




Department for
Business, Energy
& Industrial Strategy

THE GOVERNMENT RESPONSE TO THE CONSULTATION ON IMPLEMENTING AN EXEMPTION FOR ENERGY INTENSIVE INDUSTRIES FROM THE INDIRECT COSTS OF THE RENEWABLES OBLIGATION AND FEED-IN TARIFF SCHEMES



July 2018

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The consultation and Impact Assessment can be found on the BEIS section of GOV.UK:

<https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

The government response to the Consultation on implementing an exemption for Energy Intensive Industries from the indirect costs of the Renewables Obligation and Feed-in Tariff Schemes

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Any enquiries regarding this publication should be sent to us at EII.Exemption@BEIS.gov.uk.

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Overview

In July 2017, Government issued a response to the April 2016 ‘Consultation on introducing an exemption for Energy Intensive Industries (EIs) from the indirect costs of funding the Feed-In-Tariff (FIT) scheme and the Renewables Obligation (RO) scheme’.¹ That response related to implementing an exemption for EIs from the indirect costs of the RO scheme only, and set out that a response on implementing an exemption for EIs from the indirect costs of the FIT scheme would be published in due course. This document is that response.

Summary

The Government intends to implement the EI exemption from the indirect costs of the FIT scheme in accordance with the original proposals in the April 2016 ‘Consultation on introducing an exemption for Energy Intensive Industries from the indirect costs of funding the Feed-In-Tariff and the Renewables Obligation’.² Introduction of the exemption is subject to the outcome of the consultation on the FIT scheme³ which has been published in parallel with this document, and securing State aid approval. Government intends to implement the exemption in Great Britain from 1 April 2019.

Background

1. The Industrial Strategy set out four Grand Challenges to put the UK at the forefront of the industries of the future. One of these Grand Challenges is maximising the advantages for UK industry from the global shift to clean growth. The framework for achieving clean growth and affordable energy for businesses and households was set out in the recent Clean Growth Strategy and sits at the heart of the Industrial Strategy.
2. Government is committed to moving to a low-carbon economy and meeting its carbon reduction and renewable energy targets by reducing greenhouse gas emissions by at least 80% by 2050. This requires a transformation of the UK

¹ ‘Consultation on an exemption for EIs from the costs of the RO and the FITs’, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/513029/EI_condoc_20160401.pdf

² ‘Consultation on an exemption for EIs from the costs of the RO and the FITs’

³ ‘Consultation on the Feed-In Tariff scheme’, at <https://www.gov.uk/government/consultations/feed-in-tariffs-scheme>

- economy, including the energy market, while keeping energy costs down for business and consumers, and maintaining competitiveness.⁴
3. A number of policies have been developed to increase the amount of electricity generated from renewable and other low carbon sources. The Government has put in place the FIT scheme, amongst others, to incentivise small-scale low carbon and renewable electricity deployment. The costs of funding the FIT scheme are recovered through levies on suppliers and these are ultimately passed on to domestic and non-domestic electricity consumers' bills.⁵
 4. However, Government recognises that in the short to medium term, the resulting increase in retail electricity prices from renewable and low-carbon electricity support schemes may risk putting certain energy-intensive businesses at a significant competitive disadvantage when they are operating in international markets. To address this risk, Government implemented a compensation scheme for the indirect costs of the RO and FIT schemes for EILs. The scheme was announced in the Budget 2014 and opened in January 2016.⁶
 5. The Autumn Statement in 2015 announced we would switch from compensating to exempting EILs in relation to indirect costs arising from the RO and FIT schemes, to ensure that EILs have long-term certainty and remain competitive.⁷ Transitioning from a compensation scheme to an exemption will have a number of benefits for EILs, notably that support will be faster, more accurate and more certain. Once implemented, the exemption will reduce the electricity bills of eligible EILs.
 6. In April 2016 we issued a consultation asking for input on how best to deliver an exemption from the indirect costs of the RO and FIT schemes.⁸ We proposed to make the necessary changes to the RO and FIT schemes through amending secondary legislation, with implementation of the exemption being subject to Parliamentary approval and securing State aid approval from the European Commission.
 7. In July 2017 a Government response was published on implementing the exemption from the indirect costs of the RO scheme only.⁹ That document set out the response to all consultation questions except questions 11 and 12 which addressed how the FIT scheme exemption would be implemented. In addition the response did not address bill impacts for the FIT scheme exemption on EILs. The response stated that we would respond on implementing an exemption for

