



Department
for Business
Innovation & Skills



Department
of Energy &
Climate Change

**ELECTRICITY INTENSIVE
INDUSTRIES – RELIEF FROM THE
INDIRECT COSTS OF RENEWABLES**

Consultation on eligibility

JULY 2014

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Consultation on Eligibility for EMR CfD exemption & RO/Small Scale FITs compensation – Overview

The European Commission published its new Energy and Environmental Aid Guidelines (EEAG) on 9 April 2014. The new guidelines provide a legal basis for European Member States to provide relief for energy intensive businesses from the indirect costs of renewable energy subsidies and carbon taxes.

The scope of coverage allowed by the new guidelines is different from that assumed in the initial design of the EMR CfD exemption and the consultation on eligibility which Government undertook in July 2013. We therefore want to re-consult on the eligibility criteria for the exemption to ensure state aid approval for the scheme and to avoid exceeding the agreed impact on consumer bills. We will not be publishing a response to the initial consultation, but we would like to thank those who responded to the initial consultation and to emphasise that the responses received have significantly shaped our thinking for the proposals set out in this document.

At the 2014 Budget, Government announced its intention to provide compensation to Energy Intensive Industries (EII) for the indirect costs of the Renewables Obligation (RO) and the microgeneration Feed-in-Tariff (or small scale FITs).

This document proposes the same eligibility criteria for both the EMR CfD exemption and the RO/small scale FITs compensation scheme because they both provide relief from the costs of policies designed to support renewable and low carbon electricity generation for those businesses that are energy intensive and exposed to international competition.

The purpose of this consultation is to seek views on the proposed eligibility criteria (outlined in further detail in chapter 5), not the operation of either scheme. Further details on the operation of the EMR CfD scheme will be included in a consultation on draft secondary regulations which will follow this consultation.

EMR CfD exemption

The Government is working to deliver secure energy supplies for businesses and households whilst driving ambitious action on climate change at home and abroad. To achieve our aims, the UK needs to attract significant investment in low carbon electricity generation. The Government has established the Electricity Market Reform (EMR) programme to meet these challenges. EMR provides support for low carbon electricity generation through Feed-in Tariffs within Contracts for Difference (CfD).

DECC analysis suggests that household electricity bills will be on average £41 or 6% lower per year over the period 2014-30 under EMR compared to meeting the Government's objectives with existing policies. However, for industries which use electricity intensive processes and which operate in internationally competitive markets, CfDs could lead to increases in their electricity bills in the short-term. Without Government intervention, this could lead to EII facing higher electricity costs than in other countries. This could lead to a loss of investment in a group of industries which play a significant role in the UK economy. These industries are also significant employers and an important part of the low carbon economy through the products they manufacture.

In his Autumn Statement 2011 the Chancellor announced his intention to exempt certain electricity intensive industries from a proportion of the costs of CfDs. This was confirmed with the introduction of the Energy Bill in November 2012. In July 2013 we consulted on the scope of the exemption including eligibility criteria. This consultation closed in autumn 2013.

Following the publication of these new EEAG, we are revising the eligibility criteria to ensure that it meets the requirements of the new state aid guidelines. The new proposed eligibility is enclosed in this document.

RO FIT compensation

In 2002 the Government introduced the Renewables Obligation (RO) to provide incentives for the deployment of large-scale renewable electricity in the UK. The RO requires licensed UK electricity suppliers to source a specified proportion of the electricity they provide to customers from eligible renewable sources. This proportion (known as the 'obligation') is set each year and has increased annually. Similarly, small scale Feed-in-Tariffs provide incentives for renewable microgeneration, with costs passed on to energy consumers through their bills.

In his Budget speech on 19 March 2014 the Chancellor announced that the Government would introduce specific measures to tackle the energy costs faced by the most energy intensive industries to ensure they are as competitive as possible. As part of this package the Government committed to introduce a new compensation scheme to help EIs with higher electricity costs resulting from the renewables obligation and small-scale Feed-in tariffs for renewable generation, from 2016-17.

In this document we propose to apply the same eligibility criteria for this compensation scheme as for the re-design of the EMR CfD exemption.

Issued: 31/07/14

Respond by: 23/10/14

We intend to run a number of consultation events, which we will announce in due course.

Enquiries to:

Energy Intensive Industries
Orchard 2, 4th Floor
1 Victoria Street London SW1H 0ET
Email: energyintensiveindustries@bis.gsi.gov.uk
Tel: 020 7215 5000

This consultation is relevant to: Electricity consumers (particularly Energy Intensive Industries who are electricity intensive); consumer and industry representative groups; licensed electricity suppliers in Great Britain and Northern Ireland; devolved administrations; The Gas and Electricity Markets Authority; and the operator of the National Electricity Transmission System for Great Britain.

1. Foreword from the Secretary of State for Business, Innovation and Skills

Access to secure, affordable and clean energy is a vital building block for the future of the UK's economy.

In the absence of a global agreement to mitigate climate change, the EU and UK have put in place policies to cut emissions and build new generation capacity that will maintain our energy security. EMR will ensure that for the long term we can keep the lights on, bills down and the air clean by securing unprecedented investment in our energy infrastructure.

In addition to providing the foundations on which our future prosperity is built, EMR will also support as many as 250,000 jobs in the energy sector.

We recognise, however, that this transition will pose challenges for our Energy Intensive Industries which must remain internationally competitive as we lever in the necessary investment in low carbon energy. Clusters of these sectors are to be found in areas such as the Humber, Teesside and South Wales as well as in other locations across the UK. Energy intensive manufacturing is central to strengthening our industrial base and rebalancing our economy. The sectors identified in this consultation have a combined value to the UK of roughly £130bn in turnover, employing approximately 330,000 people and contributing 2% to UK GVA. These industries contribute towards growth and the health of the UK economy. Furthermore, they play an essential role in achieving our transition to a low carbon economy.

This consultation sets out the eligibility criteria for both the EMR CfD exemption and the RO/small scale FITs compensation scheme.

We welcome views from all interested stakeholders on the proposed eligibility criteria so that these schemes target the support where it is needed most, helping to secure and maintain critical industrial investment in the UK.

2. Executive Summary

Background to the schemes

1. A significant element of Electricity Market Reform (EMR) is the introduction of Contracts for Difference (CfD) to support investment in low carbon electricity generation. CfDs aim to stimulate investment by providing a stable long-term price for low carbon electricity. The first payments under CfDs will be made from April 2015.
2. The costs of CfDs will be funded by licensed electricity suppliers. This requirement is called the supplier obligation. Suppliers will pay the supplier obligation based on the amount of non-exempt electricity they supply.
3. We propose that electricity suppliers of eligible EIs will be exempt from some of the costs associated with CfDs. The exemption includes both the supplier obligation and the operational cost levy which recovers the operational costs incurred in administering CfDs and the supplier obligation. We expect that competitive market conditions will ensure that electricity suppliers pass the exemption through to eligible EIs. We aim to implement the exemption in 2015, subject to state aid approval from the European Commission.
4. The Renewables Obligation (RO) and Small Scale Feed-In Tariffs (FITs) are established policies designed to provide incentives for the deployment of large-scale renewable electricity in the UK. The RO requires licensed UK electricity suppliers to source a specified proportion of the electricity they provide to customers from eligible renewable sources. This proportion (known as the 'obligation') is set each year and has increased annually.
5. We propose that the most electricity intensive industries which operate in internationally competitive markets be compensated to help with higher electricity costs resulting from the RO/small scale FITs for renewable generation. The scheme will begin in 2016-17, subject to state aid approval from the European Commission.

