value of £1.

⁵ This will be the most recent calendar year for which all the information (both business information and electricity price information) needed to determine eligibility is available in order that the calculation of electricity cost impact uses data for BEP, BEC and BGVA that is comparable, as far as possible.

⁶ www.gov.uk/government/publications/updated-energy-and-emissions-projections-2016

⁷ www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2016-quarterly-national-accounts

3. How compensation is calculated

23. Whilst the 20% eligibility test requires a calculation at the aggregate 'business-level', the amount of compensation due is calculated using electricity consumed at meter points. Businesses with multiple electricity meter points will therefore need to provide electricity and product information associated with each of their meter points.

3.1 Aid intensity

24. The aid intensity must not exceed 85% of the eligible costs. This means compensation may not exceed 85% of the indirect costs of funding the RO and FIT.

3.2 Calculating Aid

25. For these compensation schemes, we will calculate aid for each eligible product using the formula outlined in Box 2.

Box 2: Formula for aid amount calculation for the RO/FIT compensation scheme

We calculate the amount of aid using the following formula:

$$\text{Aid}_p = A_i \times P_{i_{pol,t}} \times \text{BEC}_p \times G_t$$

The Aid for product p is equal to the product of:

A_i = Aid intensity, the percentage of costs that the government is allowed to compensate under State Aid rules (85%).

$P_{i_{pol,t}}$ = Price impact of policy pol (either RO or FIT) in year t . The RO price will be calculated based on Ofgem's Renewables Obligation levelisation report and the FIT price will be based on the forecast price which will be adjusted at the end of the year when the Ofgem Feed-in-Tariff levelisation report is published.

BEC_p = Baseline Electricity Consumption for product p . This will usually be the average electricity consumption for that product over the most recent three years available. If there are less than three years of production we will use data from the most recent year(s) until there are three full years of data when we will fix the baseline as the average of those years. Once fixed, the baseline will only change if there is a significant change as outlined below.

For applicants applying for compensation for a product in Table 2, energy efficiency benchmarks, where available, will be used instead of average electricity consumption. As these are usually expressed as MWh/tonne of output or tCO₂/tonne of output, for these applicants, baseline output (i.e. the average production of the eligible product in tonnes per year over the reference period) will also be required (please refer to Annex A for more information on energy efficiency benchmarks – further information may also be needed).

G_t = Grid fraction of electricity consumed by the business in the year (or available quarters if a full year is unavailable) reflective of the period over which the policy cost is faced. This is the proportion of electricity consumed which is grid electricity and therefore subject to the indirect costs of funding the RO/FIT. The initial offer letter will use the grid fraction from the most recent year (or available quarters if a full year is unavailable) reflective of the period over which the policy cost is faced and an adjustment will be made at the end of the year to account for any difference with the actual grid fraction.

26. The Renewables Obligation buy-out price is released at the start of each year. The RO price in Great Britain for 2017/18 is £18.64/MWh. For Northern Ireland it is £7.61/MWh. The FIT forecast for Great Britain for 2017 is £4.79/MWh which will be reconciled when the actual figure is available at the end of each year.

3.3 Baseline electricity consumption for product

27. Baseline electricity consumption for product' will be the average electricity consumption (from all types of generation) associated with the manufacture of the eligible product(s) over the reference period. However, if applicable and available, energy efficiency benchmarks will be applied instead (please refer to Annex A for more information on energy efficiency benchmarks). [The rest of this section is relevant to applicants where energy efficiency benchmarks either do not apply, or apply but are not available.]
28. Electricity consumption is fixed at a baseline level to provide increased certainty to businesses about the amount of compensation they will receive. Once fixed, the baseline will only change following a significant change in electricity consumption as set out in this document.
29. If however because of verifiable exceptional circumstances, outside the direct control of the business, such as flooding, electricity consumption was significantly lower in one of the baseline years than the other baseline years, BEIS will consider accounting for this on a case by case basis.
30. With regard to new installations, if there are fewer than three years of production then the baseline electricity consumption will be defined as the mean of available electricity consumption until there are three years of operation on record. Once there are three years of historic production on record, 'baseline electricity consumption' will be fixed as the average of the three years of production.
31. If a business reduces its consumption of electricity in a given business financial year by between 50% and 75% compared with the baseline consumption, the business will only receive half of the aid amount corresponding to the baseline electricity consumption.
32. If a business reduces its consumption of electricity in a given business financial year by between 75% and 90% compared with the baseline, the business will only receive 25% of the aid amount corresponding to the baseline electricity consumption. If a business reduces its consumption of electricity by 90% or more compared with the baseline, the business will receive no compensation.

33. If a business increases the number of installations manufacturing eligible products (purchases of existing operations or new sites), baseline electricity can be increased (See section 3.5 for more information).
34. If a business closes a site we will remove that site from the baseline from the date of closure. We will remodel the business's baseline and may require additional data to ensure the accurate level of compensation.

3.4 Baseline output

35. 'Baseline output' is required by applicants claiming for products from eligibility table 2 in case it is necessary to apply energy efficiency benchmarks (see Annex A, paragraph 3). It is the average production of the eligible product in tonnes per year over the reference period.
36. If there are fewer than three years of production then the baseline output will be defined as the average of production over the period the business was operational until there are three complete years on record. Once there are three years of historic production on record, 'baseline output' will be calculated as the average of the three years of production over the reference period and this baseline will be fixed for subsequent years.
37. If a business increases the number of installations manufacturing eligible products, baseline output can be increased.