⁴ 'Consultation on an exemption for EILs from the costs of the RO and the FITs', p3

⁵ 'Consultation on an exemption for EILs from the costs of the RO and the FITs', p3

⁶ 'Consultation on an exemption for EILs from the costs of the RO and the FITs', p5

⁷ 'Consultation on an exemption for EILs from the costs of the RO and the FITs', p6

⁸ 'Consultation on an exemption for EILs from the costs of the RO and the FITs', p5

⁹ The government response to the consultation an exemption for EILs from the costs of the RO and the FITs', at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/631071/EIL_RO_exemption-Government_Response-FINALV3.pdf

Ells from the indirect costs of the FIT scheme in due course.¹⁰ The following section serves as that response.

In response to the consultation Government has made the following decisions:

- The FIT exemption will apply in Great Britain;
- The exemption will be available to the same ELLs that are eligible for the Contract for Difference (CfD) and RO exemptions, and will be based on the same application process as the CfD exemption¹¹;
- We will not regulate to require suppliers to pass through savings to ELLs;
- The exemption will be applied by deducting ELL exempt electricity from the calculation of each supplier's market share and the calculation of overall supply; and
- We will adjust the calculations regarding the exemptions to ensure that no supplier can have a negative market share.

Next steps

8. Subject to the outcome of the consultation on the FIT scheme and securing State aid approval, Government intends to implement the exemption in Great Britain from 1 April 2019 or as soon as possible after that point.

¹⁰ The government response to the consultation an exemption for ELLs from the costs of the RO and the FITs', p5

¹¹ ELLs exemption from the indirect costs of the CfD – draft guidance, at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605212/eiis-exemption-from-indirect-costs-cfd-draft-guidance.pdf

Government response to the consultation

Responses received to the consultation

9. We received a total of 68 responses to the consultation. Of these, 27 were from manufacturers, 13 were from energy suppliers, 16 from trade associations and 4 from other sources. Responses were also received from 2 individuals, 5 unnamed manufacturers and 1 unnamed trade association. For a list of individual respondents, please refer to Annex A.
10. Not all respondents answered the specific questions. Of those who did, the majority of responses were from manufacturers and energy suppliers, with a minority received from trade associations and individuals.

Implementation of the exemption

We set out in Chapter 4 of the consultation document how we proposed to implement the exemption by modifying the manner in which supplier liability for the FIT scheme costs is calculated to account for electricity supplied to eligible EILs.

Question 11

Consultation Question			15 Responses
We propose to implement the exemption by making legislative changes to the FIT scheme. Do you agree? If not, what alternatives should be considered?			
	Agree	13	
	Disagree	2	
	Don't Know	0	

Consultation position

11. We proposed that, for levelisations for FIT periods starting from the first quarter in which the exemption is in place, in addition to the deduction for overseas electricity, Ofgem will deduct EIL exempt electricity from the calculation of each supplier's market share and the calculation of overall supply. We proposed to modify the mutualisation process to account for EIL exempt electricity in the same way as for levelisation.¹²

¹² For a worked example of how the exemption will be calculated, please refer to: 'Consultation on an exemption for EILs from the costs of the RO and the FITs', Annex A, page 33

12. We proposed to implement this change through modifying the relevant provisions in Part 6 of the FIT scheme Order 2012.