Rationale for schemes

6. Evidence suggests that the cost of CfDs and RO/small scale FITs, when considered cumulatively with other policies to incentivise investment in the UK's energy infrastructure, may affect the competitiveness of certain EIs in the UK. This is set out in Chapter 5. In the absence of a global agreement on climate change, many countries have lower climate change policy costs, whilst several other EU Member States already shield EIs from similar costs. These industries are significant employers and contribute to the low carbon economy through the products they manufacture.
7. Of all energy and climate change policies, the RO has the most significant effect on the price of industrial electricity to 2020. The RO closes to new capacity in 2017, after which the costs of the policy on the price of electricity will gradually decline. However, the costs of the RO continue to be significant for the most electricity intensive industries until at least 2020, although the exact costs in 2020 will depend on how many renewable generators apply for RO support compared to CfD support during the transition period between the two schemes. Small scale FITs costs are estimated to have a smaller impact on prices, rising to 2021 before gradually declining.

The proposed eligibility methodology

8. We propose to exempt the most electricity intensive businesses from a proportion of the costs of CfDs and to compensate the same businesses from the cost of the RO and small scale FITs. Our aim is to create a more level playing field so that our EILs are not made uncompetitive due to the costs of these policies.
9. In designing the eligibility methodology we are taking into account the same 5 principles as for the initial consultation for EMR CfD eligibility, we will:
 - i. Target businesses whose competitiveness is at risk from rising electricity policy costs – i.e. we will only exempt businesses that are both electricity intensive and trade intensive.
 - ii. Minimise market distortions within the UK economy.
 - iii. Avoid perverse incentives, e.g. discouraging take-up of energy efficiency measures.
 - iv. Minimise administrative burden for all parties – EILs, licensed electricity suppliers and Government.
 - v. Minimise the costs to consumers outside of the scope of the exemption (both business and household) whilst meeting the policy objective.
10. The Government's preferred option is to use a methodology which assesses eligibility by levels of electricity and trade intensity, closely aligned to the definitions set out in the European Commission's EEAG. The impact of the revised exemption on domestic household bills is estimated at an average of around £0.70 a year for the period 2015-2020 (around £1.80 in 2020), or around £0.20 per MWh on the price of electricity for all non-exempt consumers.¹ This is lower than estimates provided in the initial consultation.² The RO/small scale FITs compensation will be paid out of departmental budgets and will therefore have no impact upon other consumers (household or business).
11. We think this option best achieves the balance between costs to other consumers and addressing the competitiveness of the UK. However, we are interested in the views of stakeholders.
12. This document invites comments on the eligibility criteria and proposed methodology for determining eligibility. The key proposals, contained in chapter 5, set out details for:

A two stage test for assessing eligibility for both schemes:

¹ Figures rounded to the nearest 10p and are in real 2012 prices. The exemption includes both the supplier obligation and the operational cost levy which recovers the operational costs incurred in administering CfDs and the supplier obligation. Consistent with previous analysis, only EMR support costs are considered in the analysis presented in this consultation, and not the wider impacts on consumers of the Supplier Obligation. The Supplier Obligation Impact Assessment suggested the annual average impact on household electricity prices from the quarterly fixed unit cost levy was between 20 and 40p/MWh from 2014 to 2020. The exemption will apply to at least a portion of these costs as well as the EMR support costs presented in the following tables, and as such EILs will benefit from exemption from a portion of these costs, while additional costs will be passed on to non-exempt consumers.

² All price and bill impact results presented in this consultation assume that the eligibility proposal will result in around 20TWhs of annual electricity consumption being eligible for the exemption, as opposed to 30 TWhs as assumed in the consultation in July 2013, and a flat aid intensity of 85%.

- A sector-level test based on a combination of sector-level trade intensity and electricity-intensity, closely aligned with the EEAG.³
- A company-level test based on a company's electricity-intensity, also based on the definition of electricity-intensity set out in the EEAG.

13. We propose to set a maximum aid intensity at 85%. This is in line with the EEAG and provides a significant enough incentive to continue to encourage energy efficiency. The EEAG provides some provision for a higher level of aid to some products and sectors. We propose not to make use of this provision, due to concerns around market distortion.

14. The following questions are asked:

Question 1: Do you agree with the approach to eligibility?

Question 2: Are there any products which have been ruled out by this test which are electricity or trade intensive?

Question 3: Do you agree with the business-level test approach?

Questions 4: Do you agree with the approach to aid intensity?

Question 5: How best can we ensure that eligible companies engage with, and take full advantage of the expertise and commercial finance from the Green Investment Bank?

15. The Government will continue to work closely with colleagues in Northern Ireland to design a CfD implementation programme in Northern Ireland that starts from April 2017. The EMR CfD element to this consultation will therefore only apply to Great Britain, though the price and bills results presented in this document are estimated at a UK level. Regarding the RO/small scale FITs compensation; eligible businesses in NI will be included in this scheme. BIS and DECC will continue to work with the Department of Enterprise, Trade and Investment in Northern Ireland (DETI) and Northern Ireland stakeholders, in relation to eligibility for an exemption from the costs of the CfDs as plans progress towards their implementation.

3. How to respond

16. This consultation will begin on 28/07/14 and will run for 12 weeks, closing on 20/10/2014. We invite you to consider the proposals set out in this consultation and the questions on page 23.

17. We are interested in views in particular from: ELLs; other businesses and trade associations; consumers and consumer groups; and licensed electricity suppliers.

³ The EEAG advise the following formula is used to calculate electro-intensity: $\text{Electro-intensity} = \text{Electricity price (£/MWh)} \times \text{Electricity consumption (MWh)} / \text{GVA (£)}$. We have based our electricity price on the following text in the EEAG:

"...the assumed electricity price shall mean the average retail electricity price applying in the Member State to undertakings with a similar level of electricity consumption in the most recent year for which data is available."

Trade intensity is calculated using the following formula: $\text{Trade intensity} = (\text{Imports} + \text{Exports}) / (\text{Imports} + \text{Turnover})$

18. When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation form and, where applicable, how the views of members were assembled.
19. The consultation response form is available electronically on the consultation page: <https://www.gov.uk/government/consultations/XXX> (until the consultation closes). The form can be submitted online/by email or by letter.

