Department for Business, Innovation, Science and Trade

British Industrial Competitiveness Scheme (BICS) funding: technical annex

23 November 2026

Introduction

1. This technical annex provides supplementary information related to the funding of the British Industrial Competitiveness Scheme (BICS), as detailed in the 'BICS funding: policy information and publication timetable'. It provides further details on how the costs of BICS will be offset by energy system savings and by Exchequer funding, with the aim of effectively insulating households and non-eligible businesses from the cost of the exemption. It sets out the process and methodology by which quarterly Exchequer funding is estimated, and the planned process for estimation adjustments and reconciliation between estimates and actuals.

2. As detailed in the 'BICS funding: policy information and publication timetable', electricity supplied to certified BICS recipients is treated as "excluded" electricity and removed from the charging base for the Renewables Obligation (RO), Feed-in Tariffs (FiT), and Capacity Market (CM). The total cost of each scheme is unchanged and is instead mutualised across the remaining, non-exempt supply. In practice:

a. **RO:** the obligation level (ROCs per MWh) is set on estimated supply net of excluded electricity, and each supplier's obligation applies only to its non-excluded supply.

b. **FiT:** levelisation apportions scheme costs between suppliers by market share of GB supply, with excluded electricity deducted from each supplier's declared supply.

c. **CM:** supplier charges are levied on eligible or chargeable demand, with excluded volumes deducted at settlement.

3. Because exempt volumes are removed from the charging base, the effective per-MWh rate on non-exempt supply rises. Each supplier's share of scheme costs therefore reflects its market share of non-exempt demand, which suppliers recover through tariffs for non-exempt customers.

4. *In the case of BICS, the government intends to offset the resulting cost increase for consumers who are not eligible for the scheme.*

5. Two offsetting measures are in place, which combined comprise BICS funding:

- **Energy system savings**: Changes to RO and FiT indexation, and from 2028 the removal of the Carbon Price Support, which result in reduced costs for all electricity users. These savings fund the British Industrial Supercharger (BIS) Network Charging Compensation (NCC) uplift from 60% to 90% in the first instance, and the remainder contributes to funding BICS. In the first BICS delivery year, energy system savings are expected to cover approximately 26% of the cost of BICS.
- **Exchequer-funded CfD offset mechanism**: Exchequer funding will make up the difference between the energy system savings allocated to BICS and the total cost of BICS. This funding will be transferred to the Low-Carbon Contracts Company (LCCC) in order to facilitate a universal reduction in the CfD Interim Levy Rate (ILR). This reduction will generate savings for suppliers which we expect to be passed through to consumers, effectively offsetting the bill increase that would otherwise occur.

6. The LCCC are required to publish the CfD Interim Levy Rate at least three months in advance of implementation. Therefore, BIST are required to estimate the expected costs of BICS, to provide funding to the LCCC in time to calculate the CfD ILR for each BICS delivery period.

Exchequer funding publication estimates

Requirements to estimate Exchequer funding

7. To offset the residual cost of BICS, the Exchequer funding required is calculated as follows:

BICS Exchequer funding = cost of BICS – Energy System Savings allocated to BICS

8. With:

a) **Cost of BICS =** BICS eligible consumption * Total exempted levy cost

b) **Energy System Savings allocated to BICS =** Savings from RO & FiT Indexation + Savings from Removal of Carbon Price Support - Cost of Supercharger Network Compensation Scheme Uplift

9. The following sections detail how each of the components are calculated.

Content of funding publications

10. Each November, prior to a BICS delivery year, BIST will publish the following estimates for the four quarters of the upcoming BICS delivery year:

a) BICS Eligible Consumption Estimates
b) Estimates of Exempted Levy Unit Cost
c) Total BICS Cost Estimates
d) BICS Exchequer Funding Estimates

11. Following the November publication, BIST will update the above estimates each quarter. It is expected that the first year of BICS (2027/28) will be reconciled quarterly. Reconciliation timelines need to be aligned with the funding schedule which, as detailed elsewhere in this paper, occurs at least 3 months before the relevant quarter. As such, we expect quarterly reconciliation to continue into the second year of BICS, at least until the first year is sufficiently reconciled. This is discussed in more detail in paragraphs 36 to 39.

BICS costs estimation

12. Estimates for both BICS eligible consumption and the associated levy unit cost that would have been faced by BICS businesses are multiplied together to obtain an estimated total abated levy due to BICS, and therefore equal to the total cost estimates of BICS.

13. As the BICS exemption of CM only starts in October of the first BICS delivery year (2027/28), the quarterly levy unit cost exempted by BICS increases from Q3 2027/28 to include CM exemption. To provide even funding across the delivery period, as set out in the main publication body, the total annual BICS costs has been averaged across the four quarters.

14. Estimates for consumption and levy unit cost are expected to utilise the methodologies set out in the following sections. BIST will continue to review estimation methodologies and set out any updates in future publications of this technical annex.