3.5 Installations that have changed ownership and structure since the reference period

38. In many cases, the addition of sites or purchase of another entity by a business will not lead to a reassessment of eligibility but may lead to an increase in baseline electricity consumption and therefore compensation due. An eligible business will need to submit electricity consumption data for the new site(s). Compensation will only be paid in respect of eligible products. The new site(s) will be assessed in the same way as a new applicant except the eligibility of the business is assumed so financial data is not required. A minimum of two quarters of data will be required of the new site(s) before an addition to the baseline can be calculated and compensation for eligible electricity use is payable including a backdated payment to the date of the addition of the site.
39. If the addition of a site means the baseline electricity consumption is more than 100% higher than the original baseline (the baseline when business eligibility was determined, before any additions), the business as a whole must reapply. The business as a whole will then be reassessed for eligibility and rebaselined on the basis of this application.
40. The eligibility requirements set out in this guidance are intended to ensure that the Schemes target those businesses where aid is most needed. If BEIS considers that an applicant has restructured, changed ownership or taken any other steps in order to ensure that an installation which would not otherwise be eligible meets the criteria, this will be taken into account when the application is considered. BEIS reserves the right to refuse such applications.

3.6 Businesses making several products

41. Compensation will be due for the electricity associated with the manufacture of eligible products. In order to assess this, we will take the following approach:
42. Where a business is manufacturing only eligible products from a meter, the 'baseline electricity consumption' will be taken to be the total average annual electricity consumption in MWh over the reference period for the installation (i.e. electricity costs which fall outside the direct manufacture of the product can be included, as these should be minimal).
43. Where a business is manufacturing both eligible and ineligible products from a meter, the business will need to isolate the electricity usage associated with the eligible product using the one of the following methods:
 - (i) Use evidence which clearly demonstrates the electricity usage associated with the manufacture of the product in question – preferably in the form of metered records; or
 - (ii) Estimate the electricity usage associated with the manufacture of an eligible product using the proportion of the different products being made (in tonnage, m² or other justified metric). For example, electricity consumption is allocated to a product in the same proportion as the tonnage of the product produced relative to overall tonnage.

3.7 Non-Grid electricity

44. In some cases, businesses will generate some or all of their electricity on site rather than purchasing electricity supplied through the grid. Alternatively, a third party may supply electricity outside of the grid. Where the non-grid electricity in question is not subject to RO/FIT costs, the relevant compensation will not be due in respect of it.
45. Upon initial application, applicants must submit their grid and non-grid electricity consumption. The initial calculation will use the grid/non-grid split from the most recent year. For those businesses consuming electricity from non-grid sources, the amount of compensation due will be adjusted at the end of each year to account for changes in the proportion of electricity consumed from grid and non-grid sources over the year. This proportion will then be used for the following year and will then be adjusted at the end of that year.
46. In practice this means that the baseline (total eligible electricity consumption) is multiplied at the end of each year by the proportion of total electricity in that year from the grid to give the total electricity eligible for compensation. If this differs from the amount of electricity compensated over the year to date, an adjustment will be made to ensure the applicant receives the correct overall payment.
47. Where a business closes or sells a site we will remove that site from the baseline. For those businesses which have used non-grid electricity over the baseline period, to accurately subtract this site from the baseline the applicant should provide data on the historical non-grid electricity consumption at the site and/or historical non-grid consumption at remaining sites. Compensation for the closed site will be due up to the date final production of eligible products ceases or the formal date of sale.

3.8 Onward supply or meter sharing

48. In some cases, businesses will supply electricity to other businesses or have other agreements where a meter point is shared. An applicant cannot be compensated in respect of electricity which is not consumed by it, i.e. consumed by other businesses.
49. A business (Business X) may supply another business (Business Y) using both grid and non-grid sources. It will be assumed that the proportion of grid and non-grid electricity used by Business Y is the same as the proportion consumed by Business X and/or supplied by Business X to others. It is not permissible to assume that all electricity supplied to one business is non-grid and electricity used by the applicant is grid sourced unless evidence can prove that it would be impossible, given existing infrastructure, for one of the businesses to consume specified quantities of grid or non-grid electricity.

3.9 If a business has an incomplete baseline

50. At the end of each year businesses with an incomplete baseline (those that have not yet provided three full financial years) will need to provide additional data. This will be used to confirm the business is still eligible and to recalculate the baselines and compensation due.
51. If as a result of additional data, a business becomes ineligible but had already been confirmed eligible on the basis of one financial year or more of data, the business will not receive further compensation but will not need to repay compensation already paid. If as a result of additional data, a business becomes ineligible and had been confirmed eligible on the basis of less than one financial year of data (financial quarters), the business will not receive further compensation *and* will need to repay compensation received.
52. If as a result of additional data, a business remains eligible but the electricity baseline has changed compensation will be adjusted. If a business had previously been confirmed eligible on the basis of one financial year or more of data, future compensation will be calculated using the adjusted baseline. If a business had been confirmed eligible on the basis of less than one financial year of data, future compensation *and* compensation received will be adjusted to the level of the adjusted baseline.

4. Scheme administration

53. Compensation for the indirect costs of funding the RO/FITs will be administered by the Department for Business, Energy and Industrial Strategy (BEIS), with payments being made quarterly and in arrears.

4.1 The process

54. There will be three administrative processes which will need to be undertaken by claimants:
- 1) **The initial application form:** completed at the outset of the claim. This forms the basis of the decision on eligibility and the calculation of compensation. It is split into two parts and there is a separate validation process.
 - 2) **The quarterly declaration:** confirming that circumstances are largely unchanged, or notifying significant changes in levels of electricity consumption, site closures or new installations. This declaration will prompt the quarterly payment and should avoid unnecessary under/overpayments.
 - 3) **Annual Return:** setting out annual totals for electricity consumption and auto-generation at installation level and for electricity consumption and output at product level.