Energy Intensive Industries
Orchard 2, 4th Floor
1 Victoria Street London SW1H 0ET
Email: energyintensiveindustries@bis.gsi.gov.uk
Tel: 020 7215 5000

20. If you have any questions about the consultation please contact BIS using the contact details above. We intend to run a number of consultation events, which we will announce in due course.
21. You may make printed copies of this document without seeking permission.

4. Confidentiality & Data Protection

22. Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
23. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

5. The proposals

The need for the schemes

24. The CfD regime, the RO and small scale FITs have been put in place to incentivise the necessary investment in the UK's energy infrastructure to meet our challenging renewable and decarbonisation goals. Cumulatively, however, these policies are anticipated to place upward pressure on the price of electricity over the medium term.
25. For EILs, increasing electricity prices can pose a risk to competitiveness as:
- Industrial sites in other countries may be shielded or exempted from similar energy and climate change policy costs;
 - In the absence of a global approach to climate change, some countries may invest in low carbon generation to a lesser degree and, therefore, will not face comparable policy costs; and
 - CfD and RO costs will be faced on a per-unit of electricity basis in the same way as a number of other climate change policies. Industries which are inherently electricity-intensive (such as steel and chemical plants) may see their costs increase significantly. More importantly, costs may increase relative to sites in other countries.
26. International comparisons, such as those shown in Figure 1, suggest that UK policy costs faced by EILs may be much higher than in other countries, in the absence of any Government intervention. The chart below takes into account the exemptions that existed at the time of publication for industry in other countries and assumes no such exemption for UK-based EILs. Within the EU, the governments of Belgium (Flanders), Denmark, Germany, Republic of Ireland, Norway and Sweden currently make provision in their renewable energy support schemes for supporting EILs. There are a wide range of approaches to reducing costs.

Figure 1 International comparison of impact of energy and climate change policy on electricity prices (£/MWh)

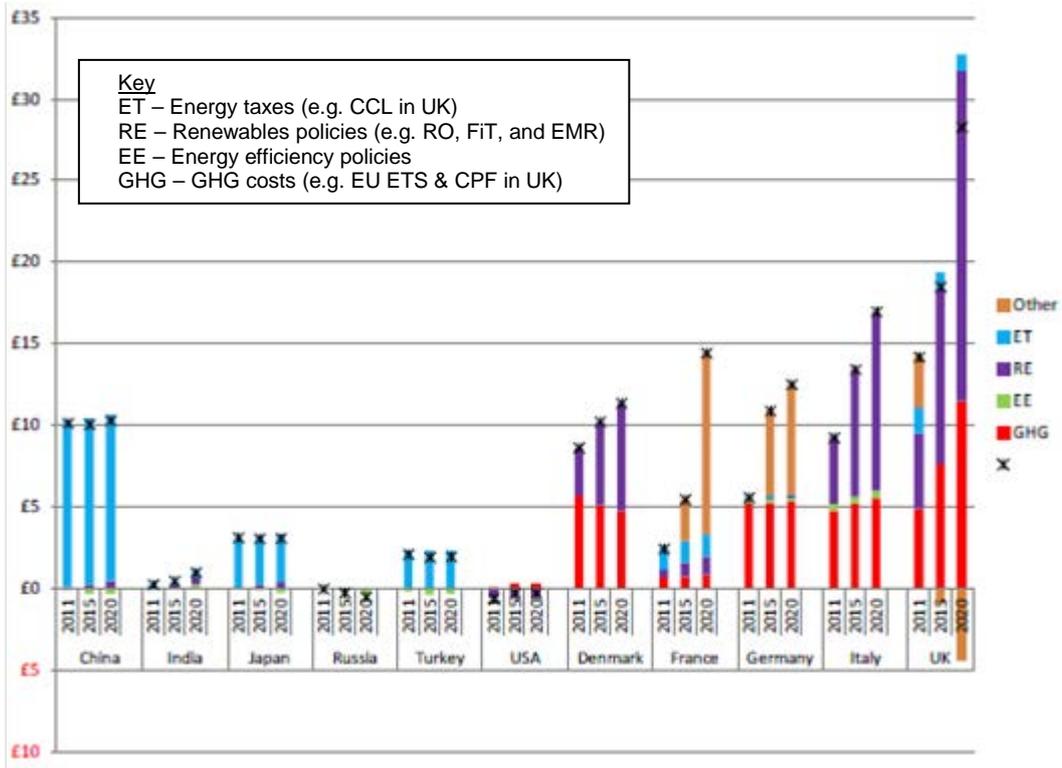
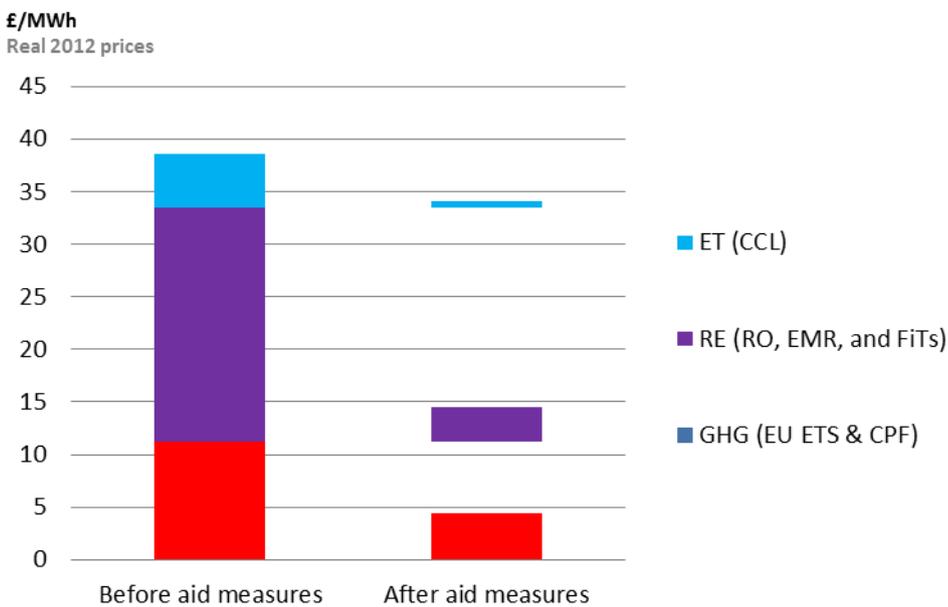


Figure 2 Illustrative example of UK aid measures in 2020



27. Figure 2 (above) shows the effect of mitigation measures already in place or those proposed in this consultation that provide relief to UK-based EILs from energy policy costs. This consultation considers how best to deal with these additional costs faced by EILs.

28. Where EILs operate in global markets they are unlikely to be able to pass through these costs in the price of their products. To do so would increase the cost of their products relative to global competitors not facing similar policy costs. Therefore, electricity price increases

(such as those involved with the introduction of CfDs and the RO) may become a risk to their competitiveness. As a result, EILs may invest overseas in countries with lower policy costs instead of the UK.

