



Department
for Business
Innovation & Skills

**Electricity Intensive Industries –
relief from the indirect costs of
renewables**

**Government response to the
public consultation - updated**

JANUARY 2016

Contents

ELECTRICITY INTENSIVE INDUSTRIES – RELIEF FROM THE INDIRECT COSTS OF RENEWABLES	3
1. Introduction	3
2. Analysis.....	4
2.1 Products that did not meet the sector level test for electricity and trade intensity.....	4
2.2 The underlying assumption of the price of electricity	4
2.3 The use of baseline years to determine eligibility and levels of relief	5
2.4 Compensation at business entity level.....	5
Annex A	7

ELECTRICITY INTENSIVE INDUSTRIES – RELIEF FROM THE INDIRECT COSTS OF RENEWABLES

1. Introduction

1. As part of the Budget 2014 the Chancellor announced that the Government intends to implement measures to reduce the impact of renewables policy on the costs of electricity for the most electricity-intensive industries.

2. 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.

3. The scheme specifically covers compensation to Energy Intensive Industries (EII) for the indirect costs of the Renewables Obligation (RO) and the micro generation Feed-in-Tariff (or small scale FITs) and also exemption for EII for the indirect costs of the Contracts for Difference under the Electricity Market Reform.

3. The Government published a response to the consultation on the 19th of January 2015. However a small number of issues raised as part of the consultation were still being considered at that time, and highlighted for a response at a later date.

4. This document sets out the Government's response to these specific issues and highlights other amendments in light of the state aid approval from the European Commission.

2. Analysis

8. The issues that were raised but reserved for consideration in the last Government's response to the consultation were:

- Products that did not meet the Government's sector level test for electricity or trade intensity
- The underlying assumption of the price of electricity

9. In addition, and as a result of the state aid conditions from the European Commission, the Government is updating its response regarding:

- The use of baseline years to determine eligibility and levels of relief
- Compensation at business entity level

10. These four issues are considered below in turn.

2.1 Products that did not meet the sector level test for electricity and trade intensity

11. To ensure that support is targeted at those most at risk the Government has used a sector level test to focus the support at the most trade and electricity-intensive sectors. Sectors identified in Annex 3 and Annex 5 of the European Commission's Environment and Energy Aid Guidelines must have a trade intensity of at least 4% and an electricity-intensity of at least 7% using UK data to pass this test.

12. There were 24 additional products or sectors identified by respondents that were not included in the proposed list of eligible sectors. Government has assessed the information provided, and in particular the extent to which they sufficiently demonstrate that the sectors as a whole met the electricity and trade intensity tests.

13. In addition the Government has revised the list of eligible sectors to account for the increase in the underlying assumption of the price of electricity (at a sector level) - see section 2.1 below.

14. As a result of the information submitted to the 2014 consultation, and the revised assumption of the price of electricity, the final list of eligible sectors has been amended and is attached at Annex A.

2.2 The underlying assumption of the price of electricity

15. In order to calculate which sectors and businesses are eligible for relief the Government has assessed electricity intensity at both the sector and business level. To ensure fairness and transparency the Government has assessed this using an accepted and published electricity price. In the 2014 consultation the Government proposed to use an underlying price of £67.42 per MWh in 2012 prices, exclusive of VAT. This was taken from the DECC publication, "Annual prices of fuels purchased by manufacturing industry"

(QEP 3.1.3) and was based on the price paid by a large user (with annual usage greater than 8.8 GWh).

16. A number of responses were received on this point making the case for a price that was more reflective of the price that industry was paying in 2012 and, therefore, their electricity intensity.

17. The Government accepts that this underlying price did not sufficiently reflect the price faced by most industrial consumers. As a result, the Government will use an underlying industrial price in DECC “Updated energy and emission projections” using the reference scenario. For 2015 this is £79.24 per MWh in 2012 prices. This price will be updated annually for use as part of the business level test.

2.3 The use of baseline years to determine eligibility and levels of relief

18. As part of the consultation a number of comments were received suggesting that using a baseline period of 2010-2012 to pass the 20% business level test was too narrow, that plant shutdowns should be taken into account and that business contractions and expansions could affect a company’s ability to meet the business level test.

19. In its initial response to the consultation, the Government recognised the impact of using a narrow baseline and at that time therefore proposed to lengthen the period to cover 2010-2014 to address any anomalous years.

20. However, in order to fully comply with the European Commission’s Environment and Energy Aid Guidelines the Government will revert to a three year baseline.

21. In recognition of the comments made on this subject the Government has reconsidered points made on adjusting the qualifying metrics over time.

22. The Government has therefore decided to allow businesses in eligible sectors to apply using data from the last three (rolling) years available prior to their application. For applications in 2016 this is likely to be 2012 – 2014 (as full year business level data is required). This allows businesses to apply at a later date which provides greater flexibility for the business to account for anomalous years.

2.4 Compensation at business entity level

23. Some respondents considered that the approach at the entity level is flawed as a single entity may contain a number of different businesses with different levels of energy intensity, arguing that the scheme should apply to each operating site rather than at business level.

24. To address this, the Government proposed to provide compensation to those businesses that only fail the test because of the inclusion of significant costs which do not relate to the manufacture of the eligible product.

25. However, as set out in the response to the consultation, the Government considers that there are a number of problems with moving away from a ‘business as legal entity’

level approach, particularly relating to the calculation and validation of GVA at a plant / installation.

26. As a result, and to fully comply with European Commission's Environment and Energy Aid Guidelines, the Government has decided that eligibility will be based on the business entity level. However as set out in paragraph 21 above, the Government will allow businesses to apply at a later date to account for organisational changes in the business.

Annex A

Eligible sectors from Annex 3 of the European Commission's Environment and Energy Aid Guidelines

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.
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

NACE code (v2.0)	Description
2222	Manufacture of plastic packing goods
2311	Manufacture 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
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

NACE code (v2.0)	Description
2453	Casting of light metals
2454	Casting of other non-ferrous metals
2611	Manufacture of electronic components
2720	Manufacture of batteries and accumulators

Eligible sectors from Annex 5 of the European Commission's Environment and Energy Aid Guidelines

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
1724	Manufacture of wallpaper
2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres

NACE code (rev2.0)	Description
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



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk. Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication available from www.gov.uk/bis

Contact us if you have any enquiries about this publication, including requests for alternative formats, at:

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

Email: enquiries@bis.gsi.gov.uk

BIS/16/143