4.2 The initial application form

55. The application form consists of two parts. Part 1 asks for information to help manage the Schemes and Part 2 asks for electricity consumption and financial data. These forms are available on the GOV.UK website and should be completed by all businesses wishing to apply for relief from the indirect costs of RO/FITs. They should be submitted via email to energyintensiveindustries@beis.gov.uk. The application form will require businesses to submit the following information:

For eligibility purposes:

- Business's name and evidence of its legal status (e.g. Companies House registration number).
- Contact name and details including role in the business.
- Business's overall electricity usage and cost over the reference period.
- EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) and the staff costs of the person's business (including employer's pension and national insurance contributions).
- The product as defined at the 8-digit 'Prodcom' level, which falls within one of the eligible 4-digit NACE codes in Table 1 or 2.
- Meter Point Administration Numbers (MPAN). (Where the meter is registered in SMRS, the MSID that relates to that meter. Where the meter is registered in CMRS, the BM Unit Identification Number and MSID that relates to that meter.)

For compensation calculation purposes (the exact requirements depend on the business's circumstances):

- Details of installations being claimed for.
 - The output of eligible product if the applicant is applying for compensation for a product in eligibility table 2 (tonnage, from the last three years for which records are available in line with the available business level financial data for each installation being claimed for).
 - For installations making more than one product, the electricity usage associated with making each product.
 - The electricity usage associated with the output of other (non-eligible) manufactured products at the relevant installations.
 - Details of any electricity from auto-generation or other non-grid sources – the location and how much is used for the manufacture of eligible product.
 - Bank account details.
56. Following receipt of the initial application form, BEIS will issue a letter to the business which will confirm whether or not the business is eligible for compensation, whether further data will be required to confirm future eligibility (if three full financial years are unavailable), for which product(s) compensation will be payable, the quarterly payment rate, and when quarterly declarations will be due.
57. Successful applicants will be compensated from the start of the month in which their application is received. There is no facility for the backdating of claims.

4.3 Quarterly Declaration

58. Quarterly declarations should also be submitted via email to energyintensiveindustries@beis.gov.uk. The form will require businesses to submit the following information:
- Confirmation that the business is still in operation.
 - Confirmation that no significant changes have occurred.
 - If significant changes have occurred, or are predicted to occur, details of these changes e.g. changes in electricity consumption over the last quarter; predicted significant changes for the calendar year; details of any closed, opened or purchased installations.
59. The quarterly declaration should be submitted immediately following the three month period in question – i.e. from the first day after the period in question. If the quarterly declaration has not been submitted after a month has passed following the period in question, BEIS will issue a reminder to the business via email. If the declaration has not been returned by the business by the time the next quarterly declaration is due (i.e. by the first day after the subsequent three month period), the business's compensation claim will be stopped. Non-receipt of the email reminder cannot be used as a reason for non-return of the declaration form.
60. Where changes occur which significantly affect the levels of electricity consumption and therefore the amount of annual compensation due, adjustments will be made (i.e. BEIS

will recalculate the annual amount of compensation due, taking into account the new information). Adjustments will be made to the level of quarterly payments due for the remainder of the calendar year, and a letter issued to the business accordingly.

61. Where the quarterly or annual return indicates under or overpayment, adjustments will be made to payments going forward into the following year. The correction will be made as quickly as possible.
62. Following receipt of the quarterly declaration and provided everything is as expected, BEIS will make payment directly into the business's bank account.

4.4 Annual Return

63. This will require businesses to report grid electricity consumption levels if electricity consumption has fallen by more than 50% of the baseline.
64. Businesses will also need to report, if applicable, the proportion of electricity that is not sourced from the National Grid (e.g. auto-generation, 3rd party providers of Combined Heat and Power (CHP) etc.)
65. Businesses that are treated as new entrants and/or do not have three years of data will also need to provide relevant data for the year.
66. If there is a significant change in electricity consumption (reduction of over 50% as outlined above) this will be factored into the existing and following year's baseline. The proportion of grid/non-grid electricity use will also be adjusted at the end of each year.

4.5 Appeals

67. Businesses can appeal against decisions made regarding their eligibility or level of compensation if they consider that a decision is incorrect.
68. Appeals should be made in writing and can be sent via email or letter. They should clearly state that an appeal is being made, set out the grounds for appeal and be accompanied by any supporting evidence/documents that are to be relied on. Appeals will be determined on paper not via any oral hearing.
69. Appeals must be made within 20 working days of the date of the original decision (i.e. the date of the decision letter). Following receipt of an appeal BEIS will send an acknowledgement of receipt within two weeks and will seek to make a decision on the appeal within eight weeks of receipt of appeal.

4.6 Change of details

70. Any change of business details – e.g. names, addresses, and bank account details - should be provided to BEIS as soon as possible in writing.

4.7 Value Added Tax

71. Compensation payments for the RO/FIT schemes are not subject to Value Added Tax.

72. When reporting electricity costs in the initial application, Value Added Tax should be excluded.

4.8 Publication and Transparency

73. The European Commission requires that member states publish the names of businesses receiving compensation pursuant to the schemes approved under the EEAG. For successful applicants receiving over €0.5 million in state aid, we are required to publish the name of the business, the amount (in bounded ranges), the location and size of the business, date of approval and NACE Code.
74. Details of unsuccessful applicants will not be published and BEIS will not otherwise publish individual information provided by applicants unless required to do so by regulation or statute, including the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.
75. BEIS will, however, each year publish a list of the names of businesses that have been awarded compensation.
76. For the purposes of the Data Protection Act, your contact is:

The Data Protection Officer
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Telephone: 020 7215 6635

5. Validation

77. A validation process for the application data in Part 2 of the application form is required. It has been designed to be robust and minimise the administrative burden by being proportionate to the applicant's electricity consumption.
78. In most circumstances, an independent Accountant's Report will be required. The terms and conditions of the independent Accountant's Report are set out in Annex B.
79. If an independent Accountant's Report is required, we must have received the Report, satisfying the terms and conditions of the scope in Annex B, before any payment can be made to the applicant.
80. If an independent Accountant's Report is required, we would prefer the Accountant's Report to be submitted with the application. But as we recognise this is not always possible, we will accept, and start processing, applications without the Accountant's Report in the expectation that the Accountant's Report is received within 6 weeks of receipt of the application documentation.