29. The Government seeks to level the playing field for EILs with their EU and international competitors through a number of measures. We already compensate some EILs for the indirect effects of two other energy and climate change policies - Carbon Price Support (CPS) and the EU Emissions Trading System (ETS). This consultation focuses on eligibility for an exemption from CfD and compensation for RO/small scale FITs costs.

State Aid

30. All proposals contained within this document are subject to state aid approval by the European Commission.
31. Member States have to notify the Commission of proposals to provide state aid and can only grant it after approval. The Government will notify the design of these schemes relating to EILs to the Commission in due course.

How would an exemption work for CfDs?

32. This consultation is focused on eligibility for an exemption scheme, rather than its operation. Further details on the operation of the scheme will be included in a consultation on draft secondary regulations which will follow this consultation.
33. An exemption from the costs of CfDs will mean that eligible businesses avoid a proportion of the extra costs created by CfDs which would otherwise be added to their electricity bill. The CfD costs faced by licensed electricity suppliers will be adjusted downwards to take into account the electricity supplied to their exempt EIL customers. We do not therefore expect suppliers to include all the costs of CfDs in the charges made for the supply of electricity to EILs. Market competition should ensure that savings made by licensed electricity suppliers are passed on to EILs.
34. Government will administer eligibility for the scheme - certifying those businesses and products which are eligible, following criteria laid out in the eligibility design. Eligibility will be based on the manufacture of products which are deemed to be both electricity intensive and trade intensive.
35. The EMR CfD exemption will be reviewed by the UK government after 5 years, and after 10 years or sooner it is likely that the scheme will require fresh state aid approval if it is to continue.

How would the compensation scheme work for the RO?

36. The way the RO works differs from how the CfD system will function in that there is no point at which suppliers are explicitly charged for RO costs. Under the RO system, costs are incurred by suppliers through the requirement to present Renewable Obligation Certificates (ROCs) or to pay the buy-out price. Suppliers assess the overall costs of the RO and pass those costs on to their consumers. Currently we assume costs are passed through on an equal £s per MWh basis across all electricity users (with costs shared evenly across EILs, households and other businesses).

37. We propose to deliver a compensation scheme to eligible EIs, providing compensation in arrears from Government funds, as with indirect ETS compensation. The administration of this compensation scheme will be brought together with EU ETS and CPS compensation to provide a single application process. The energy bills for domestic consumers and other businesses will not be affected as a result of the RO/small scale FITs scheme, as it will be funded directly through Government funds.

Economic Impact of the CfD exemption

38. The wider economic impacts of the exemption will be assessed by an impact assessment that will follow this consultation. On the current proposals for the re-design, we anticipate that the impact on consumer bills will be less than the options outlined in the eligibility consultation carried out in July 2013. More detail is provided at annex C.
39. The methodology of the impact assessment will focus on developing a detailed understanding of specific industries and will also use economic modelling to contribute to an understanding of the wider effects of an exemption on the UK economy. The IA develops the evidence base beyond the direct impacts of the exemption which are presented in this consultation document i.e the impacts on electricity prices and bills, by looking at the effects on production, employment and distributional impacts in a number of exempt industries as well as in non-exempt sections of the economy.
40. This evidence will be presented in an Impact Assessment on the exemption to be published alongside the consultation on draft secondary legislation later in 2014.

Economic Impact of the RO compensation

41. The RO compensation schemes will be paid for out of departmental budgets. The scheme will require an estimated £220m in 2016-17⁴, increasing to around £240m in 2019-20 where it would plateau, before decreasing in the early 2020s. Compensation from FiT costs could require around an additional £60m in 2015-16, rising to £80m in 2019-20.
42. There will be no impact upon other consumers (household or business) as this is funded by Government.

Principles/considerations for the eligibility criteria

43. The Government considers that there are some key principles which should underpin eligibility criteria for these schemes.

⁴ Based on an estimated 20TWh of eligible electricity and a flat aid intensity of 85%.

Principle one – an exemption should be targeted at businesses whose competitiveness is at risk from rising electricity policy costs – i.e. we should exempt only those businesses that are both electricity intensive and trade intensive.

Principle two – eligibility should be designed to minimise distortions within the UK economy.

Principle three – the design should avoid perverse incentives, e.g. discouraging take-up of energy efficiency measures.

Principle four – the design should minimise administrative burden for all parties – EIs, electricity suppliers and Government.

Principle five – the design should minimise the costs to consumers outside of the scope of the exemption (both business and household) whilst meeting the policy objective.

44. The eligibility will seek to avoid further distortions. The distortions to be avoided include: exempting one business making a product but not another making the same product; exempting those whose energy use is high only because of poor energy efficiency savings; and penalising businesses who reduce their energy intensity through effective energy efficiency measures.

Redistributive impact of the CfD exemption

45. Exempting EIs means that the cost of CfDs would be spread amongst fewer consumers. As stated in Principle 5, avoiding additional costs to household and business consumers as far as possible whilst meeting our objective is central to our overall approach.
46. We understand that all consumers are concerned about the cost of electricity. This consultation seeks to strike the right balance between addressing the risk to industry (including potential loss of jobs and investment) and minimising the costs to other consumers.
47. Some consultation respondents from the previous eligibility consultation we published in July 2013 were concerned about the redistributive impact upon consumers and SMEs. In terms of its impact on household electricity bills, the re-design of the eligibility methodology is estimated to increase average annual household electricity bills by £1.80 in 2020 or an average of £0.70 a year for the period 2015-2020. For an average non-exempt medium sized business this equates to around £5,600 in 2020.
48. Some consultation respondents suggested funding the exemption through general taxation rather than redistribution as a way of reducing the impact on other consumers. We are concerned to limit the impact of electricity price rises on other consumers, including other businesses, especially given the high profile of the impact of green policies. However, the previous consultation document showed that the impact of the exemption options on fuel poverty levels would be minimal.

49. In relation to domestic consumers specifically, consumer groups felt the analysis of the impact on particularly vulnerable households was inadequate and requested data on the redistributive impact over a longer timeline, specifically up to 2030. The analysis and presented results focuses on impacts up to 2020. The scheme as a whole will be reviewed by the UK government after 5 years, and after 10 years or sooner it is likely that the scheme will require fresh state aid approval if it is to continue.
50. The actual cost in future years, both of CfD payments themselves, and the exemption, are dependent on a number of variables, including wholesale prices, the actual investment attracted into new generation capacity, realised CfD support costs, electricity demand and the final design and scope of the exemption. The estimates of impacts given in this consultation are based on our best estimates of these variables but it should be recalled that changes to these variable will alter the impact of the exemption. Although the agreed Levy Control Framework provides some constraint on total future energy and climate change policy costs, we cannot accurately predict the value of the exemption, nor its cost to non-exempt consumers far into the future. The exemption has no effect on the level of the Levy Control Framework.
51. EMR Delivery Plan modelling suggests that EMR CfDs will add an average of around £3.60/MWh (excl. VAT) to electricity prices from 2015 to 2020. The analysis presented in this document suggests that an exemption for EIs will add an average of 20p/MWh to electricity prices for non-exempt consumers from 2015 to 2020 (see Annex C for full costings).
52. CfDs will be offered to projects in Northern Ireland at a later date to those operating in Great Britain. Whilst the CfD regime is starting in Great Britain from 2014 it will not commence in Northern Ireland before 2017 to take account of any changes needed to the Single Electricity Market as a result of European Electricity Market Integration. DECC and BIS will continue to work with the Department of Enterprise, Trade and Investment in Northern Ireland to ensure that Northern Ireland's position is fully considered in analysis going forward. Views from stakeholders in Northern Ireland would still be welcomed at this stage to inform this future work.