Summary of stakeholder responses to consultation

13. Question 11 received a total of 15 specific responses. Of this number, 6 were from manufacturers, 6 from energy suppliers, 2 from trade associations and 1 from an individual.¹³
14. The majority of respondents agreed with the proposal.
15. Two respondents expressed concern about the existing exemption for overseas renewable electricity and saying this “loophole” should be closed.
16. Two respondents disagreed with the proposal.
17. Of those respondents who disagreed, one suggested funding the exemption through general taxation, rather than an exemption from the costs of the FIT.
18. The second respondent disagreed with the proposed method of applying the exemption. They stated the current method of calculating a given supplier’s consumption is based on D0296 data.¹⁴ They suggested this is problematic because they did not see how EII consumption could be removed from D0296 data flows as there is no distinction between EII D0296s and other D0296s.

Government response

19. Subject to the outcome of the consultation on the FIT scheme, we will implement the exemption by making legislative changes to the FIT scheme once State aid clearance is granted.
20. We note the concern about the existing exemption for overseas renewable electricity but that exemption was not the subject of the consultation.
21. Please refer to guidance on EII excluded electricity published by LCCC¹⁵ for further information on how EII consumption will be removed from suppliers’ consumption data.

¹³ For a full list of respondents to the consultation, see Annex A

¹⁴ The D0296 data flow transfers supplier balancing mechanism unit report data. Balancing mechanism units are used to calculate the amount of energy used at each meter. For more information please see: <https://www.elexon.co.uk/knowledgebase-topics/bm-units/>

¹⁵ https://lowcarboncontracts.uk/sites/default/files/publications/LCCC%20Guidance%20on%20EII%20Excluded%20Electricity%20-%20Relevant%20Arrangements_0.pdf

Question 12

Consultation Question		19 Responses	
We propose to amend the FITs Order to prevent a supplier having a negative market share as a result of the dual application of the exemptions. Do you agree? If not, what alternatives should be considered?			
	Agree	15	
	Disagree	2	
	Don't Know	1	

Consultation position

22. We proposed to adjust the calculations regarding the exemptions so that the total exemption a supplier may demonstrate over a levelisation period cannot exceed that supplier's total supply over that levelisation period (i.e. no supplier can have a negative market share).

Summary of stakeholder responses to consultation

23. Question 12 received a total of 19 specific responses. Of this number, 6 were from manufacturers, 10 were from energy suppliers, 2 were received from trade associations and 1 response from an individual.
24. Most of the respondents who commented on this question agreed with the proposal that a supplier should not have a negative market share.
25. One respondent who agreed with the proposal provided an alternative calculation.
26. Of the two respondents who disagreed, one claimed the proposal was unnecessary, saying the EII exemption is applied for by specific customers and the benefit of this is passed on to them by their supplier in its entirety. Neither the supplier nor the EII customer is receiving a double discount. They also claimed that unless there are suppliers with high proportions of EII in their portfolio they do not believe that this is an issue.
27. The other respondent disagreed and offered no further comment.

Government response

28. Having considered the alternative calculation that we received the Government has decided to implement the calculation originally proposed in the consultation. We believe that this method is simpler and therefore more transparent.

Impacts of the exemption

In Chapter 1 of the consultation document we sought quantification of the impacts of using the RO and FIT schemes to deliver the exemption on non-exempt business and households. In July 2017 we published the Government response on implementing the exemption from the indirect costs of the RO scheme only. Below we set out our response to questions 2 and 3 for the EII exemption from the indirect costs of the FIT scheme specifically.

Question 2

Consultation Question	51 Responses
For non-exempt businesses, to what extent do you think the estimated increase in electricity bills will affect competitiveness and decisions regarding output, employment and investment? Please provide evidence and quantification of the impact?	
See Consultation on an exemption for EIIs from the costs of the RO and the FITs Chapter 1	

Consultation position

29. When we consulted on how to implement the exemption, we recognised that there would be an impact on non-exempt businesses as, once implemented, the exemption is expected to reduce the electricity bills of eligible EIIs with a consequent increase for those consumers not eligible for the exemption. Government was keen to be able to quantify the impact on non-exempt businesses.