BICS eligible consumption estimates

15. In the first year of BICS implementation, the application window opens from 1 October 2026 to 30 November 2026, with BIST expected to be able to identify the majority of eligible businesses by the end of January 2027. As the LCCC will be required to publish the CfD ILR at least three months in advance of implementation, there is insufficient eligibility data to carry out a consumption estimate based on individual MPANs of BICS eligible businesses for the first quarter of Exchequer funding.

16. The below methodology is used to estimate eligible consumption in the absence of known eligible MPANs. While there is inherent uncertainty in predicting exact eligible volumes of consumption ahead of the scheme opening, estimate updates in subsequent quarters will allow to correct for any under or over estimation. This is discussed in more detail in paragraphs 31 to 35.

Approach to consumption estimation before eligible MPANs are known

17. The modelling methodology used in the first payment takes a “Top-Down” approach that relies on SIC4 estimates of electricity consumption which are then scaled to reflect BICS eligibility.

18. This is the same methodology that is set out in Annex A of the BICS impact assessment, with small changes, including updates to data sources and the inclusion of estimated consumption uplifts based on the impact of BICS scheme. These changes have been set out below.

Data updates

19. Updates to Office for National Statistics (ONS) and Department for Energy Security and Net Zero (DESNZ) data sources including Digest of UK Energy Statistics (DUKES), Annual Business Survey and Annual Purchases Survey microdata and ONS PRODCOM data have been reflected in BICS eligible consumption estimates.

Growth rates

20. Apportioned DUKES consumption data is projected forward in line with the DESNZ published EEP Final Energy Demand (TWh), from Annex F. The estimation methodology now uses the annual change in electricity demand of the "Other Industries" category, as this covers the majority of BICS-eligible sectors and excludes the impacts of high-growth electricity consuming sectors, such as transport, which skew the growth rate projections.

Increased electricity consumption as a result of the scheme

21. This change to the methodology aims to account for an increase in demand for electricity in response to the reduction in electricity prices for eligible businesses.

22. Following a literature review, we have incorporated this demand response into the model, based on academic literature estimates by Liddle and Hasanov (2021)1. These estimates were determined appropriate for our uses because:

a) estimates used a robust econometric methodology
b) estimates were specific to industrial electricity demand (as opposed to energy or residential electricity)
c) estimates focused on high-income OECD countries

23. Based on their findings, we have estimated approximately a 3.5% annual uplift in consumption by BICS-eligible consumers by 2029/30 in response to the discount offered, which persists for the lifetime of the scheme.

Key limitations

24. Estimating electricity consumption is inherently uncertain, especially whilst applications and eligibility decisions are still in train. These estimates are intended to provide indicatives volumes of BICS eligible consumption. Due to a lack of business-level data, this approach works with aggregated sectoral consumption and assumes 100% take-up of BICS by eligible businesses.

[1] Liddle, B. and Hasanov, F. (2021) *Industry electricity price and output elasticities for high-income and middle-income countries*. **Empirical Economics**, 61, pp. 1685-1706. Available at: https://doi.org/10.1007/s00181-021-02053-z.

Future consumption estimates

25. Once applications for BICS have been processed, the BICS eligible businesses and their MPANs will be known. BIST has secure access to a source of data for MPAN level consumption, allowing actual past consumption of exempt businesses to be used to estimate BICS eligible consumption ('Bottom-Up' estimation approach).

26. It is unlikely that all BICS applications will be fully processed before BIST are required to set the second quarter of funding for BICS delivery year 2027/28. However, as the BICS application window will be closed and processing of applications will have started, BIST expect to use applicants' data and preliminary application outcomes to inform the estimate. It is expected that all BICS eligible MPANs for the first delivery year will be known from when BIST are required to set third quarter funding.

Levy unit cost estimation

27. BICS excludes eligible businesses from Renewables Obligation (RO), Feed-in Tariffs (FiT) and Capacity Market (CM). To estimate the cost of BICS, BIST calculates the levy unit cost that would have been faced by BICS businesses using publicly available data sources. The following formula is utilised for each levy:

$$\textbf{Levy Unit Cost (£ per MWh)} = \frac{\textbf{Levy Fund or Total Levy Cost (£)}}{\textbf{Total non exempt Consumption (MWh)}}$$

28. The levy unit cost is estimated as the cost that would have been faced by BICS businesses, therefore the total non-exempt consumption of this equation excludes consumption exempt through BIS, but not BICS.

29. Each levy requires a different estimation approach depending on its delivery year and when data becomes available. Some of the properties that must be accounted for, are set out below:

a) Capacity Market delivery year runs October-September and will not form part of the BICS exemption until after BICS Q3 2027/28.
b) The FIT cost estimate is passed through the price cap on a lagged basis, so the FIT cost estimate in the 2027/28 price caps will relate to the levy fund (levelisation fund) and consumption estimates from 2026/27. Therefore, the FiT unit price or cost estimates (£/MWh) exempted in the current BICS delivery year are set by the levelisation fund and consumption realised in the previous period.