The Eligibility proposal

53. The sectors most at competitive risk from additional costs on the price of electricity are those which are both electricity intensive and which operate in internationally competitive markets. The European Commission set out a list of sectors that meet these criteria at a European level in Annex 3 of the new EEAG. In addition, Annex 5 of the EEAG sets out a longer list of sectors that are exposed to international markets but do not pass the European Commission's electricity-intensity test at a European level. The EEAG allow for undertakings within Annex 5 sectors to be given support, provided they pass an electricity-intensity test. These lists are attached at Annex B.
54. To ensure that support is targeted at those most at risk we are proposing that eligibility should be based on two tests:
- **A sector-level test** - To focus the support at the most trade and electricity-intensive sectors
 - **A business-level test** - To ensure that as part of any application we are providing support to the most electricity-intensive businesses within the eligible sectors.

55. Both tests are explained in more detail below.

Sector-level test

56. In arriving at the eligible sector list for support from the costs of renewables the European Commission used a criteria based on the sector's electricity-intensity and trade intensity.

57. We propose to mirror this approach. Starting with the list of sectors from Annex 3 of the EEAG we have applied a sector-level test based on trade intensity and electricity-intensity of the sector, using 4 digit SIC 2007 (NACE v2.) sector codes. Sectors must have a trade intensity of at least 4% and an electricity-intensity of at least 7% to pass this test.

58. To ensure that we include all eligible sectors we have also applied the test outlined above to the sectors list in annex 5 of the EEAG (attached at annex B).

59. We propose to base our sector level test on the following text from the EEAG:

“The Commission considers that such risks exist for sectors that are facing a trade intensity of 10% at EU level when the sector electro-intensity reaches 10% at EU level. In addition, a similar risk exists in sectors that face a lower trade exposure but at least 4% and have a much higher electro-intensity of at least 20% or that are economically similar (e.g. on account of substitutability). Equally, sectors having a slightly lower electro-intensity but at least 7% and facing very high trade exposure of at least 80% would face the same risk. The list of eligible sectors was drafted on that basis.”

60. We propose to use the lower trade and electricity-intensity thresholds for our sector level test in order to avoid penalising high electricity-intensive businesses within low electricity-intensive sectors. We are using a more stringent company level test, described in the next section, to avoid compensating low electricity-intensive companies.

61. To assess the eligibility of each sector (at 4 digit SIC 2007 code) we estimate the sector's GVA,⁵ electricity consumption⁶, trade intensity⁷ and electricity-intensity (see box 1). In line with the EEAG we propose to use the average of the most recent three years for which data is readily available, in this case 2010-2012.

⁵ GVA – We use the average GVA over the period 2010-2012 in 2012 prices. We have obtained a fully disclosive extract of the Annual Business Survey (AB S) 2012 from the Office for National Statistics (ONS), which contains GVA data for each 4 digit sector.

⁶ Electricity consumption – We use industrial electricity consumption data for each 2 digit sector over the period 2010-2012 (published here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238798/industry.xls). We apportion this electricity consumption to each 4 digit sector over the same period using the energy expenditure data taken from the disclosive ABS extract described above.

⁷ Trade intensity – Calculated using the following formula:

$$\text{Trade intensity} = (\text{Imports} + \text{Exports}) / (\text{Imports} + \text{Turnover}).$$

We use the disclosive ABS extract described above for Turnover and the ONS Trade publication, MQ10, for Imports and Exports (available here: <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?dataset=mq10>).

Box 1. Electricity-intensity for the sector level test

We calculate electricity-intensity using the following formula:

$$\text{Electricity-intensity} = BEP \times BEC_s / BGVA_s$$

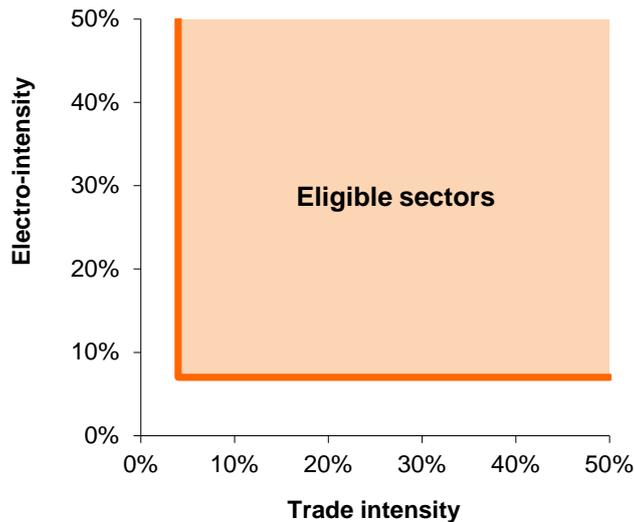
BEP = Baseline Electricity Price, based on the following text in the EEAG: "...the assumed electricity price shall mean the average retail electricity price applying in the Member State to undertakings with a similar level of electricity consumption in the most recent year for which data is available." We use the average electricity price faced by a large industrial consumer of electricity, in 2012 prices (as published here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295522/qep314.xls). For the sector-level test we have used the price in 2012, £67.42/MWh.

BEC_s = Baseline Electricity Consumption for sector *s*. This will be the average electricity consumption for that sector over the period 2010-2012.

BGVA_s = Baseline GVA for sector *s*. The average GVA of the sector over the period 2010-2012, in 2012 prices

62. Figure 3 below indicates the threshold for the sector level test: only sectors above and to the right of this line pass the test.

Figure 3 Illustrative example of UK aid measures in 2015-16



63. The table below show the sectors on the EEAG list that pass the sector-level test.

NACE code (rev 2.)	Description
510	Mining of hard coal
811	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
899	Other mining and quarrying n.e.c.
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
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
2332	Manufacture of bricks, tiles and construction products, in baked clay
2342	Manufacture of ceramic sanitary fixtures
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
2442	Aluminium production
2443	Lead, zinc and tin production
2444	Copper production
2445	Other non-ferrous metal production
2451	Casting of iron
2453	Casting of light metals
2611	Manufacture of electronic components
2720	Manufacture of batteries and accumulators

64. The table below shows the sectors the Annex 5 list from the EEAG that pass the sector-level test.

NACE code	Description
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(rev 2.)	
812	Operation of gravel and sand pits; mining of clays and kaolin
1091	Manufacture of prepared feeds for farm animals
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
2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres
2219	Manufacture of other rubber products
2344	Manufacture of other technical ceramic products
2362	Manufacture of plaster products for construction purposes
2592	Manufacture of light metal packaging
2732	Manufacture of other electronic and electric wires and cables
3211	Striking of coins

Question 1: Do you agree with this approach?