5.1 Large Electricity Users

81. Applicants are classified as Large Electricity Users if they consume **more than 10GWh per year** on average over the period of data supplied in support of the application. These applicants must submit an independent Accountant's Report as outlined in Annexes B to validate the application figures on EBITDA, staff costs and electricity usage.
82. Large Electricity Users who have reported figures for staff costs and/or EBITDA for any given business financial year in Part 2 of the application form, which are *lower* than the equivalent figure published in either UK statutory Company Accounts or a published UK annual report must provide an explanation for the difference, citing supporting evidence, in the comments box (Table G) of Part 2 of the application.
83. Large Electricity Users that do not have published figures on staff costs and/or EBITDA available from Companies House, or a published UK annual report, must provide an explanation for any difference between the application figures and those relevant in the supporting evidence (in most cases, a copy of management accounts) submitted to the Accountant. This explanation should be reported in the comments box (Table G) of Part 2 of the application.

5.2 Small Electricity Users

84. Applicants are classified as Small Electricity Users if average electricity consumption is **10GWh or less per year** over the period of data supplied in support of the application.
85. Small Electricity Users must submit electronic copies (scans of physical documents are acceptable) of electricity bills for the May and November of every financial year for which data is submitted in Part 2 of the application form. If a bill was not received on the particular **May** or **November** of a financial year, the applicant must also submit a bill for December of that financial year.

86. Small Electricity Users who have reported figures for staff costs and/or EBITDA for any given business financial year in Part 2 of the application form, *which differ* from equivalent figures published in either UK statutory Company Accounts, or a published UK annual report, must provide an explanation of the difference, citing supporting evidence, in the comments box (Table G) of Part 2 of the application. These users may be asked for an Accountant's Report depending on the size of any difference and the scale of electricity use.
87. Small Electricity Users that do not have published figures on staff costs and/or EBITDA at Companies House, or in a published UK annual report, must provide us with a copy of internal documents (in most cases, a copy of management accounts) used to support the figures for EBITDA and staff costs reported in Part 2 of the application, and provide an explanation for any difference between the application figures and those relevant in the internal documents. This explanation should be reported in the comments box (Table G) of Part 2 of the application. If deemed necessary by BEIS, an Accountant's Report may also be required.

5.3 Monitoring

88. BEIS will monitor applications and compensation paid and will from time to time undertake further validation or investigation. This will include but is not limited to -
- Where a business is claiming a significant amount of compensation.
 - Where a case is complex – for example, a restructured business or an installation manufacturing several products.
 - Where the information being provided is significantly different from that declared with Companies House.
 - A random check of all cases, by a BEIS official. In some cases, an independent verifier may also be used.

Annex A. Explanation of Calculations

The 20% Business Level Eligibility Calculation

1. The electricity intensity calculation includes electricity from all sources (grid and non-grid) across the entire business (including ineligible products). To allow fair comparison across applicants facing different electricity prices, a common reference price is used. To allow comparison across time, all monetary values are first deflated by BEIS to a common year using the most up to date version of the UK GDP Deflator published by the ONS.
2. Total electricity consumption provided in Table A of part two of the application form, is added together for each complete financial period provided. It is then multiplied by the reference price to give the total representative cost of electricity over the years/quarters provided. The reference price is fixed in 2012 prices. The current reference price is £79.01/MWh.
3. For those companies who produce an eligible product in table 2 where an energy efficiency benchmark exists, electricity consumption will be replaced by a benchmarked amount. Typically benchmarks are expressed as £/tonne of output, the benchmarked electricity consumption would therefore be tonnes of product per year multiplied by the benchmark value. If the benchmark is expressed in other units e.g. tCO₂, additional data may be required.
4. Earnings Before Interest Tax Depreciation & Amortisation (EBITDA) and staff costs are added together to create GVA⁸. GVA for each time period is multiplied by the relevant GDP Deflator to convert it to 2012 prices. GVA is then added together over the financial periods provided to get total GVA in 2012 prices. If GVA is less than £1 in any period a value of £1 is used.
5. The total representative electricity cost is divided by total GVA to create electricity intensity. A business is eligible if electricity intensity exceeds 20%. A worked example of the calculation performed by BEIS is outlined below for a business which has submitted an illustrative “Table A”. Note that calculations are rounded and tables slightly abridged for ease of presentation.

⁸ In accordance with Annex 4 of EEAG guidelines, income and expenditure classified as financial or extraordinary in company accounts should not be included in EBITDA. Staff costs should include employer’s pension and national insurance contributions; businesses with complex arrangements including third party payment of staff should discuss these arrangements with BEIS.

TABLE A	2012/13	2013/14	2014/15	2015/16
Business Financial period Start Date	-	01/07/2013	01/07/2014	01/07/2015
Business Financial period End Date	-	30/06/2014	30/06/2015	30/06/2016
Does this business financial year represent a full year of operation?	No	Yes	Yes	Yes
EBITDA (£ nominal)	-	-£20,000,000	-£5,000,000	£15,000,000
Total staff costs (£ nominal)	-	£17,500,00	£20,000,000	£30,000,000
Total Business Electricity Consumption inc Grid and Non-Grid Sources (MWh)	-	80,000	90,000	85,000
Total business Grid Electricity Consumption (MWh)	-	23,105	31,900	27,810
Total business Grid Electricity Bill	-	£1,594,245	£2,488,200	£2,336,040

Step 1: Calculate total representative electricity consumption = $£79.01 \times (80,000 + 90,000 + 85,000) = £20,147,550$

Step 2: Add staff costs and EBITDA together to create GVA

Financial Year	2013/14	2014/15	2015/16
GVA	£17.5m - £20m = -£2.5m However because GVA is below £1 this becomes £1	£20m-£5m=£15m	£30m + £15m = £45m

Step 3: Convert GVA to 2012 prices for each year and then sum to create total GVA in 2012 prices.