30. Some of the required data is released closer to the delivery year. These components have been estimated with the aim to incorporate more accurate data when available. The adjustment process is explained in the following section.

Estimate adjustments to BICS costs

31. Estimate adjustments references changes to future funding provisions based on updates to projections that improve the accuracy of BICS costs estimates within the delivery year.

32. In the first delivery year of BICS there are two key reasons for estimate adjustments:

- finalisation of BICS eligibility and associated consumption estimates
- future release of levy rate data

33. As set out in the Consumption Estimates section of this technical annex, the first application window for BICS opens from 1 October 2026 to 30 November 2026, with BIST expected to be able to identify the majority of eligible businesses by the end of January 2027. As funding amounts provided to LCCC must be set sufficiently far in advance, the “Bottom-Up” consumption estimation approach described in the “Future Consumption Estimate” Section cannot be fully utilised for both Q1 and Q2 of the first delivery year of BICS.

34. Similarly, due to advance funding provision to LCCC, some of the data required to estimate levy unit rates are not announced until after funding for Q1 and Q2 of the first BICS delivery year are set. Prior to their publication, BIST calculate estimates of this data.

35. As these two types of data are released later in the delivery year, estimation improvements can be carried out in-year. To remove risks to non-eligible consumers, the funding provisions in future quarters of a delivery year will be updated to reflect discrepancies in past funding provisions due to estimation improvements – subject to funding timelines. These adjustments will similarly be spread across remaining delivery year funding payments to ensure even spread of funding.

BICS cost reconciliation

36. Reconciliation references adjustments to funding provisions based on differences between estimates and actual costs of BICS. Further details on exact methodologies and timelines are expected to be released in an update to the technical annex approximately in February 2027, alongside the release of the funding provision for BICS Q2 2027/28.

37. Reconciliation will utilise actual data for consumption and levy costs. The timeframe for reconciliation is dependent on the availability of this data. Data is available and settled at different frequencies and, subject to funding setting timelines, reconciliation will use the latest releases of data actuals to minimise impacts on non-BICS eligible consumers.

38. It is expected that the first year of BICS (2027/28) will be reconciled quarterly. Sufficient time needs to have passed from the relevant quarter to allow for actual consumption data and levy costs to become available. In addition, the reconciliation needs to be aligned with the funding schedule which, as detailed elsewhere in this paper, occurs at least 3 months before the relevant quarter. As such, we expect quarterly reconciliation to continue into the second year of BICS at least until the first year is sufficiently reconciled.

39. BIST will continue to review reconciliation frequency as the scheme progresses to determine the appropriate frequency.

Total Exchequer funding

40. Total exchequer funding is estimated by combining BICS cost estimates with energy system savings allocated to BICS, as shown by the formula provided in paragraph 7.

41. Estimates of energy system savings allocated to BICS are set using internal estimates as detailed below. BIST will review these energy system savings estimates in 2030 as part of the wider BICS review, to ensure they are having the intended effect over time.

Changes to RO and FiT indexation

42. The energy systems savings from the indexation of the Renewable Obligation (RO) and Feed-in Tariff (FIT) schemes are based on published savings estimates, as set out in the analytical annexes to the government responses on RO and FIT indexation:

- Renewables Obligation (RO) scheme: indexation changes
- Feed-in Tariffs (FiT) scheme: indexation changes

43. Residual energy system savings from RO and FiT indexation in 2026/27 have been rolled over and included in total energy system savings from 2027/28.

Removal of Carbon Price Support

44. Carbon Price Support (CPS) is an upstream tax on GB fossil fuel generators. In April 2026, the Government announced that CPS would be removed with effect from April 2028.

45. The energy bill savings generated by the removal of CPS have been modelled by The Department for Energy Security and Net Zero (DESNZ) using the Dynamic Dispatch Model to run a scenario with CPS set to £0/t. This impacts plant economics and dispatch decisions, which in turn impacts wholesale electricity prices, balancing costs, Contract-for-Difference (CfD) and Capacity Market costs. These modelled power system cost impacts are then run through DESNZ's Average Prices and Bills Model to generate end-consumer price impacts accounting for pass-through dynamics and downstream multipliers.

46. CPS is an upstream cost to power generators, not a discrete, observable downstream cost item for energy suppliers – it impacts other discrete costs suppliers need to cover. In addition, pass-through dynamics from the upstream to downstream market are complex, dependent on wholesale electricity contracting decisions by buyers and sellers, influenced by a broader range of factors including other costs and commercial decisions.

Supercharger network compensation scheme uplift

47. The Supercharger uplift is calculated by multiplying the average network cost (£/MWh) from internal DESNZ modelling by estimated eligible Supercharger electricity consumption (MWh). Eligible consumption is estimated using the electricity demand growth rates set out in the Energy and Emissions Projections (EEP), assuming no changes to Supercharger eligibility criteria or the population of eligible businesses over

the estimation period. The additional cost of the uplift is then calculated as 30% of these estimated costs, reflecting the increase in compensation from 60% to 90%.

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