Question 2: Are there any products which have been ruled out by this test which are electricity or trade intensive⁸?

Business level test

65. Within the eligible NACE codes, there will be some products which are relatively less electricity-intensive to manufacture. As such, the competitiveness of businesses making these products is likely to be less exposed to electricity price increases.
66. Therefore for those sectors that are in Annex 3 or 5 that pass the sector test above, we will apply a business-level test based on electricity-intensity (see Box 2). Businesses failing this test will be ineligible for support.
67. The business level test assesses whether a business is truly electricity-intensive. We have therefore decided to use a 20% threshold electricity-intensity to align to the EEAG.
68. In order to satisfy the 20% test, businesses will need to show that their electricity costs in 2014 will amount to 20% of their GVA. In order to be eligible, a business must: meet the test on a mean average basis over the historic years concerned – 2010-2012; and be above the 20% line for at least 2 of those years.
69. For the purposes of the 20% test, costs and GVA should be calculated at the aggregate “business” level – “business” meaning the legal entity which is manufacturing the eligible product.

⁸ Where companies making the product would typically have electricity costs of at least 20% of their GVA

Box 2. Electricity-Intensity for the company level test

We calculate electricity intensity using the following formula:

$$\text{Electricity-Intensity} = \text{BEP} \times \text{BEC}_c / \text{BGVA}_c$$

BEP = Baseline Electricity Price. As with the sector level test we use the average electricity price faced by a large industrial consumer of electricity, in 2012 prices. However, instead of using the 2012 price as we did for the sector level test, we will use the price for year before the scheme starts (not yet published) so that the test reflects the price faced by companies at that time.

BEC_c = Baseline Electricity Consumption for company *c*. This will be the average electricity consumption for that sector over the period 2010-2012. If the company began operation in 2010 or after we will use the next available, full three year period of operation. If there are less than three years of operation we will use data from the first year of operation, and reassess when there are three full years of data.

BGVA_c = Baseline GVA for company *c*. The average GVA of the company over the period 2010-2012, in 2012 prices. If the company began operation in 2010 or after we will use the next available full three year period of operation. If there are less than three years of operation we will use data from the first year of operation, and reassess when there are three full years of data.

70. We recognise there is a risk that some businesses which manufacture eligible electricity intensive products may fail the eligibility test by virtue of their structure – for example, if the business also manufactures other non-intensive product which lowers its overall aggregate level of electricity intensity. For this reason, a business may also be treated as passing the eligibility test if it can demonstrate to the satisfaction of the Secretary of State that:

- The business only fails the test because of the inclusion of significant costs which do not relate to the manufacture of the eligible product; or
- The eligible product concerned typically meets the test – i.e. most of the businesses operating in the market and who are manufacturing the same product in the UK pass the test and are eligible for compensation.

71. In order to demonstrate the first condition, the business concerned will need to provide details of the electricity usage associated with the manufacture of the product in question, and to assess the GVA associated with the manufacture of the product. In assessing the second condition, we will consider the extent to which other businesses making the same product in the UK are eligible for compensation.

Question 3: Do you agree with the business-level test approach?

72. For the CfD exemption scheme, the value of the exemption will be calculated for a particular installation that produces an eligible product, using the formula, outlined in Box 3.

Box 3. Formula for the value of the exemption for the CfD exemption scheme

We will calculate the value of the exemption using the following formula:

$$\text{Value of exemption} = A_i \times PI_{CfD,t} \times BPEE_{inst} \times EC_{inst,t}$$

A_i = Aid intensity, the percentage of costs that the Government is allowed to exempt or compensate under State Aid rules, described below.

$PI_{CfD,t}$ = Price impact of CfDs in year t (£/MWh) as defined by the Supplier Obligation levy over the relevant period.

$BPEE_{inst}$ = Baseline Percentage of Eligible Electricity for installation $inst$. This will be the mean average percentage of an installation's electricity consumption used to produce eligible products over the period 2010-2012. If production started in 2010 or after we will use the next available full three year period of production. If there are less than three years of production we will use data from the most recent year until there are three full years of data when we will fix the baseline as the average of those years.

$EC_{inst,t}$ = Electricity consumption for installation $inst$ in year t .

73. For the RO and FiT compensation schemes, aid will be calculated for each eligible product, using the formula outlined in Box 4.

Box 4. Formula for aid amount calculation for the RO/FiT compensation scheme

We will calculate the amount of aid using the following formula:

$$\text{Aid} = A_i \times PI_{pol,t} \times BEC_{pr}$$

A_i = Aid intensity, the percentage of costs that the Government is allowed to exempt or compensate under State Aid rules, described below.

$PI_{pol,t}$ = Price impact of policy pol (RO or FiT) in year t (£/MWh). This will be based on DECC's assessment of the price impact of each policy. Current analysis for the schemes covered in this consultation is based on DECC's "Estimated impacts of energy and climate change policies on energy prices and bills 2013" (<https://www.gov.uk/government/publications/estimated-impacts-of-energy-and-climate-change-policies-on-energy-prices-and-bills>).

BEC_{pr} = Baseline Electricity Consumption for product pr . This will be the average electricity consumption for that product over the period 2010-2012. If production started in 2010 or after we will use the next available full three year period of production. If there are less than three years of production we will use data from the most recent year until there are three full years of data when we will fix the baseline as the average of those years.

Aid intensity

74. Unless stated otherwise, impacts are modelled on the assumption of the base scenario of aid intensity set at 85% of costs, the level allowed under the new EEAG. As energy is often the single largest cost for EIs even 15% of costs is still very significant and will continue to provide an incentive for energy efficiency.
75. The new EEAG makes provision for Member States to go beyond 85% aid intensity for companies which can demonstrate that their electricity costs are 20% of the GVA, higher than the 80% proposed in the consultation in July 2013. In these instances, the guidelines include a provision for such companies to pay renewable costs equivalent to 0.5% of their GVA as a minimum. However, making use of this provision could mean that competing companies operating in the same sector could face very different percentage levels of compensation, depending on their levels of GVA. We consider this could create unnecessary distortions within sectors. We therefore propose to implement 85% aid intensity.

Questions 4: Do you agree with this approach to aid intensity?

Energy efficiency

76. EIs are focused on improving their competitiveness and optimising their production and market share in competitive international markets. The Government believes that the high levels of competition and scale of energy costs they face justify the special measures targeted at these industries on which we are consulting. In addition, the Government is working with a number of energy intensive sectors to develop a shared understanding of the carbon reduction and energy efficiency measures possible in these industries up to 2050 and barriers to their deployment. We are committed not only to decarbonising without deindustrialisation but to grow the manufacturing economy and facilitate further reshoring of manufacturing to the UK. The Government recognises that there may be capacity issues in some sectors on developing energy efficiency measures and that access to capital can be an issue for some companies. We would therefore like to offer all those eligible for RO/FITs compensation access to Green Investment Bank expertise and commercial finance to develop their energy efficiency improvement plans.

