

Version 2
10 March 2023

BEIS DISTRICT HEATING TEMPLATE HIGH LEVEL REVIEW OF FINANCIAL MODEL

Operis has been appointed by the Department for Business, Energy and Industrial Strategy (“BEIS”) to perform a high level review of its District Heating template financial model. We are delighted to offer this letter of support.

The letter is prepared in the context of our contract with BEIS with call-off reference CS21473, and is subject to the liability provisions therein.

Operis is an international project finance advisory firm with offices in London, UK and Toronto, Canada, well-known for its financial modelling expertise and experience. We provide financial advice to a range of consortia, develop financial models of large structured transactions, provide informal and formal assurance advice in connection with financial models, and are a prominent provider of training in financial modelling in the UK.

Operis works for all the main project finance lenders and bond arrangers and a large number of institutional investors active in project finance. We have worked on over 1,250 transactions and have particular expertise in the energy sector, having recently audited and built a number of models for the financing of district heating projects.

As part of this process, Operis has:

- reviewed the logic and integrity of the model to consider whether the calculations are reasonable and consistent with the operational, financial, and economic assumptions contained within the model;
- reviewed whether the model materially achieves its objective of generating consistent profit and loss, cash flow and balance sheet projections, key financial ratios and investors' returns for the project;
- reviewed the model against the book of assumptions and user guide;
- reviewed whether the composition of key financial indicators is reasonable in the model;
- reviewed whether the model implements reasonable accounting and tax treatments;
- performed programmatic checks on the model using the Operis Analysis Kit;
- completed the BEIS Quality Assurance Log which summarises and discusses issues that have arisen during the course of the review; and
- discussed these findings with BEIS.

In line with the scope of work above, Operis has reviewed a recent version of the financial model prepared and we can confirm that all material errors found in the model have been addressed. Note however that there are a number of tax and accounting based assumptions that may need to be updated for individual projects as described in Appendix A. Based on the above scope of work, we believe the model to be suitable for use in a project of this kind.

David Rushton

David Rushton
Authorised signatory of
Operis Business Engineering Limited

Appendix A: Tax and Accounting Assumptions

The model includes a number of tax and accounting assumptions that will need to be updated on an individual transaction basis to ensure the outputs in the model are reasonable including the following:

- The calculation of the accounting profit or loss and chargeable gain or loss on the repurchase of assets at the end of the term of any lease;
- The adjustment, if applicable, to the fixed assets balance to take into account any assets that are leased and potentially repurchased;
- The accounting for interest and fees so that they are accounted for using the effective interest rate method;
- Carried forward tax losses are assumed to be utilised in full against the taxable income each period. However, tax losses can only be utilised to fully offset the first £5 million of a group's taxable income. Above £5 million of taxable income, tax losses can only be utilised to offset up to 50% of the taxable income;
- The calculation of withholding tax payable on dividends and interest payments in the event that any shareholders or lenders are non-resident;
- The inclusion of a claim for annual investment allowance if available;
- Adjustments to the capital allowance pools should any assets on which capital allowances are being claimed subsequently be leased out and fall within the long funding lease legislation;
- Any adjustment in the calculation of taxable profit to take account of disallowable interest as a result of the U.K. Base Erosion and Profit Shifting (BEPS) legislation;
- Adjustments in the calculation of taxable profit to take account of any disallowable costs; and
- The applicability of VAT on revenues and adjustments to the calculation of the overall net VAT payable or receivable due to the leasing of assets.