GDP Deflator provided by ONS (December 2016, indexed to 2012 prices)

Calendar Year	2012	2013	2014	2015	2016
Index	1	0.981	0.965	0.960	0.948

6. Because the business has a financial year which doesn't follow the calendar year the index has to be converted so it matches the financial year provided by the business. This is done by using the proportion of the financial year that is in each calendar year.

TABLE A	2013/14	2014/15	2015/16
Business Financial period Start Date	01/07/2013	01/07/2014	01/07/2015
Business Financial period End Date	30/06/2014	30/06/2015	30/06/2016
Proportion of financial year in first calendar year	184 days / 365 days = 0.5	184 days / 365 days = 0.5	184 days / 366 days = 0.5
Index for financial year	$(0.5 \times 0.981) + (0.5 \times 0.965) = 0.973$	$(0.5 \times 0.965) + (0.5 \times 0.960) = 0.963$	$(0.5 \times 0.960) + (0.5 \times 0.948) = 0.954$
GVA in 2012 prices	$0.973 \times \text{£}1 = \text{£}0.97$ (97 pence)	$0.963 \times \text{£}15\text{m} = \text{£}14.4\text{m}$	$0.954 \times \text{£}45\text{m} = \text{£}42.9\text{m}$

Total GVA in 2012 prices = £0.97 (97 pence) + £14.4m + £42.9m = £57.3m

Step 4: Calculate electricity intensity = £20.1m / £57.3m = **35%**. This exceeds 20% so the business is eligible.

Calculation of compensation

- The compensation allowed per MWh is 85% of the price of the Renewables Obligation and the Feed-in-Tariff. The amount of eligible electricity is the average electricity used by the applicant from all installations to produce eligible products during the baseline years multiplied by the proportion of grid electricity used in the most recent calendar year. Eligible electricity is multiplied by the compensation per MWh to give the annual compensation due.
- In mathematical notation, the quarterly payments will be set using the following equation:

$$0.85 * (\text{ROPr}_q + \text{FITPr}_q) * \frac{1}{4} * \sum_{i=1}^k \left(\frac{\text{GridElec}_{it}}{\text{GridElec}_{it} + \text{NonGridElec}_{it}} * \sum_{y=1}^n \left(\frac{\text{GridElec}_y + \text{NonGridElec}_y}{\text{FinPeriod}_y} * \frac{\text{Elprod}_{iy}}{\text{Inelprod}_{iy} + \text{Elprod}_{iy}} \right) \right)$$

ROPr_q = The annual price (£/MWh) of the Renewables Obligation in quarter q for which compensation is being paid e.g. 2016Q1.

FITPr_q = The annual price (£/MWh) of the Feed-in-Tariff in quarter q for which compensation is being paid e.g. 2016Q1.

GridElec_{it} = The grid electricity consumption of the applicant from installation i in the most recent time period t. The total number of installations is equal to k. This should *exclude* any electricity supplied to the installation that is not consumed by the applicant e.g. supplied to another business.

NonGridElec_{it} = Non- grid electricity consumption of the applicant from installation i in the most recent time period t. The total number of installations is equal to k. This should *exclude* any electricity supplied to the installation that is not consumed by the applicant e.g. supplied to another business.

GridElec_y + NonGridElec_y = The electricity consumed by the applicant in financial period y (as submitted by the applicant in table B or C). When divided by the total duration of the financial periods to get an average annual figure this represents the baseline electricity figure.

FinPeriod_y = The length of financial period y (in years).

EIProd_{iy} = Electricity consumption for eligible products i.e. products from the sectors which pass the sector level test found in tables 1 and 2, in Megawatt hours at installation i in financial period y (as provided in table C).

Inelprod_{iy} = Electricity consumption for ineligible products i.e. products from sectors which do not pass the sector level test, in Megawatt hours at installation i in financial period y (as provided in table C).

9. Where applicable, for those products in eligibility table two where a benchmark exists, benchmarks will be applied. In this case, electricity consumption for the relevant product(s) is replaced by the electricity consumption implied by the benchmark. Typically benchmarks are expressed in electricity use per tonne of product output.
10. Assuming the following RO/FIT prices over the period compensated:

Allowable compensation of 85% (a)	0.85
Renewable Obligation Price (b)	£10/MWh
Feed-in-Tariff Price (c)	£5/MWh
Compensation per Eligible MWh (a*(b+c))	£12.75/MWh

11. Assuming a business has one installation with the following figures for grid/non-grid electricity consumption and eligible/ineligible products; each financial period is one calendar year:

	2012/13	2013/14	2014/15	Average
Grid Electricity Consumed (d)	9,000MWh	6,000MWh	7,000MWh	7,333MWh
Non-Grid Electricity Consumed (e)	1,000MWh	1,000MWh	1,000MWh	1,000MWh
Electricity consumption for eligible products (f)	7,000MWh	6,500MWh	6,000MWh	6,500MWh
Proportion of consumption on eligible products (g) = f / (d+e)	70%	93%	75%	
Baseline electricity consumption (h) (d+e)*h	7,000MWh	6,500MWh	6,000MWh	6,500MWh
Proportion of grid electricity (i) = d/(d+e) in 2014/15			87.5%	
Eligible Electricity (MWh) = most recent i * average (h)				5,688MWh

12. The total compensation due is compensation per Eligible MWh x total eligible electricity (MWh) - £12.75/MWH x 5,688MWh = £72,515.