Summary of responses

30. Question 2 received 51 individual responses. Of this number, 22 were from manufacturers, 16 were from trade associations, 7 were from energy suppliers, 2 were from individuals, 1 was from a consumer group and 1 was from an organisation listed as other.
31. Stakeholders commented that the additional burden on non-exempt industry to cover the cost of the exemption could create competitive distortions. This is because non-exempt businesses and consumers will have to deal with the double impact of continuing to pay for the renewables policy and having to subsidise others.

- 32. Additional cost added to those non-exempt businesses in direct competition with companies that are eligible could exacerbate the distortion already created by the business level eligibility criteria.
- 33. Another point raised by industry was that the proposals may result in a loss of market share for non-eligible businesses and that a loss in competitiveness will risk losing export sales.
- 34. A small number of respondents thought the exemption will have a negative impact on their investment and employment policy, as the predicted increases in operating costs for businesses who do not qualify as an EII would have to be passed on through the supply chain rather than be absorbed.
- 35. One international company stated electricity costs in the UK are already some of the highest in the world and therefore this additional burden could affect future investment within the UK. As energy will become cheaper for EIIs, uptake of energy saving technology may slow down.

Government response

- 36. We understand there will be additional costs to non-exempt businesses which are estimated to increase their average annual electricity bills over 2019/2020 to 2030. The estimated impact of introducing the exemption for non-eligible businesses will be around £100 per annum to small energy users' bills, £1000 to medium energy users' bills and £10,000 to non-eligible EIIs. In each case, this increase would represent a less than 1% increase on their total electricity bill over the period of 2019/2020 to 2030.¹⁶
- 37. Whilst we recognise that introducing an EII exemption from the cost of the FIT would add costs for non-eligible businesses, we consider the benefits of the exemption justify proceeding. We have focused the exemption on those businesses for whom electricity is a significant part of their gross value added (GVA) and who operate in sectors which we consider at risk of losing out to international competition.
- 38. In response to the direct competitor issue Government set out in the recently published Industrial Strategy White Paper that we would consult on widening eligibility for the exemption schemes for EIIs to address potential intra-sectoral competitive distortions, taking into consideration the impact on consumer bills.¹⁷ Government issued the consultation on 22 June 2018.¹⁸
- 39. Any increase in costs for non-eligible businesses should be considered against wider action to tackle business energy costs. The Industrial Strategy White

¹⁶ Please refer to table 1 for figures

¹⁷ Industrial Strategy White Paper, p160

¹⁸ The consultation document can be found at: <https://www.gov.uk/government/consultations/widening-eligibility-for-renewable-electricity-cost-relief-schemes>

Paper¹⁹ and Clean Growth Strategy²⁰ set out how we will address business energy costs by encouraging greater investment in energy efficiency measures and technologies. We will do this by developing a number of proposals including:

- A package of measures to support businesses to improve how productively they use energy. We will consult on this in 2018, with the aim of improving energy efficiency by at least 20 per cent by 2030;
- An Industrial Energy Efficiency scheme to help large companies install measures to cut their energy use and their bills; and
- Improvements to the provision of information and advice to Small Medium Enterprises to encourage the uptake of energy efficiency technologies.

Question 3

Consultation Question	17 Responses
For householders, what will be the impact of the estimated increase in electricity bills?	
See Consultation on an exemption for EILs from the costs of the RO and the FITs Chapter 1	

Consultation position

40. As with question 2, when we consulted on how to implement the exemption we recognised that there would be an impact on householders. Government sought information to be able to quantify this impact.

Summary of responses

41. Question 3 received 17 individual responses. Of this number, 7 were energy suppliers, 7 were manufacturers, 2 were trade associations and 1 was classified as other.
42. Eight respondents agreed that there would be an increase in electricity bills; a further seven thought that the impact would be higher compared with the estimates set out in the impact assessment. Two respondents thought the impact would be lower.
43. Six respondents raised the concern that especially vulnerable households will be adversely impacted and some believed that introducing a policy which knowingly contributes to an increase in fuel poverty contradicts the principles of the

¹⁹ Industrial Strategy White Paper, p160-161

²⁰ Clean Growth Strategy p74

Government's Fuel Poverty Strategy. One supplier said the uncertainty around the timing of the policy would have an impact on prices.

