



The impacts of introducing an exemption for Energy Intensive Industries (EII) from the indirect costs of the Feed-in Tariff (FIT) scheme

1. The UK government recognises that the FIT scheme adds to the cost of electricity for end users, at a time when electricity prices for the largest users in the UK are among the highest in the EU15. Higher retail electricity prices in the UK risks putting electricity intensive businesses at a significant competitive disadvantage.
2. In recognition of this, the government compensates eligible EII who risk being put at a significant competitive disadvantage from the indirect costs of the FIT scheme by up to 85% of the cost of the scheme, in line with the European Commission's guidelines¹.
3. Currently, the costs of the EII FIT relief scheme are borne by government, and hence the taxpayer. However, the other relief schemes for Contracts for Difference (CfD) and the Renewables Obligation (RO) operate as exemptions, where up to 85% of the costs of these schemes that would otherwise be borne by eligible EII are passed on to non-exempt consumers through higher retail electricity prices instead.
4. As specified in the accompanying government response to the consultation on implementing an exemption for EII for the indirect costs of the FIT scheme, government intends to implement the exemption in Great Britain from 1 April 2019, or as soon as possible afterwards. This is subject to the outcome of the consultation on the FIT scheme, securing State aid approval and the relevant legislation entering into force.
5. The objective of changing the policy from compensation to exemption is twofold. Firstly, it ensures continued government support for energy intensive industries in order to maintain competitiveness for these industries by providing relief from the costs they would otherwise face through their electricity bill for the FIT scheme. Secondly, it increases the effectiveness of this support, as an exemption provides real time support whereas compensation is paid in arrears,

¹ The European Commission's guidelines on State Aid for Environmental Protection and Energy 2014-2020: (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>)

so an exemption allows production costs to be more responsive to changes in electricity use and improves the competitiveness of ELLs.

Key groups affected by the move from compensation to exemption

Table 1: One-off costs and on-going costs and benefits for impacted groups of moving from compensation to an exemption.

	Costs		Benefits
	One-off	On-going	On-going
ELLs	None	None	<p>Increased certainty from being exempt from FIT cost leads to improved competitiveness of exempt sectors due to lower production costs, which benefits producers and consumers of energy intensive goods.</p> <p>Increases the effectiveness of the support to ELLs as it is provided in real time which in turn lowers production costs and maintains the competitiveness of ELLs.</p>
Non-exempt businesses	None	<p>Increase the level of FIT costs recovered through non-exempt electricity users leading to higher electricity bills.</p> <p>Increased production costs which could lead to decreased output or higher prices for goods and services produced by non-exempt businesses, or reduced demand for intermediary goods and services.</p> <p>Possible impact on decisions on employment, output and investment.</p>	None
Households	None	<p>Increase the level of FIT costs recovered through non-exempt electricity users leading to higher electricity bills.</p> <p>Potential risk of increase in depth of fuel poverty,</p>	None

		however, analysis for the RO exemption found no significant impact on the number of fuel poor households. It can be assumed that as the FIT exemption is of a lower relative value, the risk of increased fuel poverty is even less likely.	
Energy suppliers	Amending IT systems.	On-going administrative costs.	None
Government	None	None	No longer have to fund and administer the compensation scheme (government resources required to administer an exemption scheme are lower than for the compensation scheme).
LCCC and Elexon	Amending IT systems. Amending guidance.	Validation of suppliers' electricity volumes.	None

Price and bill impacts

6. From the FIT compensation scheme data, we know the total grid electricity consumption from businesses in the scheme as reported in 2016. As total electricity consumption does not vary significantly from year to year, for simplicity we have used this figure as the total value of this electricity consumption would be exempted if the FIT exemption came in to force.
7. Implementing an exemption will narrow the base of electricity consumption from which FIT costs are recovered. Therefore, this increases electricity costs for non-exempt businesses and households, relative to the situation with compensation continuing.
8. Table 2 below shows the estimated price impacts of the FIT exemption. This can be considered alongside the impact tables in the IA accompanying the consultation on the closure of the FIT scheme².
9. It is assumed that all businesses which are currently receiving FIT compensation will continue to receive the exemption and that eligible electricity remains constant throughout the time period considered. All figures are additional

² The IA can be found here: <https://www.gov.uk/government/consultations/feed-in-tariffs-scheme>

impacts to the counterfactual of the FIT EII scheme remaining as a compensation scheme.

10. Estimates shown below are dependent on the level of FIT costs, electricity demand and the final design and scope of the exemption. Any changes to these variables will alter the impact of the exemption. Some households and businesses will be affected more than others such as those who use electricity for heating.

Table 2: Estimated increase on average electricity prices by affected group from a move to FIT exemption scheme (annual average across 2019 – 2030, 2017 prices)

	Bill Impact	Price impact (£/MWh)	Percentage of bill
Households (inc. VAT)	£1	£0	0%
Small business energy users (nearest £100)	£100	£0	0%
Medium business energy users (nearest £1,000)	£1,000	£0	0%
Eligible EIs (nearest £10,000)	-£370,000	-£4	-3%
Ineligible EIs (nearest £10,000)	£10,000	£0	0%

Notes: Over the period 2019-2030, an illustrative small business energy user has an assumed electricity consumption of between 230-240MWh per year. An illustrative medium business energy user has an assumed electricity consumption of between 9,800-10,000MWh per year. An illustrative EI has an assumed electricity consumption of 92,000-93,000MWh per year but EI consumption varies significantly from 2,000,000MWh per year to 2,000MWh per year. Assumed electricity consumption is adjusted to take into account policy derived reductions in consumption.