Step 1: The compensation due per eligible Megawatt hour is calculated by multiplying the allowable proportion of compensation (85%) by the indirect policy cost imposed by the Renewables Obligations and Feed-in-Tariff.

Step 2: Total electricity consumption (grid and non-grid) of the business is multiplied by the proportion of electricity used for eligible production in each year. As the business's financial year is one year in duration, no adjustment is needed to convert this into an annual figure. The average represents the baseline used to identify significant reductions in electricity consumption.

Step 3: The baseline is multiplied by the fraction of electricity consumed which is from the grid. At the end of the year this fraction will be recalculated so that the actual proportion of grid electricity is used. This creates the electricity eligible for compensation.

Step 4: The eligible electricity is multiplied by the compensation due per Megawatt hour to give the compensation due over the year.

Annex B. Accountant's Report

Introduction

1. The Guidance Document for applicants seeking compensation from the indirect costs of the Renewables Obligation (RO) and small scale Feed-In-Tariff (FIT) sets out what supporting evidence is needed from Compensation Applicants. For Large Electricity Users (those consuming over 10GWh per year) we require an Independent accountant's report. We also require an accountant's report if the Compensation Applicant's figures for staff costs or EBITDA for any given business financial year as reported in Part 2 of the application form are lower than the equivalent figure reported in UK statutory Company Accounts or the business's published UK annual report.
2. This annex outlines the terms of engagement on which the Compensation Applicants engage accountants to perform an agreed-upon procedures engagement and report to the Secretary of State for Business, Energy and Industrial Strategy and the Compensation Applicant in connection with the RO/FIT compensation scheme. It also explains what information is required in that report by setting out a template for accountants to use.

Terms of engagement

3. In these terms of engagement:
 - 'the accountant' means the Compensation Applicant's Independent reporting accountants;
 - 'accountant's report' means a report prepared by the accountants in accordance with these terms of engagement and in the form set out in Appendix A;
 - 'the Compensation Applicant' means the applicant for the 'RO/FIT compensation' that is required to submit an accountant's report to the Secretary of State for Business, Energy and Industrial Strategy;
 - 'the Disclosed Requirements' refer
 - 'EBITDA' means earnings before interest, taxes, depreciation and amortisation;
 - 'the Guidance' refers to the guidance published by the Department for Business, Energy and Industrial Strategy which outlines what Compensation Applicants must do to apply for the RO/FIT compensation and the criteria used to assess Compensation Applicants;
 - 'Independent' means independent with respect to the Compensation Applicant within the meaning of Part B, s291 of the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, and meeting the independence requirements under Part 42 of the Companies Act 2006 for appointment as a company auditor;
 - 'part 2 of the application form' refers to Part 2 of the application form which Compensation Applicants use to apply for the RO/FIT compensation and is used to assess eligibility;

- 'the RO/FIT compensation' means the compensation from a proportion of the indirect costs of funding the Renewables Obligation and small scale Feed-In-Tariff;
 - 'staff costs' means costs of the person's business (including employer's pension and national insurance contributions);
 - 'the SoS' refers to the Secretary of State for Business, Energy and Industrial Strategy; and
 - 'the Supporting Workings' refers to the Compensation Applicant's workings supporting the totals for EBITDA and staff costs set out in part 2 of the application form;
4. Compensation Applicants that are required to provide an accountant's report should engage the accountant using the pre-agreed terms of engagement set out in this document, to (i) perform an agreed-upon procedures engagement and (ii) provide a report to the SoS and the Compensation Applicant in connection with the 'RO/FIT compensation'.
 5. The SoS accepts that an agreement between the Compensation Applicant, its accountant and the SoS on these terms is formed when the accountant signs and submits to the SoS a report in the form set out in Appendix A. NB: the SoS will not need to sign anything. By publishing this document, the SoS confirms that these pre-agreed terms form the basis of the agreement with the Compensation Applicant and the accountant. Once the accountant's report is submitted to the SoS in accordance with these terms, the SoS will accept that an agreement is formed.
 6. The Compensation Applicant and the accountant may agree additional engagement terms between themselves, but these terms do not affect the rights and obligations of the SoS.

The Compensation Applicant's responsibilities

7. The Compensation Applicant is responsible for producing and maintaining proper records, complying with the terms of any relevant legislation or regulatory requirements, and providing relevant information to the SoS in accordance with the requirements of the RO/FIT compensation. The Compensation Applicant is responsible for ensuring that the non-financial records can be reconciled to the financial records.
8. The management of the Compensation Applicant will make available to the accountant all records, correspondence, information and explanations that the accountant considers necessary to enable the accountant to perform its work.
9. The Compensation Applicant and the SoS accept that the ability of the accountant to perform its work effectively depends upon the Compensation Applicant providing full and free access to its financial and other records and the Compensation Applicant shall procure that any such records held by a third party are made available to the accountant.
10. The accountant accepts that, whether or not the Compensation Applicant meets its obligations in terms of the application, the accountant remains under an obligation to the SoS to perform its work with reasonable skill and care. The failure by the Compensation Applicant to meet its obligations may cause the accountant to qualify its report or be unable to provide a report.