Question 5: How best can we ensure that eligible companies engage with, and take full advantage of the expertise and commercial finance from the Green Investment Bank?

6. Consultation questions in full

Question 1: Do you agree with the approach to eligibility?

Question 2: Are there any products which have been ruled out by this test which are electricity or trade intensive?

Question 3: Do you agree with the business-level test approach?

Question 4: Do you agree with this approach to aid intensity?

Question 5: How best can we ensure that eligible companies engage with, and take full advantage of the expertise and commercial finance from the Green Investment Bank?

7. What happens next?

77. Following the close of the consultation period, the Government will respond within 3 months unless specifically notified otherwise (see data protection section above for full details).
78. The response to the consultation will take the form of decisions made in light of the consultation, a summary of the views expressed and reasons given for decisions finally taken. This document will be published on the Gov.uk website with paper copies available on request.
79. Subject to state aid approval, we estimate that the exemption could be in force by autumn 2015, as opposed to April 2015 as originally planned.

Annex A: Consultation principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

Comments or complaints on the conduct of this consultation

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

John Conway,
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone John on 020 7215 6402
or e-mail to: john.conway@bis.gsi.gov.uk

Annex B: EEAG – Annex 3 and Annex 5 sector lists

Annex 3 list

NACE rev. 2	Description
510	Mining of hard coal
729	Mining of other non-ferrous metal ores
811	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
891	Mining of chemical and fertiliser minerals
893	Extraction of salt
899	Other mining and quarrying n.e.c.
1032	Manufacture of fruit and vegetable juice
1039	Other processing and preserving of fruit and vegetables
1041	Manufacture of oils and fats
1062	Manufacture of starches and starch products
1104	Manufacture of other non-distilled fermented beverages
1106	Manufacture of malt
1310	Preparation and spinning of textile fibres
1320	Weaving of textiles
1394	Manufacture of cordage, rope, twine and netting
1395	Manufacture of non-wovens and articles made from non-wovens, except apparel
1411	Manufacture of leather clothes
1610	Sawmilling and planing of wood
1621	Manufacture of veneer sheets and wood-based panels
1711	Manufacture of pulp
1712	Manufacture of paper and paperboard
1722	Manufacture of household and sanitary goods and of toilet requisites
1920	Manufacture of refined petroleum products
2012	Manufacture of dyes and pigments
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
2110	Manufacture of basic pharmaceutical products
2221	Manufacture of plastic plates, sheets, tubes and profiles
2222	Manufacture of plastic packing goods
2311	Manufacture of flat glass
2312	Shaping and processing of flat glass
2313	Manufacture of hollow glass
2314	Manufacture of glass fibres
2319	Manufacture and processing of other glass, including technical glassware

2320	Manufacture of refractory products
2331	Manufacture of ceramic tiles and flags
2342	Manufacture of ceramic sanitary fixtures
2343	Manufacture of ceramic insulators and insulating fittings
2349	Manufacture of other ceramic products
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
2441	Precious metals production
2442	Aluminium production
2443	Lead, zinc and tin production
2444	Copper production
2445	Other non-ferrous metal production
2446	Processing of nuclear fuel
2720	Manufacture of batteries and accumulators
3299	Other manufacturing n.e.c.
2011	Manufacture of industrial gases
2332	Manufacture of bricks, tiles and construction products, in baked clay
2351	Manufacture of cement
2352	Manufacture of lime and plaster
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
2680	Manufacture of magnetic and optical media
3832	Recovery of sorted materials

Annex 5 list

NACE rev. 2	Description
610	Extraction of crude petroleum
620	Extraction of natural gas
710	Mining of iron ores
812	Operation of gravel and sand pits; mining of clays and kaolin
1011	Processing and preserving of meat
1012	Processing and preserving of poultry meat
1013	Production of meat and poultry meat products
1020	Processing and preserving of fish, crustaceans and molluscs
1031	Processing and preserving of potatoes

1042	Manufacture of margarine and similar edible fats
1051	Operation of dairies and cheese making
1061	Manufacture of grain mill products
1072	Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes
1073	Manufacture of macaroni, noodles, couscous and similar farinaceous products
1081	Manufacture of sugar
1082	Manufacture of cocoa, chocolate and sugar confectionery
1083	Processing of tea and coffee
1084	Manufacture of condiments and seasonings
1085	Manufacture of prepared meals and dishes
1086	Manufacture of homogenised food preparations and dietetic food
1089	Manufacture of other food products n.e.c.
1091	Manufacture of prepared feeds for farm animals
1092	Manufacture of prepared pet foods
1101	Distilling, rectifying and blending of spirits
1102	Manufacture of wine from grape
1103	Manufacture of cider and other fruit wines
1105	Manufacture of beer
1107	Manufacture of soft drinks; production of mineral waters and other bottled waters
1200	Manufacture of tobacco products
1391	Manufacture of knitted and crocheted fabrics
1392	Manufacture of made-up textile articles, except apparel
1393	Manufacture of carpets and rugs
1396	Manufacture of other technical and industrial textiles
1399	Manufacture of other textiles n.e.c.
1412	Manufacture of workwear
1413	Manufacture of other outerwear
1414	Manufacture of underwear
1419	Manufacture of other wearing apparel and accessories
1420	Manufacture of articles of fur
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
1512	Manufacture of luggage, handbags and the like, saddlery and harness
1520	Manufacture of footwear
1622	Manufacture of assembled parquet floors
1623	Manufacture of other builders' carpentry and joinery
1624	Manufacture of wooden containers
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
1723	Manufacture of paper stationery
1724	Manufacture of wallpaper
1729	Manufacture of other articles of paper and paperboard