- 44. Two respondents provided estimates on the average increase for household electricity bills. One respondent estimated that the impact would be equivalent to an annual increase of around £12 per annum. Another thought that it would be around £7 per annum.
- 45. A small number of respondents suggested the impact assessment should be revised to include a separate assessment of the impact on consumers who depend on electricity to heat their home as well as the impact on the notionally 'normal' dual fuel customer. In addition, they suggested an assessment of the impact on fuel poverty and the fuel poverty gap and suggested that Government should consider what additional means of support might be required to offset the impact on the most vulnerable households and how this is mitigated as part of the fuel poverty strategy implementation.

Government response

- 46. We understand there will be additional costs to households which are estimated to increase the average user's annual electricity bill by £1. This figure represents a less than 1% increase on the average bill over 2019/2020 to 2030.²¹ Whilst we recognise that introducing an EII exemption from the cost of the FIT would add costs for households, this would be in the context of the wider measures to reduce energy costs for households and tackle fuel poverty.
- 47. We published the draft Domestic Gas and Electricity (Tariff Cap) Bill in October 2017.²² The Bill is now making its way through Parliament. The Bill will require Ofgem to impose a cap on standard variable and default tariffs, limiting the impact of rising bills on households.
- 48. There is broader work to support low income and vulnerable households through the implementation of the Fuel Poverty Strategy. In particular the Warm Home Discount provides over 2 million homes with a £140 rebate on their energy bill each winter; while we recently consulted on proposals to focus all of the £640m of annual support for energy efficiency available through the Energy Company Obligation on low income households.

²¹ Please refer to table 1 for figures

²² Domestic Gas and Electricity (Tariff Cap) Bill <https://services.parliament.uk/bills/2017-19/domesticgasandelectricitytariffcap.html>

Table 1: Estimated increase on average price and bill by affected group from a move to FIT exemption scheme (annual average across 2019 – 2030, 2017 prices) ²³

	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%

Note: 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.

²³ A more detailed note on these impacts can be found at: <https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

Annex A

List of respondents

Air Products (BR) Limited

Aluminium Federation Ltd.

Bas Castings Ltd

BOC Ltd - Industrial Gas Sector

Bonds Foundry Group comprising
three steel foundries

Bridgenorth aluminium

British Ceramic

British Glass

British Plastics Federation

British Poultry Council

Carrs Billington Agriculture

Carrs Flour Mills Ltd

Cast Metals Federation

CCC Alliance

CEMEX UK

Chemical Industries Association

Citizens Advice

Cleveland Potash Limited

Confederation of British Metalforming

DONG Energy

EDF

EEF

Energy Intensive Users Group

EON

FABRA UK

Federation of Small Businesses

Ford Motor Company Ltd

Gazprom

Haven Power Ltd

Hudson Energy

Industrial Communities Alliance

INEOS Chemicals Grangemouth Ltd

INOVYN ChlorVinyls Limited

M J Allen Castings & Machining Ltd

Maltsters' Association of Great Britain

MPA

MRT Castings Ltd

Nabim

NEA

Newby Foundries Ltd

Ofgem

Petroineos Manufacturing Scotland Ltd

Rail Delivery Group

RWE npower Group Plc

SABIC UK Petrochemicals Ltd

Scottish Power

Smartest Energy

SSE

Steel Foundry

Tarmac

Tata Steel

UX

The Renewable Energy Company
(Ecotricity) Ltd

Welsh Government

Wood Panel Industries Federation

The Scotch Whisky Association

Trade Association for the UK paper
sector

Responses were also received from 2 individuals, 5 unnamed manufacturers and 1 unnamed trade association.