Scope of the Accountant's work

11. The Compensation Applicant will provide the accountant with such information, explanations and documentation that the accountant considers necessary to carry out its responsibilities. The accountant will seek written representations from the management of the Compensation Applicant in relation to matters for which independent corroboration is not available. The accountant will also seek confirmation that any significant matters of which the accountant should be aware have been brought to the accountant's attention. The accountant is not responsible for assessing the eligibility of the Compensation Applicant for the RO/FIT compensation.
12. The accountant will agree the accuracy of information in part 2 of the application form, and in particular, will carry out the following procedures:
 - a) Agree the totals for EBITDA and staff costs disclosed in part 2 of the application form to the Supporting Workings;
 - b) Agree the components of EBITDA and staff costs disclosed in the Supporting Workings to UK statutory accounts for the equivalent time periods or other supporting evidence, reporting in the findings the nature of the supporting evidence;
 - c) Compare the calculations of EBITDA and staff costs in the Supporting Workings with the calculations described in the Guidance and report any differences observed;
 - d) Re-perform the calculations of EBITDA and staff costs from the Supported Workings to check arithmetical accuracy;
 - e) Agree the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form to the Supporting Workings;
 - f) Agree any underlying components of the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form disclosed in the Supporting Workings to relevant energy bills, invoices or electricity generation data supporting evidence, reporting in the findings the nature of the supporting evidence;
 - g) Compare the calculations of the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form in the Supporting Workings with the calculations described in the Guidance and report any differences observed;
 - h) Re-perform the calculations of the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form from the Supported Workings to check arithmetical accuracy.

Form of the Accountant's report

13. The accountant's report must be provided on the accountant's headed paper and signed by the accountant to provide an agreed upon procedures report. It is prepared on the following basis:
 - a) The accountant's report is prepared solely for the confidential use of the Compensation Applicant and the SoS and solely for the purpose of submission to the SoS in connection with SoS's requirements in connection with the RO/FIT compensation. It may not be relied upon by the Compensation Applicant or the SoS for any other purpose;

- b) Neither the Compensation Applicant, the SoS, nor any other parties may rely on any oral or draft reports the accountant provides. The accountant accepts responsibility to the Compensation Applicant and SoS for the accountant's final signed reports only;
- c) The accountant's report will be prepared solely for the confidential use of the Compensation Applicant and the SoS, and solely for the purpose of facilitating the Compensation Applicant's application for the RO/FIT compensation. The report will be released to the Compensation Applicant and the SoS on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without the accountant's prior written consent, except where requested by a minister who is a member of the UK government, or where there is a legal or statutory right of access, including under the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004. Without assuming or accepting any responsibility or liability in respect of the report to any party other than the Compensation Applicant and the SoS, the accountant acknowledges that the Compensation Applicant and SoS (or one of them) may be required to disclose the accountant's report to parties demonstrating a statutory right to see it, to enable such parties to exercise their statutory rights of access to this report;
- d) To the fullest extent permitted by law, except for the Compensation Applicant and the SoS, the firm of accountants, its partners and staff neither owe nor accept any duty to any person (including, without limitation, any person who may use or refer to any of the SoS's publications) and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on the accountant's work or reports.

Liability provisions

- 14. The accountant will perform the engagement with reasonable skill and care and accepts responsibility to both the Compensation Applicant and to the SoS, for losses, damages, costs or expenses ('losses') caused by its breach of contract, negligence or wilful default, subject to the following provisions:
 - a) the accountant will not be responsible or liable if such losses are due to the provision of false, misleading or incomplete information or documentation by, or due to the acts or omissions of any person other than the accountant, except where, on the basis of the enquiries normally undertaken by accountants within the scope set out in these terms of engagement, it would have been reasonable for the accountant to discover such defects.
 - b) the accountant accepts liability without limit for the consequences of its own fraud and for any other liability which it is not permitted by law to limit or exclude.
 - c) subject to the previous paragraph (14 (b)), the total aggregate liability of the accountant whether in contract, tort (including negligence) or otherwise, to the SoS, arising from or in connection with the work which is subject of these terms (including any addition or variation to the work), shall not exceed the higher of: (a) 500% of the fees paid by the Compensation Applicant to the accountant, or (b) £100,000.
- 15. The Compensation Applicant and the SoS agree that they will not bring any claims or proceedings against any individual partners, members, directors or employees of the accountant. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the Contracts (Rights of Third

Parties) Act 1999 (“the Act”). Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party’s consent. Other than as expressly provided in these terms, the Act is excluded.

16. Any claims, whether in contract, negligence or otherwise, must be formally commenced within 4 years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action and in any event no later than 6 years after the accountant’s report was issued (or, if no report was issued, when the accountant accepted the engagement in writing). This expressly overrides any statutory provision which would otherwise apply.
17. This engagement is separate to and unrelated to the accountant’s audit work (if any) on the financial statements of the Compensation Applicant for the purposes of any applicable statutory or regulatory or other auditing framework and nothing herein creates obligations or liabilities regarding the accountant’s audit work, which would not otherwise exist.

Fees

18. The accountant’s fees, together with VAT and out-of-pocket expenses, will be agreed with and billed to the Compensation Applicant. The SoS is not liable to pay the accountant’s fees or any part of them.

Quality of service

19. The accountant will investigate all complaints from the SoS and the Compensation Applicant. The SoS and the Compensation Applicant have the right to take any complaint to the Institute of Chartered Accountants in England and Wales (ICAEW). The SoS and the Compensation Applicant may obtain an explanation of the mechanisms that operate in respect of a complaint to the ICAEW at www.icaew.co.uk/complaints or by writing to the ICAEW at the ICAEW Professional Standards Office, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ UK.

Providing services to other parties

20. The accountant will not be prevented or restricted by virtue of the accountant’s relationship with the Compensation Applicant and the SoS, including anything in this agreement, from providing services to other clients. The accountant’s standard internal procedures are designed to ensure that confidential information communicated to the accountant during the course of an assignment will be maintained confidentially.

Applicable law and jurisdiction

21. This agreement shall be governed by, and interpreted and construed in accordance with the laws of England and Wales.
22. The Compensation Applicant, the SoS and the accountant irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise on any basis in connection with the validity, effect, interpretation or performance of, or the legal

relationship established by this agreement or otherwise arising in connection with this agreement.