1813	Pre-press and pre-media services
1910	Manufacture of coke oven products
2020	Manufacture of pesticides and other agrochemical products
2030	Manufacture of paints, varnishes and similar coatings, printing ink and mastics
2041	Manufacture of soap and detergents, cleaning and polishing preparations
2042	Manufacture of perfumes and toilet preparations
2051	Manufacture of explosives
2052	Manufacture of glues
2053	Manufacture of essential oils
2059	Manufacture of other chemical products n.e.c:
2120	Manufacture of pharmaceutical preparations
2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres
2219	Manufacture of other rubber products
2223	Manufacture of builders' ware of plastic
2229	Manufacture of other plastic products
2341	Manufacture of ceramic household and ornamental articles
2344	Manufacture of other technical ceramic products
2362	Manufacture of plaster products for construction purposes
2365	Manufacture of fibre cement
2369	Manufacture of other articles of concrete, plaster and cement
2370	Cutting, shaping and finishing of stone
2391	Production of abrasive products
2433	Cold forming or folding
2511	Manufacture of metal structures and parts of structures
2512	Manufacture of doors and windows of metal
2521	Manufacture of central heating radiators and boilers
2529	Manufacture of other tanks, reservoirs and containers of metal
2530	Manufacture of steam generators, except central heating hot water boilers
2540	Manufacture of weapons and ammunition
2571	Manufacture of cutlery
2572	Manufacture of locks and hinges
2573	Manufacture of tools
2591	Manufacture of steel drums and similar containers
2592	Manufacture of light metal packaging
2593	Manufacture of wire products, chain and springs
2594	Manufacture of fasteners and screw machine products
2599	Manufacture of other fabricated metal products n.e.c.
2612	Manufacture of loaded electronic boards
2620	Manufacture of computers and peripheral equipment
2630	Manufacture of communication equipment
2640	Manufacture of consumer electronics
2651	Manufacture of instruments and appliances for measuring, testing and navigation
2652	Manufacture of watches and clocks
2660	Manufacture of irradiation, electromedical and electrotherapeutic equipment
2670	Manufacture of optical instruments and photographic equipment

2680	Manufacture of magnetic and optical media
2711	Manufacture of electric motors, generators and transformers
2712	Manufacture of electricity distribution and control apparatus
2731	Manufacture of fibre optic cables
2732	Manufacture of other electronic and electric wires and cables
2733	Manufacture of wiring devices
2740	Manufacture of electric lighting equipment
2751	Manufacture of electric domestic appliances
2752	Manufacture of non-electric domestic appliances
2790	Manufacture of other electrical equipment
2811	Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
2812	Manufacture of fluid power equipment
2813	Manufacture of other pumps and compressors
2814	Manufacture of other taps and valves
2815	Manufacture of bearings, gears, gearing and driving elements
2821	Manufacture of ovens, furnaces and furnace burners
2822	Manufacture of lifting and handling equipment
2823	Manufacture of office machinery and equipment (except computers and peripheral equipment)
2824	Manufacture of power-driven hand tools
2825	Manufacture of non-domestic cooling and ventilation equipment
2829	Manufacture of other general-purpose machinery n.e.c.
2830	Manufacture of agricultural and forestry machinery
2841	Manufacture of metal forming machinery
2849	Manufacture of other machine tools
2891	Manufacture of machinery for metallurgy
2892	Manufacture of machinery for mining, quarrying and construction
2893	Manufacture of machinery for food, beverage and tobacco processing
2894	Manufacture of machinery for textile, apparel and leather production
2895	Manufacture of machinery for paper and paperboard production
2896	Manufacture of plastic and rubber machinery
2899	Manufacture of other special-purpose machinery n.e.c.
2910	Manufacture of motor vehicles
2920	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers
2931	Manufacture of electrical and electronic equipment for motor vehicles
2932	Manufacture of other parts and accessories for motor vehicles
3011	Building of ships and floating structures
3012	Building of pleasure and sporting boats
3020	Manufacture of railway locomotives and rolling stock
3030	Manufacture of air and spacecraft and related machinery
3040	Manufacture of military fighting vehicles
3091	Manufacture of motorcycles
3092	Manufacture of bicycles and invalid carriages
3099	Manufacture of other transport equipment n.e.c.
3101	Manufacture of office and shop furniture

3102	Manufacture of kitchen furniture
3103	Manufacture of mattresses
3109	Manufacture of other furniture
3211	Striking of coins
3212	Manufacture of jewellery and related articles
3213	Manufacture of imitation jewellery and related articles
3220	Manufacture of musical instruments
3230	Manufacture of sports goods
3240	Manufacture of games and toys
3250	Manufacture of medical and dental instruments and supplies
3291	Manufacture of brooms and brushes

Annex C: Price and Bills impacts for the eligibility proposal in 2020 (real 2012 prices)

	Price impact in £ per MWh in 2020 (excl. VAT) vs. no EMR	Electricity bill impact 2020 in pounds and as a percentage of final bill		
		Domestic consumer (incl. VAT) ⁹	Medium-sized business user ¹⁰	Eligible company ¹¹
EMR support cost (without exemption, excluding Capacity Market ¹² and CfD administrative costs)	£8.70	£27.70 (5%)	£88,000 (7%)	£823,000 (8%)
	Price impact in £ per MWh in 2020 (excl. VAT)	Additional annual electricity bill impact in 2020 in pounds and as a percentage change		
The eligibility proposal	0.60	£1.80 (0.3%)	£5,600 (0.4%)	-£699,300 (-6%)

Source: DECC, 2013¹³

⁹ Based on a household consuming 3.0 MWh of electricity after policies in 2020.

¹⁰ Based on consumption of 10,200 MWh of electricity after policies in 2020.

¹¹ Eligible companies and companies eligible are described in the text of the main consultation document. Based on consumption from the grid of 94,700 MWh of electricity after policies in 2020.

¹² The July 2013 Consultation document presented EMR support costs *including* the Capacity Market. However, under the modelling presented in the Consultation document there were no Capacity Market costs until after 2020, effectively meaning the July 2013 Consultation table presented the average costs of CfDs alone. In the modelling consistent with the Delivery Plan Capacity Market costs do begin before 2020. To allow an easier comparison with the table presented in the July 2013 Consultation, EMR support costs, *excluding* Capacity Market support costs are presented above, or in other words the support costs associated with CfDs only.

¹³ The price and bill impacts presented here have been updated in line with the EMR Delivery Plan (December 2013) (<https://www.gov.uk/government/publications/electricity-market-reform-delivery-plan>),

Impact of the eligibility proposal in pounds and percentage change, average for 2015-2020

	Average price impact in £ per MWh 2015-2020 (excl. VAT) vs. no EMR	Average electricity bill impact 2015-2020 in pounds and as a percentage of final bill		
		Domestic consumer (incl. VAT)	Medium-sized business user	Eligible company
EMR support cost (without exemption, excluding Capacity Market and CfD administrative costs)	£3.60	£11.60 (2%)	£36,300 (3%)	£337,000 (3%)
	Average price impact in £ per MWh 2015-2020 (excl. VAT)	Average additional electricity bill impact 2015-2020 in pounds and as a percentage change		
The eligibility proposal	0.20	£0.70 0.1%	£2,300 0.2%	-£286,700 -3%

Annual impact of the eligibility proposal in pounds and percentage change, price per megawatt hour and domestic bill impact for 2015-2020

	2015	2016	2017	2018	2019	2020	2015-2020
Price impact in pounds per MWh 2020 (excl. VAT)	£0.02 0.0%	£0.10 0.0%	£0.10 0.1%	£0.20 0.1%	£0.40 0.2%	£0.60 0.3%	£0.20 0.1%
Electricity bill impact in pounds and % of final bill (incl. VAT)	£0.10 0.0%	£0.20 0.0%	£0.40 0.1%	£0.70 0.1%	£1.30 0.2%	£1.80 0.3%	£0.70 0.1%

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Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

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