Alteration of terms

23. All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms supersede any previous agreements and representations (unless based on fraud) between the parties in respect of the scope of the accountant's work and the accountant's report or the obligations of any of the parties relating thereto (whether oral or written) and represents the entire agreement and understanding between the parties save to the extent that the Compensation Applicant and the accountant agree additional terms between themselves. Any such additional terms will not affect SOS' rights under these terms of engagement.

Appendix A: Standard Template for Accountant's Report

Standard Template for Accountant's Report of [name of accountancy firm] to the directors of [name of Compensation Applicant] and The Secretary of State for Business, Energy and Industrial Strategy for an application for compensation for the indirect costs of funding the Renewables Obligation (RO) and small-scale Feed In Tariff (FIT) Schemes

[Date]

Dear Sir/Madam,

Accountant's Report of [name of Third Party accountant] to the directors of [name of Applicant] and The Secretary of State for Business, Energy and Industrial Strategy ("BEIS") of factual findings in relation to the application for compensation for the indirect costs of funding the Renewables Obligation (RO) and small-scale Feed In Tariff (FIT) schemes

1. [Name of Accountant] ("we") has examined the enclosed application forms from [the Compensation Applicant] (the "Company") for the period from [date] to [date] in accordance with BEIS's Terms of Engagement for Accountant's Reports set out in Annex B to the Guidance for Applicants seeking compensation for the indirect costs of funding the RO and FIT schemes [May 2017] (the "Guidance") [and the supplementary terms of our agreement with the Compensation Applicant dated [date]], having regard to the Guidance.
2. The enclosed application forms have been prepared by the directors of the Company ("the Directors"). The Directors are solely responsible for preparing the application form[s] in accordance with the Guidance. The Directors are responsible for producing the information included in the application forms, maintaining proper records, complying with the terms of any relevant legislation or regulatory requirements and the Guidance and providing relevant information to BEIS in accordance with the requirements of the Guidance. The Directors are also responsible for ensuring that the non-financial records can be reconciled to the financial records.
3. Defined terms used but not defined in this Report shall have the same meaning as equivalent terms defined in the Guidance.
4. Our engagement was undertaken [in accordance with/having regard to] International Standard on Related Services 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information. The procedures performed were as follows:

EBITDA and Staff Costs

- a) Agree the totals for EBITDA and staff costs disclosed in part 2 of the application form to the Compensation Applicant's workings supporting those totals ("the Supporting Workings").
- b) Agree the components of EBITDA and staff costs disclosed in the Supporting Workings to UK statutory accounts for the equivalent time periods or other supporting evidence, reporting in the findings the nature of the supporting evidence.
- c) Compare the calculations of EBITDA and staff costs in the Supporting Workings with the calculations described in the Guidance and report any differences observed;

- d) Re-perform the calculations of EBITDA and staff costs from the Supporting Workings to check for arithmetical accuracy.

Electricity Consumption

- e) Agree the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form to the Supporting Workings;
- f) Agree any underlying components of the totals for electricity consumption data and grid electricity consumption data part 2 of the application form disclosed in the Supporting Workings to relevant energy bills invoices or electricity generation data supporting evidence, reporting in the findings the nature of the supporting evidence;
- g) Compare the calculations of the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form in the Supporting Workings with the calculations described in the Guidance and report any differences observed;
- h) Re-perform the calculations of the totals for electricity consumption data and grid electricity consumption data in part 2 of the application form from the Supported Workings to check arithmetical accuracy.

Factual findings

- 5. We report our findings below:

[With respect to procedure (a) we found [no]/ [the following] exceptions [list]]

[For those procedures which require the accountant to provide details of the sources of data used in testing, tables should be included]

Electricity consumption data as reported in part 2 of the application form has been reconciled with the following sources of data:

Date	Source of data	Electricity Consumption (MWh)

Grid electricity consumption data as reported in part 2 of the application form has been reconciled with the following sources of data:

Date	Source of data	Electricity Consumption (MWh)

6. The Company has maintained adequate records to enable us to carry out the agreed-upon procedures and report our factual findings on this application.
7. Because the above procedures do not constitute either an audit or a review or other assurance engagement in accordance with International Standards on Auditing (UK and Ireland), International Standards on Review Engagements (UK and Ireland) or International Standards for Assurance Engagements, we do not express any assurance on [what, described precisely].
8. Had we been engaged to perform, and had performed, additional procedures, an audit or a review or other assurance engagement in accordance with International Standards on Auditing (UK and Ireland), International Standards on Review Engagements (UK and Ireland) or International Standards for Assurance Engagements, other matters might have come to our attention that we would have been reported to you.
9. Our report is prepared solely for the confidential use of the Compensation Applicant and the SoS and solely for the purpose of confirming the specified information included on the application form is correct. It may not be relied upon by the Compensation Applicant or the SoS for any other purpose whatsoever. Our report must not be recited or referred to in whole or in part in any other published document without our written permission except where disclosure is required as a result of a statutory obligation. Our report must not be made available, copied or recited to any other party without our express written permission in every case except that the Compensation Applicant or the SoS may disclose the report where it has a statutory obligation to do so. The report may be disclosed to a minister in the government of the UK or to a third party where there is a legal or statutory right of access, including under the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004. Other than to the Compensation Applicant and the SoS [Name of Accountant] do not have any duty to any other party to whom this report may be disclosed.
10. The engagement to report on the enclosed application forms is separate from, and unrelated to, any audit of the annual financial statements of the Company and this report relates only to the matters specified and does not extend to the Compensation Applicant's annual financial statements taken as a whole.

Name and signature of the reporting accountant.

Date of the report.

Name for enquiries.



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